



## COUNTRIES IN FOCUS:

### Cyprus & Albania

#### CYPRUS ..... 1

Despite headwinds (from high interest rates and soft external demand), the economy should remain on a strong footing in 2024, underpinned by domestic demand, markedly outperforming the euro area average

Investment is set to accelerate in FY:24, following the deployment of Recovery & Resilience Plan

The consolidation of inflation at lower levels, together with tight labour market conditions, should sustain private consumption

#### ALBANIA ..... 2

Albanian economy should continue growing at a healthy pace over the next quarters, thanks to resilient private consumption and an overperforming tourism sector

The high capacity utilization rate bodes well for a rebound in investment as soon as uncertainty subsides and financing costs ease

The elimination of the impact of the appreciation of the Lek, should fuel inflationary pressures, prompting the BoA to keep its monetary policy tighter-for-longer

#### APPENDIX: DETAILED MACROECONOMIC DATA ..... 3

#### REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS ..... 5

#### FINANCIAL MARKETS ..... 6

### NBG – Economic Analysis Division

<https://www.nbg.gr/en/group/studies-and-economic-analysis>

### Emerging Markets Analysis

Head:  
Konstantinos Romanos-Louizos

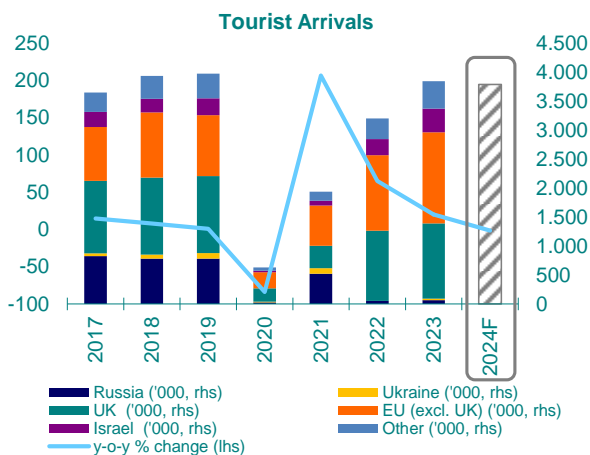
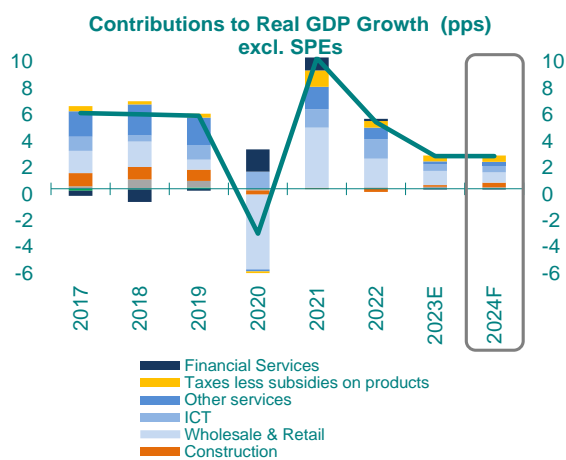
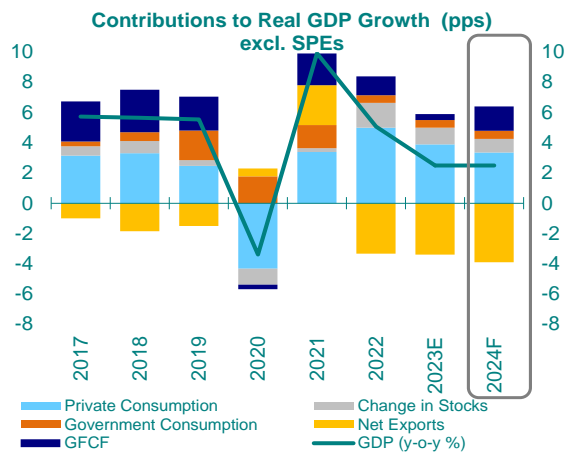
+30 210 33 41 225  
✉ [romanos.louizos.k@nbg.gr](mailto:romanos.louizos.k@nbg.gr)

Georgios Ntinenis

+30 210 33 41 434  
✉ [ntinenis.georgios@nbg.gr](mailto:ntinenis.georgios@nbg.gr)

# Cyprus

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



Despite headwinds (from high interest rates and soft external demand), the economy should remain on a strong footing in 2024, underpinned by domestic demand, markedly outperforming the euro area average. Sluggish economic growth in the EU and prolonged uncertainty should continue to constrain the Cypriot economy, in view of the latter's export-oriented nature -- with tourism and business services accounting for the lion's share (c. 14.0% and 35.0% of FY:22 GDP, respectively). More worryingly, the tourism sector, which recovered to nearly pre-pandemic levels in FY:23, cannot but be affected by reduced tourist flows from Israel (2<sup>nd</sup> largest source country after the UK, accounting for c. 9.0% of total arrivals in FY:22), amid tensions in the Middle East. Still, a favourable (yet fading) base effect from the massive relocation of foreign companies in Cyprus (with more than 1100 firms -- most of them operating in the ICT sector -- with 9000 employees registering locally in FY:22) should help moderate the impact of soft external demand.

Compensating for weaker net exports, investment in non-construction projects is set to pick-up markedly this year, following the deployment of the Recovery & Resilience Plan (RRP, with Cyprus having received funds worth 1.1% of its FY:22 GDP so far, and being eligible for another 3.2% by end-2026). At the same time, strong external demand for real estate (largely associated with the aforementioned influx of foreign companies and their personnel) 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.

On the other hand, the projected consolidation of headline inflation at lower levels (1.7% on average in FY:24 against 3.6% in FY:23 and 8.4% in FY:22) should foster private consumption growth, which, nonetheless, is set to moderate from the high rates observed in FY:23. The partial indexation of wages, together with tight labour market conditions, should also help. Note that employment grew at a strong pace in FY:23 (estimated at c. 3.0%), driven by the services (especially tourism and ICT) sector, with the unemployment rate falling to a more-than-decade low of 6.3% at the same time.

Fiscal policy should remain broadly neutral in FY:24, with the budget balance remaining in large surplus. Indeed, the hike in the social contribution rate, together with the phasing-out of the measures cushioning the impact of elevated inflation, should compensate for the higher interest payments and public wage and pension bills.

All said, we see GDP growth at 2.5% in FY:24, unchanged compared with FY:23 and slightly below its long-term potential, but still above the euro area average (projected at 1.2%). Delays in the execution of the country's RRP 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 95% of debt contracts have variable interest rates), stimulating GDP growth. Still, we recognize that the non-financial private sector's high indebtedness (amounting to c. 165% of GDP at end-2022, higher than the euro area average of c. 130%) is set to remain a constraint on the sector's ability to access credit and expand spending, given the outlook for higher-than-before interest rates. Importantly, the banking sector's strong capitalisation and highly liquid position provide a line of defense against potential financial stress.

	22 Jan.	3-M F	6-M F	12-M F
1-M EURIBOR (%)	3.9	3.8	3.5	3.0
EUR/USD	1.09	1.08	1.09	1.10
Sov. Spread (2028, bps)	87	97	95	90

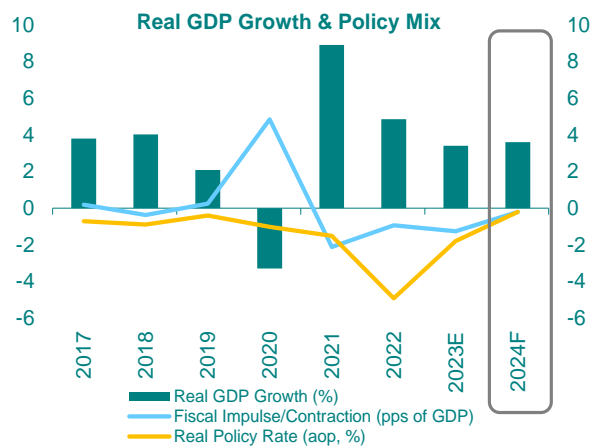
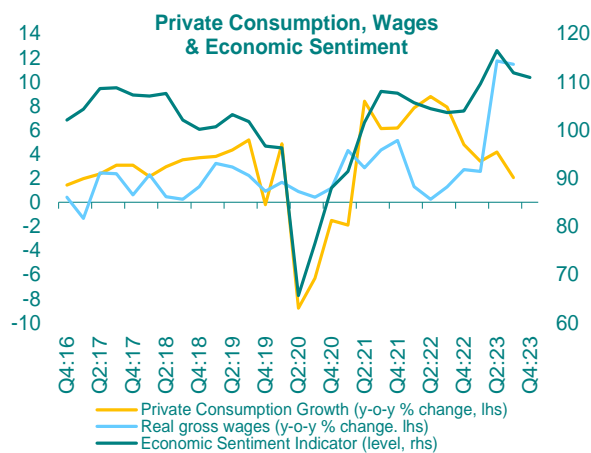
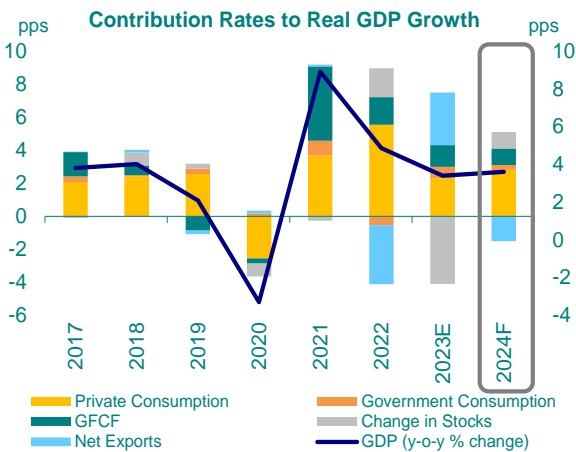
	22 Jan.	1-W %	YTD %	2-Y %
CSE 100	135	-0.9	-0.6	95.8

	2021	2022	2023E	2024F	2025F
Real GDP Growth (%)	9.9	5.1	2.5	2.5	3.0
Inflation (eop, %)	4.8	7.9	1.6	2.8	2.0
Cur. Acct. Bal. (% GDP)	-6.1	-7.9	-9.0	-8.5	-7.7
Fiscal Bal. (% GDP)	-1.9	2.4	2.2	2.2	2.0

Sources: Reuters, CYSTAT & NBG estimates

# Albania

B+ / B1 / NR (S&P / Moody's / Fitch)



	22 Jan.	3-M F	6-M F	12-M F
1-M TRIBOR (%)	3.7	3.8	3.9	4.0
ALL/EUR	104	105	106	107
Sov. Spread (2027, bps)	241	275	265	250

	22 Jan.	1-W %	YTD %	2-Y %
Stock Market	---	---	---	---

	2021	2022	2023E	2024F	2025F
Real GDP Growth (%)	8.9	4.8	3.4	3.6	3.6
Inflation (eop, %)	3.7	7.4	4.0	3.2	3.0
Cur. Acct. Bal. (% GDP)	-7.7	-5.9	-4.6	-4.5	-4.6
Fiscal Bal. (% GDP)	-4.6	-3.7	-2.4	-2.2	-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 resilient private consumption and an overperforming tourism sector.** Private consumption should hold firm in the period ahead (growing at a pace of c. 3.0%, equal to that observed in pre-pandemic times), underpinned by a tight labour market, on the back of persistent labour force shortages (attributed, *inter alia*, to migration and skills mismatches), as well as a loose incomes policy and its spillover to the private sector (with real *ex-post* wage growth having surged to double digits since Q2:23). Elevated economic sentiment (see chart) should also help.

On the other hand, following dynamic growth over the past years, largely underpinned by post-2019 earthquake reconstruction activity, investment growth is expected to moderate this year. Higher interest rates would take a toll -- albeit limited, due to the low credit penetration rate -- with the impact mostly felt by the construction sector. 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 bodes well for a rebound in investment as soon as uncertainty subsides and financing costs ease.

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

The policy mix should not support GDP growth over the forecast horizon. Indeed, elevated inflation and unanchored inflation expectations, on the one hand, and still wide -- yet gradually narrowing -- current account deficits, on the other hand, suggest that the BoA is not done with tightening. Note that Albania's inflation has been significantly lower than that of its peers, largely reflecting the impact of the appreciation of the Lek (up c. 10% on average against the EUR in FY:23) and the imposition of controls on energy and key food prices. However, as soon as these factors fade, we expect inflation to hover markedly above the 3.0% target, prompting the BoA to keep its monetary policy tighter-for-longer, thus decoupling from the envisaged global easing cycle.

On the other hand, amid limited fiscal space, due to the high -- yet declining -- public debt, the budget deficit is set to remain on a consolidation path, assuming some spending under-execution, especially with capital expenditure, as in the past years.

All said, we see FY:24 GDP growth firming to 3.6% from an estimated 3.4% in FY:23, with the economy continuing to outperform its regional peers. Nevertheless, note that Albania's income gap with the later still remains significant, with GDP per capita (PPP, USD) 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 some protection against the energy crisis, Albania's reliance on hydroelectricity leaves the economy vulnerable to weather conditions. Moreover, a sudden FX reversal could boost inflation, prompting the BoA to tighten by much more than currently envisaged. 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.

## DETAILED MACROECONOMIC DATA

CYPRUS					
	2021	2022	2023e	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	24,928	27,777	29,488	30,736	32,364
GDP per capita (EUR)	27.687	30.516	32.043	33,068	34,475
GDP growth (real, %)	9.9	5.1	2.5	2.5	3.0
Unemployment rate (% aop)	7.5	6.8	6.3	6.0	5.8
<b>Prices and Banking</b>					
Inflation (% eop)	4.8	7.9	1.6	2.8	2.0
Inflation (% aop)	2.4	8.4	3.6	1.7	2.2
Loans to the Private Sector (% change, eop)	-5.0	-12.1			
Customer Deposits (% change, eop)	5.4	2.8			
Loans to the Private Sector (% of GDP)	110.1	86.8			
Retail Loans (% of GDP)	49.0	41.4			
Corporate Loans (% of GDP)	61.1	45.4			
Customer Deposits (% of GDP)	174.1	160.7			
Loans to Private Sector (% of Deposits)	63.2	54.0			
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	-23.2	-23.2	-23.3
Current account balance (EUR million)	-1,514	-2,203	-2,658	-2,601	-2,503
Current account balance (% of GDP)	-6.1	-7.9	-9.0	-8.5	-7.7
Net FDI (EUR million)	7,748	8,446	6,334	8,235	9,882
Net FDI (% of GDP)	31.1	30.4	21.5	26.8	30.5
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	3.6	3.5	3.4
Fiscal balance <sup>b</sup> (% of GDP)	-1.9	2.4	2.2	2.2	2.0
Gross public debt (% of GDP)	99.3	85.6	81.5	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	570.8	542.8	510.8
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)	0.0	2.5	4.5	3.5	3.0
Policy rate (ECB refinancing rate, % aop)	0.0	0.7	3.8	4.1	3.3
10-Y T-bill rate (% eop)	0.7	4.2	3.2	3.5	3.6
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

ALBANIA					
	2021	2022	2023e	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	15,185	17,987	21,247	23,353	24,313
GDP per capita (EUR)	5,401	6,443	7,648	8,423	8,787
GDP growth (real, %)	8.9	4.8	3.4	3.6	3.6
Unemployment rate (% aop)	12.1	11.3	11.0	10.7	10.3
<b>Prices and Banking</b>					
Inflation (% eop)	3.7	7.4	4.0	3.2	3.0
Inflation (% aop)	2.0	6.7	4.8	3.3	3.1
Loans to the Private Sector (% change, eop)	8.5	7.1			
Customer Deposits (% change, eop)	9.1	4.4			
Loans to the Private Sector (% of GDP)	33.9	31.6			
Retail Loans (% of GDP)	12.6	12.3			
Corporate Loans (% of GDP)	21.3	19.3			
Customer Deposits (% of GDP)	62.8	57.0			
Loans to Private Sector (% of Deposits)	54.0	55.4			
Foreign Currency Loans (% of Total Loans)	47.6	48.2			
<b>External Accounts</b>					
Merchandise exports (EUR million)	1,265	1,933	2,025	2,127	2,233
Merchandise imports (EUR million)	5,094	6,201	6,729	7,166	7,632
Trade balance (EUR million)	-3,829	-4,269	-4,703	-5,039	-5,399
Trade balance (% of GDP)	-25.2	-23.7	-22.1	-21.6	-22.2
Current account balance (EUR million)	-1,166	-1,063	-0,967	-1,058	-1,113
Current account balance (% of GDP)	-7.7	-5.9	-4.6	-4.5	-4.6
Net FDI (EUR million)	0,990	1,190	1,190	1,220	1,262
Net FDI (% of GDP)	6.5	6.6	5.6	5.2	5.2
International reserves (EUR million)	4,972	4,952	5,629	5,966	6,315
International reserves (Months <sup>a</sup> )	8.8	7.1	7.4	7.4	7.4
<b>Public Finance</b>					
Primary balance (% of GDP)	-2.7	-1.8	-0.6	-0.4	-0.2
Fiscal balance (% of GDP)	-4.6	-3.7	-2.4	-2.2	-2.0
Gross public debt (% of GDP)	75.2	65.5	63.8	61.5	60.0
<b>External Debt</b>					
Gross external debt (EUR million)	9,755	9,766	10,366	10,966	11,566
Gross external debt (% of GDP)	64.2	54.3	48.8	47.0	47.6
External debt service (EUR million)	0,306	0,328	0,352	0,380	0,380
External debt service (% of reserves)	6.1	6.6	6.3	6.4	6.0
External debt service (% of exports)	4.9	3.5	3.5	3.6	3.5
<b>Financial Markets</b>					
Policy rate (1-week repo rate, % eop)	0.5	2.8	3.3	4.0	3.8
Policy rate (1-week repo rate, % aop)	0.5	1.5	3.0	3.7	4.0
1-Y T-bill rate <sup>b</sup> (% eop)	1.6	5.5	3.8	4.7	4.5
Exchange rate: EUR (eop)	120.6	114.0	103.4	107.0	108.0
Exchange rate: EUR (aop)	122.2	118.7	108.4	105.2	107.5

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

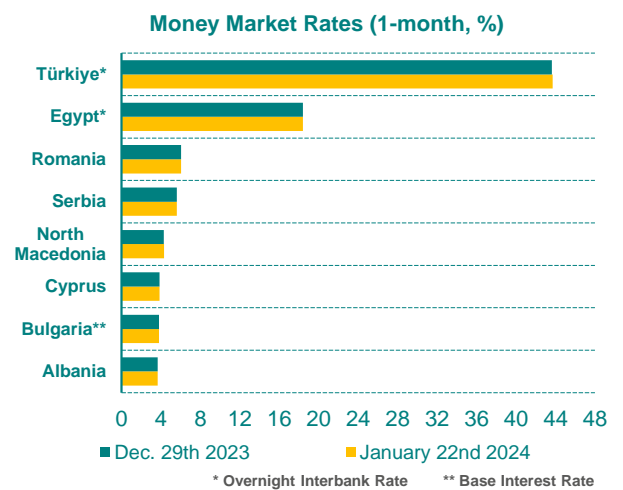
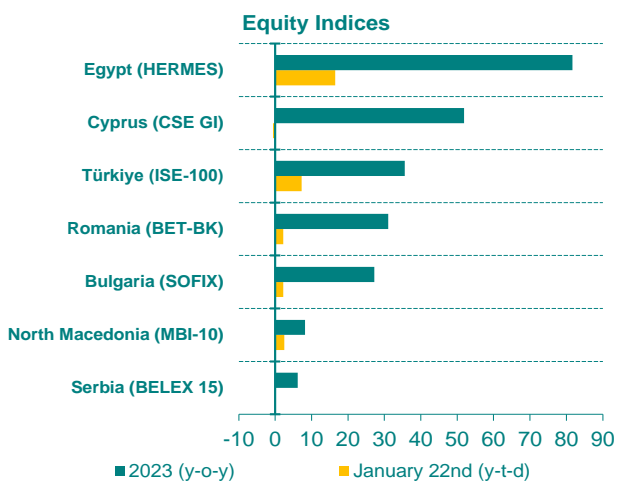
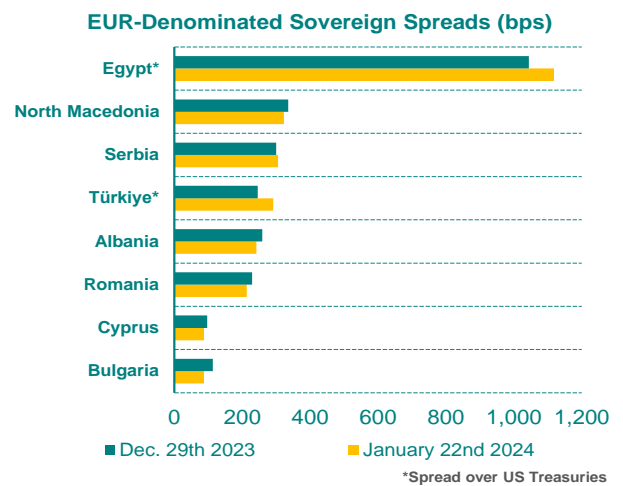
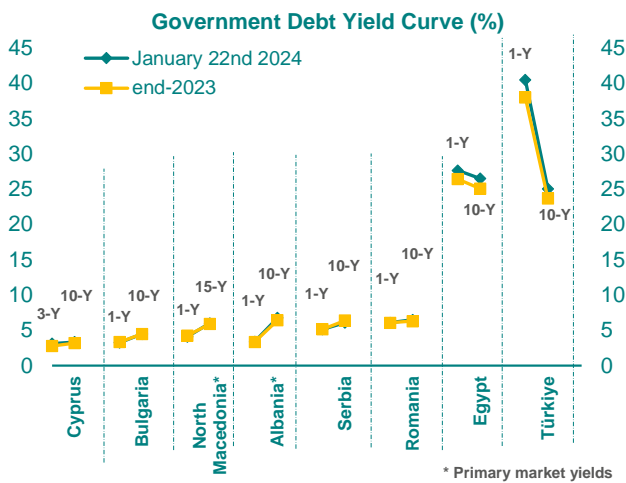
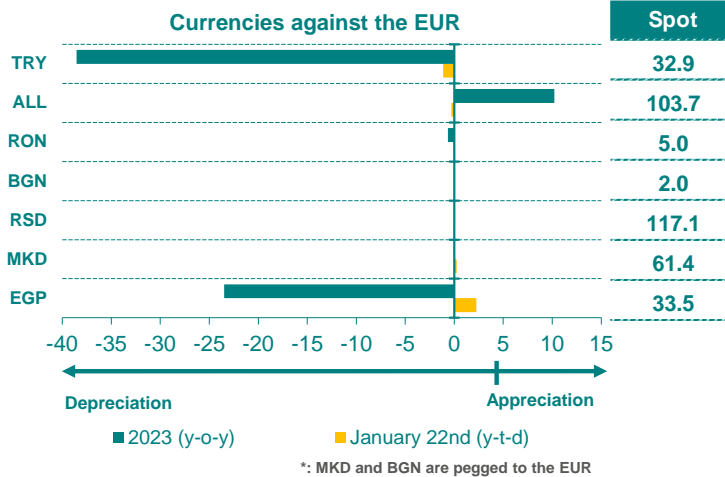
# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates



# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

**DISCLAIMER:** *This report has been produced by the Economic Research Division of National Bank of Greece S.A., which is regulated by the Bank of Greece and the Hellenic Capital Market Commission, and is provided solely as a sheer reference for the information of experienced and sophisticated investors who are expected and considered to be fully able to make their own investment decisions without reliance on its contents, i.e. only after effecting their own independent enquiry from sources of the investors' sole choice. This report does not constitute investment research or a research recommendation, and as such, it has not been prepared under legal requirements designed to promote investment research independence. The information contained in this report does not constitute the provision of investment advice and under no circumstances is it to be used or considered as an offer or an invitation to buy or sell or a solicitation of an offer or invitation to buy or sell or enter into any agreement with respect to any security, product, service or investment. No information or opinion contained in this report is sufficient to support an investment decision – and should constitute any representation or warranty as to future performance of any financial instrument, credit, currency rate or other market or economic measure. Past performance is not necessarily a reliable guide to future performance. It is duly stated that investments products include investment risks, among which the risk of losing part of or the entire capital invested. National Bank of Greece S.A. and/or its affiliates shall not be liable in any matter whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance on or usage of this report and accepts no legal responsibility to any investor who directly or indirectly receives this report. The final investment decision must be made by the investor and the responsibility for the investment must be taken by the investor.*

*Any data provided in this report has been obtained from sources believed to be reliable but has not been independently verified. Because of the possibility of error on the part of such sources, National Bank of Greece S.A. does not guarantee the accuracy, timeliness or usefulness of any information. Information and opinions contained in this report are subject to change without notice and there is no obligation to update the information and opinions contained in this report. The National Bank of Greece S.A. and its affiliate companies, its representatives, its managers and/or its personnel or other persons related to it, accept no responsibility, or liability as to the accuracy, or completeness of the information contained in this report, or for any loss in general arising from any use of this report including investment decisions based on this report. This report does not purport to contain all the information that a prospective investor may require. Recipients of this report should independently evaluate particular information and opinions and seek the advice of their own professional and financial advisers in relation to any investment, financial, legal, business, tax, accounting or regulatory issues before making any investment or entering into any transaction in relation to information and opinions discussed herein.*

*National Bank of Greece S.A. has prepared and published this report wholly independently of any of its affiliates and thus any commitments, views, outlook, ratings or target prices expressed in these reports may differ substantially from any similar reports issued by affiliates which may be based upon different sources and methodologies. This report is not directed to, or intended for distribution to use or use by, any person or entity that is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation or rule. This report is protected under intellectual property laws and may not be altered, reproduced or redistributed, or passed on directly or indirectly, to any other party, in whole or in part, without the prior written consent of National Bank of Greece. All the views expressed in this report accurately reflect author's personal views solely, about any and all of the subject issues. Further, it is certified that no part of any of the report author's compensation was, is, or will be directly or indirectly related to the specific or views expressed in this report.*