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Emerging Markets Analysis

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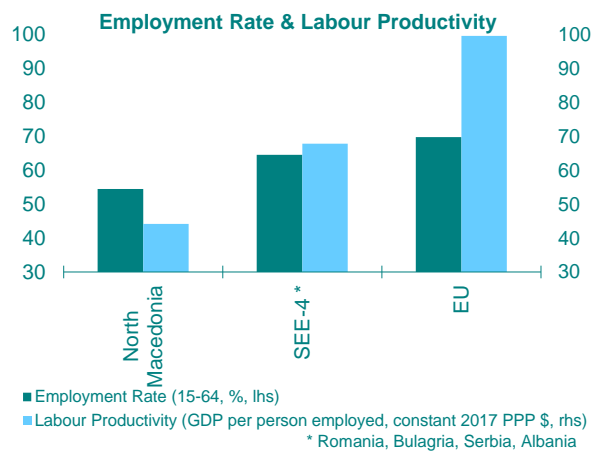
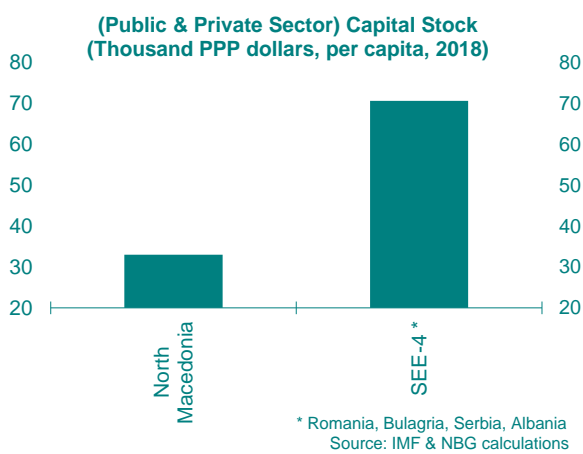
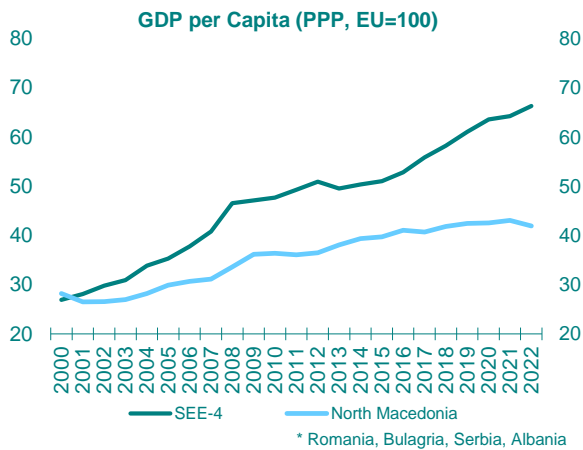
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North Macedonia

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



	5 Feb	3-M F	6-M F	12-M F
1-m SKIBOR (%)	4.3	4.2	4.1	3.7
MKD/EUR	61.6	61.6	61.6	61.6
Sov. Spread (2028, bps)	308	310	300	280

	5 Feb	1-W %	YTD %	2-Y %
MBI 100	6.597	4.3	7.9	4.9

	2021	2022	2023E	2024F	2025F
Real GDP Growth (%)	4.5	2.2	1.3	1.9	3.3
Inflation (eop, %)	4.9	18.7	3.6	3.8	2.5
Cur. Acct. Bal. (% GDP)	-2.8	-6.1	-1.0	-2.3	-2.8
Fiscal Bal. (% GDP)	-5.3	-4.4	-4.6	-3.8	-3.2

Sources: Reuters, NBRNM, MAKSTAT, Eurostat, IMF & NBG estimates

North Macedonia heads for double elections in spring.

Parliamentary elections are scheduled for May 8, along with the 2nd (if needed) round of the Presidential election.

Following the constitution, the Government, backed by the centre-left SDSM and several Albanian-minority parties (namely DUI, the Alliance of Albanians (AA) and the DPA), resigned at end-January, 100 days prior to the elections. Recall that Kovacevski replaced Z. Zaev at the helm of the SDSM and as a PM at end-2021, when the later resigned after the party's defeat in local elections. The outgoing Government has been replaced by an interim Cabinet, also comprising members of the opposition, headed by the first-ever ethnic Albanian PM, T. Xhaferi of DUI. Note that, according to the 2021 census (incl. diaspora), the Albanian minority constitutes c. 30% of the country's population.

The incumbent ruling coalition is unlikely to remain in power. The opposition right-wing nationalist VMRO-DPMNE is leading the polls over the ruling SDSM (in office since 2017) by a wide margin (10-20 pps), but it appears that it would not be able to secure an absolute majority in the 120-seat Parliament. On the other hand, even accounting for SDSM's current partners, the outgoing ruling coalition would most likely not be able to top the VMRO-DPMNE, making the formation of the next Government a puzzling exercise. In this context, the left-wing Levica and other smaller Albanian minority parties (including Alternativa and BESA, united under the "European Alliance for Change" bloc) could emerge as the kingmaker, offering the VMRO-DPMNE the seats missing to muster an absolute majority.

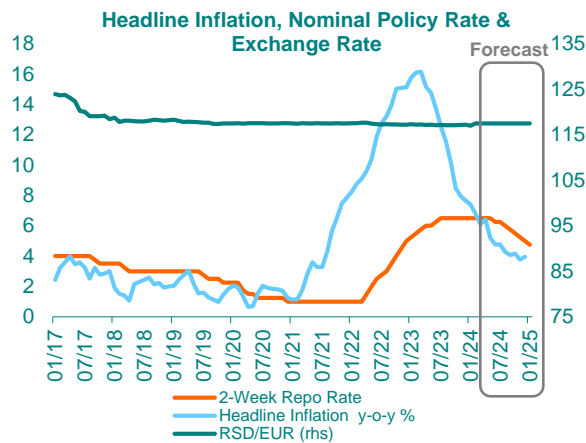
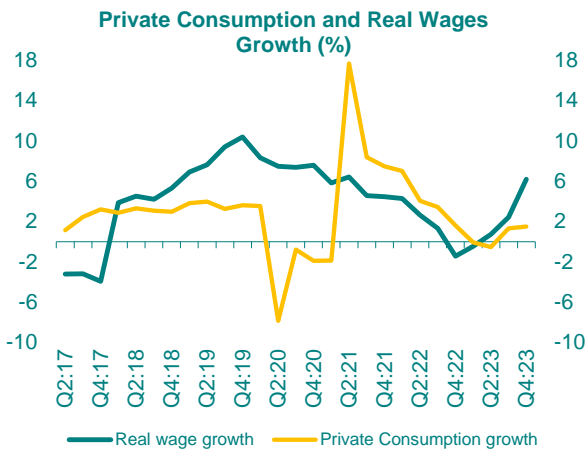
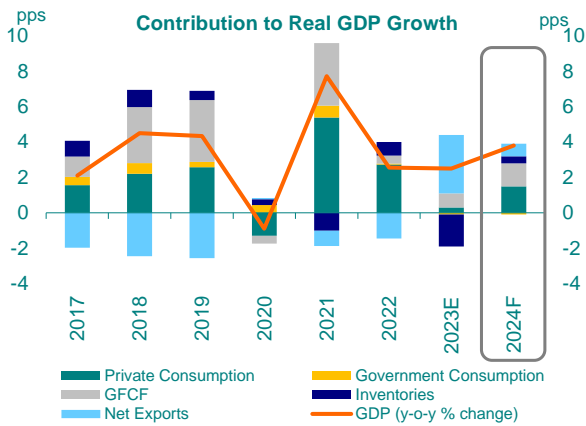
Further delays in the country's EU accession process are likely on the cards. Recall that, in a bid to unlock EU membership talks, the Government of North Macedonia reached a compromise deal with that of Bulgaria in mid-2022, settling the two countries' long-standing dispute. According to the deal, North Macedonia's Parliament should endorse constitutional changes, providing, among others, for the recognition of a Bulgarian minority in the country. The outgoing Government did not manage to pass them, due to lack of appropriate (2/3^{rds}) majority in Parliament. Worryingly, given the VMRO-DPMNE's opposition to the amendment of the constitution, and considering its projected representation in the next Parliament, the formation of a supermajority backing the required changes appears a distant prospect. That means that further delays in the EU accession progress are likely on the cards. Still, the country is set to maintain access to EU funding (including from the recently announced Growth Plan for Western Balkans, worth EUR 6bn).

Economic convergence with the EU should be a priority in the period ahead. The latter's pace has slowed markedly over the past years, even compared with regional peers, due not only to the impact of the disproportionately large output losses recorded during the pandemic and the subsequent energy crisis (largely attributed to weak health system and energy sector fundamentals), but also to those of persistent under-investment (see chart), high emigration (with the country's population having dropped by c. 5.0% in 2011-21), low employment (see chart) and high structural unemployment (with the latter reflecting, *inter alia*, a large informal economy) as well as weak productivity growth. Indeed, North Macedonia's GDP per capita (PPP) currently stands at 42% of the EU average, up just 4 pps over the past decade.

Efforts should be also focused on accelerating regulatory convergence with EU *acquis*. Note that the latest EC's progress report found significant gaps in the areas of judiciary, fight against corruption and organised crime as well as public administration reform. Despite ongoing difficulties, we believe that the prospect of EU accession should continue act as an anchor for structural reforms in the foreseeable future.

Serbia

BB+ / Ba2 / BB+ (S&P / Moody's / Fitch)



	5 Feb	3-M F	6-M F	12-M F
1-m BELIBOR (%)	5.6	5.6	5.4	4.6
RSD/EUR	117.1	117.5	117.5	117.5
Sov. Spread (2029, bps)	280	275	260	240

	5 Feb	1-W %	YTD %	2-Y %
BELEX-15	892	1.6	1.8	3.6

	2021	2022	2023E	2024F	2025F
Real GDP Growth (%)	7.7	2.5	2.5	3.8	3.5
Inflation (eop, %)	7.9	15.1	7.6	4.0	3.4
Cur. Acct. Bal. (% GDP)	-4.2	-6.8	-2.9	-3.4	-3.7
Fiscal Bal. (% GDP)	-4.1	-3.2	-2.2	-2.0	-1.5

Sources: Reuters, NBS, OPBC & NBG estimates

GDP growth to accelerate to 3.8% in FY:24 from an estimated 2.5% in FY:23, mainly driven by private consumption.

Growth in private consumption is set to pick-up this year, underpinned by: i) the envisaged consolidation of inflation at lower levels (up 5.4% on average in FY:24 against 12.5% in FY:23), which will enable the NBS to start cutting rates in H2:24; and ii) tight labour market conditions. Indeed, real wage growth, which has returned to positive territory since mid-2023, should firm this year, thanks, *inter alia*, to a loose incomes policy (with minimum and public sector wages set to rise by 17.8% and 10%, respectively) and its spillover to the private sector.

On the other hand, fixed investment is unlikely to add much to overall GDP growth, reflecting the impact of past monetary policy tightening. Private investment should hold the lead role, with the help of resilient FDI inflows, while public investment is expected to remain broadly flat, amid continuing efforts to bring the budget into compliance with the new fiscal rules applying from 2025.

At the same time, following a significant depletion in inventories in FY:23, due to a negative base effect (from their massive increase after the break-out of the Russia-Ukraine conflict in early-2022), stock rebuilding should progressively gain pace throughout the year, adding marginally to GDP growth.

Worryingly, with stronger domestic demand feeding imports, on the one hand, and sluggish growth in the EU keeping external demand subdued, on the other hand, net exports' contribution to overall growth is set to diminish markedly this year. Still, it should remain positive, reflecting the significant expansion in Serbia's export base over the past years, largely attributed to sustained FDI inflows, particularly in export-oriented manufacturing.

All said, reflecting a much stronger carry-over effect, GDP growth should rebound to 3.8% in FY:24 (broadly in line with its long-term potential) from 2.5% in FY:23, outperforming both the SEE-5 and the EU (up 2.9% and 0.9%, respectively). A frontloaded implementation of the ambitious multi-year infrastructure project related to the international exhibition EXPO 2027, which will be hosted in Belgrade, and/or fast absorption of available funding under the EU Growth Plan for Western Balkans could boost investment and economic growth. On the other hand, a resurgence of inflation pressures, following escalation of geopolitical tensions, and/or a protracted slowdown in Serbia's main trade partners, would result in lower-than-projected GDP growth.

Political noise remains elevated, despite the resolution of electoral uncertainty.

Recall that ruling SNS scored a significant victory in the December 2023 snap election, cementing President Vučić's authority, who recently resigned from the helm of the party, but still holds control of its politics. However, with international observers reporting voting irregularities, the (united) opposition accused the SNS of election fraud, organizing massive protests and calling for a new vote. Our baseline scenario is that the SNS will complete its term, although we expect Vučić, who has come under scrutiny by the international community, to make concessions to the opposition.

A normalization in Serbia-Kosovo relations, a *sine qua non* condition for EU accession, remains highly unlikely in the current juncture.

Serbia's relations with the EU have been strained, not only because of the former's refusal to join Western sanctions against Russia, but also due to its failure to observe -- along with Kosovo -- the agreement they reached in March '23 to normalize ties. Worryingly, the recent escalation in tensions between the former wartime foes, suggests that there is little chance of breakthrough. In response, the EU has raised the threat of sanctions, while calling Serbia to "*deliver on de-facto recognition*" of Kosovo, a prospect fiercely repelled by Vučić.

DETAILED MACROECONOMIC DATA

NORTH MACEDONIA					
	2021	2022	2023e	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	11,855	13,053	14,487	15,327	16,244
GDP per capita (EUR)	6,454	7,135	7,951	8,446	8,987
GDP growth (real, %)	4.5	2.2	1.3	1.9	3.3
Unemployment rate (% aop)	15.4	14.4	13.0	12.8	12.5
Prices and Banking					
Inflation (% eop)	4.9	18.7	3.6	3.4	2.5
Inflation (% aop)	3.2	14.0	9.5	3.5	2.6
Loans to the Private Sector (% change, eop)	8.0	8.8	5.2		
Customer Deposits (% change, eop)	8.5	5.1	9.5		
Loans to the Private Sector (% of GDP)	52.5	51.9	49.2		
Retail Loans (% of GDP)	27.5	26.4	25.4		
Corporate Loans (% of GDP)	25.0	25.3	23.6		
Customer Deposits (% of GDP)	60.7	58.0	57.3		
Loans to Private Sector (% of Deposits)	86.5	89.5	85.9		
Foreign Currency Loans (% of Total Loans)	40.7	42.6	42.0		
External Accounts					
Merchandise exports (EUR million)	6,041	7,320	7,459	7,796	8,077
Merchandise imports (EUR million)	8,378	10,801	10,251	10,911	11,446
Trade balance (EUR million)	-2,337	-3,481	-2,792	-3,115	-3,369
Trade balance (% of GDP)	-19.7	-26.7	-19.3	-20.3	-20.7
Current account balance (EUR million)	-0,329	-0,797	-0,141	-0,351	-0,463
Current account balance (% of GDP)	-2.8	-6.1	-1.0	-2.3	-2.8
Net FDI (EUR million)	0,388	0,654	0,556	0,584	0,628
Net FDI (% of GDP)	3.3	5.0	3.8	3.8	3.9
International reserves (EUR million)	3,643	3,863	4,538	4,788	4,963
International reserves (Months ^a)	4.5	3.7	4.5	4.4	4.4
Public Finance					
Primary balance (% of GDP)	-4.1	-3.3	-3.2	-2.4	-1.9
Fiscal balance (% of GDP)	-5.3	-4.4	-4.6	-3.8	-3.2
Gross public debt ^b (% of GDP)	59.8	58.5	58.8	59.6	59.9
External Debt					
Gross external debt (EUR million)	9,577	10,856	11,589	12,108	12,800
Gross external debt (% of GDP)	80.8	83.2	80.0	79.0	78.8
External debt service (EUR million)	2,574	2,621	3,393	3,136	3,821
External debt service (% of reserves)	70.7	67.9	74.8	65.5	77.0
External debt service (% of exports)	33.1	27.2	33.9	29.8	34.8
Financial Markets					
28-d CB bill rate (% eop)	1.3	4.8	6.3	5.3	4.5
28-d CB bill rate (% aop)	1.3	2.5	5.8	6.0	4.7
1-Y T-bill rate ^c (% eop)	0.7	3.5	4.3	3.7	3.2
Exchange rate: EUR (eop)	61.6	61.6	61.6	61.6	61.6
Exchange rate: EUR (aop)	61.5	61.5	61.5	61.6	61.6

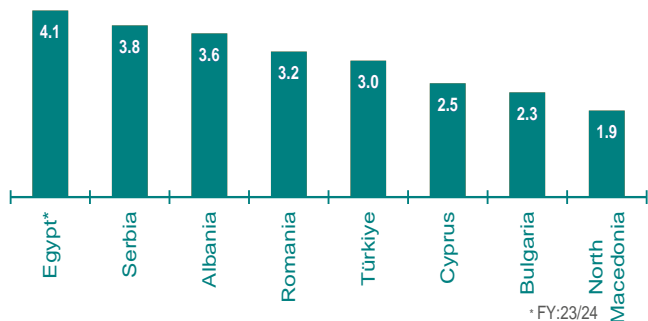
f: NBG forecasts; a: months of imports of GNFS; b: incl. guaranteed debt; c: primary market

SERBIA					
	2021	2022	2023e	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	53,379	60,463	69,858	76,201	81,591
GDP per capita (EUR)	7,810	8,909	10,356	11,341	12,192
GDP growth (real, %)	7.7	2.5	2.5	3.8	3.5
Unemployment rate (% aop)	11.1	9.6	9.4	9.1	8.8
Prices and Banking					
Inflation (% eop)	7.9	15.1	7.6	4.0	3.4
Inflation (% aop)	4.1	11.9	12.5	5.1	3.6
Loans to the Private Sector (% change, eop)	10.1	6.9	1.1		
Customer Deposits (% change, eop)	13.3	6.9	11.7		
Loans to the Private Sector (% of GDP)	47.3	44.7	39.2		
Retail Loans (% of GDP)	21.9	20.5	18.0		
Corporate Loans (% of GDP)	25.4	24.2	21.2		
Customer Deposits (% of GDP)	52.1	49.2	46.4		
Loans to Private Sector (% of Deposits)	90.9	90.8	84.5		
Foreign Currency Loans (% of Total Loans)	61.1	64.1	64.7		
External Accounts					
Merchandise exports (EUR million)	21,018	26,910	28,208	29,555	30,904
Merchandise imports (EUR million)	27,038	36,285	35,210	37,440	39,614
Trade balance (EUR million)	-6,020	-9,375	-7,002	-7,885	-8,709
Trade balance (% of GDP)	-11.3	-15.5	-10.0	-10.3	-10.7
Current account balance (EUR million)	-2,266	-4,140	-2,034	-2,566	-2,995
Current account balance (% of GDP)	-4.2	-6.8	-2.9	-3.4	-3.7
Net FDI (EUR million)	3,657	4,329	4,718	4,954	5,202
Net FDI (% of GDP)	6.9	7.2	6.8	6.5	6.4
International reserves (EUR million)	16,455	19,416	24,100	26,238	28,195
International reserves (Months ^a)	5.9	5.2	6.4	6.5	6.6
Public Finance					
Primary balance (% of GDP)	-2.4	-1.7	-0.4	-0.3	0.2
Fiscal balance (% of GDP)	-4.1	-3.2	-2.2	-2.0	-1.5
Central Government debt (% of GDP)	56.5	55.1	52.3	50.0	48.0
External Debt					
Gross external debt (EUR million)	36,488	41,885	45,128	47,702	51,076
Gross external debt (% of GDP)	68.4	69.3	64.6	62.6	62.6
External debt service (EUR million)	6,000	5,300	5,500	6,300	4,800
External debt service (% of reserves)	36.5	27.3	22.8	24.0	17.0
External debt service (% of exports)	20.8	14.0	13.4	14.5	10.4
Financial Markets					
Policy rate (2-w repo rate, % eop)	1.0	5.0	6.5	5.0	4.0
Policy rate (2-w repo rate, % aop)	1.0	2.6	6.1	6.0	4.2
10-Y T-bill rate (% eop)	4.1	7.3	6.2	5.8	5.4
Exchange rate: EUR (eop)	117.5	117.2	117.2	117.2	117.5
Exchange rate: EUR (aop)	117.5	117.4	117.2	117.2	117.4

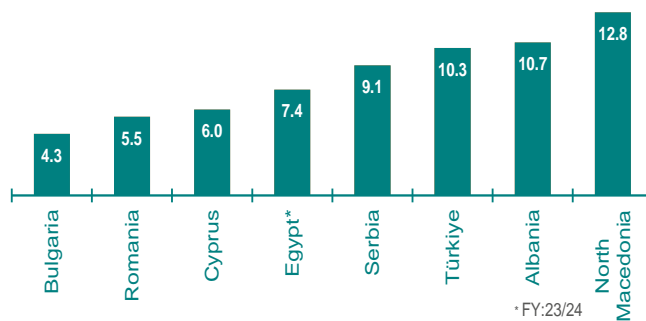
f: NBG forecasts; a: months of imports of GNFS

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

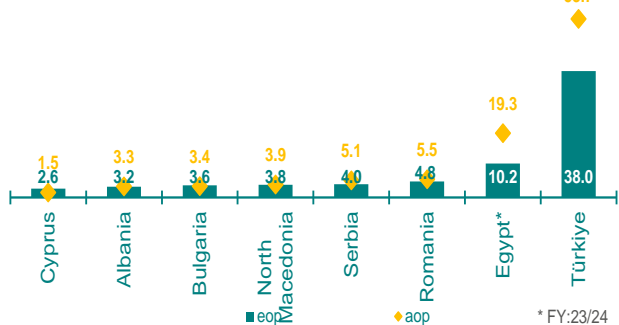
Real GDP Growth (% , 2024F)



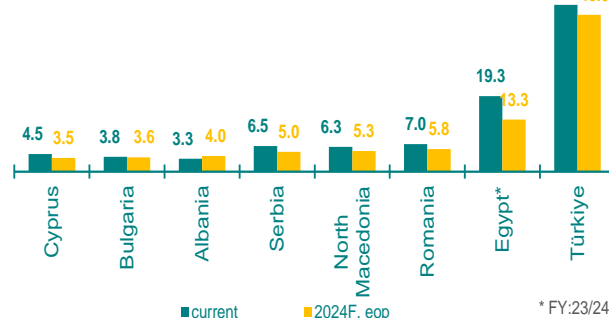
Unemployment (% , 2024F, aop)



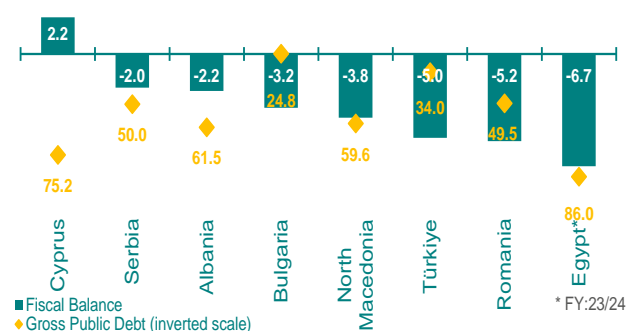
Headline inflation (% , 2024F)



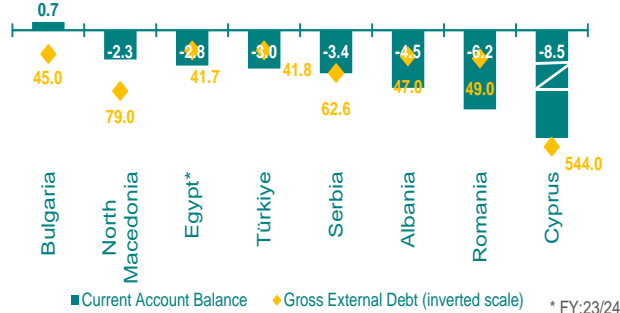
Policy rates (%)



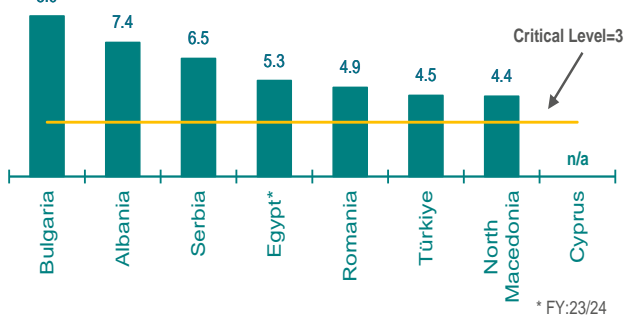
Public Finance (% of GDP, 2024F)



External Accounts (% of GDP, 2024F)

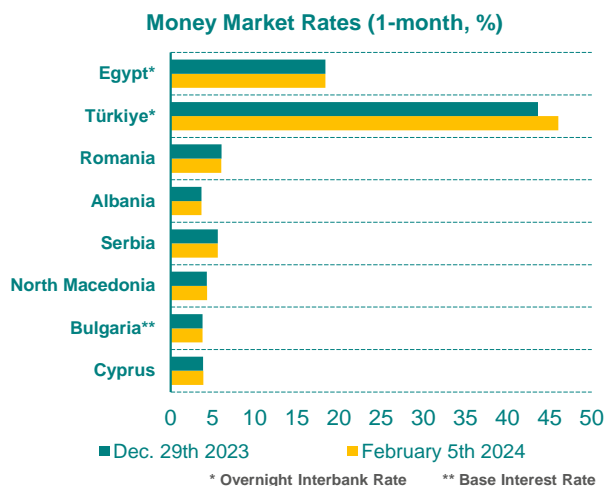
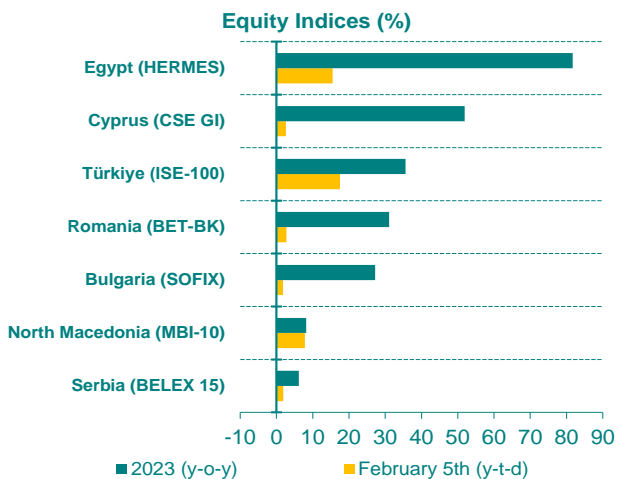
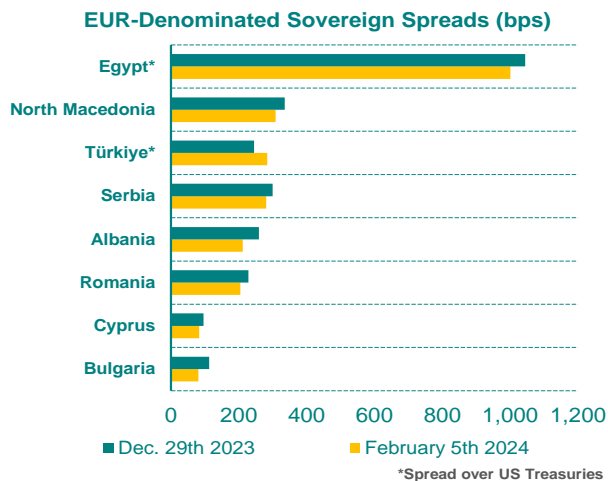
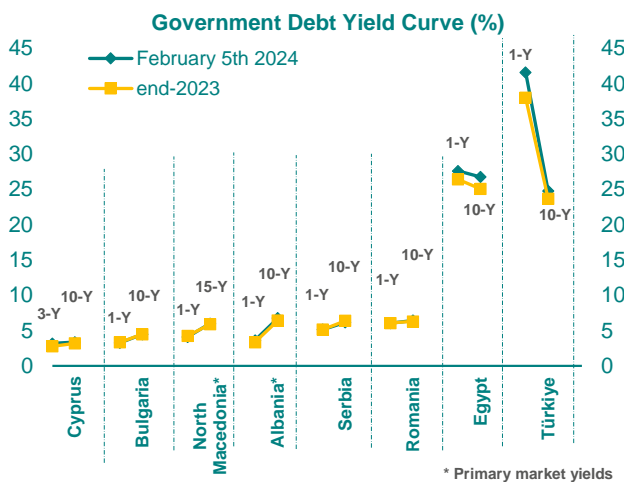
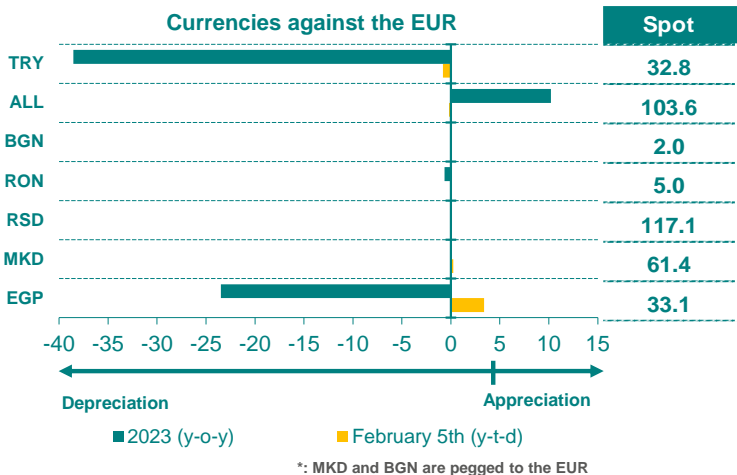


FX Reserves (Months of Imports, 2024F)



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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