

COUNTRIES IN FOCUS:

Bulgaria & Albania

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Bulgaria heads for a new snap election in June

The forthcoming election is likely to deliver another hung Parliament, failing to end political uncertainty

Political uncertainty is set to continue weighing on economic growth

Euro adoption to be delayed at least until 2025

ALBANIA 2

Albanian economy should continue growing at a healthy pace over the next quarters, thanks to strong wage-driven private consumption

Tight financing conditions and lower public investment could slow fixed capital formation this year

The tourism sector is expected to continue overperforming, helping keep external imbalances at sustainable levels

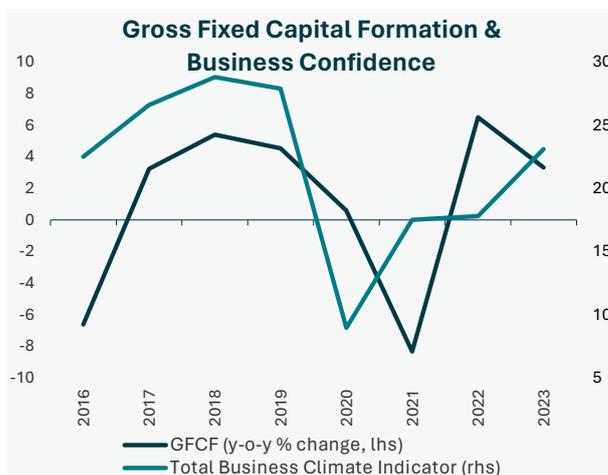
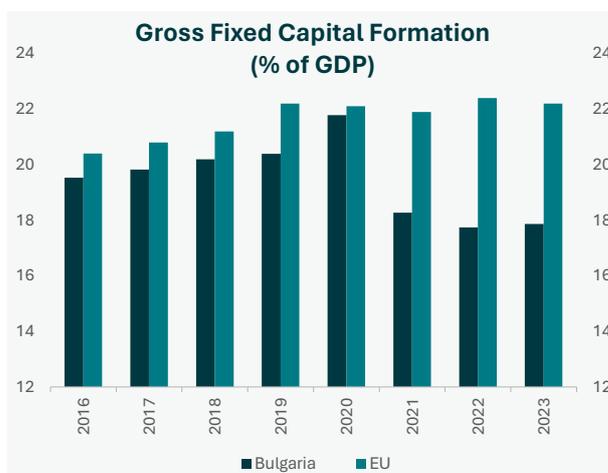
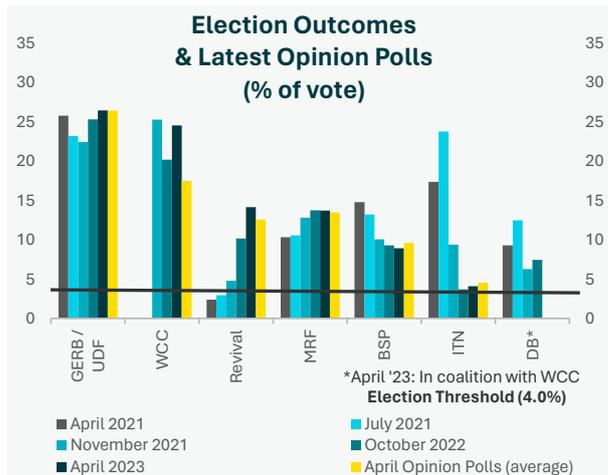
The need to counteract a loose fiscal stance and rapidly rising wages should prompt the BoA to decouple from the global monetary easing cycle

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Bulgaria

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



	29 Apr.	3-M F	6-M F	12-M F
Base Interest Rate (%)	3.8	3.6	3.3	2.9
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2030, bps)	111	115	112	105

	29 Apr.	1-W %	YTD %	2-Y %
SOFIX	814	1.0	6.4	31.5

	2021	2022	2023	2024F	2024F
Real GDP Growth (%)	7.7	3.9	1.8	2.2	3.3
Inflation (eop, %)	7.8	16.9	4.7	3.5	3.0
Cur. Acct. Bal. (% GDP)	-1.7	-1.4	-0.3	0.3	0.5
Fiscal Bal. (% GDP)	-2.8	-0.8	-3.1	-3.2	-2.6

Sources: Reuters, NSI, Eurostat & NBG estimates

Bulgaria heads for a new snap election in June. Recall that in June 2023, nearly 2 months after the April election, the 5th held since April 2021, the Parliament had voted in a rotational coalition Government, backed by the country’s largest political forces and former feuds, the centre-right GERB (in collaboration with the UDF) and the liberal “We Continue the Change” (WCC, in collaboration with “Democratic Bulgaria”) parties. However, disagreement over the allocation of seats in the cabinet of M. Gabriel of the GERB, which was due to succeed that of N. Denkov of the WCC, led to the collapse of the ruling coalition at end-March. In the wake of remaining parties’ failure to form a new Government, President R. Radev called a snap election for June 9, along with elections for the European Parliament.

The forthcoming election is likely to deliver another hung Parliament, failing to end political uncertainty. Opinion polls point to a widening gap between the GERB and the WCC. Given the rupture between the two former partners and other parties’ (barring the Turkish-minority MRF) reluctance to team-up with the GERB, whose almost decade-long rule was marred by corruption allegations, the formation of the next Government appears to be a complicated exercise. This means that we could see weeks of talks before a (most likely unstable) coalition takes office or a new snap election is called. As a result, political noise is unlikely to ease soon, in a country which has been governed by caretaker Governments for most part of the past 3 years.

Political uncertainty is set to continue weighing on economic growth. Worryingly, lingering political uncertainty is expected to bring about further delays in policy and reform implementation, hampering the tapping of funds under the EU’s Recovery & Resilience Facility and Multiannual Financial Framework 2021-27, and thus constraining GDP growth. Bulgaria is one of the largest recipients of EU funds, with total available grant funding by end-2027 amounting to c. 24.0% of its FY:23 GDP.

Note that prolonged political uncertainty has been a key reason for the economy’s underperformance, with the latter largely driven by persistent under-investment (see chart). Indeed, besides the delays in EU funds’ absorption observed since 2021, there has been also a significant weakening in business confidence (see chart).

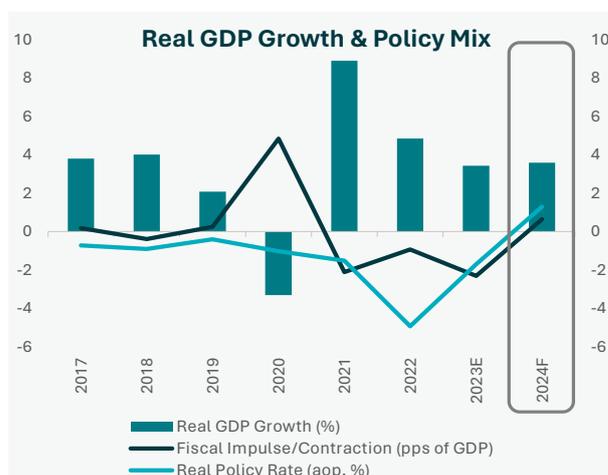
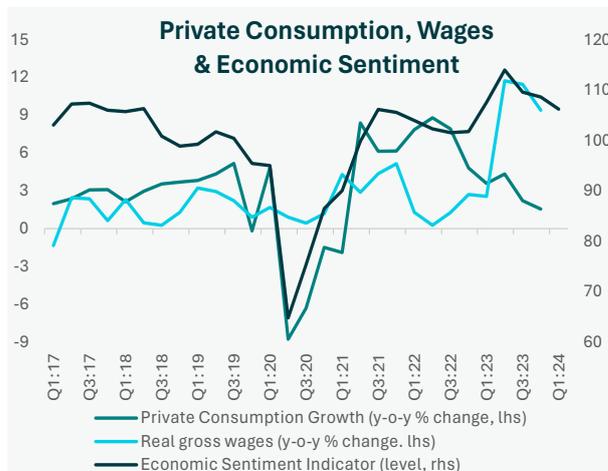
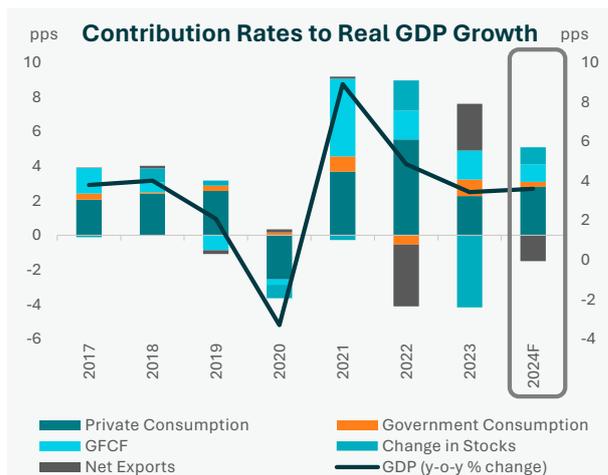
Importantly, however, the risk of serious policy slippage appears to be limited, given the anchors provided by the long-standing currency board arrangement and the inclusion of the BGN into the ERM II, a precursor to the adoption of the euro, on the one hand, and political parties’ broad consensus over the country’s strategic goals, on the other hand.

Euro adoption to be delayed at least until 2025. Recall that delays in the adoption of necessary legislation and elevated inflation have prompted authorities to defer the target date for euro adoption by 1 year to 2025. Although inflation has embarked on a downward trend, it remains significantly above that of the 3 best performing EU states, with Bulgaria unlikely to meet the price criterion by the deadline of mid-2024 so as to ensure accession in 2025. Worryingly, there are serious concerns over the prospect of sustainable inflation convergence, considering that prices in Bulgaria currently stand at c. 60% of the euro area average. However, as it was the case with Croatia, we recognise that competent authorities could show some compromise on ultimate accession.

Note that joining the euro area (per se) should bring no fundamental change in macroeconomic policies, given Bulgaria’s currency board arrangement and high euroization of the economy. Still, euro area membership should entail significant benefits for Bulgaria, including lower transaction and funding costs as well as access to ECB’s facilities. The latter, together with strong supervisory and macroprudential policies in place, should further bolster financial stability, cementing investor confidence in the economy.

Albania

BB- / B1 / NR (S&P / Moody's / Fitch)



	29 Apr.	3-M F	6-M F	12-M F
1-M TRIBOR (%)	3.6	3.6	3.7	3.8
ALL/EUR	100	101	102	103
Sov. Spread (2027, bps)	189	195	190	180

	29 Apr.	1-W %	YTD %	2-Y %
Stock Market	---	---	---	---

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	8.9	4.9	3.4	3.6	3.6
Inflation (eop, %)	3.7	7.4	4.0	2.4	3.0
Cur. Acct. Bal. (% GDP)	-7.7	-5.9	-0.9	-1.5	-1.9
Fiscal Bal. (% GDP)	-4.6	-3.7	-1.4	-2.0	-2.0

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

Albanian economy should continue growing at a healthy pace over the next quarters, thanks to strong wage-driven private consumption.

Private consumption should hold firm in the period ahead (growing at a pace of over 3.5%, slightly above the rates observed in pre-pandemic times), underpinned by solid growth in real disposable income. Indeed, tight labour market conditions, together with a loose incomes policy and its spillover to the private sector, should keep nominal wage growth in double-digit territory over the forecast horizon. Note that in a bid to contain labour force moving from the public to the private sector, authorities have been reforming the public wages, with the latter expected to rise by c. 30% by 2026. At the same time, the envisaged consolidation of inflation at lower levels should sustain real ex-post incomes. Under our baseline scenario, inflation is projected to moderate to 1.9% in FY:24 from 4.8% in FY:23, reflecting not only favourable global commodity prices but also the continuing (yet a much more modest pace compared with FY:23 -- up 10%) appreciation of the Lek, propelled, inter alia, by strong tourism receipts.

On the other hand, following dynamic growth over the past years, largely associated with post-2019 earthquake reconstruction activity, fixed capital formation is expected to lose steam this year. Indeed, higher interest rates are due to take a toll, albeit limited, due to low credit penetration. Public investment is also set to decrease, so as to free fiscal space for the hike in public sector wages. Note that, albeit easing, FDI inflows (hovering around 7.5% of GDP over the past decade) should remain solid, particularly in the tourism and energy sectors. Importantly, the high capacity utilization rate in the manufacturing sector bodes well for a rebound in investment as soon as uncertainty subsides and financing costs ease.

Worryingly, muted external demand from the EU, particularly Italy (absorbing c. 43% of Albania's exports), and the impact of stronger Lek should weigh on export growth, especially of manufacturing goods. Nonetheless, the tourism sector, which has markedly surpassed its pre-pandemic size (now accounting for c. 8.0% of GDP), helping to close the current account deficit, is expected to continue overperforming, benefiting from still strong price competitiveness vis-à-vis its regional partners. Overall, assuming normal domestic energy output, and thus low electricity imports, the drag from net exports on overall growth should remain markedly low in FY:24 as well.

Regarding policies, BoA's stance should remain tight, counterbalancing the looser fiscal stance. Indeed, strong nominal wage growth and unanchored inflation expectations cannot but prompt the BoA to decouple from the envisaged global easing cycle. In fact, assuming stabilization of the Lek as of next year, the BoA could need to raise rates even further to keep inflation in check.

All said, we see FY:24 GDP growth firming to 3.6% from 3.4% in FY:23, outperforming Albania's regional peers. Nevertheless, note that the country's income gap with the later remains significant, with GDP per capita (PPP) standing at slightly over 30% of EU average against c. 50% for SEE-7.

Our forecast could be revised lower in the event of shortfalls in electricity generation. While offering a shield against global energy price volatility, Albania's reliance on hydroelectricity leaves the economy vulnerable to weather conditions. Moreover, a price-wage spiral and/or a sudden FX reversal could lead the BoA to tighten its stance aggressively.

On a positive note, the opening of EU accession negotiations in mid-2022 should provide a policy anchor and strengthen the reform drive. However, we recognize that the large scale of reforms needed, together with growing EU enlargement fatigue, makes Albania's accession to the block a distant prospect. On the domestic political front, the agreement reached between the ruling Socialist Party and Berisha's faction of the opposition Democratic Party should allow (disrupted) parliamentary activity to resume.

DETAILED MACROECONOMIC DATA

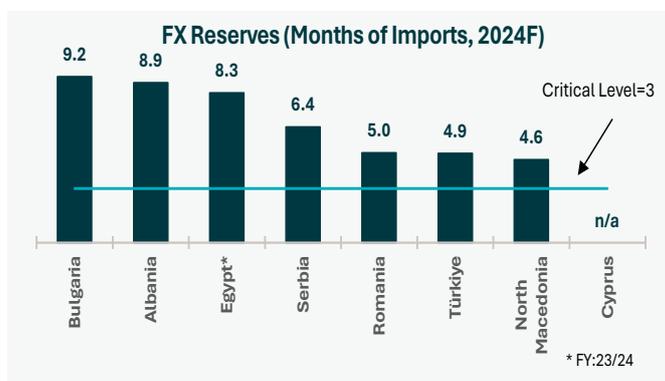
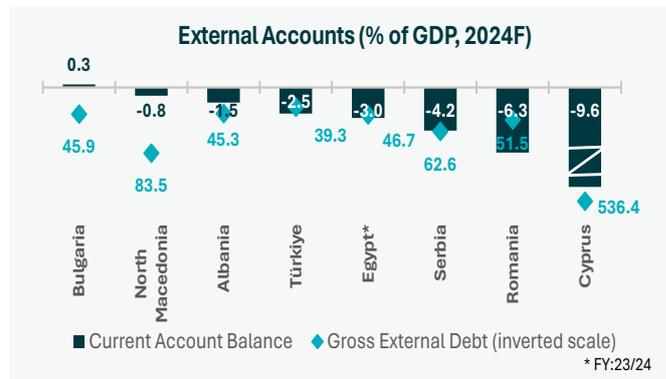
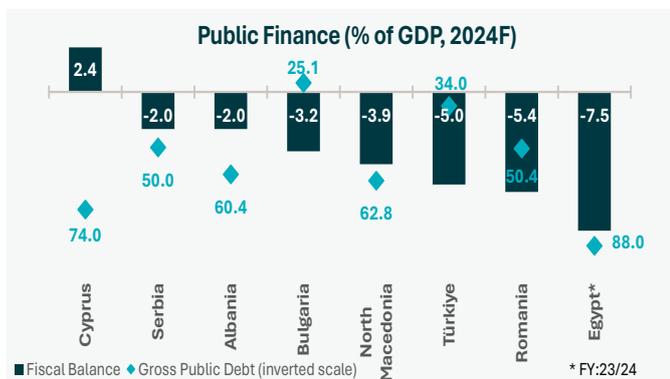
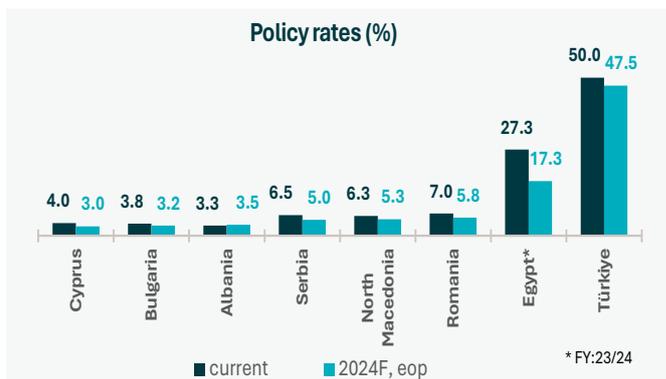
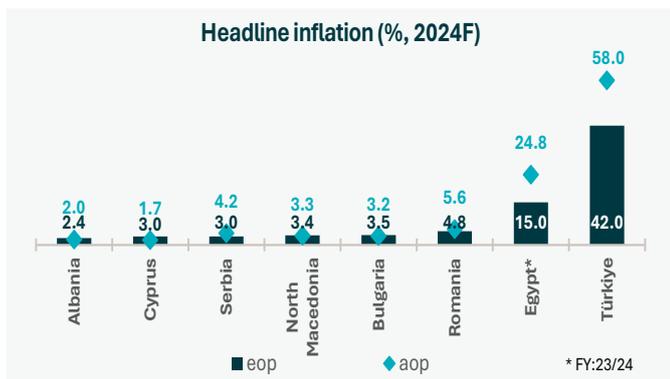
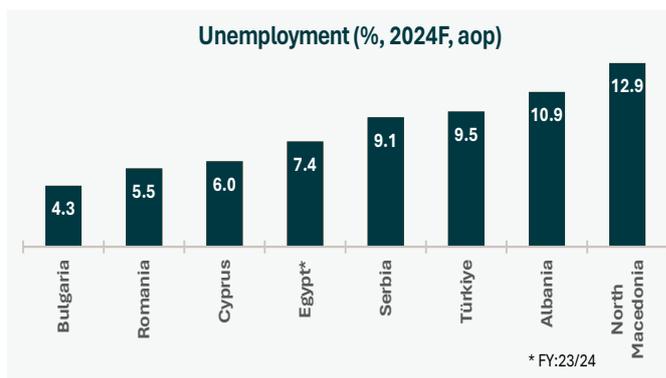
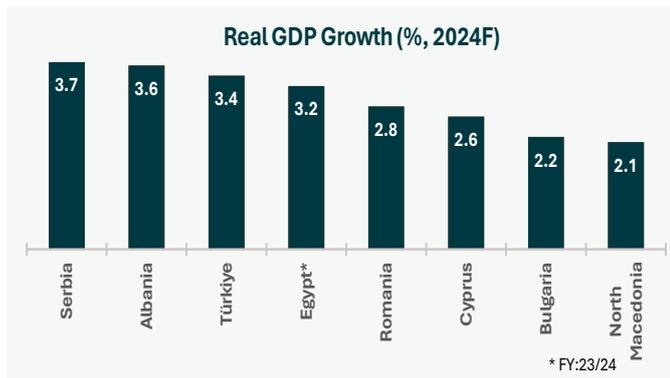
BULGARIA					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	71,059	85,799	93,947	99,086	105,836
GDP per capita (EUR)	10,390	12,621	13,904	14,751	15,853
GDP growth (real, %)	7.7	3.9	1.8	2.2	3.3
Unemployment rate(ILO definition, %, aop)	5.3	4.2	4.3	4.3	4.2
Prices and Banking					
Inflation (% eop)	7.8	16.9	4.7	3.5	3.0
Inflation (% aop)	3.3	15.2	9.6	3.2	3.4
Loans to the Private Sector (% change, eop)	8.3	12.2	10.9		
Customer Deposits (% change, eop)	9.0	14.4	9.6		
Loans to the Private Sector (% of GDP)	47.6	44.3	44.8		
Retail Loans (% of GDP)	20.5	19.5	20.7		
Corporate Loans (% of GDP)	27.1	24.8	24.2		
Customer Deposits (% of GDP)	69.1	65.5	65.5		
Loans to Private Sector (% of Deposits)	69.0	67.6	68.4		
Foreign Currency Loans (% of Total Loans)	28.7	25.7	23.3		
External Accounts					
Merchandise exports (EUR million)	34,405	47,145	43,334	45,097	47,140
Merchandise imports (EUR million)	37,291	52,219	46,962	49,104	51,502
Trade balance (EUR million)	-2,887	-5,074	-3,628	-4,007	-4,362
Trade balance (% of GDP)	-4.1	-5.9	-3.9	-4.0	-4.1
Current account balance (EUR million)	-1,225	-1,200	0,251	0,297	0,504
Current account balance (% of GDP)	-1.7	-1.4	-0.3	0.3	0.5
Net FDI (EUR million)	1,249	2,098	3,066	3,158	3,316
Net FDI (% of GDP)	1.8	2.4	3.3	3.2	3.1
International reserves (EUR million)	34,597	38,424	41,706	43,661	45,981
International reserves (Months ^a)	9.8	7.8	9.2	9.2	9.2
Public Finance					
Primary balance (% of GDP)	-2.4	-0.4	-2.6	-2.8	-2.0
Fiscal balance (% of GDP)	-2.8	-0.8	-3.1	-3.2	-2.6
Gross public debt ^b (% of GDP)	23.9	22.6	23.1	25.1	26.0
External Debt					
Gross external debt (EUR million)	41,317	44,249	45,414	45,480	45,509
Gross external debt (% of GDP)	58.1	51.6	48.3	45.9	43.0
External debt service (EUR million)	7,000	8,200	7,100	7,250	7,500
External debt service (% of reserves)	20.2	21.3	17.0	16.6	16.3
External debt service (% of exports)	16.0	13.8	12.4	12.1	11.9
Financial Markets					
Base Interest Rate (% eop)	0.0	1.3	3.8	3.2	2.5
Base Interest Rate (% aop)	0.0	0.2	2.9	3.5	2.9
10-Y Bond Yield (% eop)	0.7	6.0	4.5	4.0	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

ALBANIA					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	15,185	18,020	21,329	23,742	25,343
GDP per capita (EUR)	5,401	6,454	7,678	8,564	9,159
GDP growth (real, %)	8.9	4.9	3.4	3.6	3.6
Unemployment rate (% , aop)	12.1	11.3	11.2	10.9	10.5
Prices and Banking					
Inflation (% , eop)	3.7	7.4	4.0	2.4	3.0
Inflation (% , aop)	2.0	6.7	4.8	2.0	3.4
Loans to the Private Sector (% change, eop)	8.5	7.1	5.0		
Customer Deposits (% change, eop)	9.1	4.4	2.4		
Loans to the Private Sector (% of GDP)	33.9	31.5	30.6		
Retail Loans (% of GDP)	12.6	12.3	12.4		
Corporate Loans (% of GDP)	21.3	19.3	18.2		
Customer Deposits (% of GDP)	62.8	56.9	53.9		
Loans to Private Sector (% of Deposits)	54.0	55.4	56.8		
Foreign Currency Loans (% of Total Loans)	47.6	48.2	43.3		
External Accounts					
Merchandise exports (EUR million)	1,265	1,933	1,836	1,809	1,827
Merchandise imports (EUR million)	5,094	6,201	6,376	6,982	7,505
Trade balance (EUR million)	-3,829	-4,269	-4,540	-5,173	-5,679
Trade balance (% of GDP)	-25.2	-23.7	-21.3	-21.8	-22.4
Current account balance (EUR million)	-1,166	-1,063	-0,191	-0,344	-0,483
Current account balance (% of GDP)	-7.7	-5.9	-0.9	-1.5	-1.9
Net FDI (EUR million)	0,990	1,190	1,247	1,279	1,323
Net FDI (% of GDP)	6.5	6.6	5.8	5.4	5.2
International reserves (EUR million)	4,972	4,952	5,847	6,956	7,997
International reserves (Months ^a)	8.8	6.9	7.3	8.9	9.5
Public Finance					
Primary balance (% of GDP)	-2.7	-1.8	0.7	-0.1	-0.2
Fiscal balance (% of GDP)	-4.6	-3.7	-1.4	-2.0	-2.0
Gross public debt (% of GDP)	75.2	65.5	61.1	60.4	60.2
External Debt					
Gross external debt (EUR million)	9,755	9,766	10,147	10,747	11,347
Gross external debt (% of GDP)	64.2	54.2	47.6	45.3	44.8
External debt service (EUR million)	0,306	0,328	0,352	0,380	0,380
External debt service (% of reserves)	6.1	6.6	6.0	5.5	4.8
External debt service (% of exports)	4.9	3.5	3.9	4.3	4.2
Financial Markets					
Policy rate (1-week repo rate, % , eop)	0.5	2.8	3.3	3.5	3.5
Policy rate (1-week repo rate, % , aop)	0.5	1.5	3.0	3.3	3.5
1-Y T-bill rate ^b (% , eop)	1.6	5.5	3.8	4.7	4.5
Exchange rate: EUR (eop)	120.6	114.0	103.4	103.0	103.0
Exchange rate: EUR (aop)	122.2	118.7	108.4	102.5	102.5

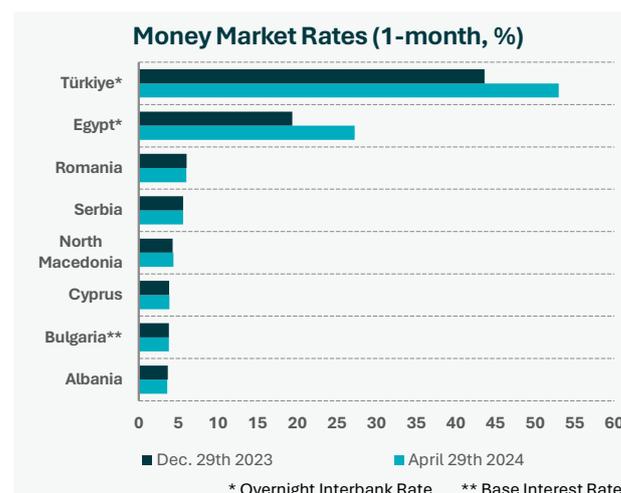
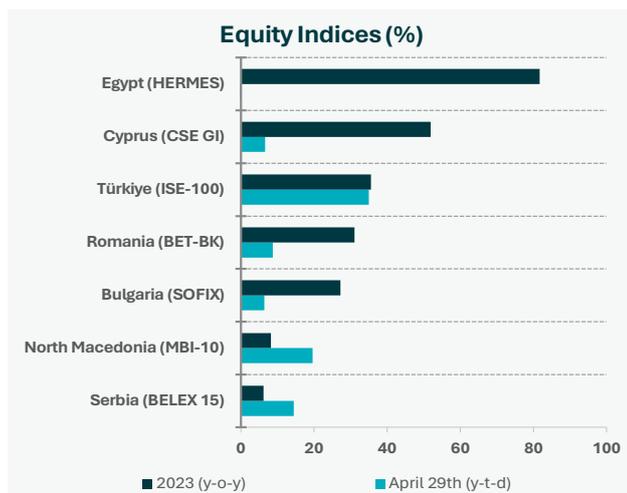
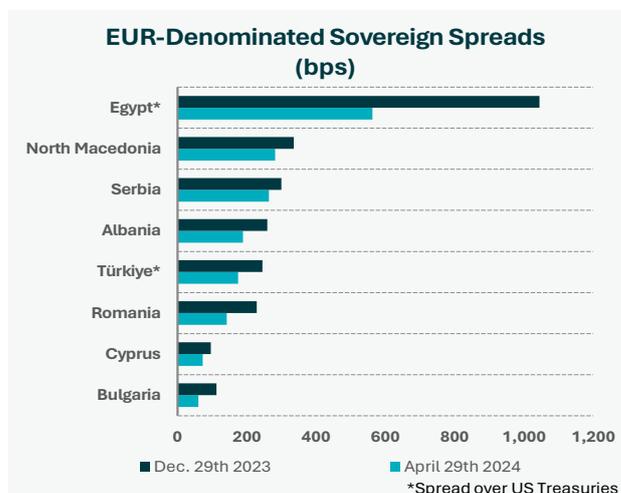
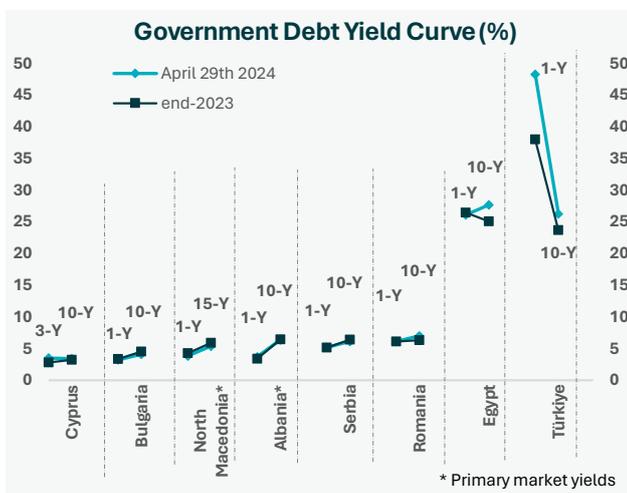
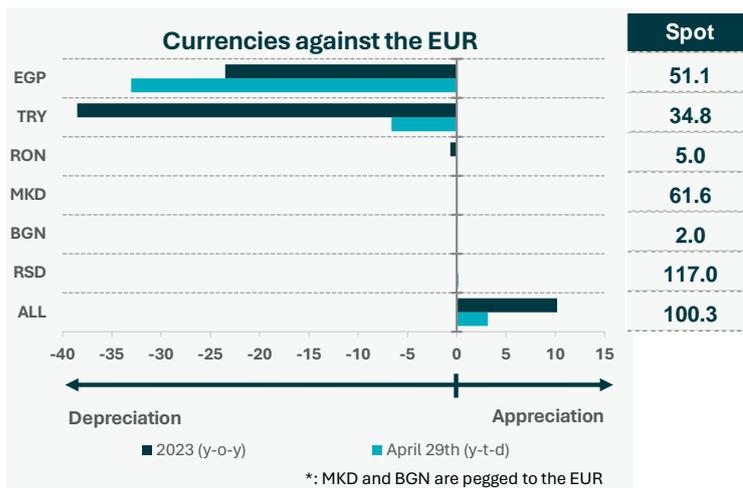
f: NBG forecasts; a: months of imports of GNFS; b: primary market

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBS estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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