



COUNTRIES IN FOCUS:

Türkiye & Albania

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Whatever the runoff outcome might be, the next President would need to restore market confidence through consistent and predictable policies

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Emerging Markets Analysis

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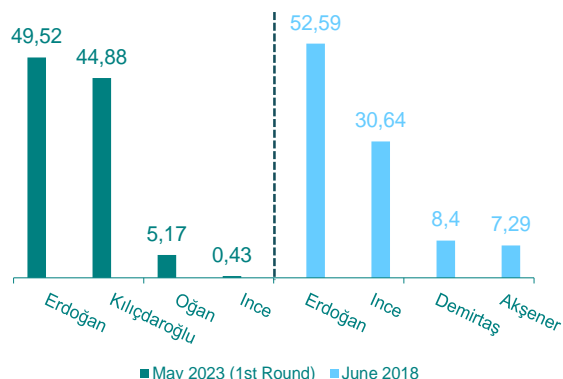
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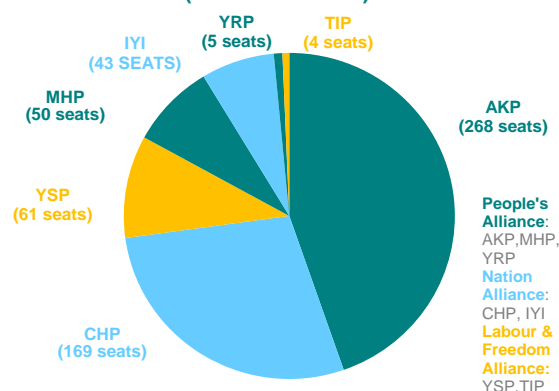
Türkiye

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

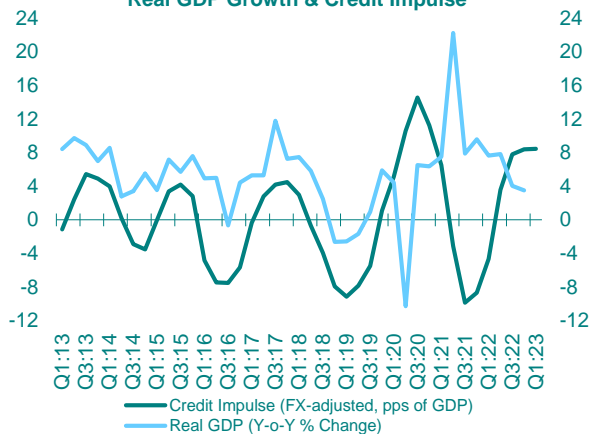
Presidential Elections Results



Parliament Composition (Number of Seats)



Real GDP Growth & Credit Impulse



| | 22 May | 3-M F | 6-M F | 12-M F |
|-------------------------|--------|-------|-------|--------|
| O/N TLREF (%) | 10.0 | 11.0 | 13.0 | 15.0 |
| TRY/USD | 19.83 | 20.80 | 21.70 | 22.85 |
| Sov. Spread (2027, bps) | 675 | 620 | 550 | 400 |

| | 22 May | 1-W % | YTD % | 2-Y % |
|---------|--------|-------|-------|-------|
| ISE 100 | 4,466 | -0.8 | -18.9 | 207.6 |

| | 2020 | 2021 | 2022 | 2023F | 2024F |
|-------------------------|------|------|------|-------|-------|
| Real GDP Growth (%) | 2.0 | 11.4 | 5.6 | 2.1 | 3.6 |
| Inflation (eop, %) | 14.6 | 36.1 | 64.3 | 37.0 | 22.0 |
| Cur. Acct. Bal. (% GDP) | -4.4 | -0.9 | -5.4 | -4.2 | -3.7 |
| Fiscal Bal. (% GDP) | -3.4 | -2.7 | -0.9 | -5.5 | -4.8 |

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

Türkiye heads to a Presidential runoff, with President R.T. Erdoğan having secured a significant lead. In Türkiye's most closely fought election in decades, incumbent President Erdoğan, backed by his Islamist-based AKP and the MHP (together forming the People's Alliance), won 49.5% of the vote, narrowly shy of the 50% needed for an outright win. His chief rival, the candidate of the Nation Alliance (NA), K. Kılıçdaroğlu, leader of the secularist centrist CHP, secured 44.9% of the vote, disappointing most pre-election polls, which showed him having a slight lead. Note that the NA is a diverse coalition of opposition parties, comprising, in addition to the CHP, the centre-right nationalist IYI and four other small parties.

In the legislative election, which was held concurrently with the Presidential vote, Erdogan's ruling alliance won 49.5% of the vote and 323 seats in the 600-seat Parliament, retaining its control, with Kılıçdaroğlu's NA falling behind with 35.0% of the vote and 212 seats. Note, however, that, on a stand-alone basis, the AKP saw its popularity plunging by c. 7 pps from the 42.6% it received in the 2018 elections. Support for the largest pro-Kurdish party, the left-wing HDP, which ran under the ticket of the YSP, stood at 8.8% (61 seats). Recall that, in what could be viewed as tacit support to the NA, the HDP refrained from naming a candidate of its own for the Presidential race.

It should be stressed that the Parliament has lost much of its power following the constitutional changes brought under the 2017 referendum, which enabled the shift to a hyper-centralised Presidential system.

All said, given the two-election outcome, we see President Erdogan as being better placed to secure a new term in the runoff vote to be held on May 28, considering, *inter alia*, his strong grip on the country's news media. Erdoğan is also expected to benefit from most of the votes garnered by S. Oğan of the nationalist, right-wing ATA alliance in the first round of the presidential election (5.2%).

Whatever the runoff outcome might be, the next President would need to restore market confidence through consistent and predictable policies. Despite structural external imbalances (largely stemming from Türkiye's reliance on imports to cover its energy needs), authorities -- under President Erdoğan's guidance -- have been pursuing an ultra-accommodative monetary policy that keeps the economy trapped into a vicious cycle of weakening TRY (down c. 35% against the USD since end-2021 and 80% over the past 5 years) and high inflation (up 71.6% in FY:22, under the burden, *inter alia*, of record-high global commodity prices, and c. 25.0% in FY:18-22).

With Türkiye's (net) external buffers having long been depleted, the CBRT needs to synchronize with the global monetary cycle, reversing excess liquidity, to prevent the economy from snowballing into a full-fledged currency crisis and deep recession.

In our view, transition to policy orthodoxy and/or at least a closer alignment with global financing conditions appears to be inevitable at some point. The opposition looks to be more willing to proceed with necessary reforms compared with President Erdogan, under whom adjustment is expected to be slower and somewhat watered-down.

Worryingly, economic adjustment would not be easy, in view of the sizeable monetary stimulus needing to be reversed. Note that the real *ex-post* policy rate currently stands at c. -25.0%, the lowest worldwide, with foreign investors having long fled away from Turkish assets. Importantly, Türkiye's low gross public debt (c. 32.0% of GDP, well below that of its peers) provides authorities with ample fiscal space to minimize the cost of unwinding the current expansionary monetary policy. All said, and whatever the runoff outcome might be, we expect uncertainty to remain elevated over the forecast horizon, given the time needed for policy resetting, with further TRY depreciation in the pipeline.

Albania

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

Resilient private consumption should allow the Albanian economy to outperform its neighbouring peers in FY:23.

Despite the adverse impact of elevated -- yet easing, thanks, *inter alia*, to the appreciation of the Lek -- inflation on disposable income, private consumption should hold firm in the period ahead (growing at a projected pace of above 3.0%, broadly equal to that observed in pre-pandemic times), underpinned by tight labour market conditions, on the back of persistent labour force shortages (with the latter attributed, *inter alia*, to youth migration and skills mismatches), a loose incomes policy (including hikes of 25.0% and 9.5% in the minimum wage and pensions, respectively), which have been translated into positive and accelerating wage growth in real *ex-post* terms. The continuing improvement in consumer confidence (with the latter having surpassed pre-pandemic levels), together with robust remittance inflows, should also help.

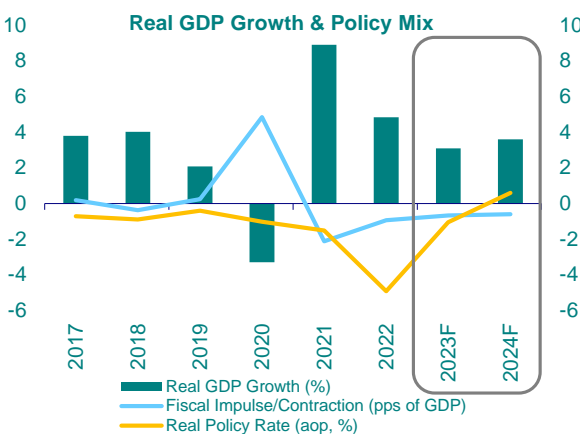
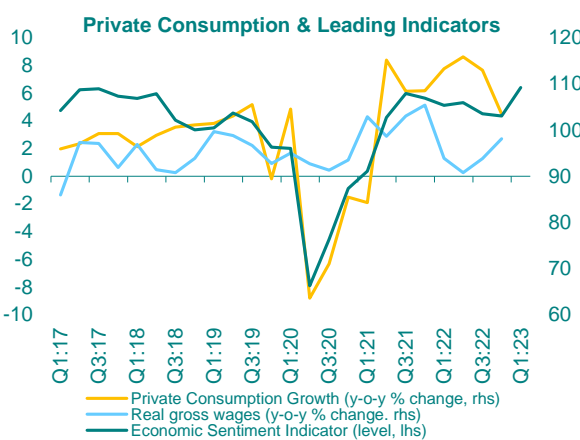
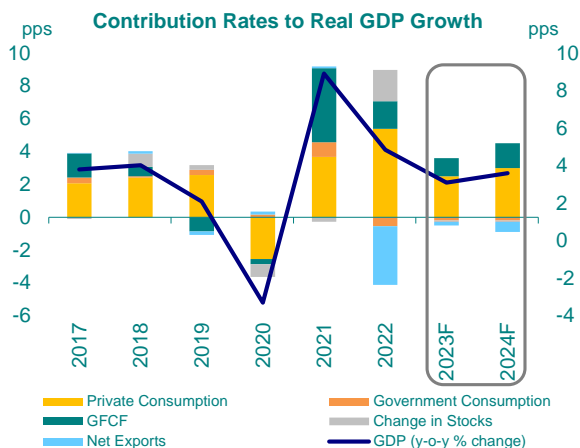
At the same, investment growth is expected to lose steam, largely reflecting an unfavourable base effect from completion of post-2019 earthquake reconstruction activity. Higher interest rates should also take a toll -- albeit smaller than in regional economies, due to the low credit penetration rate -- with the impact due to be mostly felt by the previously overperforming construction sector, which has benefited from double-digit growth in mortgage lending over the past 1½ years. Importantly, however, we expect FDI inflows (hovering slightly below 8.0% of GDP over the past 15 years) to remain solid over the forecast horizon, particularly in the tourism and energy sectors.

Muted external demand from the EU, especially Italy -- Albania's main trade partner (absorbing c. 43% of the country's exports) -- should weigh on exports of goods. However, the tourism sector is expected to overperform again this year, as suggested by the surge in arrivals in Q1:23 (up 60% y-o-y). Overall, assuming a normalization in domestic energy output, and thus reduced electricity imports, the drag from net exports on overall growth should diminish markedly in FY:23.

The policy mix should not support economic growth during the forecast horizon. Indeed, against the backdrop of elevated -- for the country's standards -- inflation and unanchored inflation expectations, on the one hand, and wide current account deficits, on the other hand, the BoA cannot but maintain its tightening bias. As a result, we see the key rate rising to 3.5% over the next few months, up from 2.75% at end-2022 and a low of 0.5% in early-2022, and remaining at that level at least by end-2024. On the other hand, the budget deficit is set to remain on a consolidation path, assuming phasing-out of the measures mitigating the impact of high energy prices and some spending under-execution, especially with capital expenditure, as in the past years.

All said, we see FY:23 GDP growth moderating to 3.0% from 4.8% in FY:22, with the economy continuing to overperform compared with its regional peers. Nevertheless, note that Albania's income gap with the later remains significant, with GDP per capita (PPP, USD) standing at 32% of EU average against c. 50% for SEE-7. GDP growth is set to firm to 3.5% in FY:24, broadly in line with its long-term potential.

Our forecast could be revised lower in the event of shortfalls in domestic electricity generation. Note that, while offering some protection against the ongoing energy crisis, 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 -- yet declining -- 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.



| | 22 May | 3-M F | 6-M F | 12-M F |
|-------------------------|--------|-------|-------|--------|
| 1-M TRIBOR (%) | 3.5 | 3.8 | 4.0 | 4.0 |
| ALL/EUR | 110.7 | 112.3 | 114.0 | 115.1 |
| Sov. Spread (2027, bps) | 341 | 340 | 325 | 300 |

| | 22 May | 1-W % | YTD % | 2-Y % |
|--------------|--------|-------|-------|-------|
| Stock Market | --- | --- | --- | --- |

| | 2020 | 2021 | 2022 | 2023F | 2024F |
|-------------------------|------|------|------|-------|-------|
| Real GDP Growth (%) | -3.3 | 8.9 | 4.8 | 3.1 | 3.6 |
| Inflation (eop, %) | 1.1 | 3.7 | 7.4 | 3.7 | 2.4 |
| Cur. Acct. Bal. (% GDP) | -8.6 | -7.7 | -6.0 | -6.0 | -5.8 |
| Fiscal Bal. (% GDP) | -6.7 | -4.6 | -3.7 | -3.0 | -2.4 |

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

DETAILED MACROECONOMIC DATA

| TÜRKİYE | | | | | |
|---|---------|---------|---------|-----------|-----------|
| | 2020 | 2021 | 2022 | 2023f | 2024f |
| Real Sector | | | | | |
| Nominal GDP (USD million) | 719,168 | 815,755 | 905,475 | 1,075,464 | 1,240,775 |
| GDP per capita (USD) | 8,601 | 9,633 | 10,568 | 12,408 | 14,156 |
| GDP growth (real, %) | 2.0 | 11.4 | 5.6 | 2.1 | 3.6 |
| 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 | 42.8 | 25.9 |
| 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 | 50.4 | | |
| Retail Loans (% of GDP) | 16.8 | 14.5 | 11.2 | | |
| Corporate Loans (% of GDP) | 54.1 | 53.1 | 39.2 | | |
| Customer Deposits (% of GDP) | 62.1 | 65.5 | 53.1 | | |
| 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) | 168,378 | 224,686 | 252,416 | 259,537 | 278,991 |
| Merchandise imports (USD million) | 206,252 | 253,999 | 343,098 | 342,673 | 361,207 |
| Trade balance (USD million) | -37,874 | -29,313 | -90,682 | -83,136 | -82,216 |
| Trade balance (% of GDP) | -5.3 | -3.6 | -10.0 | -7.7 | -6.6 |
| Current account balance (USD million) | -31,888 | -7,232 | -48,769 | -45,476 | -46,380 |
| Current account balance (% of GDP) | -4.4 | -0.9 | -5.4 | -4.2 | -3.7 |
| Net FDI (USD million) | 4,456 | 6,874 | 8,052 | 8,857 | 10,186 |
| Net FDI (% of GDP) | 0.6 | 0.8 | 0.9 | 0.8 | 0.8 |
| International reserves (USD million) | 93,277 | 111,181 | 128,736 | 130,000 | 138,000 |
| International reserves (Months ^a) | 4.9 | 4.7 | 3.3 | 4.5 | 4.3 |
| Public Finance | | | | | |
| Primary balance (% of GDP) | -0.8 | -0.2 | 1.1 | -2.8 | -2.0 |
| Fiscal balance (% of GDP) | -3.4 | -2.7 | -0.9 | -5.5 | -4.8 |
| Gross public debt (% of GDP) | 39.7 | 41.8 | 31.7 | 34.0 | 35.5 |
| External Debt | | | | | |
| Gross external debt (USD million) | 430,204 | 439,262 | 459,031 | 480,000 | 505,500 |
| Gross external debt (% of GDP) | 59.8 | 53.8 | 50.7 | 44.6 | 40.7 |
| 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 | 65.4 | 65.2 |
| External debt service (% of exports) | 37.5 | 27.6 | 25.4 | 26.2 | 25.8 |
| Financial Markets | | | | | |
| Policy rate (Effective funding rate, % eop) | 17.0 | 14.0 | 9.0 | 15.0 | 15.0 |
| Policy rate (Effective funding rate, % aop) | 10.5 | 17.6 | 12.6 | 11.2 | 15.0 |
| 10-Y T-bill rate (% eop) | 12.5 | 23.1 | 9.9 | 14.0 | 13.0 |
| Exchange rate: USD (eop) | 7.43 | 13.32 | 18.69 | 22.00 | 24.00 |
| Exchange rate: USD (aop) | 7.02 | 8.89 | 16.57 | 20.34 | 23.00 |

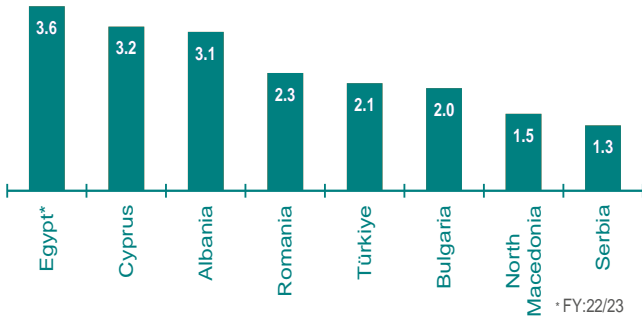
f: NBG forecasts; a: months of imports of GNFS

| ALBANIA | | | | | |
|---|--------|--------|--------|--------|--------|
| | 2020 | 2021 | 2022 | 2023f | 2024f |
| Real Sector | | | | | |
| Nominal GDP (EUR million) | 13,346 | 15,185 | 17,987 | 20,228 | 21,077 |
| GDP per capita (EUR) | 4,703 | 5,401 | 6,443 | 7,281 | 7,602 |
| GDP growth (real, %) | -3.3 | 8.9 | 4.8 | 3.1 | 3.6 |
| Unemployment rate (% aop) | 12.2 | 12.1 | 11.3 | 11.2 | 10.8 |
| Prices and Banking | | | | | |
| Inflation (% eop) | 1.1 | 3.7 | 7.4 | 3.7 | 2.4 |
| Inflation (% aop) | 1.6 | 2.0 | 6.7 | 4.4 | 2.9 |
| 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) | 35.2 | 33.9 | 31.6 | | |
| Retail Loans (% of GDP) | 12.8 | 12.4 | 12.5 | | |
| Corporate Loans (% of GDP) | 22.5 | 21.5 | 19.1 | | |
| Customer Deposits (% of GDP) | 65.0 | 61.7 | 58.4 | | |
| Loans to Private Sector (% of Deposits) | 54.2 | 55.0 | 54.1 | | |
| Foreign Currency Loans (% of Total Loans) | 48.1 | 47.6 | 48.2 | | |
| External Accounts | | | | | |
| Merchandise exports (EUR million) | 0,794 | 1,265 | 1,933 | 2,072 | 2,202 |
| Merchandise imports (EUR million) | 3,776 | 5,094 | 6,202 | 6,760 | 7,125 |
| Trade balance (EUR million) | -2,982 | -3,829 | -4,269 | -4,688 | -4,923 |
| Trade balance (% of GDP) | -22.3 | -25.2 | -23.7 | -23.2 | -23.4 |
| Current account balance (EUR million) | -1,153 | -1,166 | -1,080 | -1,221 | -1,226 |
| Current account balance (% of GDP) | -8.6 | -7.7 | -6.0 | -6.0 | -5.8 |
| Net FDI (EUR million) | 0,894 | 0,990 | 1,207 | 1,243 | 1,305 |
| Net FDI (% of GDP) | 6.7 | 6.5 | 6.7 | 6.1 | 6.2 |
| International reserves (EUR million) | 3,942 | 4,972 | 4,902 | 5,446 | 5,871 |
| International reserves (Months ^a) | 9.6 | 8.8 | 7.0 | 7.2 | 7.3 |
| Public Finance | | | | | |
| Primary balance (% of GDP) | -4.6 | -2.7 | -1.8 | -1.3 | -0.8 |
| Fiscal balance (% of GDP) | -6.7 | -4.6 | -3.7 | -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) | 8,549 | 9,755 | 10,155 | 10,655 | 11,155 |
| Gross external debt (% of GDP) | 64.1 | 64.2 | 56.5 | 52.7 | 52.9 |
| 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 | 6.5 | 6.5 |
| External debt service (% of exports) | 13.3 | 4.9 | 3.5 | 3.5 | 3.5 |
| Financial Markets | | | | | |
| Policy rate (1-week repo rate, % eop) | 0.5 | 0.5 | 2.8 | 3.5 | 3.5 |
| Policy rate (1-week repo rate, % aop) | 0.6 | 0.5 | 1.5 | 3.2 | 3.5 |
| 1-Y T-bill rate ^b (% eop) | 1.8 | 1.6 | 5.5 | 4.0 | 3.8 |
| Exchange rate: EUR (eop) | 123.4 | 120.6 | 114.0 | 114.5 | 116.0 |
| Exchange rate: EUR (aop) | 123.4 | 122.2 | 118.7 | 113.1 | 115.3 |

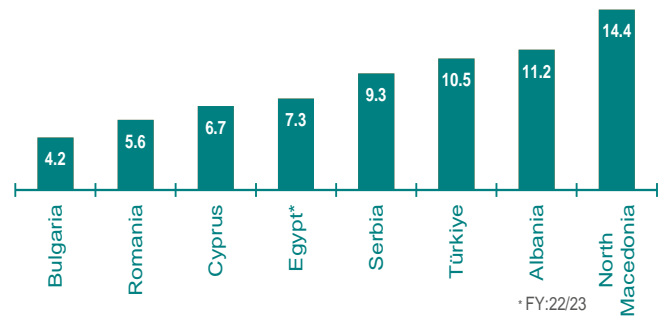
f: NBG forecasts; a: months of imports of GNFS; b: primary market

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

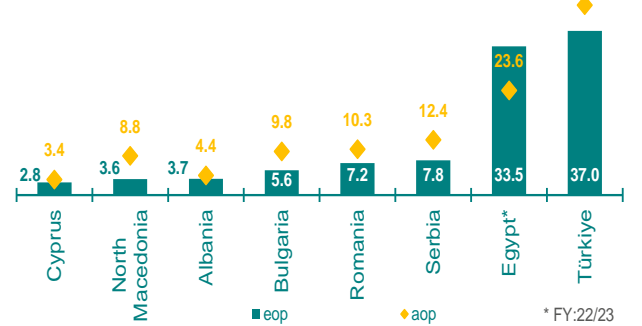
Real GDP Growth (% , 2023F)



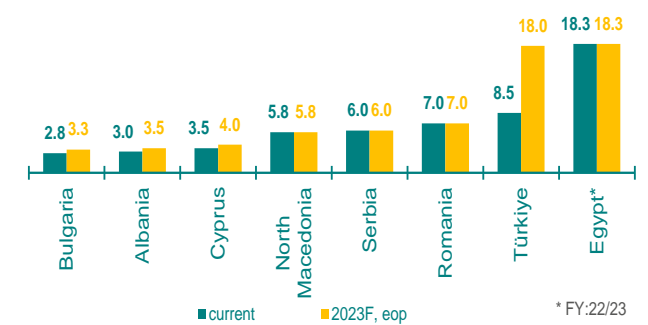
Unemployment (% , 2023F, aop)



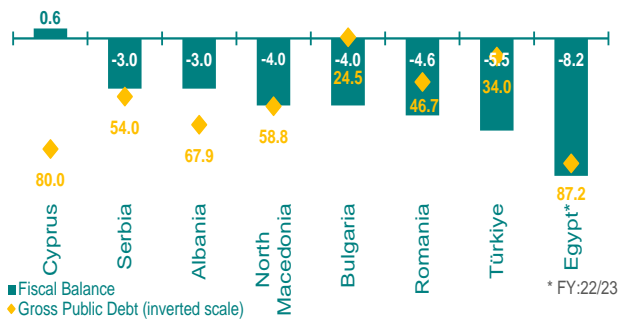
Headline inflation (% , 2023F)



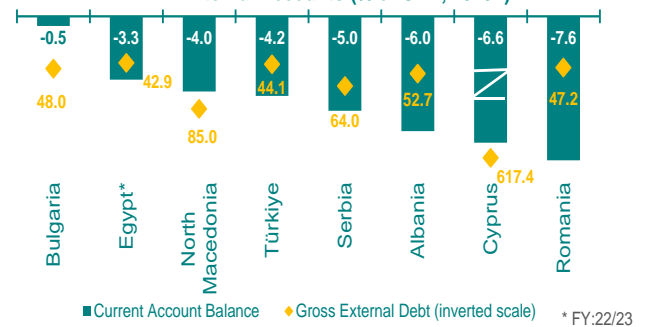
Policy rates (%)



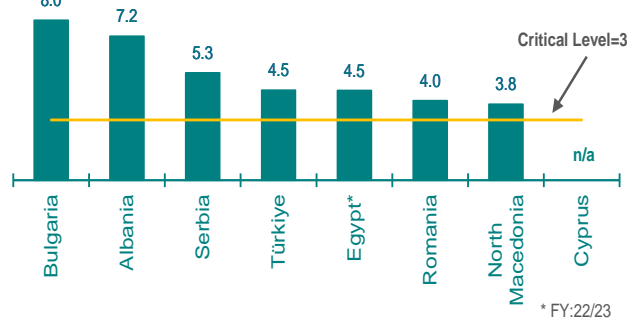
Public Finance (% of GDP, 2023F)



External Accounts (% of GDP, 2023F)

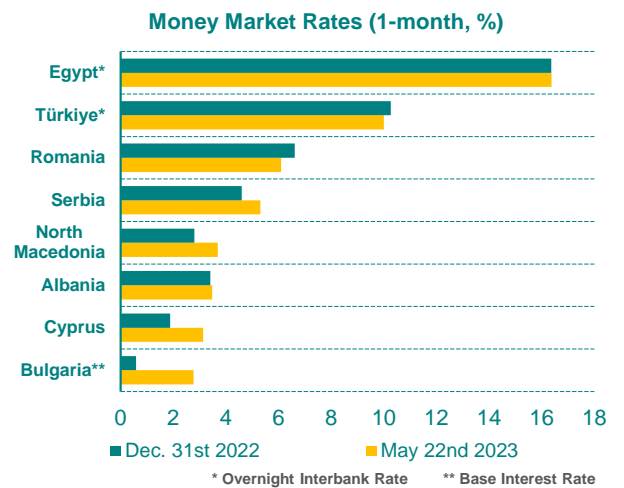
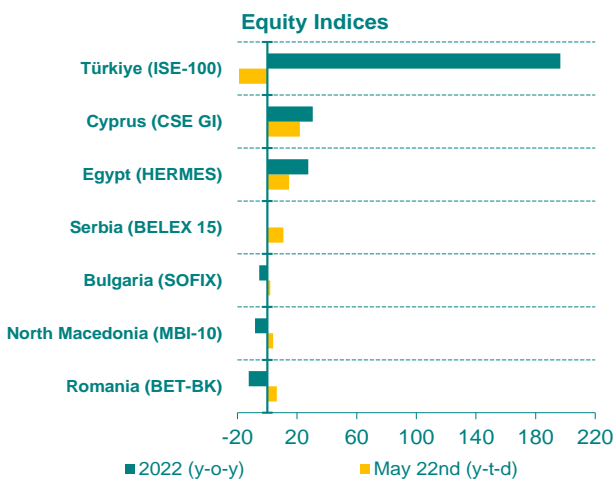
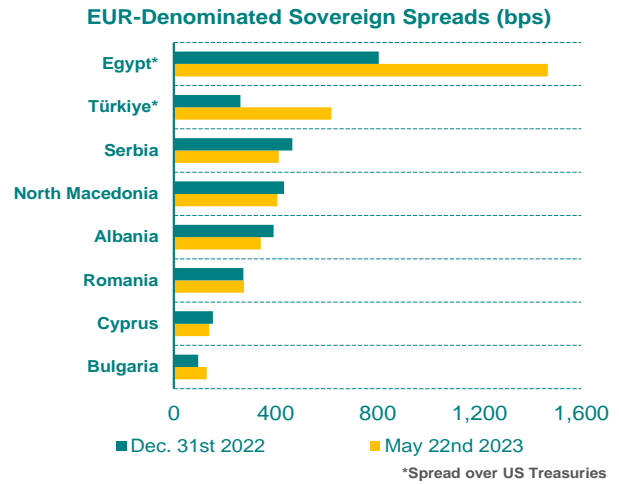
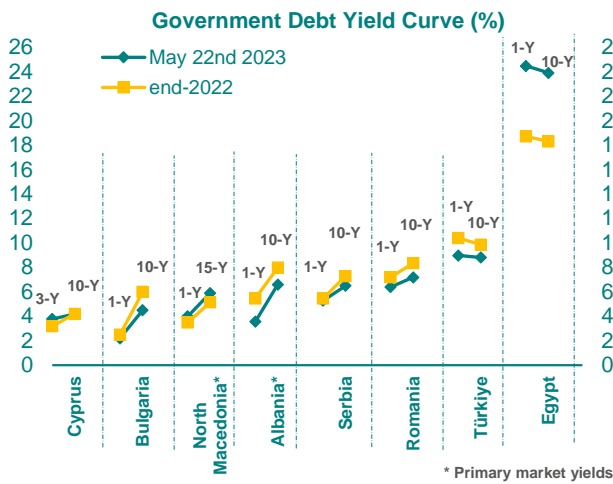
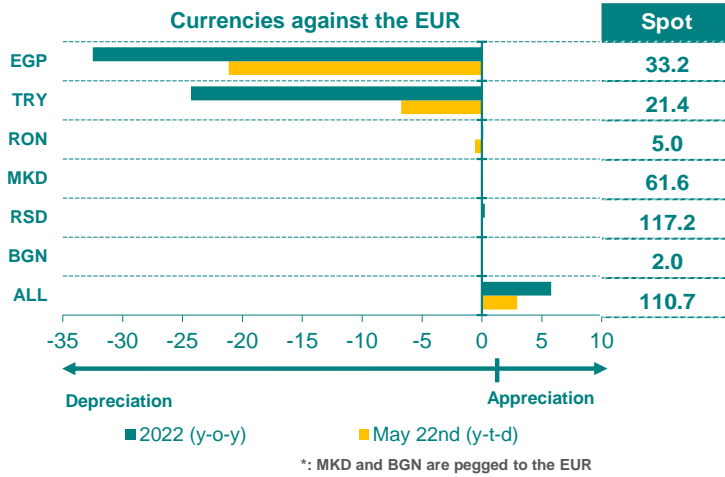


FX Reserves (Months of Imports, 2023F)



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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