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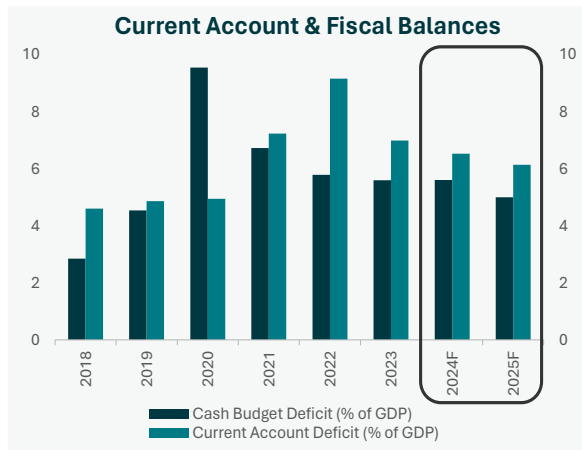
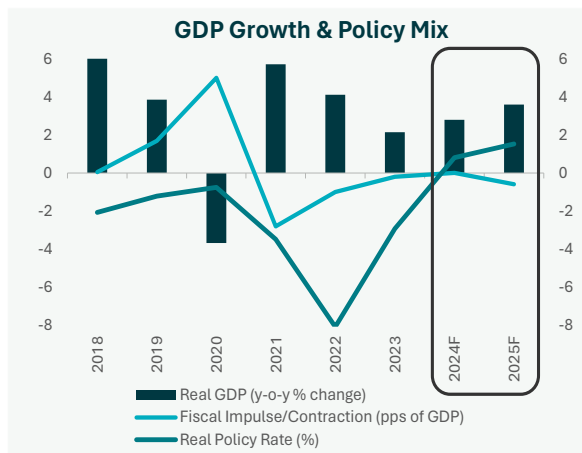
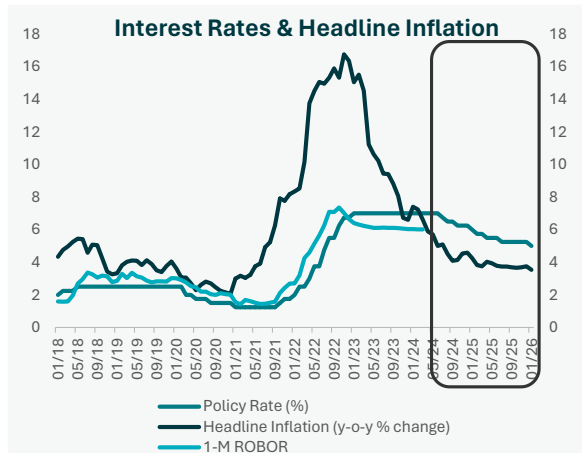
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# Romania

BBB- / Baa3 / BBB- (S&P / Moody's / Fitch)



	13 May	3-M F	6-M F	12-M F
1-M ROBOR(%)	6.0	5.7	5.5	4.8
RON/EUR	4.97	5.00	5.02	5.03
Sov. Spread (2029, bps)	260	260	252	240

	13 May	1-W %	YTD %	2-Y %
BET-BK	3,168	0.1	9.7	40.6

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	5.7	4.1	2.1	2.7	3.6
Inflation (eop, %)	8.2	16.4	6.7	4.6	3.8
Cur. Acct. Bal. (% GDP)	-7.2	-9.2	-7.0	-6.6	-6.2
Fiscal Bal. (% GDP)	-6.7	-5.8	-5.6	-5.6	-5.0

Sources: Reuters, INSSE, BNRO, Ministry of Finance & NBG estimates

**Monetary policy remains cautious, given inflation risks from strong wage growth and very slow fiscal consolidation.** Recall that the NBR had carried out a quite significant tightening cycle in the face of the global commodity price shock in early-2022, having raised its key 2-week repo and overnight deposit facility rates by 575 bps since then, to 7.0% and 6.0%, respectively. Note that the former rate appears to be more relevant in the context of the banking system's large liquidity surplus (currently standing at c. 2.5% of GDP against virtually nil in late-2022, largely driven by sizeable inflows of EU funds).

Tighter financing conditions combined with later favourable global energy price developments did help in bringing inflation down. The latter currently stands at a 2½-year low of 5.9% y-o-y, down from 6.6% at end-2023 and its peak of 16.8% in late-2022, but still above its pre-pandemic average of c. 2.0% and the NBR's target range of 2.5±1%.

Still, inflation risks are clearly tilted to the upside, prompting the NBR to remain cautious. Indeed, nominal wages are growing at double-digit rates (up c. 17.0% y-o-y in Q1:24 following 14.5% on average in FY:23), reflecting a loose incomes policy and its spillover to the private sector as well as structural issues in the labour market. At the same time, uncertainty as regards potential repercussions from ongoing geopolitical tensions remains elevated. The need to counterbalance the very slow fiscal consolidation process (with the cash budget deficit unlikely to see any improvement this year, amid a heavy election calendar, eventually falling below the critical 3.0% of GDP threshold only in 2028) and contain elevated external imbalances (see below) also advocates in favour of a slow easing in the NBR's stance.

All said, we see the NBR lowering interest rates by 75 bps this year and another 100 bps next year, with risks tilted towards more modest rate cuts. The envisaged easing cycle would be much more conservative than those of Romania's peers (namely Hungary, Poland), whose economic performance, nonetheless, Romania is still set to outperform.

**Current account deficit is set to remain elevated in the medium-term, with related external financing risks being, however, mitigated by solid non-debt generating inflows.** Strong domestic demand (fed, *inter alia*, by large budget deficits) should keep the trade deficit at substantial levels in the period ahead (over 8.5% of GDP, well above the pre-pandemic average of c. 6.0%), despite gradually firming economic growth in the EU, Romania's main trade partner (absorbing c. ¾<sup>rds</sup> of its exports). Deteriorating competitiveness (as suggested by the significant appreciation of the RON over the past 2 years -- up c. 10% and 5% in CPI and ULC-based REER terms, respectively) is also expected to take a toll.

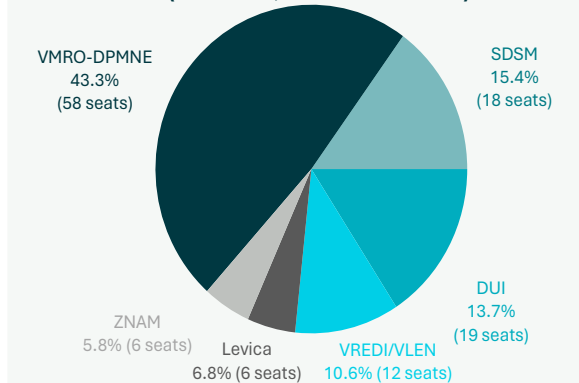
At the same time, the services balance should remain in large surplus, driven by exports of transport, telecommunication and IT services, more than offsetting elevated profit repatriation (which, on the flip side, however, underscores Romania's attractiveness as a destination for foreign investment).

All said, the current account deficit is projected to remain elevated at c. 6.5% of GDP in 2024-25, above the empirical critical threshold of 5.0%. On a positive note, Romania's relatively low energy import dependency (c. 25% for natural gas and less than 70% for oil) provides a shield against global energy price volatility. Solid non-debt generating inflows, mainly in the form of sizeable EU grants and FDI (with intercompany lending accounting for the lion's share), should cover c. 2/3<sup>rds</sup> of the current account deficit, containing the rise in external debt and keeping a lid on RON depreciation pressures. Importantly, the NBR's foreign reserves stand at adequate levels, covering c. 5 months of GNFS imports and more than 100% of short-term external debt.

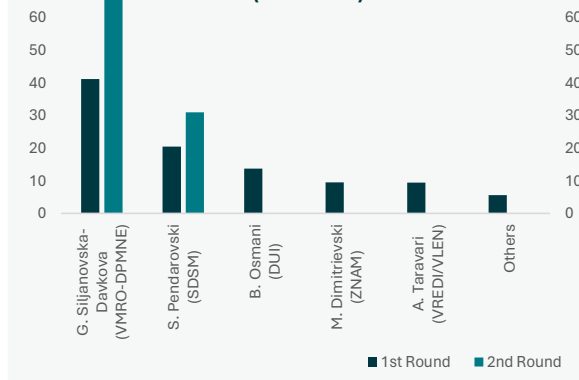
# North Macedonia

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

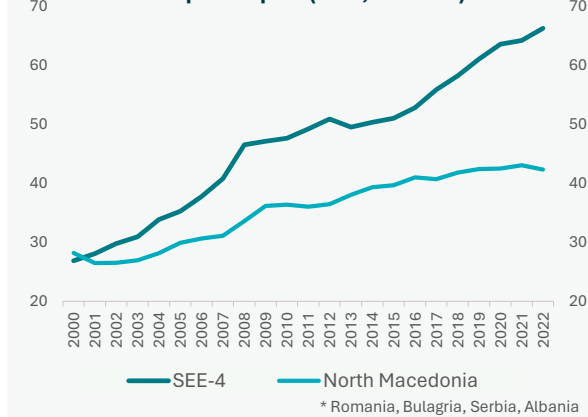
**Parliamentary Election Result**  
(% of vote, number of seats)



**Presidential Election**  
(% of vote)



**GDP per Capita (PPP, EU=100)**



	13 May	3-M F	6-M F	12-M F
1-m SKIBOR (%)	4.4	4.3	3.9	3.5
MKD/EUR	61.6	61.6	61.6	61.6
Sov. Spread (2028, bps)	298	295	287	270

	13 May	1-W %	YTD %	2-Y %
MBI 100	7,306	0.3	19.5	18.1

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	4.5	2.2	1.0	2.1	3.3
Inflation (eop, %)	4.9	18.7	3.6	3.4	2.4
Cur. Acct. Bal. (% GDP)	-2.8	-6.1	0.7	-0.8	-1.5
Fiscal Bal. (% GDP)	-5.3	-4.4	-4.9	-3.9	-3.3

Sources: Reuters, NBRNM, MAKSTAT, Ministry of Finance & NBG estimates

The VMRO-DPMNE scored a landslide victory in the May election but fell short of an absolute majority, seeking now support from the ethnic-Albanian VREDI/VLEN alliance to form a Government. The nationalist right-wing VMRO-DPMNE garnered 43.3% of the vote, securing 58 seats in the Parliament, just 3 seats short of an absolute majority. Its traditional rival, the centre-left SDSM (in office since 2017) suffered a huge defeat, winning only 15.4% of the vote (18 seats). Regarding ethnic Albanian parties (representing more than 25% of the country's population), DUI (in collaboration with a faction defected from the Alliance of Albanians, AA), junior partner in the outgoing ruling coalition, came third with 13.7% of the vote (19 seats), followed by the VREDI/VLEN alliance (uniting the AA, Alternativa, BESA and Democratic Movement parties) with 10.6% of the vote (13 seats). The other two parties to enter the Parliament are the left-wing pro-Russian Levica and the left-wing nationalist ZNAM (formed by SDSM defectors), which received 6.8% and 5.6% of the vote, respectively (each securing 6 seats). As expected, the VMRO-DPMNE has already started negotiations with VREDI/VLEN to form a functioning Government.

VMRO-DPMNE's dominance was also confirmed in the Presidential election, with G. Siljanovska-Davkova winning a runoff vote. The frontrunner of the first round, G. Siljanovska-Davkova of the VMRO-DPMNE, received a massive 69.0% of the vote against incumbent President S. Pendarovski of the SDSM. Note that President's role is largely ceremonial. In our view, the VMRO-DPMNE's playing of the card of nationalism, while capitalizing on growing public discontent over the long-stalled EU accession process (see below), has been a critical factor for its success in the double election.

The country's lackluster economic performance also appears to have weighed on voters' minds. Indeed, the pace of economic convergence with the EU has slowed markedly over the past years, even compared with regional peers (see chart), due not only to the significant output losses recorded during the pandemic and the subsequent energy crisis (largely attributed to weak health system and energy sector fundamentals), but also to structural handicaps. The latter include persistent under-investment, due, among others, to entry and operation barriers in place (such as corruption, bureaucracy, and informality), low employment (on the back, *inter alia*, of high emigration, with the country's population having dropped by c. 5.0% in 2011-21) and weak total factor productivity growth.

Further delays in North Macedonia's accession process are likely on the cards. Recall that, in a bid to unlock EU membership talks, North Macedonia reached a compromise deal with 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. In exchange, Bulgaria would lift its veto blocking North Macedonia's EU accession path. The outgoing Government did not manage to pass the amendments, due to lack of appropriate ( $\frac{2}{3}$ rd) majority in Parliament.

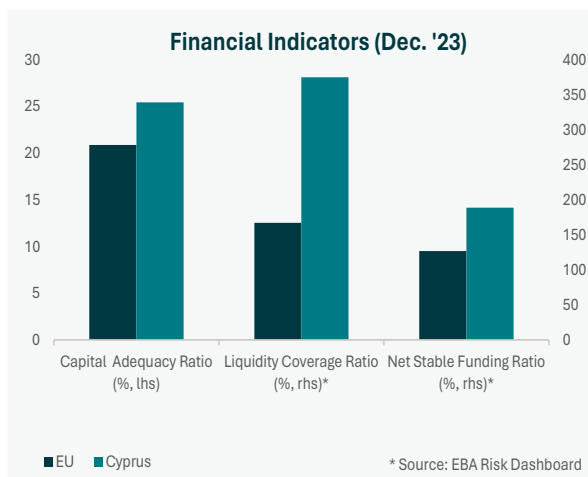
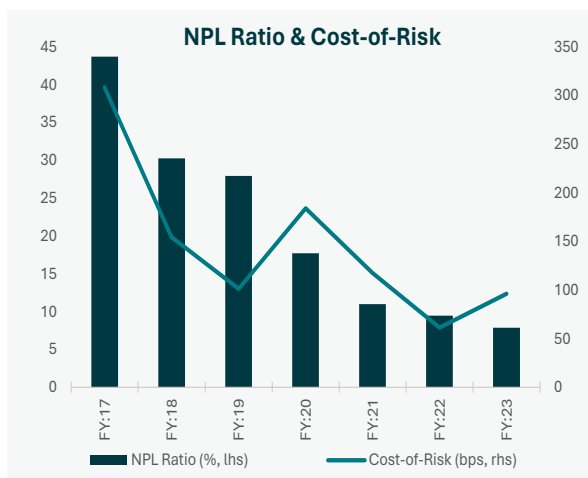
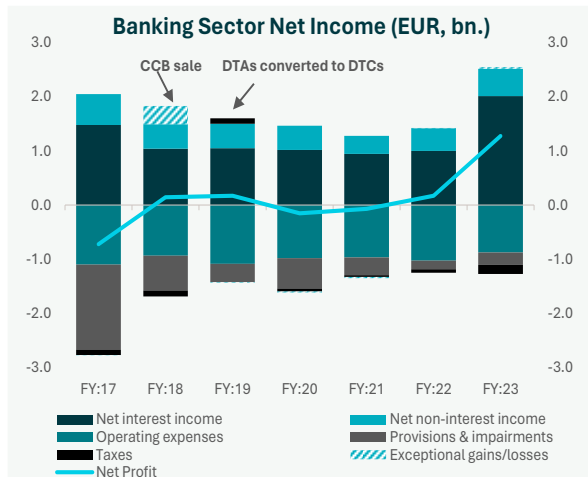
Although the VMRO-DPMNE officially supports EU integration, its hard-line stance against the required constitutional amendments lays a stumbling block on North Macedonia's way to the EU. The VMRO-DPMNE has been hinting at a possible renegotiation of the EU accession framework, a prospect, however, which according to the responsible EU Commissioner and the Bulgarian side appears unlikely, meaning that further progress clearly hinges on incoming authorities watering down their stance.

At the same time, failure to meet the obligations resulting from the 2018 Prespa agreement with Greece, providing for the change of the country's name, could further complicate North Macedonia's path to the EU.

Note that lack of progress with EU accession could create frictions between the soon-to-be coalition partners, given VREDI/VLEN's clearly pro-EU stance (with the latter being also in favour of passing the aforementioned constitutional amendments).

# Cyprus

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



	13 May	3-M F	6-M F	12-M F
1-M EURIBOR (%)	3.8	3.5	3.3	2.8
EUR/USD	1.08	1.08	1.09	1.10
Sov. Spread (2028, bps)	74	75	73	70

	13 May	1-W %	YTD %	2-Y %
CSE 100	151	3.5	10.8	121.1

	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	3.8	1.9
Cur. Acct. Bal. (% GDP)	-6.1	-7.9	-12.1	-9.6	-8.5
Fiscal Bal. (% GDP)	-1.9	2.4	3.1	2.5	2.3

Sources: Reuters, CBC & NBG estimates

**The repricing of banks' excess liquidity placed with the ECB and loan portfolio at higher rates boosted their profitability to record-high levels in FY:23.** Cypriot banks' profits skyrocketed to EUR 1.3bn in FY:23 from EUR 0.2bn in FY:22, leading the ROAE and ROAA to exceptional highs of 29.1% and 2.0%, respectively -- much higher than the EU average of 10.3% and 0.7% -- from 4.2% and 0.3% in FY:22. The surge in net interest income (NII) was the main driver behind the jump in profitability.

In fact, amid higher interest rates, NII (accounting for c.  $\frac{3}{4}$ <sup>ths</sup> of gross operating income) more than doubled in FY:23, following the repricing of banks' placements with the ECB (accounting for 37.5% of the system's assets), and, to a lesser extent, loans to customers (given the exceptionally large 95% share of variable-rate contracts). This, along with the slow pass-through of interest rate hikes to deposits, reflecting Cypriot banks' strong and stable deposit base (with a loan-to-deposit ratio of 51.6% -- the lower in the EU), drove NIM to 330 bps in FY:23 -- well above the EU average of 165 bps -- from 160 bps in FY:22.

On the other hand, despite higher inflation, operating expenses (adjusted for Russia's RCB closure in March '22) are estimated to have fallen in FY:23, reflecting reduced personnel, following past years' implementation of voluntary exit schemes, and the drop in the number of branches. As a result, banks' efficiency improved sharply in FY:23, with the cost-to-income ratio falling to 35%, below the EU average (c. 56%).

**Reflecting debt-servicing challenges from high inflation and interest rates, provisioning charges were raised in FY:23, despite improved asset quality.** Against the backdrop of rising credit risk, banks raised impairment charges in FY:23 (up 47.3%, albeit from a very low base), with the cost of risk jumping to 96 bps from 60 bps in FY:22. Note that the NPL ratio moderated further to 7.9% at end-2023 from 9.5% a year ago, thanks, *inter alia*, to solid economic growth, falling unemployment and an overperforming real estate sector. Still, Cyprus' NPL ratio remains substantially higher than in the EU (1.9%), highlighting the poor quality of remaining NPLs, a legacy from the 2012-13 crisis, with the NPL coverage ratio standing at c. 31.1%, below the EU average (42.3%).

**ROAE/ROAA to remain at high levels in FY:24 as high interest rates should continue to support profits.** Even when rates start to fall, NIM is expected to be sluggishly adjusted, reflecting banks' abundant liquidity. At the same time, credit uptake is set to pick up progressively, driven by the corporate segment, which needs to co-finance with the EU the investment projects under the country's RRF plan. Thus, following the FY:23 outstanding performance, NII growth is set to decelerate abruptly in the period ahead, yet still sustain overall profitability.

On a positive note, banks' continued cost-saving efforts and easing inflation should contain operating expenses.

Nonetheless, amid elevated interest rates, banks cannot but continue to build up NPL provisions, given the high NPLs and their low coverage, on the one hand, and private sector's high indebtedness (c. 175% of GDP, excl. SPEs -- well above the euro area average of 144% -- a significant part of which represents NPEs outside banks).

Note that the adoption at end-2023 of legislative package facilitating the implementation of the foreclosure framework and a mortgage-to-rent scheme, operated by the state-owned AMC, KEDIPEs, are set to address some of the legacy NPEs.

Overall, banking sector's ROAE/ROAA is expected to hover around record-high levels this year, before moderating to high double-digit figures from FY:25 onwards, amid lower interest rates and tighter loan-deposit spreads.

Importantly, Cypriot banks are well positioned to deal with unfolding pressures, being highly-liquid, stably funded and well-capitalised (with a total CAR of 24.2%, c. 90% of which constitutes CET1 capital)



## DETAILED MACROECONOMIC DATA

ROMANIA					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	241,737	284,385	324,762	347,882	371,196
GDP per capita (EUR)	12,589	14,935	17,248	18,633	20,056
GDP growth (real, %)	5.7	4.1	2.1	2.7	3.6
Unemployment rate(ILO definition, %, aop)	5.6	5.6	5.5	5.5	5.3
<b>Prices and Banking</b>					
Inflation (% eop)	8.2	16.4	6.7	4.6	3.8
Inflation (% aop)	5.0	13.7	10.5	5.4	3.8
Loans to the Private Sector (% change, eop)	14.3	11.2	5.9		
Customer Deposits (% change, eop)	13.7	6.7	12.9		
Loans to the Private Sector (% of GDP)	26.3	24.8	23.0		
Retail Loans (% of GDP)	13.8	12.2	10.8		
Corporate Loans (% of GDP)	12.5	12.6	12.1		
Customer Deposits (% of GDP)	38.6	35.0	34.5		
Loans to Private Sector (% of Deposits)	68.1	71.0	66.6		
Foreign Currency Loans (% of Total Loans)	26.5	29.9	29.9		
<b>External Accounts</b>					
Merchandise exports (EUR million)	70,194	86,015	86,559	91,584	96,904
Merchandise imports (EUR million)	93,317	118,065	115,570	122,903	129,936
Trade balance (EUR million)	-23,123	-32,050	-29,011	-31,319	-33,032
Trade balance (% of GDP)	-9.6	-11.3	-8.9	-9.0	-8.9
Current account balance (EUR million)	-17,474	-26,041	-22,638	-22,872	-23,059
Current account balance (% of GDP)	-7.2	-9.2	-7.0	-6.6	-6.2
Net FDI (EUR million)	8,820	8,806	6,558	6,755	7,092
Net FDI (% of GDP)	3.6	3.1	2.0	1.9	1.9
International reserves (EUR million)	40,475	46,636	59,770	61,652	63,936
International reserves (Months <sup>a</sup> )	4.3	3.9	5.1	4.9	4.8
<b>Public Finance</b>					
Primary balance (% of GDP)	-5.2	-3.7	-3.7	-3.6	-3.0
Fiscal balance (% of GDP)	-6.7	-5.8	-5.6	-5.6	-5.0
Gross public debt <sup>b</sup> (% of GDP)	48.2	47.3	48.5	50.6	52.0
<b>External Debt</b>					
Gross external debt (EUR million)	136,585	143,886	170,083	179,159	187,454
Gross external debt (% of GDP)	56.5	50.6	52.4	51.5	50.5
External debt service (EUR million)	16,702	21,991	21,272	21,500	21,500
External debt service (% of reserves)	41.3	41.2	30.5	30.0	29.3
External debt service (% of exports)	17.0	15.6	14.4	13.7	13.1
<b>Financial Markets</b>					
Policy rate (1-w repo rate, %, eop)	1.8	6.8	7.0	6.3	5.3
Policy rate (1-w repo rate, %, aop)	1.4	4.4	7.0	6.7	5.5
10-Y Bond Yield (% eop)	5.1	8.4	6.3	6.6	6.0
Exchange rate: EUR (eop)	4.946	4.940	4.972	5.020	5.050
Exchange rate: EUR (aop)	4.919	4.928	4.944	4.996	5.035

f: NBG forecasts; a: months of imports of GNFS; b: ESA 2010

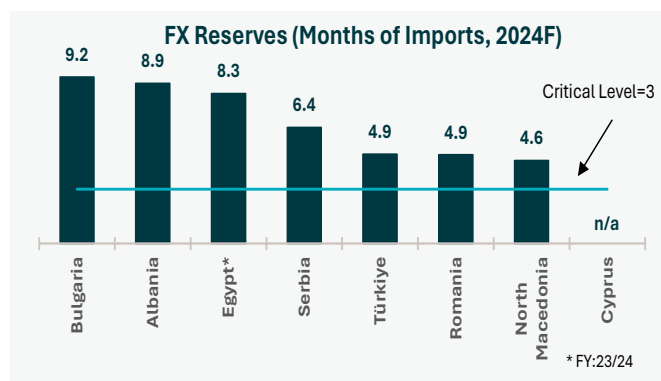
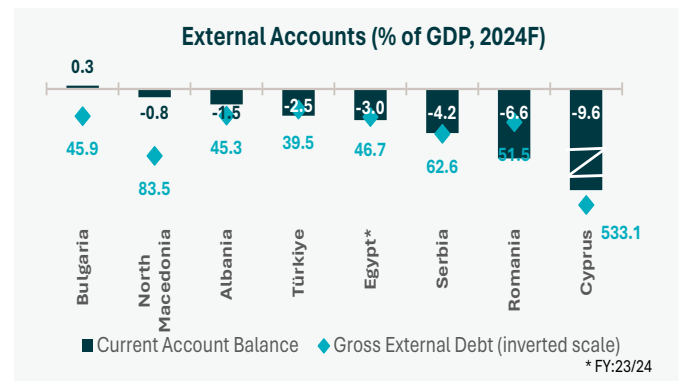
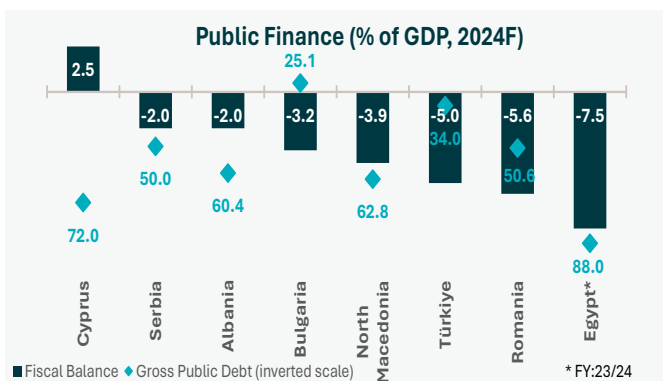
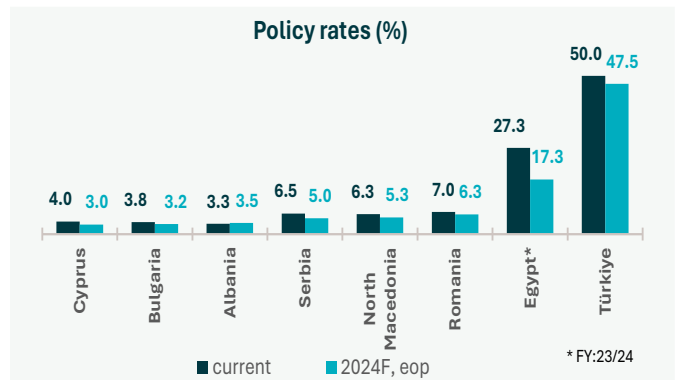
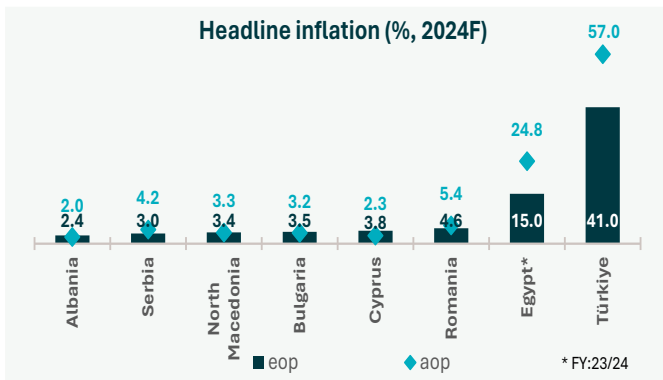
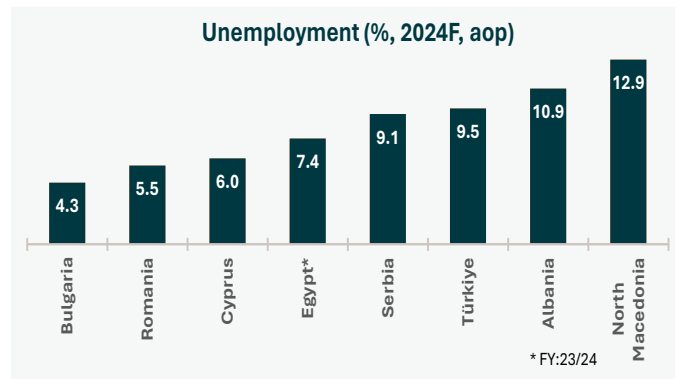
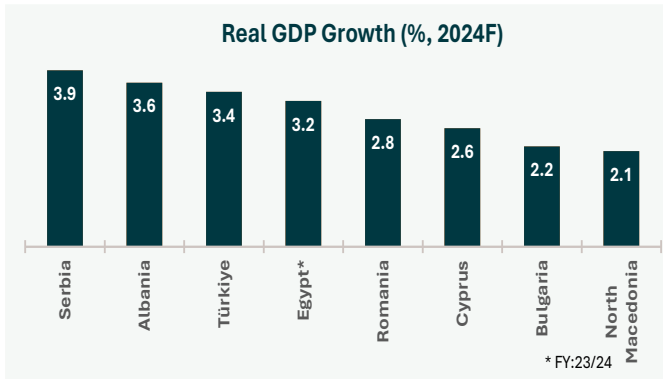
NORTH MACEDONIA					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	11,855	13,053	13,667	14,404	15,281
GDP per capita (EUR)	6,454	7,135	7,501	7,937	8,454
GDP growth (real, %)	4.5	2.2	1.0	2.1	3.3
Unemployment rate (% aop)	15.4	14.4	13.1	12.9	12.6
<b>Prices and Banking</b>					
Inflation (% eop)	4.9	18.7	3.6	3.4	2.4
Inflation (% aop)	3.2	14.0	9.5	3.3	2.7
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	52.1		
Retail Loans (% of GDP)	27.5	26.4	26.9		
Corporate Loans (% of GDP)	25.0	25.3	25.1		
Customer Deposits (% of GDP)	60.7	58.0	60.7		
Loans to Private Sector (% of Deposits)	86.5	89.5	85.9		
Foreign Currency Loans (% of Total Loans)	40.7	42.6	42.0		
<b>External Accounts</b>					
Merchandise exports (EUR million)	6,041	7,320	7,292	7,640	7,952
Merchandise imports (EUR million)	8,378	10,801	9,868	10,534	11,118
Trade balance (EUR million)	-2,337	-3,481	-2,576	-2,894	-3,166
Trade balance (% of GDP)	-19.7	-26.7	-18.9	-20.1	-20.7
Current account balance (EUR million)	-0,329	-0,797	-0,095	-0,114	-0,233
Current account balance (% of GDP)	-2.8	-6.1	0.7	-0.8	-1.5
Net FDI (EUR million)	0,388	0,654	0,523	0,471	0,499
Net FDI (% of GDP)	3.3	5.0	3.8	3.3	3.3
International reserves (EUR million)	3,643	3,863	4,538	4,838	5,038
International reserves (Months <sup>a</sup> )	4.5	3.7	4.6	4.6	4.5
<b>Public Finance</b>					
Primary balance (% of GDP)	-4.1	-3.3	-3.4	-2.5	-2.0
Fiscal balance (% of GDP)	-5.3	-4.4	-4.9	-3.9	-3.3
Gross public debt <sup>b</sup> (% of GDP)	59.8	58.5	61.5	62.8	62.7
<b>External Debt</b>					
Gross external debt (EUR million)	9,577	10,856	11,453	12,028	12,531
Gross external debt (% of GDP)	80.8	83.2	83.8	83.5	82.0
External debt service (EUR million)	2,689	2,558	4,043	3,761	4,342
External debt service (% of reserves)	73.8	66.2	89.1	77.7	86.2
External debt service (% of exports)	34.5	26.5	40.7	35.9	39.5
<b>Financial Markets</b>					
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 <sup>c</sup> (% eop)	0.7	3.5	4.3	3.5	3.0
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

CYPRUS					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	24,928	27,777	29,807	31,296	33,045
GDP per capita (EUR)	27.687	30.516	32.390	33,671	35,201
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	3.8	1.9
Inflation (% aop)	2.4	8.4	3.6	2.3	2.5
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	76.9		
Retail Loans (% of GDP)	49.0	41.3	37.5		
Corporate Loans (% of GDP)	61.1	45.5	39.4		
Customer Deposits (% of GDP)	174.1	160.7	149.0		
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	4,346	4,463	4,592
Merchandise imports (EUR million)	8,092	10,555	11,462	11,632	12,111
Trade balance (EUR million)	-4,398	-5,973	-7,115	-7,170	-7,519
Trade balance (% of GDP)	-17.6	-21.5	-23.9	-22.9	-22.8
Current account balance (EUR million)	-1,514	-2,203	-3,607	-2,994	-2,804
Current account balance (% of GDP)	-6.1	-7.9	-12.1	-9.6	-8.5
Net FDI (EUR million)	7,748	8,446	3,749	4,686	5,389
Net FDI (% of GDP)	31.1	30.4	12.6	15.0	16.3
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	4.5	3.8	3.7
Fiscal balance <sup>b</sup> (% of GDP)	-1.9	2.4	3.1	2.5	2.3
Gross public debt (% of GDP)	99.3	85.6	77.3	72.0	66.5
<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	564.7	533.1	500.3
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

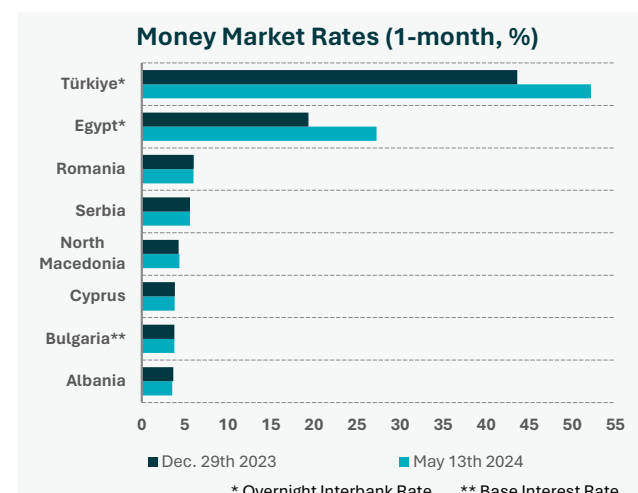
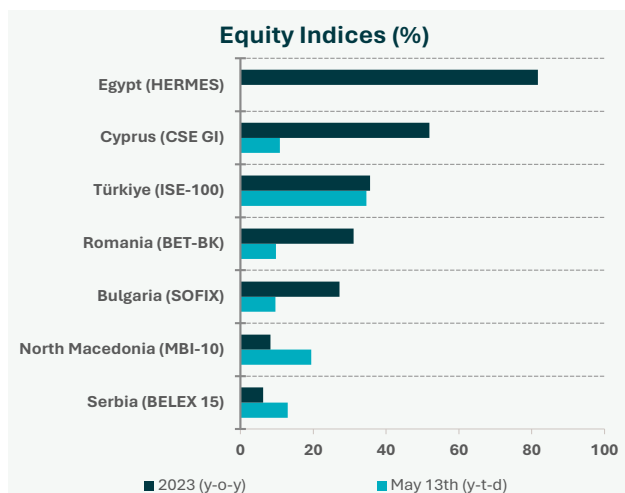
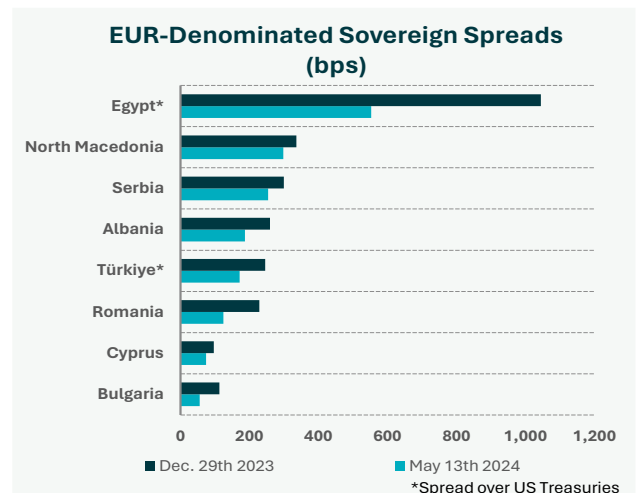
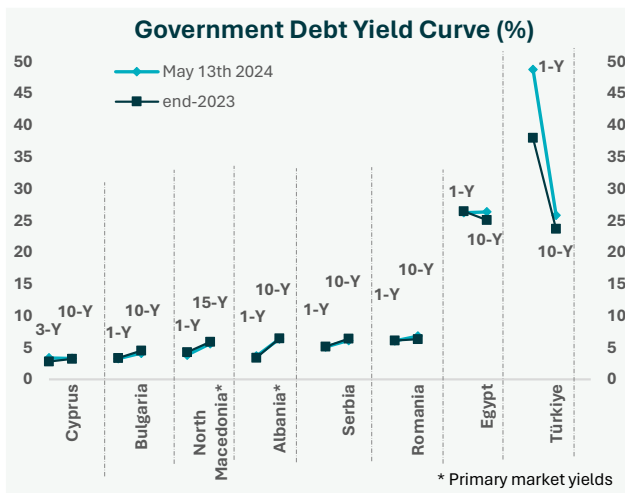
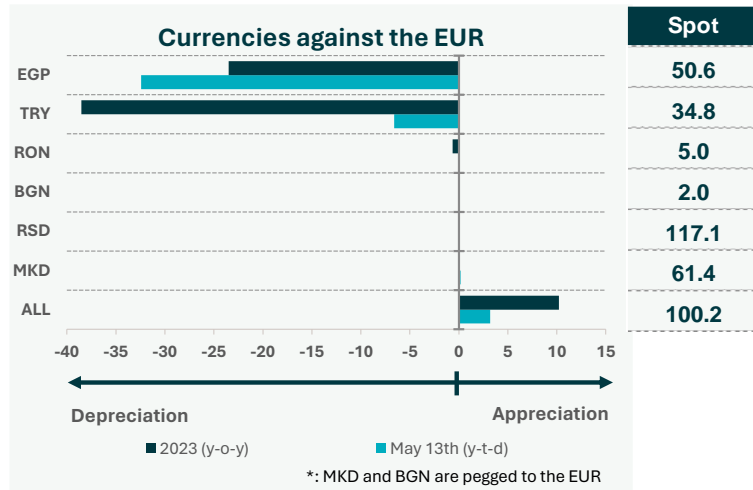
# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates



# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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