

## COUNTRIES IN FOCUS:

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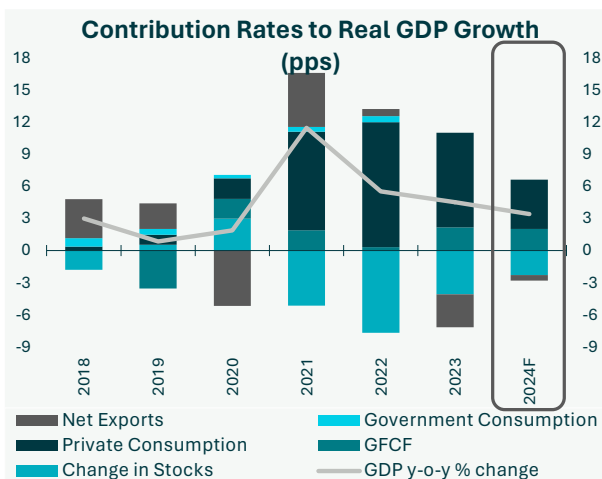
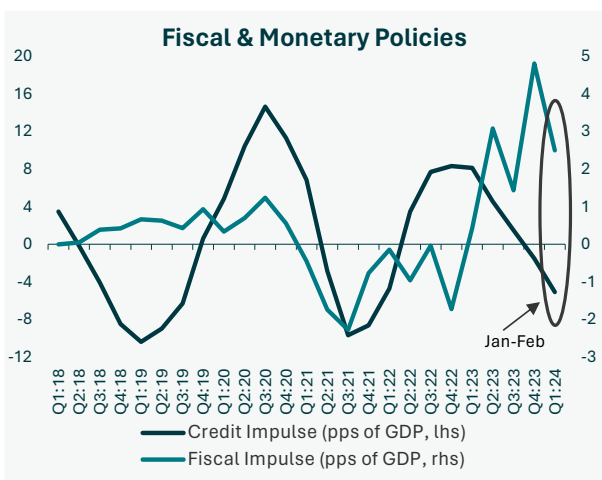
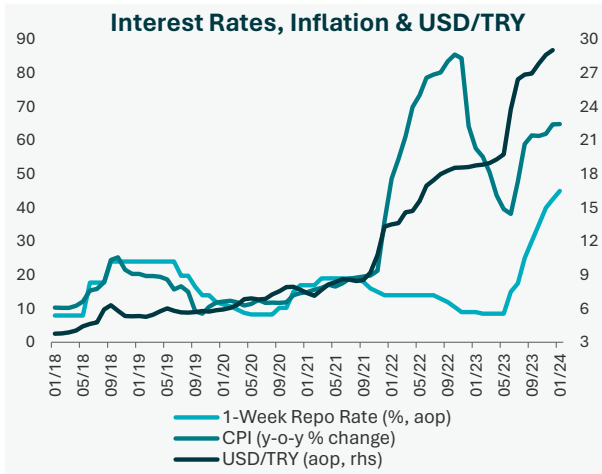
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# Türkiye

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



	1 Apr.	3-M F	6-M F	12-M F
O/N TLREF (%)	52.2	52.0	50.0	35.0
TRY/USD	32.1	33.4	34.7	37.0
Sov. Spread (2027, bps)	199	245	230	200

	1 Apr.	1-W %	YTD %	2-Y %
ISE 100	9,158	1.4	22.6	306.7

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	11.4	5.5	4.5	3.4	3.4
Inflation (eop, %)	36.1	64.3	64.2	42.0	22.0
Cur. Acct. Bal. (% GDP)	-0.9	-5.4	-4.1	-2.9	-2.7
Fiscal Bal. (% GDP)	-2.6	-0.9	-5.2	-5.0	-3.6

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

**Opposition scores surprising victory in local elections.** The opposition’s victory came less than 10 months after President Erdoğan and his Islamist-based AKP won a critical double election, extending their rule into a 3<sup>rd</sup> decade. Indeed, despite the collapse of the opposition alliance in the aftermath of the May elections, the secular centrist CHP managed to resurge, capitalizing, *inter alia*, on growing disappointment over the ongoing multi-year cost-of-living crisis. Rising public support for the Islamist New Welfare Party, which has been calling for an even tougher stance against Israel over the Gaza conflict, has also deprived the AKP of critical votes.

According to official results, the CHP claimed significant victories in Türkiye’s largest city, Istanbul, capital Ankara and another 19 key municipalities, coming (marginally) first on a nationwide level for the first time over the past 35 years. In Istanbul, in particular, incumbent mayor, E. İmamoğlu, defeated AKP’s former minister, M. Kurum, with just more than 51% of the vote, solidifying his position as the opposition’s unofficial leader and President Erdoğan’s main challenger.

**In its effort to curb inflation, the CBRT unexpectedly raised its key rate by an additional 500 bps, to 50%, in March, bringing total rate hikes since June to 4,150 bps.** Given the CBRT’s decision to pause in February, the March rate hike caught markets by surprise, with the latter expecting the central bank to hold off until after the local elections. Indeed, the deteriorating inflation outlook and persistent TRY depreciation pressures, prompted the CBRT to act pre-emptively, without waiting to see the impact of the quantitative tightening and macro-prudential measures adopted earlier, including cuts in the monthly growth limits for loans and the transfer of part of banks’ required reserves into blocked accounts.

With retail lending growth gaining momentum, domestic demand remaining strong, fueled, *inter alia*, by a loose income policy (with minimum wage, whose level traditionally impacts the entire wage distribution, having doubled compared with a year ago), and inflation expectations being still not anchored, this may not be the last tightening move by the CBRT. Note that, following the recent widening of its interest rate corridor (to ±300bps around the 2-week repo rate from ±150 bps previously), the CBRT could push money market rates even higher from current levels without raising further its key rate. In fact, we expect authorities to abandon their tightening bias only towards the end of the year, when inflation is projected to have embarked on a downward trend and external imbalances to have narrowed to more sustainable levels.

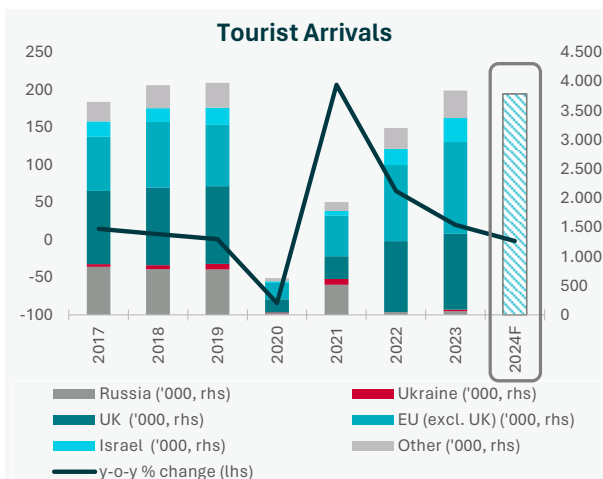
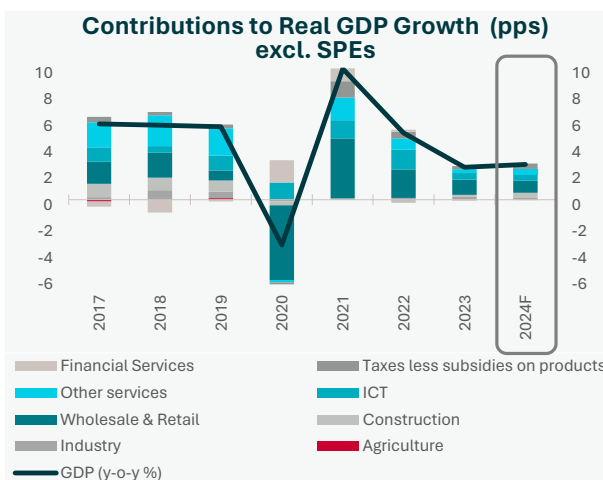
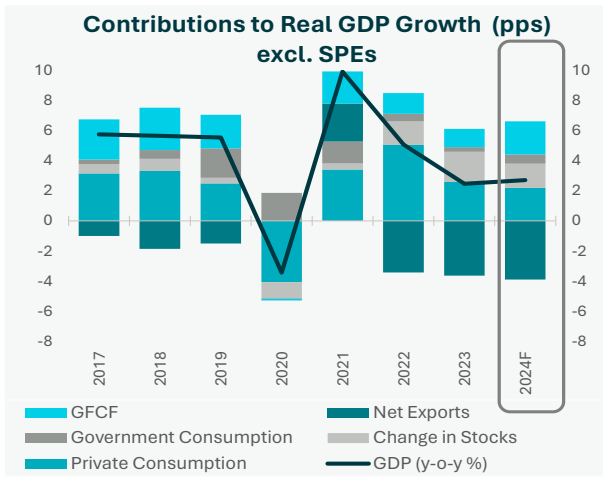
Worryingly, the CBRT is short of ammunition to defend the TRY during the adjustment period, as its net FX reserves remain negative, meaning that TRY volatility should remain relatively high in the period ahead.

**Türkiye braces for a soft landing, as tightening financing conditions take hold and public purse strings tighten.** With local elections behind us, the Government is also expected to gradually tighten its fiscal stance, complementing the CBRT’s efforts to recalibrate the economy.

Against this backdrop, GDP growth is set to slow down on weaker private consumption (with the latter -- despite having slowed down -- expanding at a nearly double-digit figure in Q4:23). Gross fixed capital formation should also decelerate, due to tighter financing conditions and the impact of the weak TRY on corporates’ balance sheets, on the one hand, and the fading of the (favourable) base effect from post-earthquake reconstruction activity, on the other hand. Importantly, with domestic and external demand gradually decoupling, net exports should start adding to growth, reflecting, among others, gains in price competitiveness. All said, we see GDP growth easing to 3.4% in FY:24 from 4.5% in FY:23, but with a more balanced structure. Note that the high indebtedness of the private sector (c. 185% of GDP, with over 40% of which being FX-denominated) poses a threat to macro-financial stability.

# Cyprus

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



	1 Apr.	3-M F	6-M F	12-M F
1-M EURIBOR (%)	3.9	3.6	3.3	2.8
EUR/USD	1.07	1.08	1.09	1.10
Sov. Spread (2028, bps)	80	85	83	80

	1 Apr.	1-W %	YTD %	2-Y %
CSE 100	145	0.4	6.8	117.2

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	9.9	5.1	2.5	2.6	3.0
Inflation (eop, %)	4.8	7.9	1.6	3.2	2.0
Cur. Acct. Bal. (% GDP)	-6.1	-7.9	-8.9	-8.4	-7.6
Fiscal Bal. (% GDP)	-1.9	2.4	2.9	2.2	2.0

Sources: Reuters, CYSTAT, CBC, & NBG estimates

**Despite external headwinds, the economy should remain on a strong footing in 2024, underpinned by domestic demand, markedly outperforming the euro area average.** Growth in private consumption should remain resilient in FY:24, yet moderate from the high rates observed so far, mainly reflecting fading support from tight labour market conditions (with employment having risen by a robust 2.8% in FY:23 -- largely driven by the services (especially tourism and ICT) sector -- and unemployment having fallen to a post-GFC low of 6.1%, at the same time) and subsiding inflation (projected at 1.9% on average in FY:24, down from 3.6% in FY:23 and 8.4% in FY:22). The impact of higher interest rates on debt servicing costs and the savings rate should take a toll on private consumption dynamics as well.

Importantly, investment in non-construction projects is set to pick-up markedly this year, following acceleration in deployment of the Recovery & Resilience Plan (RRP, with Cyprus having received funds worth 0.8% of its FY:23 GDP so far, and being eligible for another 3.3% by end-2027). At the same time, strong external demand for real estate (largely associated with the significant influx of foreign companies and their personnel observed in FY:22-23) and the continuation of some big (mainly energy and tourism) infrastructure projects should sustain construction activity in FY:24, largely offsetting weaker domestic demand for residences, on the back of tight financing conditions.

Worryingly, in view of solid domestic demand, on the one hand, and external headwinds, on the other hand, net exports are expected to shave a large chunk off GDP growth in FY:24 as well. Indeed, sluggish economic growth in the EU and the plunge in arrivals from Israel (2<sup>nd</sup> largest source country after the UK, accounting for 11.0% of total arrivals in FY:23), amid ongoing tensions in the Middle East, cannot but weigh on the island's tourism activity, which recovered to nearly pre-pandemic levels in FY:23. At the same time, the outlook for exports of professional & financial services remains weak, given the escalating EU sanctions against Russia. Still, a favourable (yet fading) base effect from the massive relocation of foreign companies in Cyprus (with more than 1,600 firms -- most of them operating in the ICT sector -- with 14,000 employees having registered locally over the past 2 years, benefiting from its attractive headquartering policy) should help moderate the impact of soft external demand.

Fiscal policy should provide some support to economic growth in FY:24, with the budget balance remaining in large surplus, however. Indeed, the hike in the social contribution rate, together with the phasing-out of the measures cushioning the blow of elevated inflation, should largely compensate for the higher public wage & pension bills and the cost of housing policy measures.

All said, we see GDP growth at 2.6% in FY:24, a tad higher than in FY:23 and slightly below its long-term potential, but still well above the euro area average (projected at a meagre 0.8%). Delays in the execution of the country's Recovery & Resilience Plan and a resurgence of price pressures (reflecting repercussions from ongoing geopolitical tensions and/or a more extensive pass-through of inflation to wages, aggravated by tight labour market conditions) could drag economic growth lower in the period ahead. On the other hand, a fast de-escalation of interest rates could lend support to domestic demand (note that c. 95% of debt contracts have variable interest rates), stimulating GDP growth. Still, we recognize that the non-financial private sector's high indebtedness (excluding SPEs, amounting to c. 160% of GDP in mid-2023 against a euro area average of c. 130%, largely reflecting legacy NPLs) is set to remain a constraint on the sector's ability to access credit and expand spending. Importantly, the banking sector's strong capitalisation and highly liquid position provide a line of defense against potential financial stress.

## DETAILED MACROECONOMIC DATA

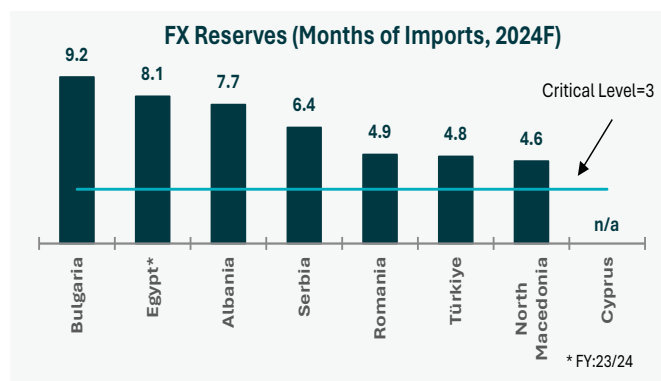
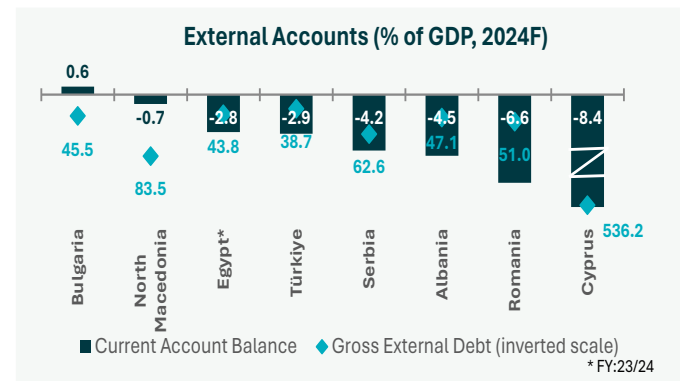
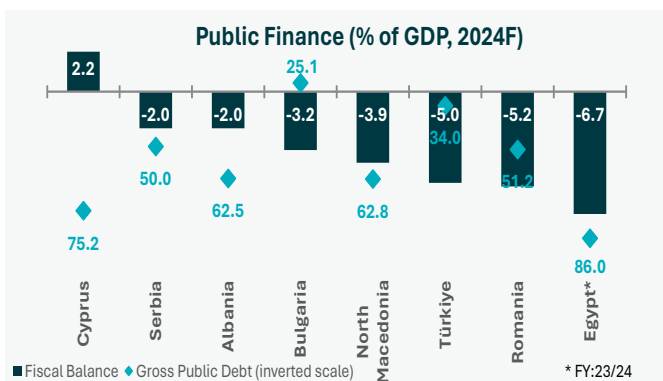
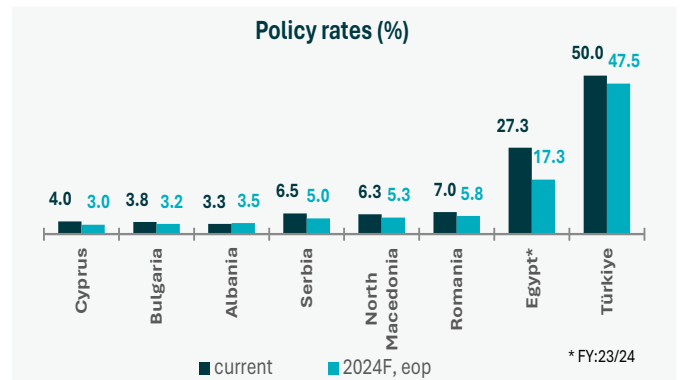
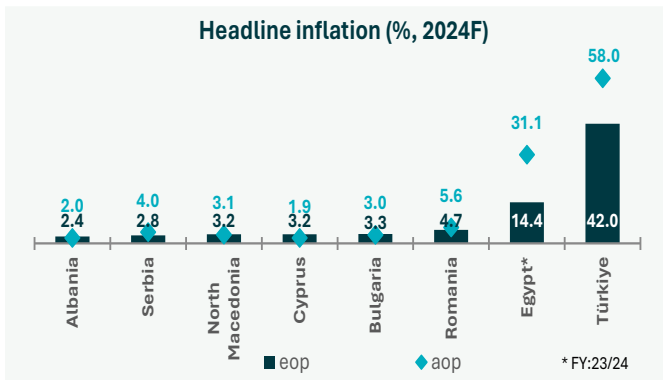
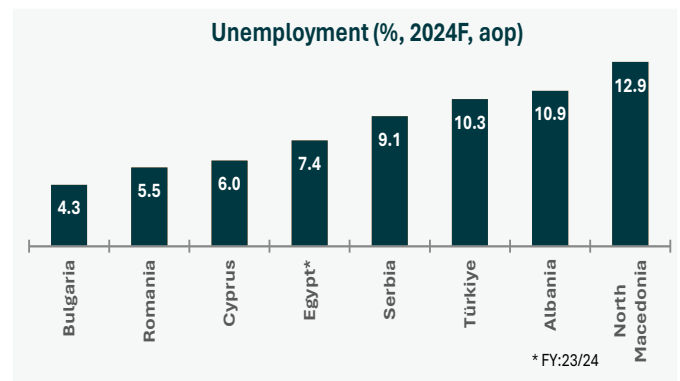
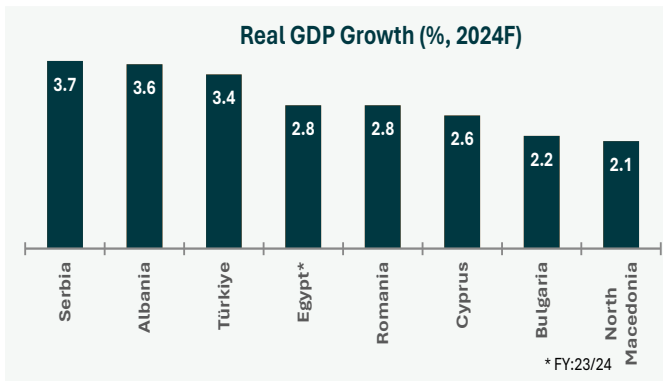
TÜRKİYE					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (USD million)	816,582	905,789	1,105,009	1,311,251	1,479,979
GDP per capita (USD)	9,643	10,621	12,809	15,031	16,782
GDP growth (real, %)	11.4	5.5	4.5	3.4	3.4
Unemployment rate (% aop)	12.0	10.5	10.0	10.3	10.0
<b>Prices and Banking</b>					
Inflation (% eop)	36.1	64.3	64.2	42.0	22.0
Inflation (% aop)	19.3	71.6	53.1	58.0	26.7
Loans to the Private Sector (% change, eop)	37.0	54.5	53.7		
Customer Deposits (% change, eop)	51.5	68.0	67.1		
Loans to the Private Sector (% of GDP)	67.5	50.4	44.3		
Retail Loans (% of GDP)	14.4	11.2	11.3		
Corporate Loans (% of GDP)	53.1	39.2	33.0		
Customer Deposits (% of GDP)	65.4	53.1	50.7		
Loans to Private Sector (% of Cust. Deposits)	103.2	94.9	87.3		
Foreign Currency Loans (% of Total Loans)	42.2	32.6	32.5		
<b>External Accounts</b>					
Merchandise exports (USD million)	224,673	253,352	251,166	269,979	289,396
Merchandise imports (USD million)	253,994	342,952	337,725	354,873	378,212
Trade balance (USD million)	-29,321	-89,600	-86,559	-84,893	88,816
Trade balance (% of GDP)	-3.6	-9.9	-7.8	-6.5	-6.0
Current account balance (USD million)	-7,398	-49,085	-45,150	-38,213	-40,605
Current account balance (% of GDP)	-0.9	-5.4	-4.1	-2.9	-2.7
Net FDI (USD million)	6,444	8,731	4,678	2,105	3,158
Net FDI (% of GDP)	0.8	1.0	0.4	0.2	0.2
International reserves (USD million)	111,181	128,736	140,884	150,000	165,000
International reserves (Months <sup>a</sup> )	4.7	3.3	5.0	4.8	4.9
<b>Public Finance</b>					
Primary balance (% of GDP)	-0.2	1.1	-2.7	-2.0	-0.7
Fiscal balance (% of GDP)	-2.6	-0.9	-5.2	-5.0	-3.6
Gross public debt (% of GDP)	40.4	30.8	33.0	34.0	34.0
<b>External Debt</b>					
Gross external debt (USD million)	437,557	459,261	488,000	508,000	528,000
Gross external debt (% of GDP)	53.6	50.7	44.2	38.7	35.7
External debt service (USD million)	74,954	67,079	75,000	80,000	85,000
External debt service (% of reserves)	67.4	52.1	53.2	53.3	51.5
External debt service (% of exports)	27.8	21.2	23.9	23.7	23.5
<b>Financial Markets</b>					
Policy rate (Effective funding rate, % eop)	14.0	9.0	42.5	47.5	25.0
Policy rate (Effective funding rate, % aop)	17.6	12.6	20.7	49.0	30.9
10-Y T-bill rate (% eop)	23.1	9.9	23.7	26.0	21.0
Exchange rate: USD (eop)	13.32	18.69	29.48	36.00	40.00
Exchange rate: USD (aop)	8.89	16.57	23.78	32.74	38.00

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

CYPRUS					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	24,928	27,777	29,757	31,112	32,824
GDP per capita (EUR)	27,687	30,516	32,335	33,473	34,965
GDP growth (real, %)	9.9	5.1	2.5	2.6	3.0
Unemployment rate (% aop)	7.5	6.8	6.1	6.0	5.8
<b>Prices and Banking</b>					
Inflation (% eop)	4.8	7.9	1.6	3.2	2.0
Inflation (% aop)	2.4	8.4	3.6	1.9	2.4
Loans to the Private Sector (% change, eop)	-5.0	-12.1	-5.0		
Customer Deposits (% change, eop)	5.4	2.9	-0.6		
Loans to the Private Sector (% of GDP)	110.1	86.8	77.0		
Retail Loans (% of GDP)	49.0	41.3	37.5		
Corporate Loans (% of GDP)	61.1	45.5	39.5		
Customer Deposits (% of GDP)	174.1	160.7	149.2		
Loans to Private Sector (% of Deposits)	63.2	54.0	51.6		
Foreign Currency Loans (% of Total Loans)	---	---	---		
<b>External Accounts</b>					
Merchandise exports (EUR million)	3,693	4,581	4,604	4,742	4,895
Merchandise imports (EUR million)	8,092	10,555	11,447	11,870	12,441
Trade balance (EUR million)	-4,398	-5,973	-6,843	-7,128	-7,546
Trade balance (% of GDP)	-17.6	-21.5	-23.0	-22.9	-23.0
Current account balance (EUR million)	-1,514	-2,203	-2,658	-2,601	-2,503
Current account balance (% of GDP)	-6.1	-7.9	-8.9	-8.4	-7.6
Net FDI (EUR million)	7,748	8,446	6,334	8,235	9,882
Net FDI (% of GDP)	31.1	30.4	21.3	26.5	30.1
International reserves (EUR million)	---	---	---	---	---
International reserves (Months <sup>a</sup> )	---	---	---	---	---
<b>Public Finance</b>					
Primary balance <sup>b</sup> (% of GDP)	-0.1	3.9	4.4	3.5	3.4
Fiscal balance <sup>b</sup> (% of GDP)	-1.9	2.4	2.9	2.2	2.0
Gross public debt (% of GDP)	99.3	85.6	77.4	75.2	69.5
<b>External Debt</b>					
Gross external debt (EUR million)	172,529	169,326	168,326	166,826	165,326
Gross external debt (% of GDP)	692.1	609.6	565.7	536.2	503.7
External debt service (EUR million)	---	---	---	---	---
External debt service (% of reserves)	---	---	---	---	---
External debt service (% of exports)	---	---	---	---	---
<b>Financial Markets</b>					
Policy rate (ECB refinancing rate, % eop)	-0.5	2.0	4.0	3.0	2.3
Policy rate (ECB refinancing rate, % aop)	-0.5	0.2	3.4	3.7	2.7
10-Y T-bill rate (% eop)	0.7	4.2	3.2	3.4	3.5
Exchange rate: USD (eop)	1.137	1.070	1.104	1.100	1.130
Exchange rate: USD (aop)	1.183	1.053	1.081	1.090	1.115

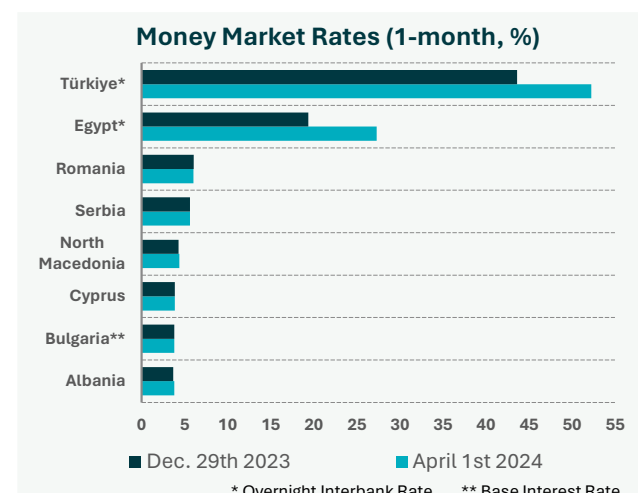
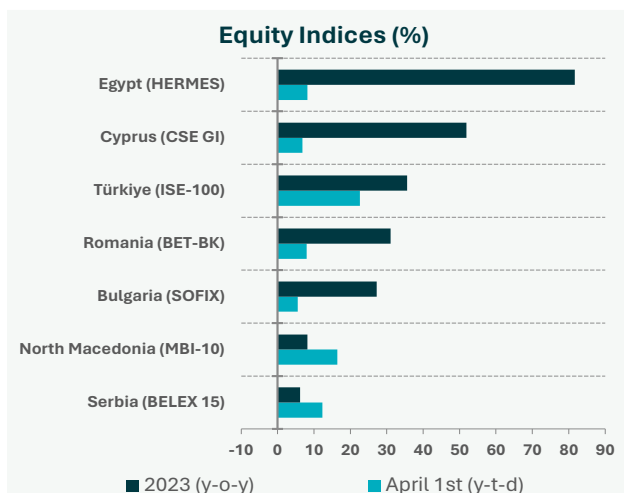
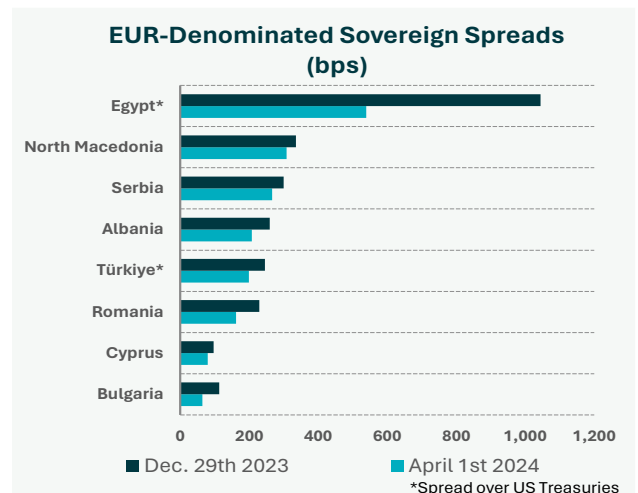
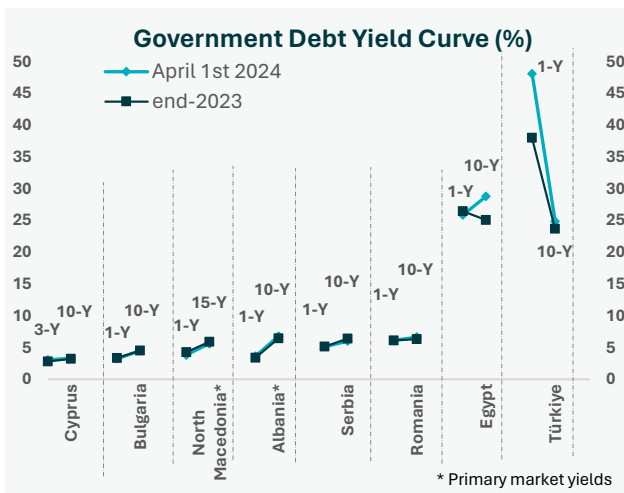
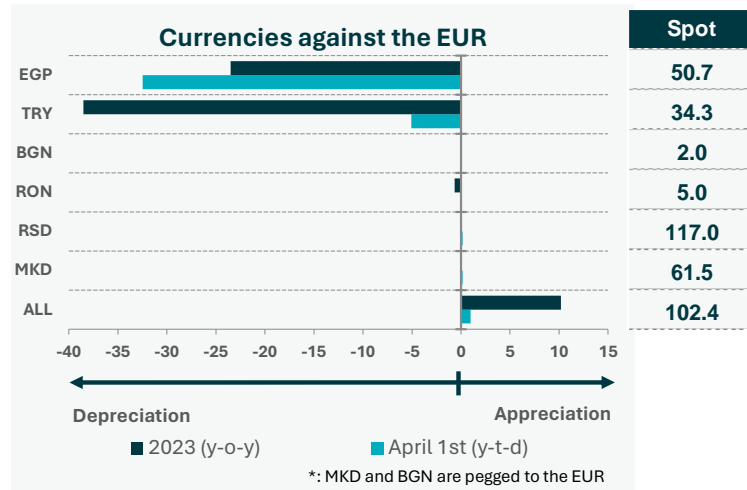
f: NBG forecasts; a: months of imports of GNFS; b: cash basis

# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates

# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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