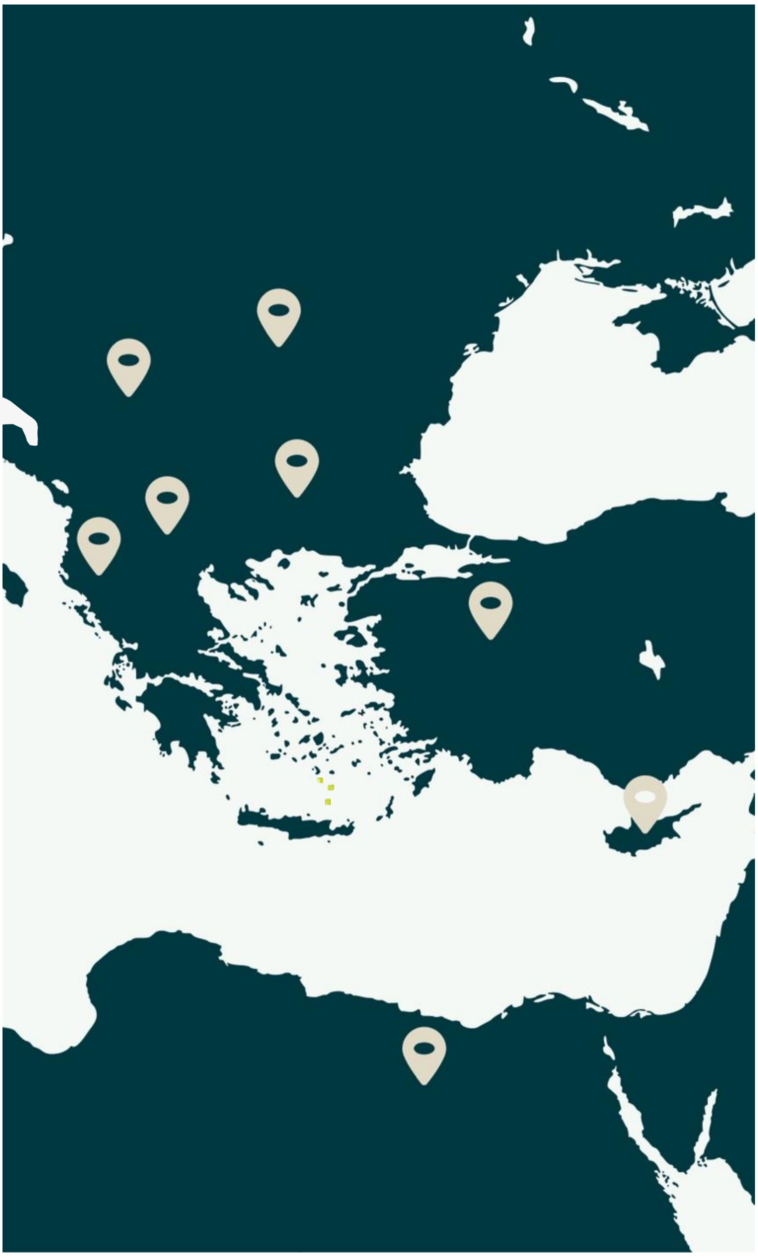
Bi-WEEKLY REPORT

Emerging Markets Analysis

5 – 18 March 2024



COUNTRIES IN FOCUS:

Egypt & Romania

EGYPT 1

Egyptian authorities let the EGP depreciate and raise rates to deal with FX shortage and secure new IMF deal

A windfall FX inflow from a USD 35bn investment from the UAE provides the CBE with enough firepower to prevent any overshooting in the short-term

The IMF, together with the EU and the World Bank, are due to provide over USD 22bn in funding over the next 3 years

Already high inflation is set to rise further over the next few months weighing on economic growth

ROMANIA 2

Recovering private consumption and solid (EU-funded) investment activity should boost GDP growth to 2.8% in FY:24 from 2.0% in FY:23

Pension reform is set to delay fiscal consolidation this year

Still, the budget deficit is unlikely to fall below the 3.0% of GDP mark earlier than in 2028

APPENDIX:

NATIONAL BANK OF GREECE

NBG – Economic Analysis Division

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Emerging Markets Analysis

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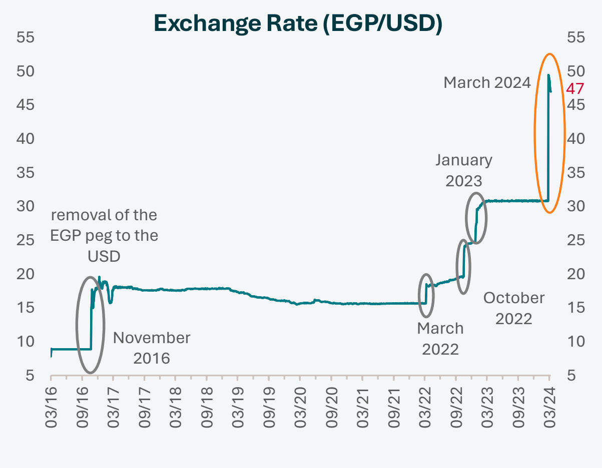
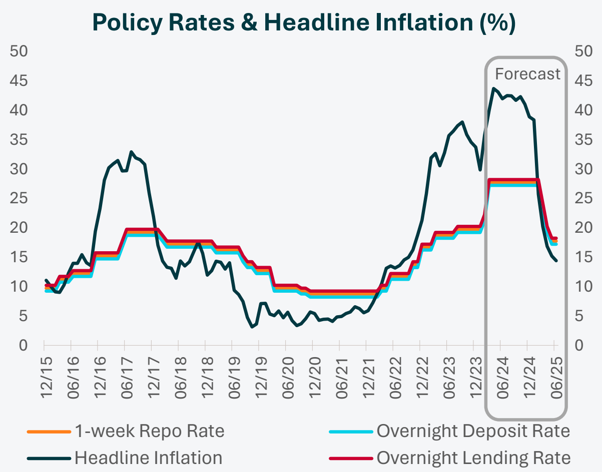
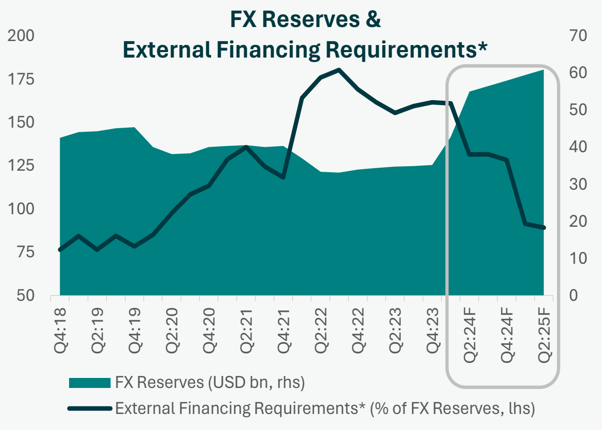
Egypt

B- / Caa1 / B- (S&P / Moody's / Fitch)







* 4-quarter rolling Current Account Deficit & Short-term debt & Long-term debt maturing over next 4 quarters

	18 Mar.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	27.3	27.3	27.3	23.3
EGP/USD	47.1	47.0	46.2	44.8
Sov. Spread (2029, bps)	584	575	560	500

	18 Mar.	1-W %	YTD %	2-Y %
HERMES 100	3,251	-13.9	8.8	180.4

	20/21	21/22	22/23E	23/24F	24/25F
Real GDP Growth (%)	3.3	6.7	3.8	2.0	2.8
Inflation (eop. %)	4.9	13.2	35.7	42.0	14.4
Cur. Acct. Bal. (% GDP)	-4.3	-3.5	-1.2	-2.8	-2.8
Fiscal Bal. (% GDP)	-6.8	-6.1	-6.2	-7.2	-6.7

Sources: Reuters, CBE & NBG estimates

Egyptian authorities let the EGP depreciate and raise rates to deal with FX shortage and secure new IMF deal. Following an unscheduled 600 bp rate hike (bringing the key overnight deposit rate to 27.25%) on March 6, the CBE finally allowed the EGP rate "to be determined by market forces". In the wake of this long-awaited and much-needed initiative, the EGP fell by c. 38% against the USD, to 49.5, in the first place (having appreciated by c. 5%, to 47.2, since then), broadly in line with the rate on the non-deliverable forward market and closer to the rate prevailing on the parallel market before the adjustment. The gap between the latter and the official rate had been steadily widening since the March '23 (stepped) devaluation of the EGP, in line with the deepening of the currency crisis into which Egypt has been thrown since the outbreak of the Russia-Ukraine conflict.

Back then, efforts to maintain EGP stability against the backdrop of deteriorating external imbalances (reflecting Egypt's reliance on imports to cover its basic food needs as well as tightening global financing conditions), eroded FX reserves, prompting authorities to enact capital controls and eventually resort to the IMF. However, given the fragile social environment (with c. ⅓rd of population below the poverty line), authorities had been reluctant to push on with mandated reforms, especially transition to a flexible FX regime, which would fuel already high inflation, proceeding with only some stepped devaluations of the EGP. As a result, the IMF had put financing on hold, leaving Egypt reliant on non-market financing from its GCC partners.

However, with sizeable FX repayments looming in the short-term (worth c. USD 50bn or 14.0% of GDP) and a huge backlog of imports (worth c. USD 6-7bn) stuck at ports, the new EGP depreciation was a *sine qua non* condition for Egypt to start settling its FX obligations.

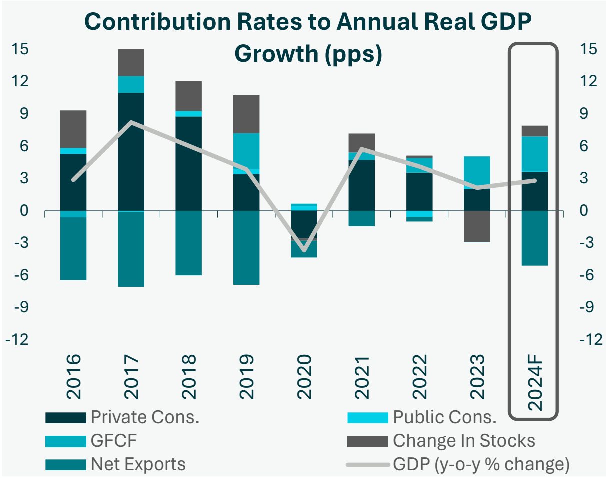
Note that the CBE's decision to allow the EGP to depreciate was facilitated by a windfall FX inflow from a USD 35bn investment from the UAE (USD 24bn in new funds -- equivalent to c. $^{2}/_{3}$rds of existing FX reserves -- deliverable over the next 2 months), which provided enough firepower to authorities to prevent any overshooting in the short-term.

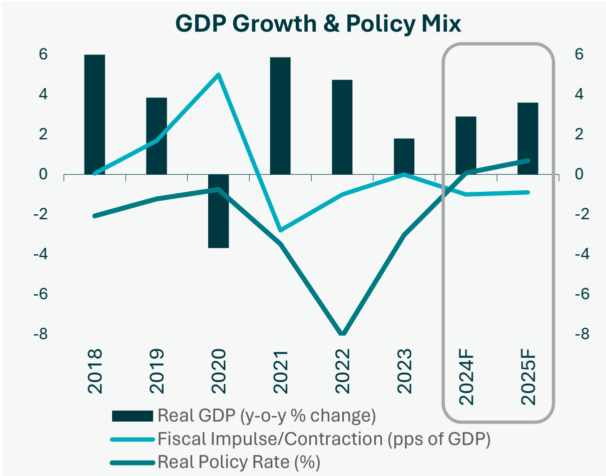
Importantly, the EGP depreciation paved the way for the expansion of the existing IMF programme. The new 3-year deal augments available financing to USD 8bn from USD 3bn previously and is complemented by funding packages worth USD 8.1bn and USD 6bn, respectively, from the EU and the World Bank. Besides FX liberalisation (with authorities expected to move towards a managed float regime after the EGP stands on its feet), other key components of the IMF programme include fiscal consolidation and reduction of the state's footprint on the economy.

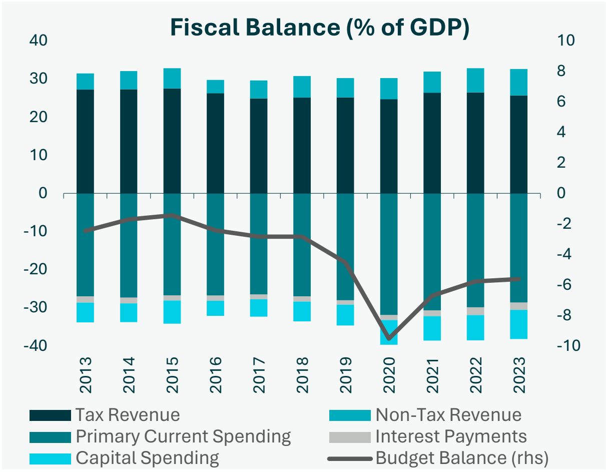
Already high inflation is set to rise further over the next few months weighing on economic growth. FX flexibility should help clear the backlog of imports, providing industries with much-needed input to resume their activity. Nonetheless, GDP growth is set to remain subdued in the short-term, due to the adverse impact of tight financing conditions (with rates having gone up 1900 bps over the past 2 years) and high inflation. The latter currently stands at 35% and is projected to rise further to c. 45% over the next few months, following the weaker EGP. The repercussions from tensions in the Middle East should take a toll, albeit limited, mainly through reduced tourist inflows and Suez Canal receipts. Worryingly, there is little room for fiscal policy to provide counterbalancing support, given the increasing share of interest payments in budget spending (c. 45%) and the need for fiscal consolidation (note that public debt currently stands at c. 90% of GDP). All said, we estimate GDP growth to ease to just 2.0% in FY:23/24 from 3.8% in FY:22/23, before picking up modestly to 2.8% in FY:24/25, still lower than its long-term potential (c. 4.5%).

Romania

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







	18 Mar.	3-M F	6-M F	12-M F
1-M ROBOR(%)	6.0	6.0	6.0	5.6
RON/EUR	4.97	4.98	5.00	5.02
Sov. Spread (2027, bps)	148	150	150	135

	18 Mar.	1-W %	YTD %	2-Y %
BET-BK	3,018	1.0	4.5	26.0

	2021	2022	2023E	2024F	2025F
Real GDP Growth (%)	5.7	4.1	2.1	2.8	3.6
Inflation (eop, %)	8.2	16.4	6.7	4.7	3.7
Cur. Acct. Bal. (% GDP)	-7.2	-9.2	-7.0	-6.6	-6.2
Fiscal Bal. (% GDP)	-6.7	-5.8	-5.6	-5.2	-4.6

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

Recovering private consumption and solid (EU-funded) investment activity should boost GDP growth to 2.8% in FY:24 from 2.0% in FY:23. Following a marked slowdown in FY:23, private consumption is set to progressively gain steam this year, underpinned by robust real wage growth (with the latter having reached c. 8.0% in *ex-post* terms in Q4:23, reflecting the combined impact of easing inflation and tight labour market conditions) and higher pensions (see below). (Already) reviving consumer lending along with some excess savings left from the pandemic and improving sentiment should also help. Overall, we expect private consumption to nearly double its contribution to overall GDP growth, to c. 3 pps, reaching that of fixed investment which would continue to benefit from massive EU funding. Note that Romania is eligible for funds worth c. EUR 10bn or slightly less than 3.0% of its FY:23 GDP per year on average until 2027. Unsurprisingly, the recovery in domestic demand should feed into import growth, resulting into net exports shaving a much larger chunk off GDP growth.

Against the backdrop of persistently wide external imbalances (with related financing risks, however, mitigated by solid FX inflows -- mainly capital transfers from the EU) and elevated -- yet gradually subsiding -- inflation we expect the NBR to remain cautious in the period ahead. As a result, we expect the latter to ease its stance only in H2, when inflation is expected to have fallen below the current level of its key rate (7.0%).

All said, we see GDP firming to 2.8% in FY:24 from 2.1% in FY:23, below the economy's long-term potential of c. 3.5%, but well above the EU average (projected at 0.9%). Should geopolitical uncertainties translate into renewed upside global commodity price pressures or a wage-price spiral emerge, GDP growth could come in lower than projected. Similarly, bottlenecks in the absorption of available EU funding could weigh on the pace of economic expansion. On the other hand, this year's heavy election calendar (with legislative, presidential, local and EU elections scheduled to take place) could affect fiscal discipline, slowing down the pace of adjustment, and thus benefitting economic growth.

Pension reform is set to delay fiscal consolidation this year. Reflecting slow growth in tax revenue, especially indirect taxes, due to weaker economic activity, as well as budget rigidities, fiscal consolidation virtually halted in FY:23, with the cash budget deficit coming in at 5.6% of GDP, a tad lower than the previous year but well above the initial target of 4.4%.

The picture is unlikely to change materially this year, with the budget deficit projected to narrow slightly further to 5.2% of GDP (against a target of 5.0%). A series of measures, including the levy of a turnover tax for banks and large companies, a new tax regime for SMEs and the elimination of several tax exemptions, should raise tax revenue, narrowly covering the cost of the pension reform (involving 2 rounds of pension increases in this year, with an annualized impact of c. 1.5% of GDP). On a positive note, by eliminating inconsistencies in pension calculation and gradually increasing the retirement age, the new pension law should lead to significant savings in the long-run, sustaining fiscal consolidation.

Still, the budget deficit is unlikely to fall below the 3.0% of GDP mark earlier than in 2028. Romania is the only EU state currently under the EC's Excessive Deficit Procedure. The re-introduction of the bloc's (more realistic and flexible than before) fiscal rules, together with the need to deliver on the fiscal reforms associated with the country's RRF plan should help authorities to put public finances on a sustainable path. Given budget spending rigidities, efforts are expected to focus mostly on broadening the weak tax base (2nd lowest in the EU). Still, the budget deficit is unlikely to fall below the 3.0% of GDP mark earlier than 2028. Importantly, albeit rising, public debt is set to remain in check (at c. 54% of GDP at end-2028, below the EU threshold of 60%), at the same time.

DETAILED MACROECONOMIC DATA

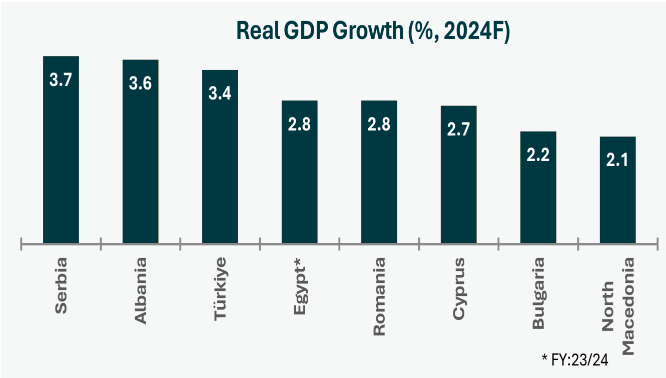
EGYPT	2020/21*	2021/22*	2022/23e*	2023/24f*	2024/25f*
Real Sector					
Nominal GDP (USD million)	424,516	476,690	391,977	389,799	418,859
GDP per capita (USD)	4,158	4,601	3,709	3,616	3,810
GDP growth (real, %)	3.3	6.7	3.8	2.0	2.8
Unemployment rate (%, aop)	7.3	7.3	7.3	7.5	7.4
Prices and Banking					
Inflation (%, eop)	4.9	13.2	35.7	42.0	14.4
Inflation (%, aop)	4.5	8.4	23.8	37.5	31.1
Loans to the Private Sector (% change, eop)	21.2	23.6	25.4		
Customer Deposits (% change, eop)	19.2	24.7	24.4		
Loans to the Private Sector (% of GDP)	26.5	27.8	27.1		
Retail Loans (% of GDP)	8.4	8.9	8.3		
Corporate Loans (% of GDP)	18.0	18.9	18.8		
Customer Deposits (% of GDP)	70.8	75.0	72.5		
Loans to Private Sector (% of Deposits)	37.4	37.0	37.4		
Foreign Currency Loans (% of Total Loans)	12.7	11.3	15.7		
External Accounts					
Merchandise exports (USD million)	28,677	43,906	39,624	39,578	41,229
Merchandise imports (USD million)	70,736	87,302	70,784	73,690	81,614
Trade balance (USD million)	-42,060	-43,396	-31,160	-34,112	-40,385
Trade balance (% of GDP)	-9.9	-9.1	-7.9	-8.8	-9.6
Current account balance (USD million)	-18,436	-16,551	-4,710	-10,908	-11,702
Current account balance (% of GDP)	-4.3	-3.5	-1.2	-2.8	-2.8
Net FDI (USD million)	4,835	8,591	9,701	29,103	13,387
Net FDI (% of GDP)	1.1	1.8	2.5	7.5	3.2
International reserves (USD million)	40,584	33,376	34,807	55,007	61,007
International reserves (Months[a])	6.5	4.2	7.1	8.6	8.1
Public Finance					
Primary balance (% of GDP)	1.3	1.3	1.2	0.2	0.6
Fiscal balance (% of GDP)	-6.8	-6.1	-6.2	-7.2	-6.7
Gross public debt (% of GDP)	86.2	89.9	88.5	90.0	89.0
External Debt					
Gross external debt (USD million)	137,860	155,709	164,728	175,000	185,000
Gross external debt (% of GDP)	32.5	32.7	42.0	44.9	44.2
External debt service [b] (USD million)	15,400	26,100	25,000	32,000	36,800
External debt service [b] (% of reserves)	37.9	78.2	71.8	58.2	60.3
External debt service (% of exports[c])	37.5	40.5	37.2	50.5	54.4
Financial Markets					
Policy rate (O/N deposit rate, %, eop)	8.3	11.3	18.3	27.3	17.3
Policy rate (O/N deposit rate, %, aop)	8.5	8.9	15.3	22.0	24.6
3-M T-bill rate (%, eop)	13.2	15.4	23.0	27.5	20.0
Exchange rate: USD (eop)	15.66	18.76	30.85	47.00	44.00
Exchange rate: USD (aop)	15.70	16.45	25.72	36.27	45.50

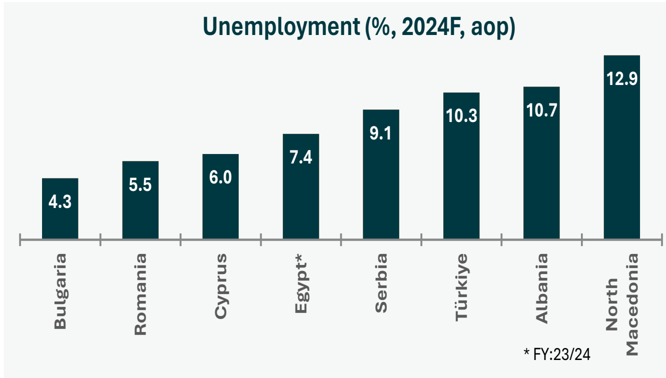
*: fiscal year starting in July and ending in June; f: NBG forecasts; a: months of imports of GNFS

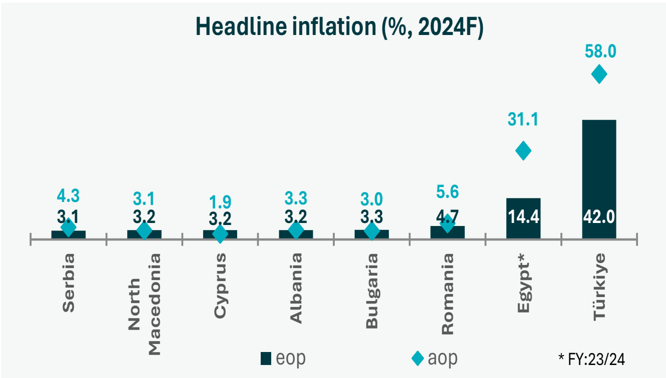
ROMANIA	2021	2022	2023e	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	241,737	284,385	323,343	347,358	369,922
GDP per capita (EUR)	12,589	14,935	17,173	18,605	19,987
GDP growth (real, %)	5.7	4.1	2.1	2.8	3.6
Unemployment rate(ILO definition, %, aop)	5.6	5.6	5.5	5.5	5.3
Prices and Banking					
Inflation (%, eop)	8.2	16.4	6.7	4.7	3.7
Inflation (%, aop)	5.0	13.7	10.5	5.6	3.6
Loans to the Private Sector (% change, eop)	14.3	11.2			
Customer Deposits (% change, eop)	13.7	6.7			
Loans to the Private Sector (% of GDP)	26.3	24.8			
Retail Loans (% of GDP)	13.8	12.1			
Corporate Loans (% of GDP)	12.5	12.7			
Customer Deposits (% of GDP)	38.7	34.7			
Loans to Private Sector (% of Deposits)	68.0	71.6			
Foreign Currency Loans (% of Total Loans)	26.5	29.9			
External Accounts					
Merchandise exports (EUR million)	70,194	86,015	86,525	91,386	96,693
Merchandise imports (EUR million)	93,317	118,065	115,582	121,959	128,817
Trade balance (EUR million)	-23,123	-32,050	-29,057	-30,573	-32,124
Trade balance (% of GDP)	-9.6	-11.3	-9.0	-8.8	-8.7
Current account balance (EUR million)	-17,474	-26,041	-22,694	-22,754	-22,849
Current account balance (% of GDP)	-7.2	-9.2	-7.0	-6.6	-6.2
Net FDI (EUR million)	8,820	8,806	6,544	6,871	7,215
Net FDI (% of GDP)	3.6	3.1	2.0	2.0	2.0
International reserves (EUR million)	40,475	46,636	59,770	61,387	63,5039
International reserves (Months[a])	4.3	3.9	5.1	4.9	4.8
Public Finance					
Primary balance (% of GDP)	-5.2	-3.7	-3.7	-3.2	-2.6
Fiscal balance (% of GDP)	-6.7	-5.8	-5.6	-5.2	-4.6
Gross public debt [b] (% of GDP)	48.3	47.3	49.4	51.2	52.5
External Debt					
Gross external debt (EUR million)	136,585	143,886	168,812	177,152	184,961
Gross external debt (% of GDP)	56.5	50.6	52.2	51.0	50.0
External debt service (EUR million)	16,702	19,195	18,250	18,500	18,750
External debt service (% of reserves)	41.3	41.2	30.5	30.1	29.5
External debt service (% of exports)	17.0	15.6	14.5	13.8	13.2
Financial Markets					
Policy rate (1-w repo rate, %, eop)	1.8	6.8	7.0	5.8	4.5
Policy rate (1-w repo rate, %, aop)	1.4	4.4	7.0	6.4	5.0
10-Y Bond Yield (%, eop)	5.1	8.4	6.3	6.5	6.1
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

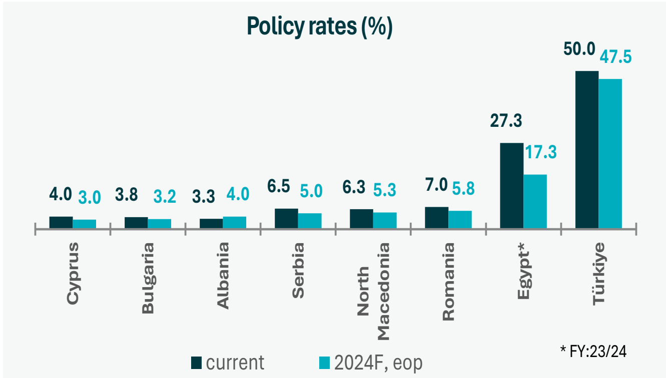
f: NBG forecasts; a: months of imports of GNFS; b: ESA 2010

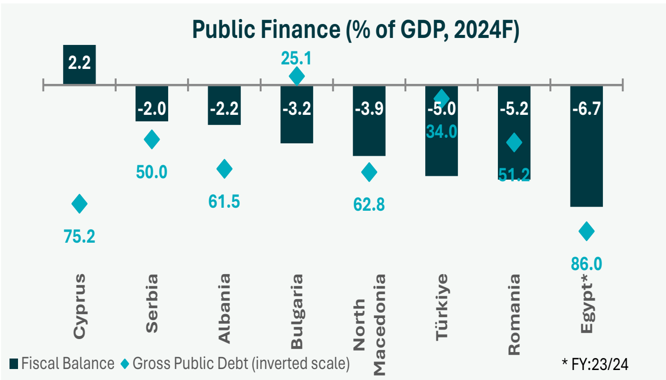
REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

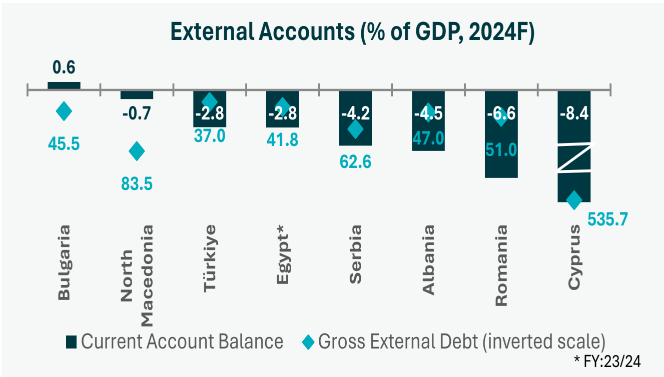


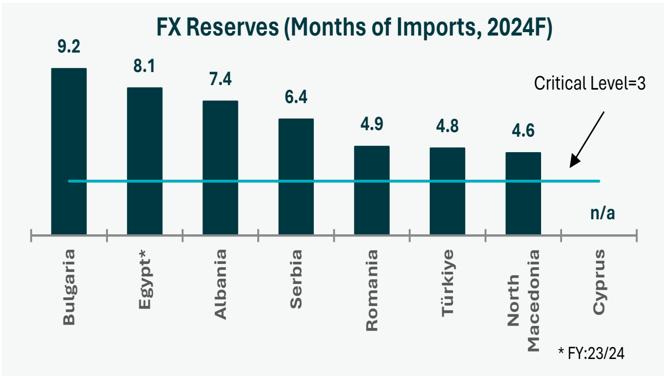








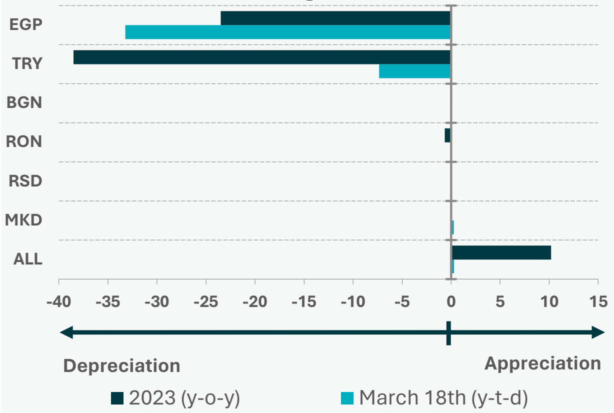




Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS

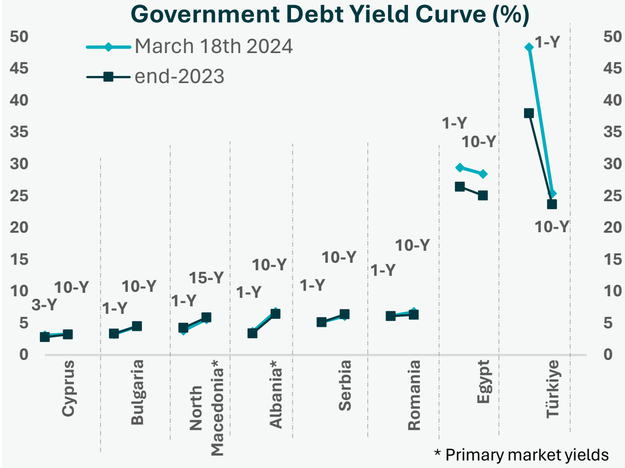
Currencies against the EUR



*: MKD and BGN are pegged to the EUR

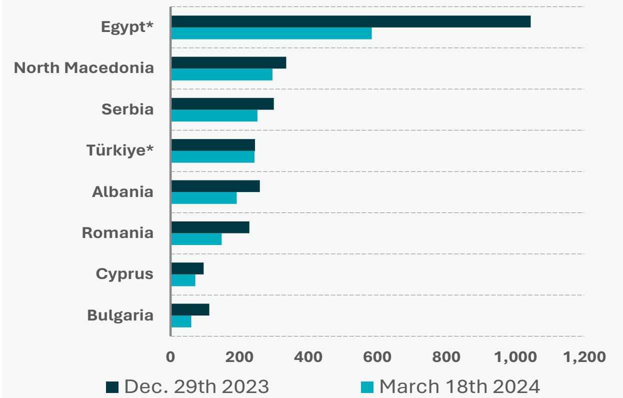
Spot
51.2
35.1
2.0
5.0
117.1
61.4
103.1

Government Debt Yield Curve (%)



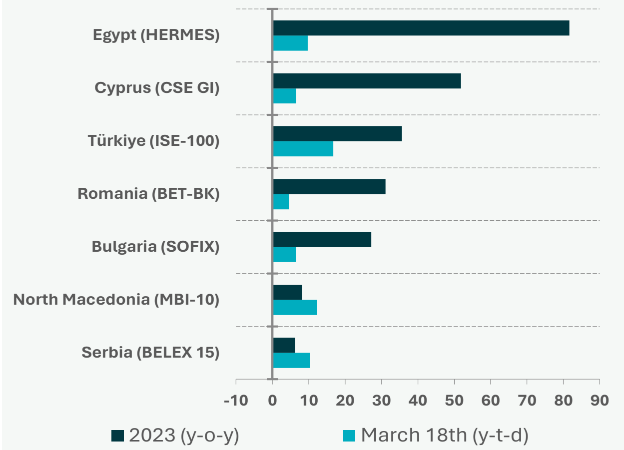
* Primary market yields

EUR-Denominated Sovereign Spreads (bps)

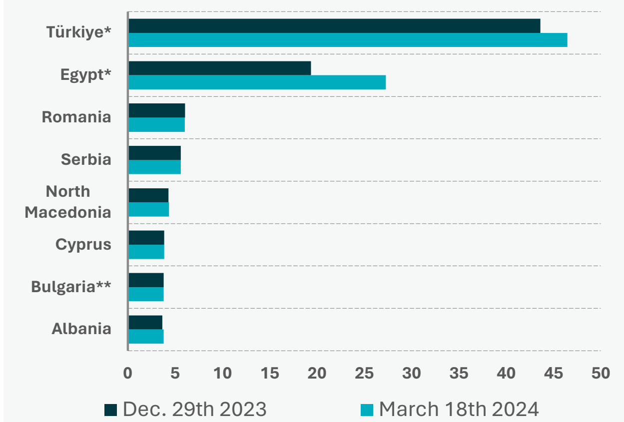


*Spread over US Treasuries

Equity Indices (%)



Money Market Rates (1-month, %)



* Overnight Interbank Rate ** Base Interest Rate

Sources: Reuters & NBG estimates

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