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Emerging Markets Analysis

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Economic Analysis Division

Emerging Markets Analysis

Bi-Weekly Report

22 February – 7 March 2022

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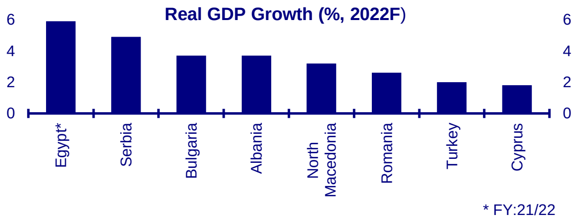
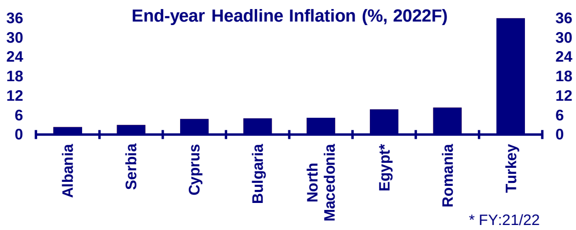
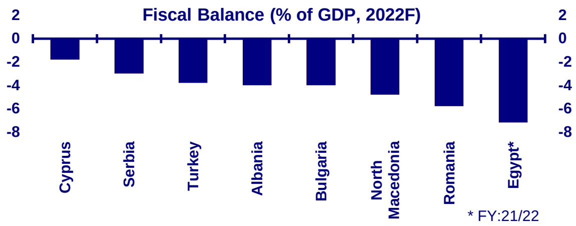
GDP growth disappointed again in Q4:21, reflecting heightened uncertainty and the impact of COVID-19-related disruptions in global supply chains

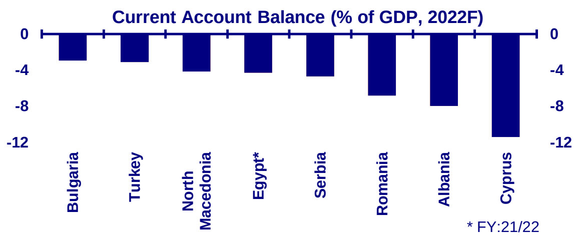
The implications of the ongoing geopolitical tensions (especially in terms of higher inflation) are set to weaken further the economy's (already feeble) growth momentum

Following a strong post-COVID-19 recovery in FY:21 (GDP, up 5.5%), economic growth is set to weaken markedly this year (to a mere 1.8% versus the 4.3% previously expected), reflecting higher inflation and weaker tourist inflows, in the aftermath of the ongoing Russia-Ukraine crisis





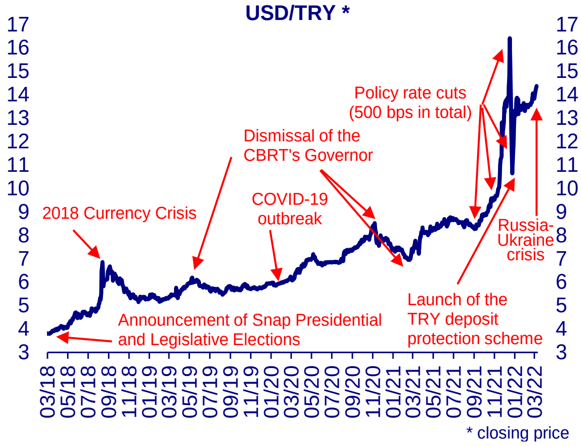


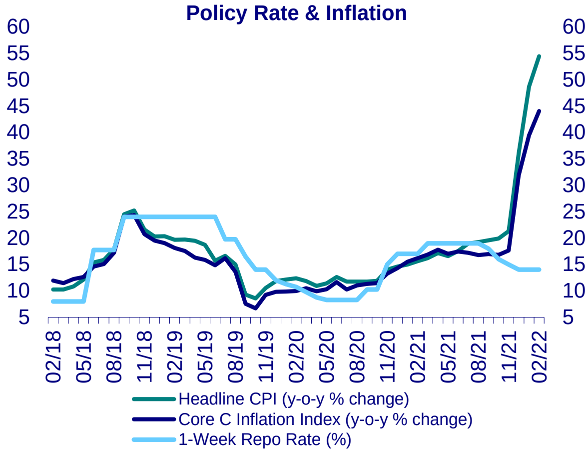


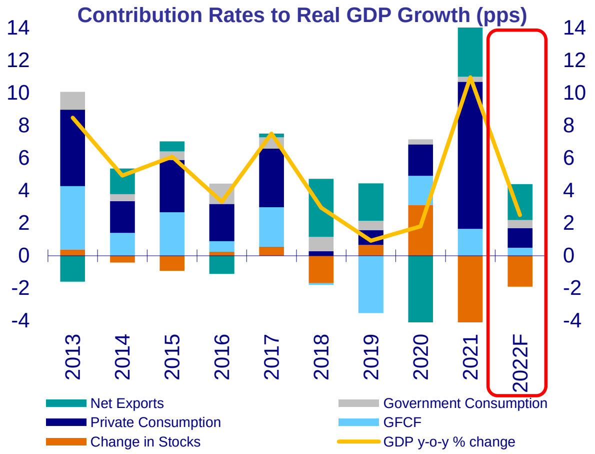
Sources: National authorities & NBG estimates

Turkey

B+ / B2 / BB- (S&P/ Moody's / Fitch)







	7 Mar.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	14.6	14.0	14.0	14.0
TRY/USD	14.37	13.45	13.35	14.20
Sov. Spread (2025, bps)	696	620	560	450

	7 Mar.	1-W %	YTD %	2-Y %
ISE 100	1,997	2.6	7.5	82.2

	2019	2020	2021	2022F	2023F
Real GDP Growth (%)	0.9	1.8	11.0	2.5	3.4
Inflation (eop, %)	11.8	14.6	36.1	36.0	18.0
Cur. Acct. Bal. (% GDP)	0.7	-4.9	-1.8	-3.1	-1.6
Fiscal Bal. (% GDP)	-2.9	-3.4	-2.7	-3.8	-3.0

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

Following an outstanding performance in FY:21 (GDP, up 11.0%), economic growth is set to slow down abruptly this year, reflecting the impact of the recent sharp depreciation of the TRY and concomitant skyrocketing inflation. The implications of the ongoing Russia-Ukraine crisis cloud further this outlook. Recall that in an (unexpected) streak of rate cuts in late-2021, the CBRT shaved a whopping 500 bps off its key rate, driving it down to 14.0%. Reflecting market concerns over the consistency of its policies, given Turkey's vulnerabilities, as suggested by stubbornly high inflation and a weak external position (with sizeable external debt repayments falling due in the short-term and the net FX reserve position having long turned negative), the turnaround in the CBRT's stance triggered a massive sell-off in Turkish assets, with the TRY losing 44% of its value against the USD in 2021, on top of a c. 50% depreciation in 2017-19. With the CBRT remaining on hold since end-2021, and following a series of state interventions, including the launch of a scheme protecting TRY deposits against FX risk and the mandatory sale of 25% of exporters' FX revenue, pressures on the TRY appear to have eased lately.

Against this backdrop, we had been expecting GDP growth to slow down abruptly in FY:22, as the impact of the weaker TRY, high inflation and poor sentiment would prevail on that of easing policies. Now, with the implications of the ongoing Russia-Ukraine crisis looming over the already beleaguered economy, the outlook appears much bleaker.

Regarding growth drivers, private consumption should continue to expand in FY:22, but at a drastically slower pace than that observed in FY:21, as skyrocketing inflation is set to seriously bite into disposable income, despite state's income support measures, including a massive 50% hike in the minimum wage. Indeed, headline inflation is set to hover around 60.0% during most part of the year, before easing to 36.0% at end-2022. Worryingly, with global commodity (especially energy) prices on the rise, due to geopolitical tensions, the inflation shock could turn out to be stronger and more protracted than assumed.

Similarly, despite the high capacity utilisation in the manufacturing sector and strong corporate lending growth, we expect fixed investment to expand sluggishly this year, as corporate balance sheets have come under a huge stress, due to the impact of the weaker TRY (note that the non-financial sector's open FX position stands at c. 30% of GDP).

Reflecting weakening domestic demand, on the one hand, and strong price competitiveness gains, on the other hand, net exports should continue to sustain overall growth in FY:22, despite the adverse impact of the Russia-Ukraine crisis on external demand. Note that, although linkages between Turkey and these countries are relatively small in terms of direct exports of goods (with Russia and Ukraine absorbing 2.6% and 1.3%, respectively, of Turkey's exports), they are much more significant when considering services (with arrivals from Russia and Ukraine accounting for 19.0% and 8.3%, respectively, of total tourist arrivals).

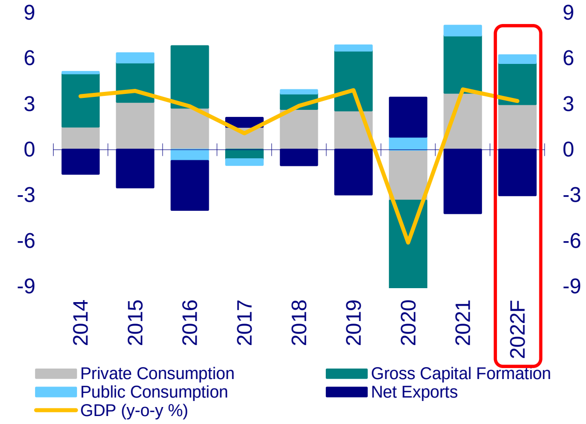
In this environment, we expect the authorities to continue with an expansionary fiscal policy in FY:22 (widening the budget deficit to 3.8% of GDP from 2.7% in FY:21), given the still significant space available (gross public debt currently stands at c. 42% of GDP).

All said, we see GDP growth easing to a mere 2.5% in FY:22 from 11.0% in FY:21. Our forecast could be revised lower, should: i) the implications of the ongoing geopolitical tensions turn out to be more severe than assumed in our baseline scenario (e.g. involving physical disruptions to energy supply), and/or ii) inconsistent domestic policies drive another market overreaction. Worryingly, the latter cannot be completely ruled out, in view of President Erdogan's determination to lower interest rates ahead of the 2023 general elections, in which he is set to face a tough fight, as suggested by his all-time low popularity.

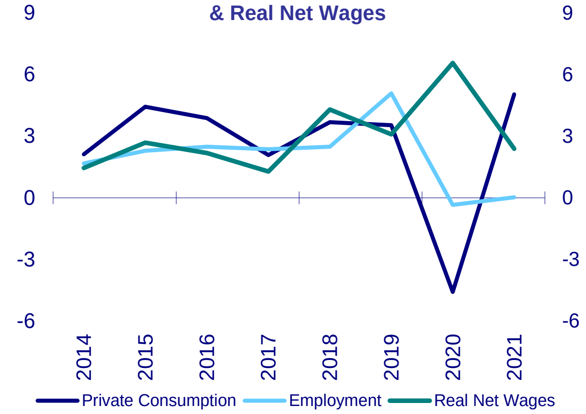
North Macedonia

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

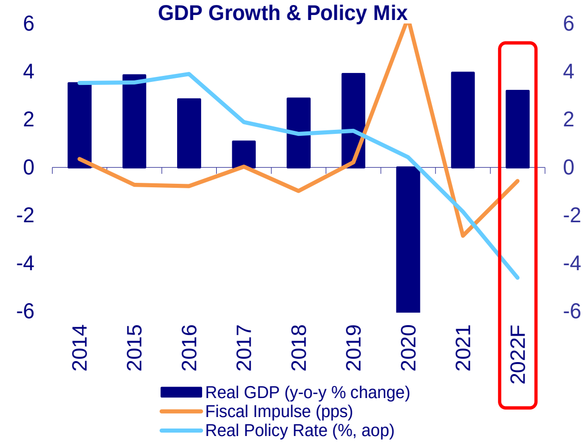
Contributions to Annual Real GDP Growth (pps)



Private Consumption, Employment & Real Net Wages



GDP Growth & Policy Mix



	7 Mar.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.2	1.2	1.3	1.5
MKD/EUR	61.3	61.6	61.6	61.6
Sov. Spread (2025. bps)	424	360	300	200

	7 Mar.	1-W %	YTD %	2-Y %
MBI 100	5,820	0,0	-5,4	17,2

	2019	2020	2021	2022F	2023F
Real GDP Growth (%)	3.9	-6.1	4.0	3.0	4.0
Inflation (eop. %)	0.5	2.2	4.9	5.2	2.5
Cur. Acct. Bal. (% GDP)	-3.3	-3.4	-3.5	-4.2	-3.0
Fiscal Bal. (% GDP)	-2.0	-8.2	-5.4	-5.4	-4.0

Sources: Reuters, Statistical Service, NBRNM, Ministry of Finance & NBG estimates

GDP growth disappointed again in Q4:21, reflecting heightened uncertainty and the impact of COVID-19-related disruptions in global supply chains. With the bulk of positive base effects from the reopening of the economy having dissipated, GDP growth remained subdued at 2.3% y-o-y in Q4:21 against 3.0% in Q3:21, suggesting a weak underlying growth momentum. In our view, the latter was attributed to: i) elevated uncertainty, on the back of successive COVID-19 waves (note that the country has recorded one the highest mortality rates globally) and a short-lived political crisis; and ii) the impact of disruptions in global supply chains, especially on the automotive sector, which accounts for 40% of the country's exports. Overall, GDP growth reached 4.0% in FY:21, leaving the economy still short of its pre-crisis levels.

The implications of the ongoing geopolitical tensions (especially in terms of higher inflation) are set to weaken further the economy's (already feeble) growth momentum. The jump in global commodity (especially energy) prices, in the aftermath of the ongoing geopolitical tensions, is set to push (the already elevated) inflation even higher this year (to an average of 7.1% from 3.2% in FY:21), shaving a serious chunk off households' (real) disposable income. On a positive note, the latter should benefit from stronger nominal overall wage growth, following the sharp hike in the minimum wage (up 18.5% in March). Note that high savings also provide households some buffer against the inflation shock. Overall, reflecting the impact of higher inflation, as well as that of poor sentiment, private consumption should slow down in FY:22, remaining, however, the key growth.

Partly compensating for the slowdown in private consumption, fixed investment is set to pick-up steam this year, with the public sector giving a critical boost. Indeed, according to the recently launched (ambitious) Growth Acceleration Plan (GAP), public investment is set to rise gradually to 6.0% by FY:26 from 3.3% in FY:21.

Despite stronger external demand, thanks, *inter alia*, to cross border spillover effects from the EU Recovery & Resilience Facility, net exports are due to remain a large drag on overall growth in the period ahead, reflecting the large import content of investments and exports. Worryingly, the ongoing disruptions in the automotive industry will continue to cloud the outlook in the short-term. Note that direct trade linkages with Russia and Ukraine are minimal with combined exports to these countries accounting for just 1.0% of total exports.

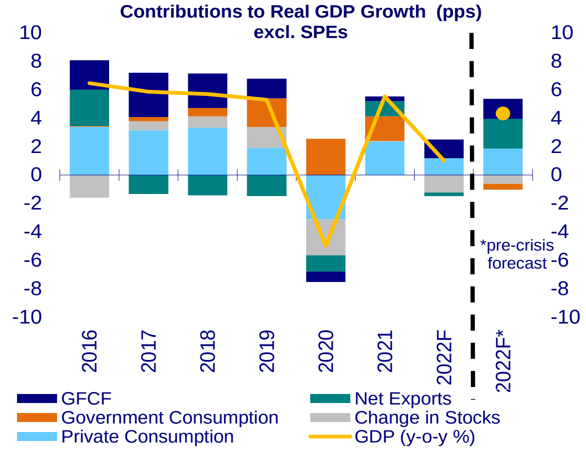
Importantly, policies should remain broadly accommodative in FY:22. On the one hand, fiscal consolidation is set to pause this year, so as to allow the budget to absorb part of the higher energy bill. On the other hand, monetary conditions would remain loose, ensuring uninterrupted credit flow to the economy. Indeed, in view of limited portfolio flows with the rest of the world and the strong FX reserve base, we expect the NBRNM to stay dovish for longer, despite the hawkish turn by several CEE central banks.

All said, we see GDP growth easing to 3.0% in FY:22. Our forecast could be revised lower, should the implications of the ongoing Russia-Ukraine crisis prove to be harsher than assumed. COVID-19 also poses a downside risk to the outlook, given the low domestic vaccination rate. Worryingly, although political noise has eased since the SDSM and its allies managed to survive the no-confidence vote placed by the VMRO-DPMNE at end-2021, it is unlikely to go completely away. In fact, tensions between the two blocs could escalate again, distracting the Government from policy making. On a positive note, the formation of a functioning Government in Bulgaria suggests increased chances for the dispute between the two countries to be settled, and, consequently, for the long-awaited EU accession talks with North Macedonia to be launched.

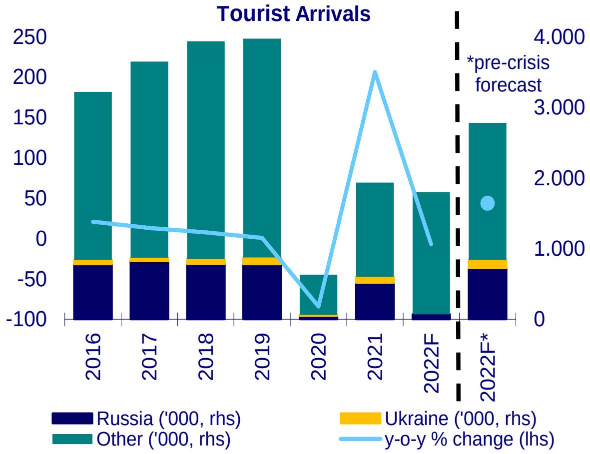
Cyprus

BBB- / Ba1 / BBB- (S&P / Moody's / Fitch)

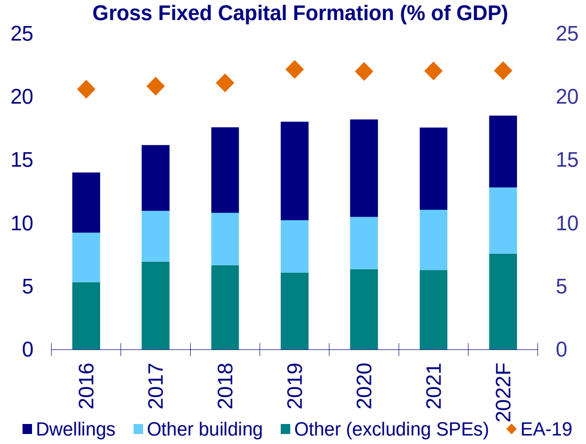
Contributions to Real GDP Growth (pps) excl. SPEs



Tourist Arrivals



Gross Fixed Capital Formation (% of GDP)



	7 Mar.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.52	-0.54	-0.52	-0.48
EUR/USD	1.09	1.11	1.12	1.14
Sov. Spread (2025. bps)	105	100	95	80

	7 Mar.	1-W %	YTD %	2-Y %
CSE Index	66	-2.9	-4.1	5.8

	2019	2020	2021E	2022F	2023F
Real GDP Growth (%)	5.3	-5.0	5.5	1.8	3.2
Inflation (eop. %)	0.7	-1.1	4.8	4.8	2.3
Cur. Acct. Bal. (% GDP)	-5.7	-10.1	-9.0	-11.4	-8.0
Fiscal Bal. (% GDP)	1.3	-5.6	-1.8	-1.8	-1.2

Sources: Reuters, Cystat & NBG estimates

Following a strong post-COVID-19 recovery in FY:21 (GDP, up 5.5%), economic growth is set to weaken markedly this year (to a mere 1.8% versus the 4.3% previously expected), reflecting higher inflation and weaker tourist inflows, in the aftermath of the ongoing Russia-Ukraine crisis. GDP expanded by a still solid 0.9% q-o-q s.a. in Q4:21, a pace slower, however, than the average 1.7% recorded in 9M:21, due, *inter alia*, to a resurgence in COVID-19 infections during the holiday season. At the current level, GDP exceeds by 1.5% that of pre-COVID times -- a performance comparing favourably not only with that of the euro area, but also with other Southern European countries dependent on tourism. On an annual basis, GDP expanded by 6.4% y-o-y in Q4:21, bringing FY:21 growth to 5.5% -- well above its long-term potential (of c. 2.5%) -- against a COVID-19-induced recession of 5.0% in FY:20.

Worryingly, the outlook for the economy this year appears to have sharply deteriorated, in the wake of the escalation of the Russia-Ukraine crisis. As a result, we revise downwards our FY:22 GDP growth forecast to a mere 1.8% from 4.3% previously.

The bulk of the adjustment is set to be borne by net exports, which would be affected by the abrupt drop in tourist arrivals from Russia, the largest source country, accounting for 26.8% of total tourists in FY:21. Indeed, in view of the EU-wide ban on Russian flights currently in place and with the country's economy set to fall in recession, reflecting the impact of the EU-US sanctions, the ruble depreciation and the sharp hike in domestic interest rates, tourist receipts from Russia are due to be minimal this year, if any. With Russia being also a key export market for business-related services, we expect activity in this sector to be affected to some extent. A much smaller -- still non-negligible -- impact should come from the plunge in tourist arrivals from Ukraine (accounting for 4.4% of Cyprus' tourist arrivals in FY:21).

Private consumption is also set to be hit by the implications of the geopolitical tensions, but to a lesser extent than net exports, mainly reflecting the impact of even higher-than-initially-envisaged inflation on disposable income. Indeed, in light of the steep hike in energy and other commodity prices observed in global markets and related risks, we revise upwards our domestic inflation forecast to 5.7% on average in FY:22 from 3.8% previously, significantly higher than the FY:21 outcome of 2.4%. A deterioration in economic sentiment and negative spill-overs from weaker activity in the tourism & related sector should also weigh on private consumption. On a positive note, the high savings level (with retail deposits having increased by 7.0 pps of GDP since end-2019, amounting to 110.3% of GDP at end-2021) should provide households some buffer against these shocks.

Importantly, despite weakening sentiment, investment growth is set to strengthen this year, bolstered by EU funding, providing a critical contribution to economic growth. Note that Cyprus is due to receive EUR 1.2bn under the EU Recovery and Resilience Facility in 2021-26, or 5.2% of the FY:19 GDP, which -- assuming there are evenly distributed -- could add c. 0.8 pps to GDP growth in FY:22. Importantly, the country's strong track record bodes well for fast and effective absorption of available EU funds.

Against this challenging backdrop, we expect fiscal consolidation to pause this year, with the unwinding of COVID-related support broadly compensating for the cost of the measures aimed at containing the impact of higher energy prices.

All said, our GDP forecast could be downwardly revised in the event the impact of the ongoing geopolitical tensions proves deeper than assumed in our baseline scenario.

TURKEY	2019	2020	2021	2022f	2023f
Real Sector					
Nominal GDP (USD million)	760,669	718,977	811,282	808,031	988,765
GDP per capita (EUR)	8,170	7,458	8,053	8,199	9,776
GDP growth (real, %)	0.9	1.8	11.0	2.5	3.4
Unemployment rate (%, aop)	13.7	13.2	12.1	11.9	11.4
Prices and Banking					
Inflation (%, eop)	11.8	14.6	36.1	36.0	18.0
Inflation (%, aop)	15.4	12.3	19.3	56.1	17.1
Loans to the Private Sector (% change, eop)	10.8	34.8	37.0		
Customer Deposits (% change, eop)	23.5	33.0	51.5		
Loans to the Private Sector (% of GDP)	61.4	70.8	71.2		
Retail Loans (% of GDP)	13.9	16.8	15.2		
Corporate Loans (% of GDP)	47.5	54.1	56.0		
Customer Deposits (% of GDP)	54.5	62.1	69.0		
Loans to Private Sector (% of Cust. Deposits)	112.6	114.1	103.2		
Foreign Currency Loans (% of Total Loans)	38.3	34.2	42.2		
External Accounts					
Merchandise exports (USD million)	182,200	168,387	224,766	242,014	255,463
Merchandise imports (USD million)	198,981	206,250	253,927	278,782	284,244
Trade balance (USD million)	-16,781	-37,863	-29,161	-36,768	-28,781
Trade balance (% of GDP)	-2.2	-5.3	-3.6	-4.6	-2.9
Current account balance (USD million)	5,303	-35,537	-14,882	-24,667	-15,342
Current account balance (% of GDP)	0.7	-4.9	-1.8	-3.1	-1.6
Net FDI (USD million)	6,628	4,592	7,697	7,312	9,140
Net FDI (% of GDP)	0.9	0.6	0.9	0.9	0.9
International reserves (USD million)	105,696	93,277	111,181	110,000	130,000
International reserves (Months[a])	5.6	4.9	4.7	4.3	4.9
Public Finance					
Primary balance (% of GDP)	-0.6	-0.8	-0.2	-1.1	-0.3
Fiscal balance (% of GDP)	-2.9	-3.4	-2.8	-3.8	-3.0
Gross public debt (% of GDP)	32.6	39.7	41.5	39.5	38.5
External Debt					
Gross external debt (USD million)	416,413	433,042	455,000	465,000	490,000
Gross external debt (% of GDP)	54.7	60.2	56.1	57.5	49.6
External debt service (USD million)	85,286	70,921	74,311	80,000	85,000
External debt service (% of reserves)	80.4	76.0	66.8	72.7	65.4
External debt service (% of exports)	35.9	37.5	27.6	26.4	26.6
Financial Markets					
Policy rate (Effective funding rate, %, eop)	11.4	17.0	14.0	14.0	13.0
Policy rate (Effective funding rate, %, aop)	20.7	10.5	17.6	14.0	13.5
1-Y T-bill rate (%, eop)	11.3	15.1	22.2	20.0	15.0
Exchange rate: USD (eop)	5.95	7.43	13.32	14.25	14.00
Exchange rate: USD (aop)	5.68	7.02	8.89	14.28	14.13

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

NORTH MACEDONIA	2019	2020e	2021	2022f	2023f
Real Sector					
Nominal GDP (EUR million)	11,274	10,657	11,754	12,962	13,804
GDP per capita (EUR)	5,431	5,134	5,662	6,244	6,649
GDP growth (real, %)	3.9	-6.1	4.0	3.0	4.0
Unemployment rate (%, aop)	17.3	16.4	15.7	15.5	15.2
Prices and Banking					
Inflation (%, eop)	0.5	2.2	4.9	5.2	2.5
Inflation (%, aop)	0.8	1.2	3.2	7.1	2.4
Loans to the Private Sector (% change, eop)	6.1	4.7			
Customer Deposits (% change, eop)	9.8	6.2			
Loans to the Private Sector (% of GDP)	49.1	53.2			
Retail Loans (% of GDP)	25.0	27.9			
Corporate Loans (% of GDP)	24.1	25.3			
Customer Deposits (% of GDP)	55.8	61.3			
Loans to Private Sector (% of Deposits)	88.1	86.8			
Foreign Currency Loans (% of Total Loans)	41.5	41.6			
External Accounts					
Merchandise exports (EUR million)	5,347	4,817	5,996	6,397	6,790
Merchandise imports (EUR million)	7,296	6,622	8,371	9,122	9,495
Trade balance (EUR million)	-1,949	-1,805	-2,375	-2,726	-2,705
Trade balance (% of GDP)	-17.3	-16.9	-20.2	-21.0	-19.6
Current account balance (EUR million)	-0,368	-0,366	-0,416	-0,545	-0,408
Current account balance (% of GDP)	-3.3	-3.4	-3.5	-4.2	-3.0
Net FDI (EUR million)	0,363	0,155	0,435	0,435	0,479
Net FDI (% of GDP)	3.2	1.5	3.7	3.4	3.5
International reserves (EUR million)	3,263	3,360	3,665	3,715	3,890
International reserves (Months[a])	4.6	5.3	4.6	4.3	4.4
Public Finance					
Primary balance (% of GDP)	-0.8	-7.0	-4.1	-4.1	-2.7
Fiscal balance (% of GDP)	-2.0	-8.2	-5.4	-5.4	-4.0
Gross public debt [b] (% of GDP)	48.8	60.5	61.7	63.4	64.0
External Debt					
Gross external debt (EUR million)	8,154	8,630	9,873	10,629	10,767
Gross external debt (% of GDP)	72.3	81.0	84.0	82.0	78.0
External debt service (EUR million)	2,468	3,300	3,550	3,000	3,500
External debt service (% of reserves)	75.6	98.2	96.9	80.8	90.0
External debt service (% of exports)	35.4	52.7	45.9	36.4	41.9
Financial Markets					
28-d CB bill rate (%, eop)	2.3	1.5	1.3	1.5	2.0
28-d CB bill rate (%, aop)	2.3	1.6	1.3	1.4	1.8
1-Y T-bill rate [c] (%, eop)	0.6	0.4	0.5	0.7	1.0
Exchange rate: EUR (eop)	61.4	61.6	61.6	61.6	61.6
Exchange rate: EUR (aop)	61.4	61.5	61.6	61.6	61.6

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

CYPRUS	2019	2020	2021e	2022f	2023f
Real Sector					
Nominal GDP (EUR million)	23,010	21,618	23,353	25,139	26,627
GDP per capita (EUR)	26.267	24.399	26.063	27.747	29.037
GDP growth (real, %)	5.3	-5.0	5.5	1.8	3.2
Unemployment rate (%, aop)	7.1	7.6	7.5	7.7	6.9
Prices and Banking					
Inflation (%, eop)	0.7	-1.1	4.8	4.8	2.3
Inflation (%, aop)	0.3	-0.6	2.4	5.7	2.6
Loans to the Private Sector (% change, eop)	-7.4	-5.6	-5.0		
Customer Deposits (% change, eop)	0.0	-0.6	5.4		
Loans to the Private Sector (% of GDP)	133.1	133.7	117.6		
Retail Loans (% of GDP)	61.3	61.9	52.3		
Corporate Loans (% of GDP)	71.7	71.7	65.3		
Customer Deposits (% of GDP)	180.0	190.4	185.9		
Loans to Private Sector (% of Deposits)	73.9	70.2	63.3		
Foreign Currency Loans (% of Total Loans)	- - -	- - -	- - -		
External Accounts					
Merchandise exports (EUR million)	3,080	2,967	2,886	3,180	3,182
Merchandise imports (EUR million)	7,711	7,118	7,900	8,503	8,408
Trade balance (EUR million)	-4,631	-4,151	-5,014	-5,323	-5,225
Trade balance (% of GDP)	-20.1	-19.2	-21.5	-21.2	-19.6
Current account balance (EUR million)	-1,308	-2,177	-2,104	-2,868	-2,131
Current account balance (% of GDP)	-5.7	-10.1	-9.0	-11.4	-8.0
Net FDI (EUR million)	-0,082	3,864	4,637	6,028	7,685
Net FDI (% of GDP)	-0.4	17.9	19.9	24.0	28.9
International reserves (EUR million)	- - -	- - -	- - -	- - -	- - -
International reserves (Months[a])	- - -	- - -	- - -	- - -	- - -
Public Finance					
Primary balance [b] (% of GDP)	3.5	-3.5	0.1	0.1	0.7
Fiscal balance [b] (% of GDP)	1.3	-5.6	-1.8	-1.8	-1.2
Gross public debt (% of GDP)	91.1	115.0	103.9	97.5	96.1
External Debt					
Gross external debt (EUR million)	189,212	189,307	190,000	188,500	186,500
Gross external debt (% of GDP)	822.3	875.7	813.6	749.8	700.4
External debt service (EUR million)	- - -	- - -	- - -	- - -	- - -
External debt service (% of reserves)	- - -	- - -	- - -	- - -	- - -
External debt service (% of exports)	- - -	- - -	- - -	- - -	- - -
Financial Markets					
Policy rate (ECB refinancing rate, %, eop)	0,0	0,0	0,0	0,0	**0,0**
Policy rate (ECB refinancing rate, %, aop)	0,0	0,0	0,0	0,0	**0,0**
3-Y T-bill rate (%, eop)	-0,1	-0,1	-0,3	**0,5**	**0,9**
Exchange rate: USD (eop)	1,121	1,221	1,137	1,130	1,160
Exchange rate: USD (aop)	1,119	1,142	1,183	1,120	1,145

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