



NATIONAL BANK OF GREECE

# Economic Analysis Division

## Emerging Markets Analysis

### Quarterly Chartbook

# Q4:2022



Türkiye, Romania, Bulgaria, Serbia, North Macedonia, Albania, Cyprus, Egypt

*“Albeit still resilient, economic growth in the SEE region is set to slow down markedly in the period ahead”*

- Special Focus on the Region's Energy Profile
- Update on Banking Sector Developments

**NBG - Economic Analysis Division**

**Emerging Markets Analysis**

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## Quarterly Chartbook

# Q4:2022

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## Republic of Türkiye



Population (2022, mn): 85.7  
 GDP (2022, EUR, bn): 749.8  
 GDP per Capita (2022, EUR): 8,751  
 Government type: Parliamentary Republic  
 Chief of state: Recep Tayyip ERDOGAN  
 Head of Government: Recep Tayyip ERDOGAN  
 Minister of Finance: Nurreddin NEBATI  
 Central Bank Governor: Sahap KAVCIOGLU



## Romania



Population (2022, mn): 19.2  
 GDP (2022, EUR, bn): 285.7  
 GDP per Capita (2022, EUR): 14,883  
 Government type: Semi Presidential Republic  
 Chief of state: Klaus Werner IOHANNIS  
 Head of Government: Nicolae-Ionel CIUCA  
 Minister of Finance: Adrian CACIU  
 Central Bank Governor: Mugur ISARESCU



## Republic of Bulgaria



Population (2022, mn): 6.8  
 GDP (2022, EUR, bn): 84.5  
 GDP per Capita (2022, EUR): 12,431  
 Government type: Parliamentary Republic  
 Chief of state: Rumen RADEV  
 Head of Government: Galab DONEV  
 Minister of Finance: Rositza VELKOVA-JELEVA  
 Central Bank Governor: Dimitar RADEV



## Republic of Serbia



Population (2022, mn): 6.8  
 GDP (2022, EUR, bn): 61.1  
 GDP per Capita (2022, EUR): 8,998  
 Government type: Parliamentary Republic  
 Chief of state: Aleksandar VUCIC  
 Head of Government: Ana BRNABIC  
 Minister of Finance: Sinisa MALI  
 Central Bank Governor: Jorgovanka TABAKOVIC



## Republic of North Macedonia



Population (2022, mn): 1.8  
 GDP (2022, EUR, bn): 13.7  
 GDP per Capita (2022, EUR): 7,475  
 Government type: Parliamentary Republic  
 Chief of state: Stevo PENDAROVSKI  
 Head of Government: Dimitar KOVACEVSKI  
 Minister of Finance: Fatmir BESIMI  
 Central Bank Governor: Anita ANGELOVSKA-BEZHOSKA



## Republic of Albania



Population (2022, mn): 2.8  
 GDP (2022, EUR, bn): 17.4  
 GDP per Capita (2022, EUR): 6,220  
 Government type: Parliamentary Republic  
 Chief of state: Bajram BEGAJ  
 Head of Government: Edi RAMA  
 Minister of Finance: Delina IBRAHIMAJ  
 Central Bank Governor: Gent SEJKO



## Republic of Cyprus



Population (2022, mn): 0.9  
 GDP (2022, EUR, bn): 27.5  
 GDP per Capita (2022, EUR): 30,184  
 Government type: Presidential Republic  
 Chief of state: Nicos ANASTASIADES  
 Head of Government: Nicos ANASTASIADES  
 Minister of Finance: Constantinos PETRIDES  
 Central Bank Governor: Constantinos HERODOTOU



## Arab Republic of Egypt



Population (2022, mn): 106.0  
 GDP (2022, EUR, bn): 427,5  
 GDP per Capita (2022, EUR): 4,033  
 Government type: Presidential Republic  
 Chief of state: Abdel Fattah Saeed EL-SISI  
 Head of Government: Mostafa MADBOULY  
 Minister of Finance: Mohamed MAAIT  
 Central Bank Governor: Hassan ABDALLA

- In the wake of October elections (the 4<sup>th</sup> held in less than 2 years), **Bulgaria** remains in political limbo, as negotiations for a broadly-backed Government have stalled. As a result, a new snap election seems increasingly likely. Worryingly, lingering political uncertainty could bring about delays in policy and reform implementation, threatening the disbursement of the next tranches of EU funds under the Recovery and Resilience Facility. However, the risk of serious slippage is low, given the anchors provided by the long-standing currency board and the inclusion of the BGN into the ERM II, a precursor to euro adoption.
- In **Türkiye**, the economic turmoil tests President Erdogan’s popularity, increasing the risk of further escalation in political tensions and polarization ahead of next year’s elections
- Opinion polls ahead of the February 2023 presidential election in **Cyprus** show that the former Foreign Minister, N. Christodoulides -- an independent candidate, backed by two small parties and affiliated with the ruling conservative Democratic Rally (DISY) -- has a significant lead over his two main rivals (nominated by the country’s two major political parties), enjoying broad-based support across the political spectrum. As Cyprus operates a presidential political system -- i.e. the President appoints the Cabinet -- broader political continuity is expected after the elections, with the new Government set to proceed with the structural reforms needed under the country’s RRF plan
- In **Albania**, the rift between the opposition and the Government (currently holding the vast majority of municipalities, due to former’s refusal to run in the last local elections) is set to deepen in the run-up to the May 2023 local elections

Date of Next Elections								
	Türkiye	Romania	Bulgaria	Serbia	North Macedonia	Albania	Cyprus	Egypt
Legislative	June 2023	December 2024	July 2025	April 2026	July 2024	April 2025	May 2026	Oct.- Nov. 2025
Presidential	June 2023	November 2024	November 2025	April 2027	April 2024	June 2027	February 2023	March 2024
Local	March 2024	September 2024	October 2023	April 2026	October 2025	May 2023	May 2024	Unknown *

\*: Last local elections were held in April 2008

## Official financial support (IMF)

- The IMF reached an agreement with **Serbia** in November on a EUR 2.4bn 2-year Stand-By Arrangement (SBA) that will help alleviate external and fiscal pressures from a bulging energy bill. Serbian authorities intend to withdraw only the first three disbursements of the financing available (worth EUR 1.6bn) and treat the remaining access as precautionary
- The IMF approved in November a 2-year two-year arrangement for **North Macedonia** under the Precautionary and Liquidity Line (PLL) in the amount of EUR 530 mn. The approval of the arrangement allowed the disbursement of EUR 110 mn, which would be followed by another EUR 155 mn disbursement upon completion of the first review planned in May 2023. The authorities intend to draw on the PLL only during the first year
- The IMF approved in December a 46-month Extended Fund Facility Arrangement (EFF) of USD 3 for **Egypt**, helping the country to escape a full-blown balance of payments crisis

IMF & EU Financial Support (EUR bn)														
		Türkiye	Romania	Bulgaria	Serbia	North Macedonia		Albania		Cyprus	Egypt			
Period		---	---	---	2022-2024 <sup>a</sup>	2020 <sup>b</sup>	2022-2024 <sup>c</sup>	2014-2017 <sup>d</sup>	2020 <sup>b</sup>	2013-2016 <sup>e</sup>	2016-2019	2020 <sup>b</sup>	2020-2021	2022-2025 <sup>g</sup>
Programme	IMF	---	---	---	2.4	0.2	0.5	0.4	0.2	1.1	11.9 <sup>f</sup>	2.8 <sup>f</sup>	5.2 <sup>f</sup>	3.0 <sup>f</sup>
	EU	---	---	---	---	---	---	---	---	9.0	---	---	---	---
Drawn so far	IMF	---	---	---	1.0	0.2	0.1	0.4	0.2	1.0	11.9 <sup>f</sup>	2.8 <sup>f</sup>	5.4 <sup>f</sup>	0.3 <sup>f</sup>
	EU	---	---	---	---	---	---	---	---	6.3	---	---	---	---
Repaid	IMF	---	---	---	---	---	---	0.2 since 2019	---	1.1	1.7 <sup>f</sup>	---	---	---
	EU	---	---	---	---	---	---	---	---	---	---	---	---	---
Next Repayments	IMF	---	---	---	---	0.1 in 2023	Starting in 2026	0.1 in 2023	Starting in 2024	---	2.2 <sup>f</sup> in 2023	0.7 <sup>f</sup> in 2023	0.7 <sup>f</sup> in 2023	---
	EU	---	---	---	---	---	---	---	---	Starting in 2025	---	---	---	---

<sup>a</sup> Stand-By Arrangement (SBA)

<sup>b</sup> Rapid Financing Instrument

<sup>c</sup> Precautionary and Liquidity Line (PLL)

<sup>d</sup> under Post-Programme Monitoring since 2018

<sup>e</sup> under Post-Programme Monitoring since 2016

<sup>f</sup> bn USD

<sup>g</sup> Extended Fund Facility (EFF)

- Full absorption of the funds available under the **EU Recovery & Resilience Facility** (RRF) should provide a significant impetus to economic recovery in **Romania, Bulgaria** and **Cyprus** in 2022-2027 (lifting their long-term potential GDP growth by c. 0.7 pps, unweighted)
- Reflecting delays in policy implementation, due to the ongoing political crisis, **Bulgaria's** first payment request (worth 1.6% of GDP) under the RRF got the EC's preliminary approval only in November
- The EU finally held the first Intergovernmental Conferences with **North Macedonia** and **Albania** in July, paving the way for their accession in the bloc. However, North Macedonia faces additional hurdles on its path to joining the EU, as, under the compromise agreement it has reached with Bulgaria over their dispute, it needs to adopt several challenging constitutional reforms, before proceeding further
- Serbia, North Macedonia, Albania** and **Türkiye** should benefit not only from EU pre-accession assistance but also from cross-border spillover effects from the RRF

EU Members			
Next Generation EU Fund (2021-23) & Multiannual Financial Framework (2021-27) (EUR bn)			
	Romania	Bulgaria	Cyprus
Recovery and Resilience Facility*	29.2	6.3	1.2
o/w Grants	14.2	6.3	1.0
Loans	14.9	- - -	0.2
Other**	3.2	1.4	0.2
Multiannual Financial Framework***	52.2	18.6	1.5

\* For the loan component of the Fund, the allocations will depend on the demand of Member States. As a rule, Member States can request a loan worth up to 6.8% of its 2019 GNI.

\*\*Includes amounts under React-EU, Just Transition Fund, European Agricultural Fund for Rural Development.

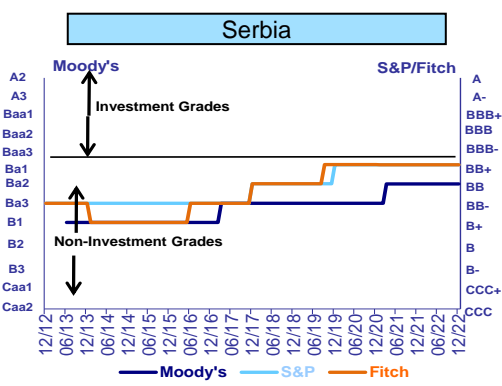
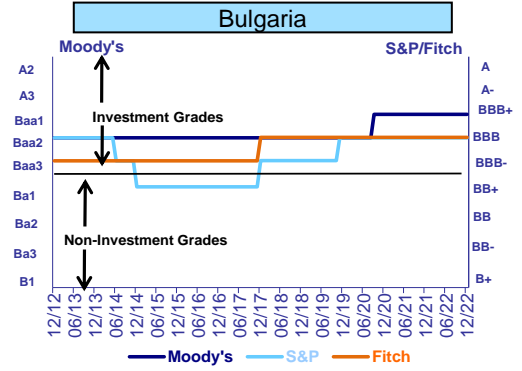
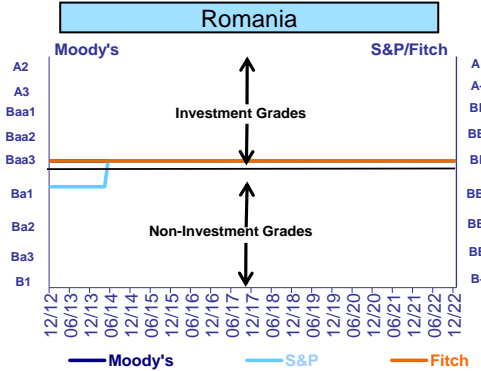
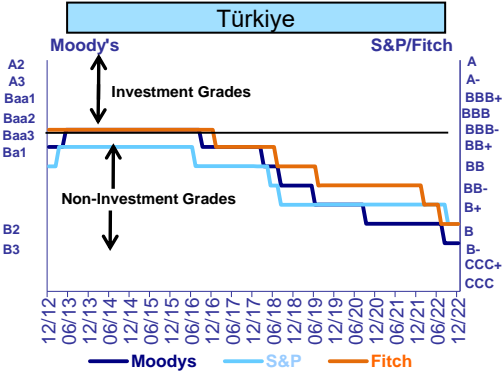
\*\*\* Includes Cohesion Policy allocations and payments under the European Agricultural Fund for Rural Development, the European Agricultural Guarantee Fund and the Just Transition Fund.

EU Candidate Countries			
Instrument for Pre-Accession Assistance (IPA III, 2021-27)* (EUR bn)			
Türkiye	Serbia	North Macedonia	Albania
4.7	2.0	0.8	0.8

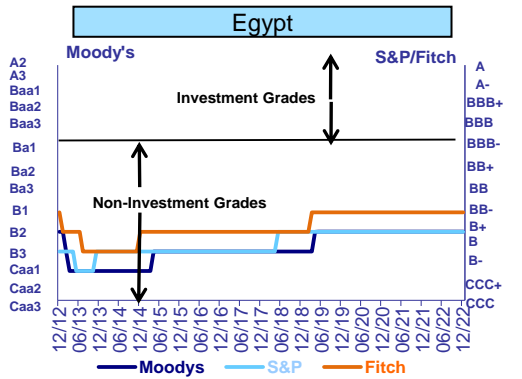
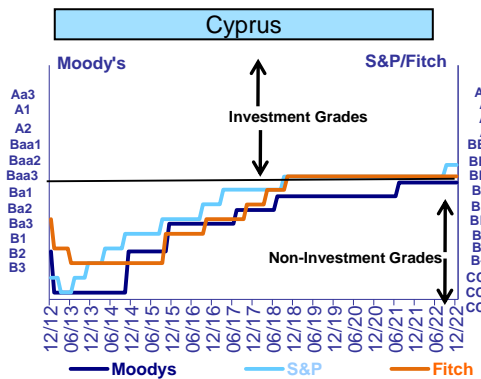
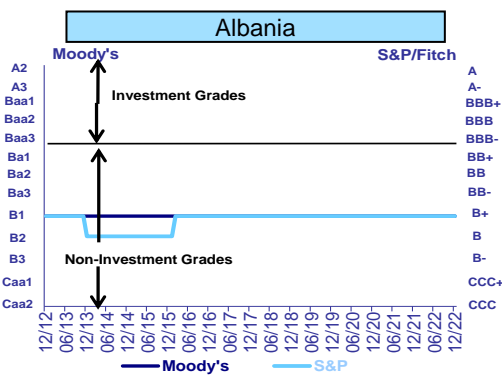
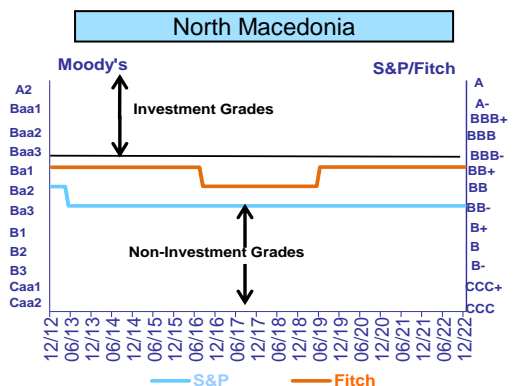
\* Indicative allocations, NBG calculations

# Foreign currency credit rating

- Türkiye's** credit rating was downgraded by 1 notch by Fitch (July), Moody's (August) and S&P's (September) to "B", "B-" and "B", respectively, confirming the economy's vulnerabilities in terms of high inflation, weak external position and limited policy credibility. Moody's and S&P's have a stable outlook on their ratings, while Fitch has a negative outlook
- S&P's** upgraded **Cyprus'** credit rating by 1 notch to "BBB", with stable outlook, citing the economy's resilience to external shocks and solid economic outlook

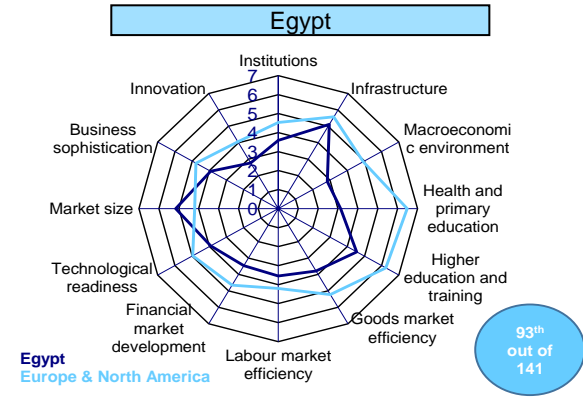
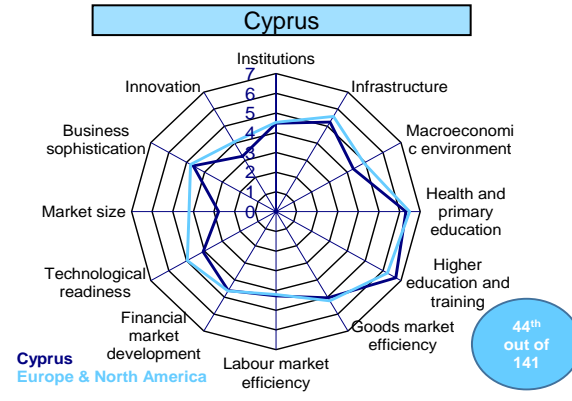
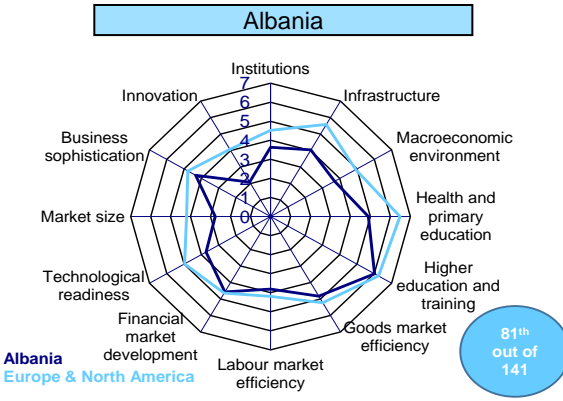
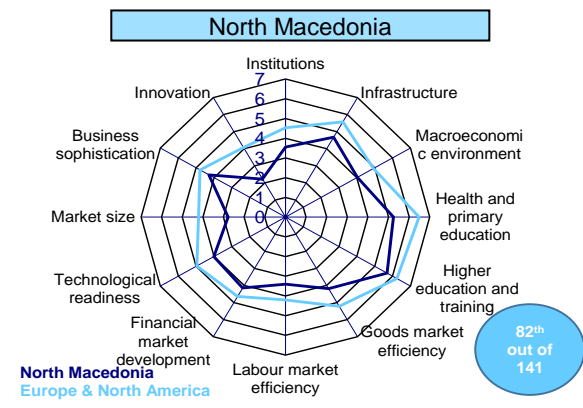
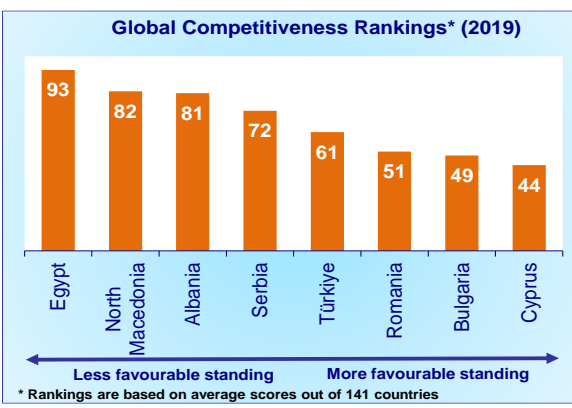
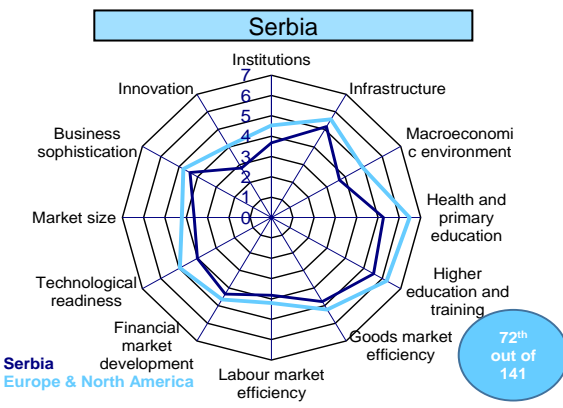
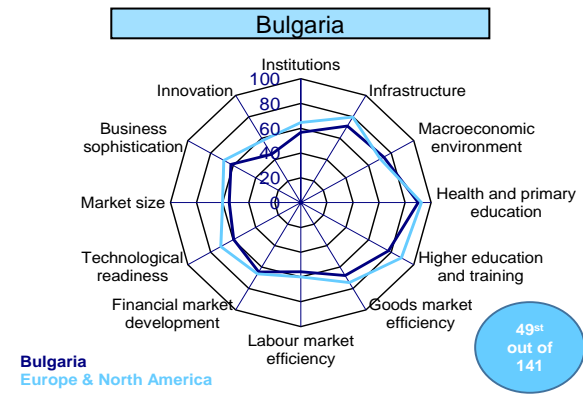
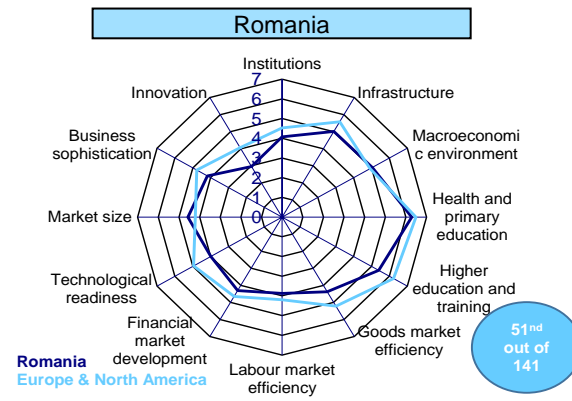
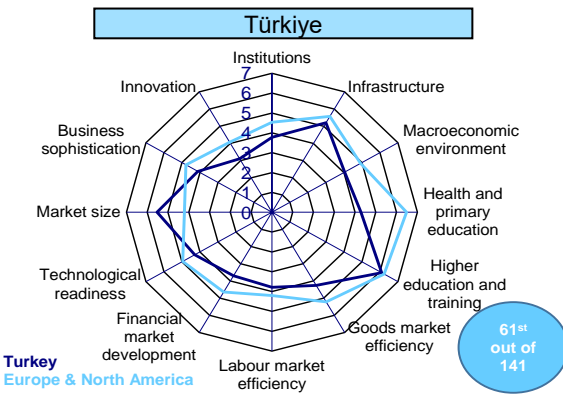


Long-Term Foreign Debt Currency Ratings, December 2022			
	S&P	Moody's	Fitch
Investment Grades	A+		
	A		
	A-		
	BBB+		Bulgaria
	BBB	Bulgaria, Cyprus	Bulgaria
Non-Investment Grades	BBB-	Romania	Romania, Cyprus
	BB+	Serbia	Cyprus
	BB		North Macedonia, Serbia
	BB-	North Macedonia	
	B+	Albania	Albania
	B	Egypt, Türkiye	Egypt
	B-		Türkiye
	CCC+		



# Global competitiveness index 2019 (World Economic Forum)

According to the latest WEF's GCI, **Cyprus** is the **most competitive** among the countries under review followed by **Bulgaria** and **Romania**

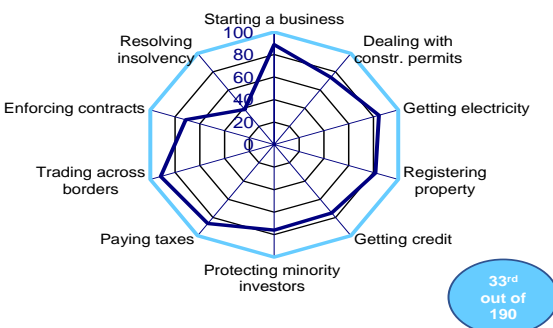




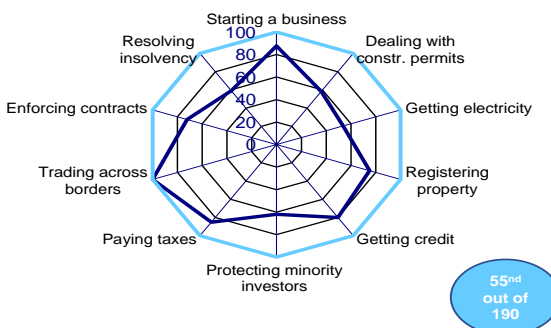
# Ease of doing business index 2020 (World Bank)

North Macedonia ranks 1<sup>st</sup> in terms of ease of doing business among the countries under review

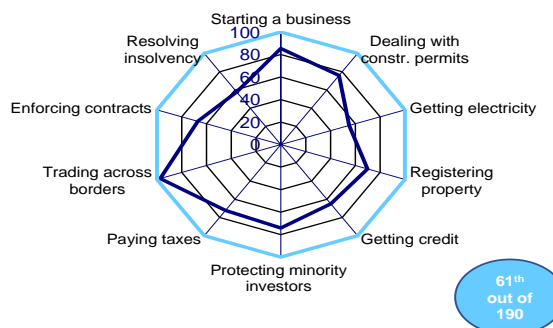
Türkiye



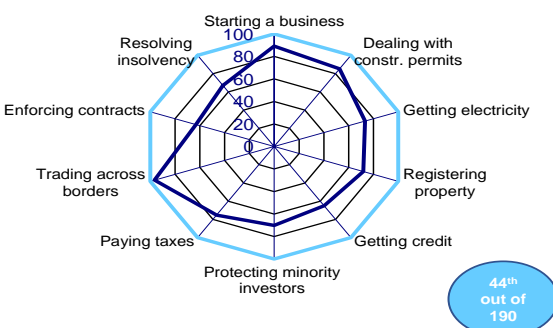
Romania



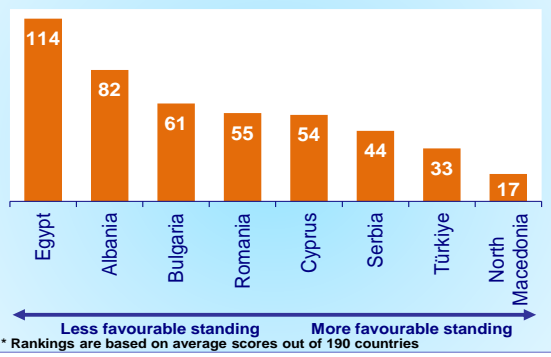
Bulgaria



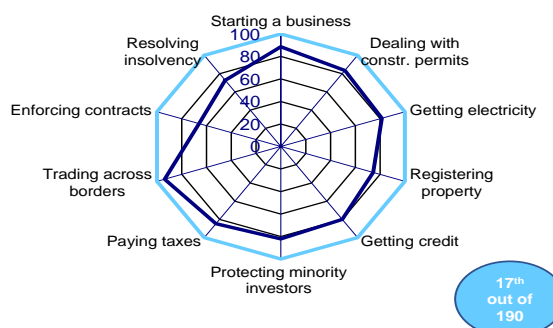
Serbia



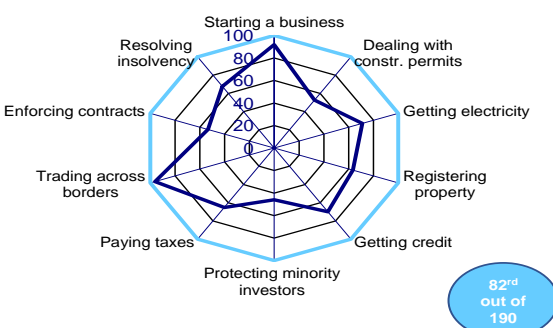
Ease of Doing Business Rankings\* (2020)



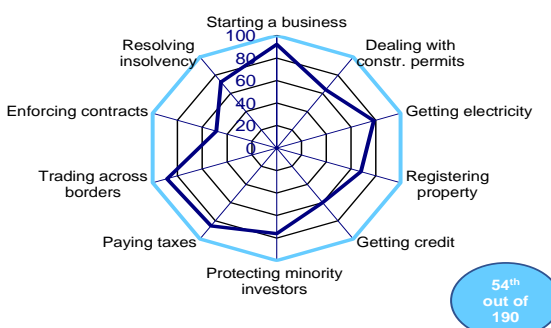
North Macedonia



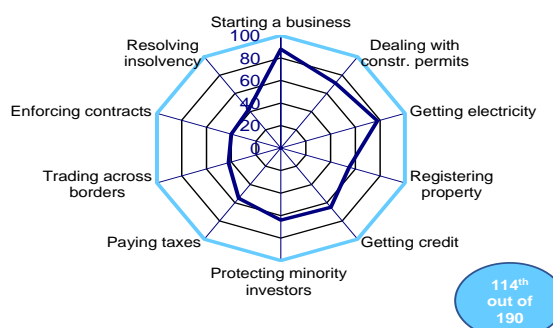
Albania



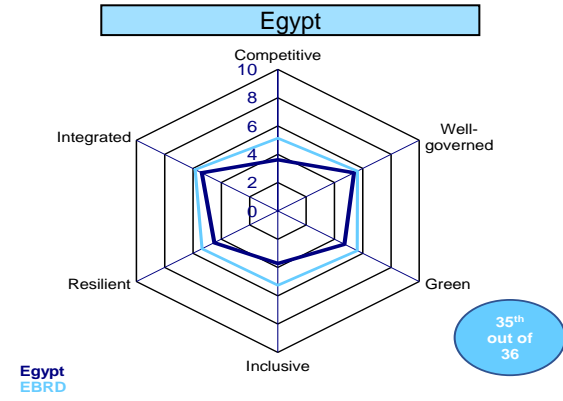
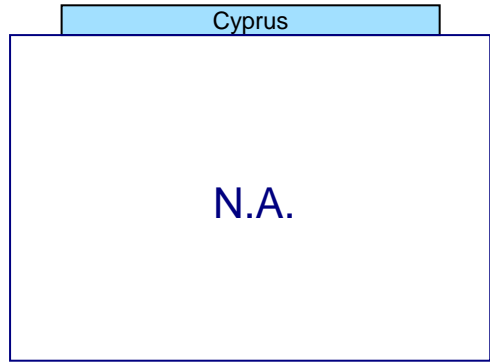
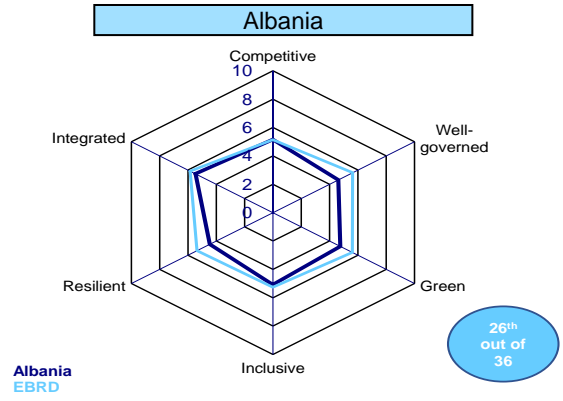
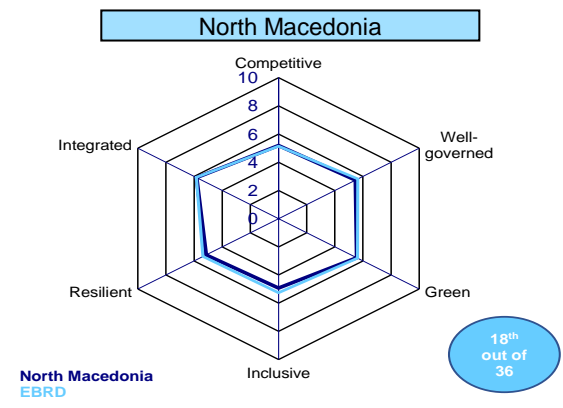
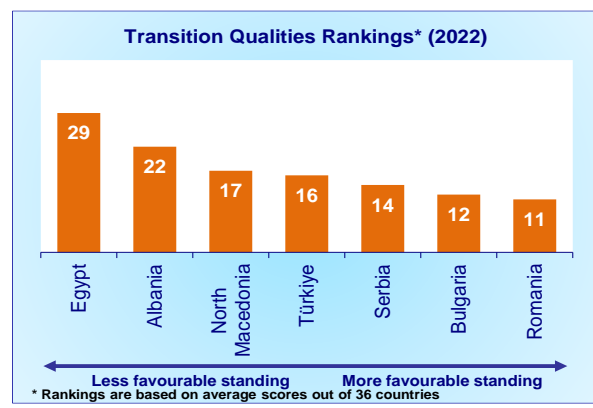
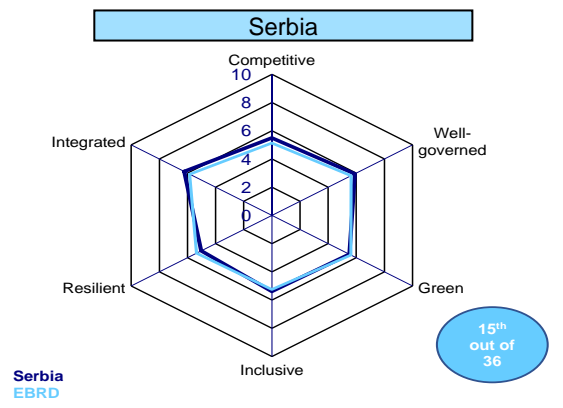
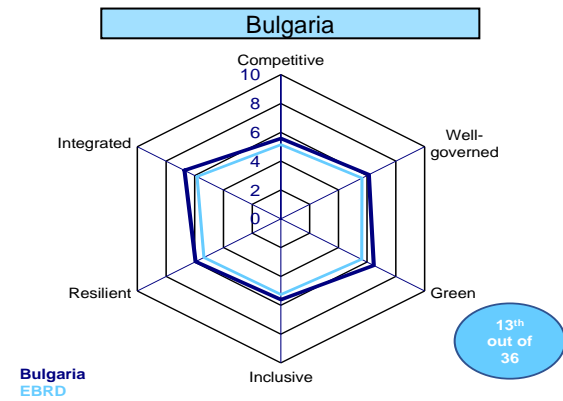
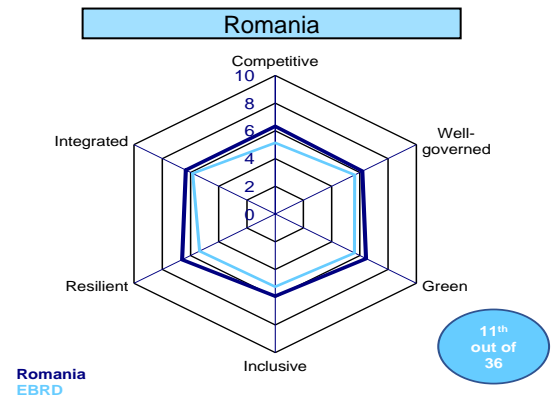
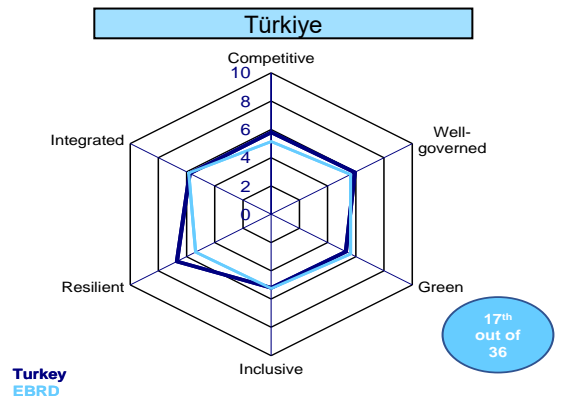
Cyprus



Egypt

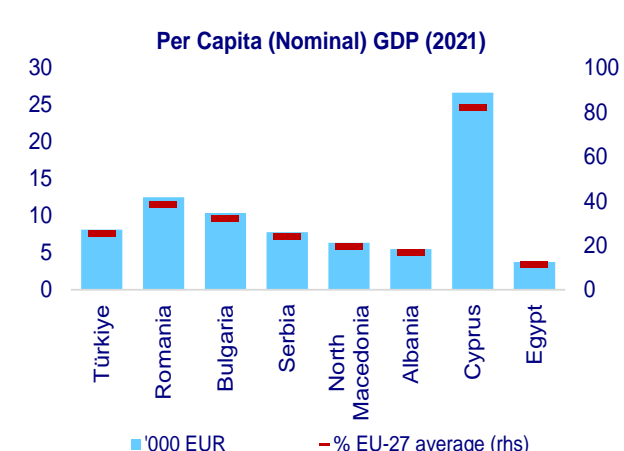
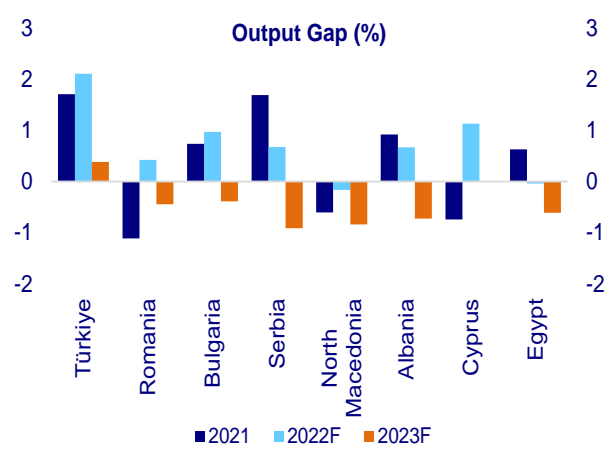
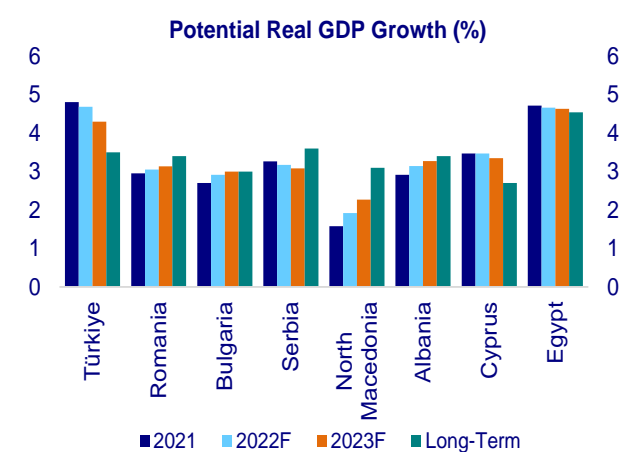
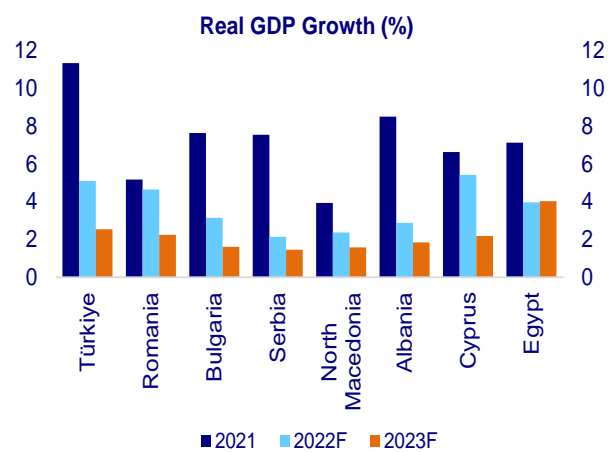


▪ Romania and Bulgaria have benefitted from their EU membership, moving ahead of their regional peers in terms of building a sustainable market economy

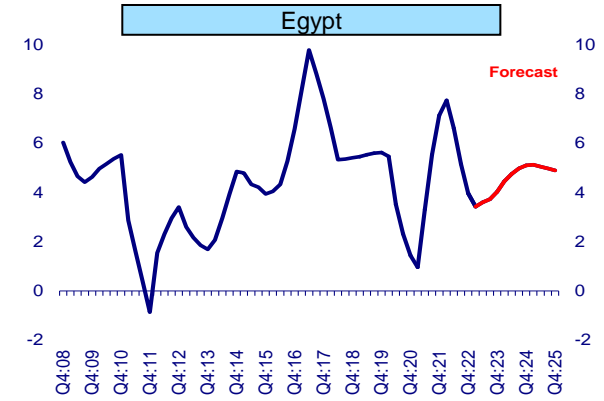
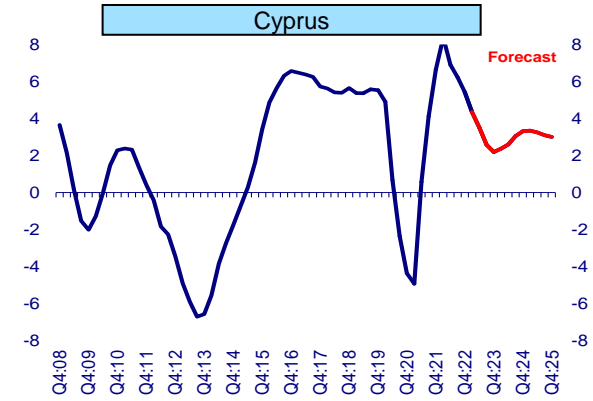
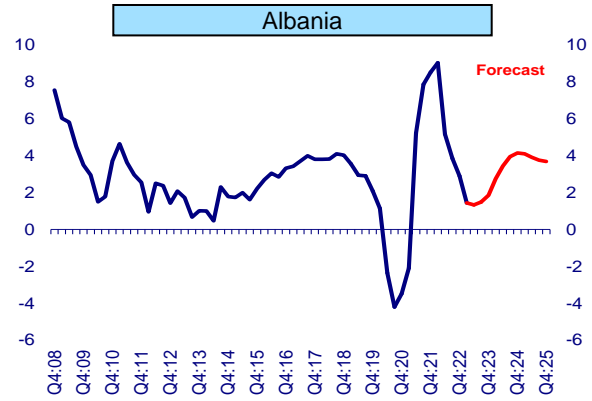
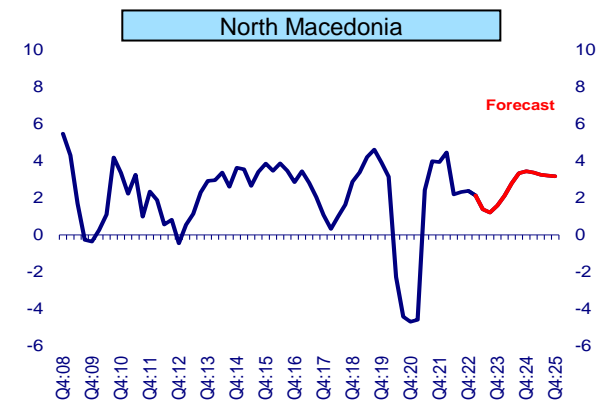
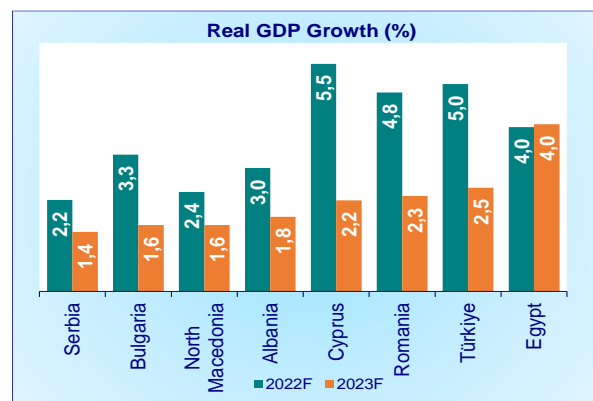
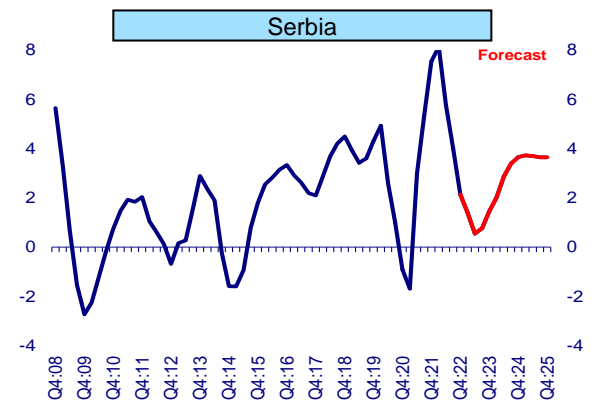
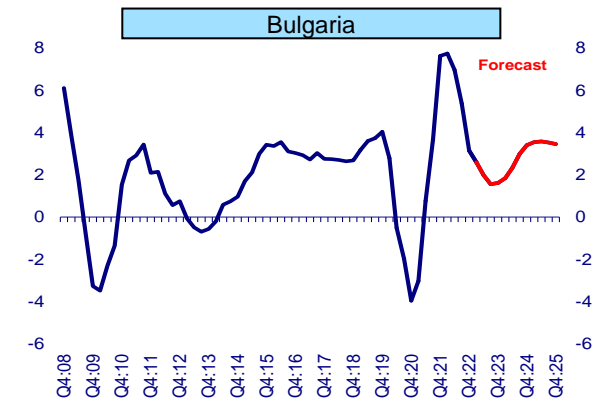
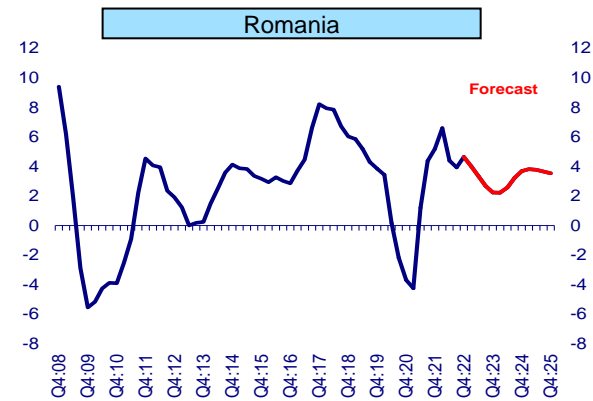
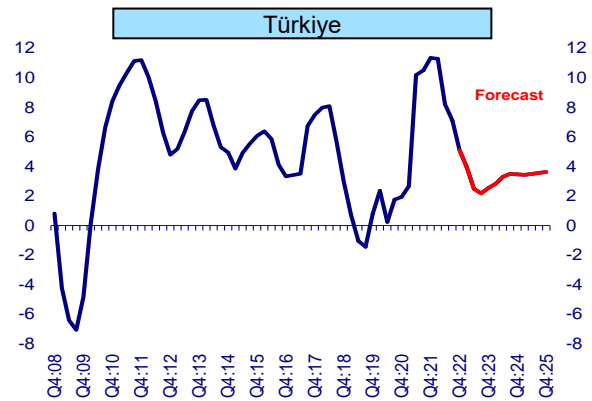


# Real GDP growth, potential real GDP growth, output gap and per capita (nominal) GDP

- Record-high inflation, rising interest rates and deteriorating economic sentiment, should eventually make their way through the economy, leading to a **marked slowdown in economic growth** in the period head, especially during the winter months
- Following a **sharp erosion of households' purchasing power**, consumers cannot but **cut on spending** over the next quarters, despite **still tight labour market conditions**. Similarly, faced with much **higher input costs**, **tightening financing conditions** and **heightened uncertainty**, businesses are expected to **delay their investment plans**. At the same time, the **slowdown in the EU**, the region's main trade partner, is set to weigh heavily on the economies' export performance
- Visibility remains low when it comes to longer-term forecasts. Assuming that inflation falls back to more sustainable levels **in 2024**, we see **economic momentum gaining steam**, despite the significant (lagged) impact of the ongoing monetary policy tightening
- The envisaged growth paths could be shifted **even lower** should **energy disruptions** occur (with the impact of a potential cut-off in Russian gas supplies having been significantly reduced, however) or energy prices remain **high for much longer**, thus placing a structural burden on corporate cost competitiveness and household disposable income. An unexpected and abrupt tightening in global financing conditions (including capital flow reversals) could aggravate downside risks

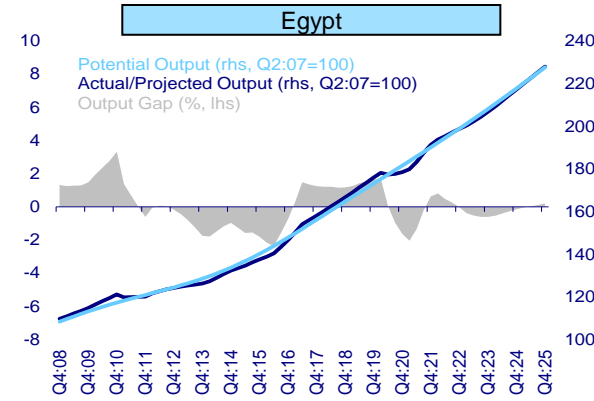
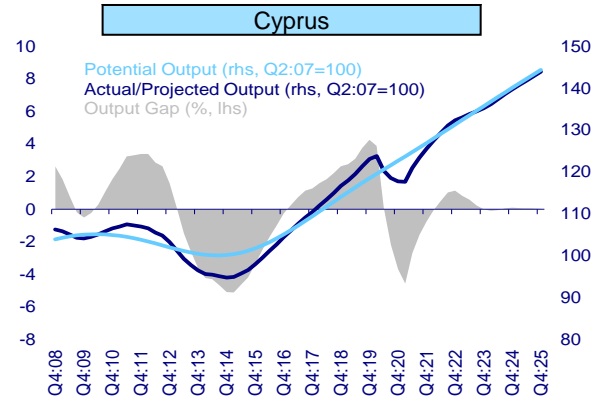
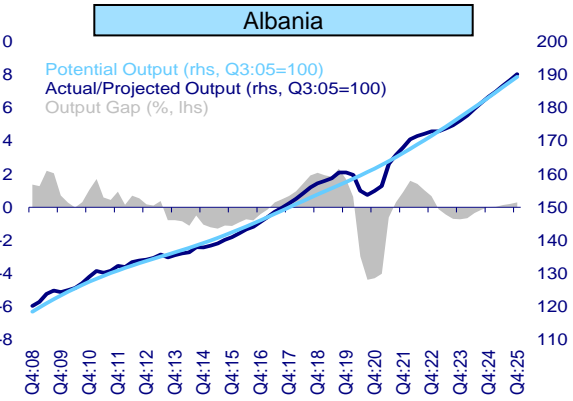
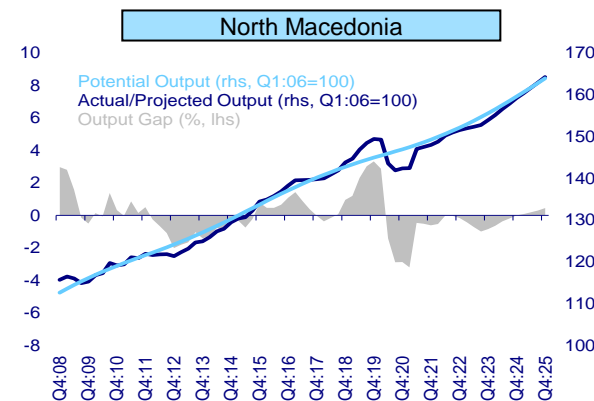
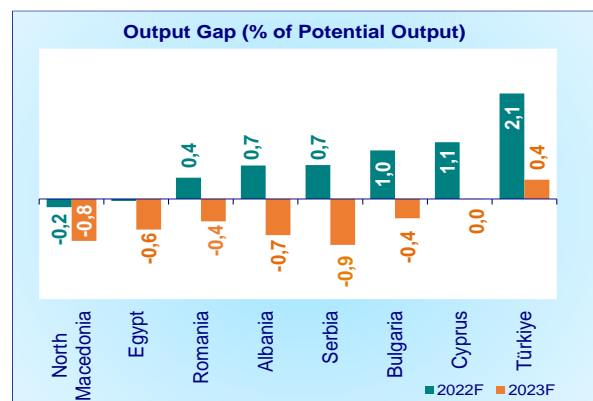
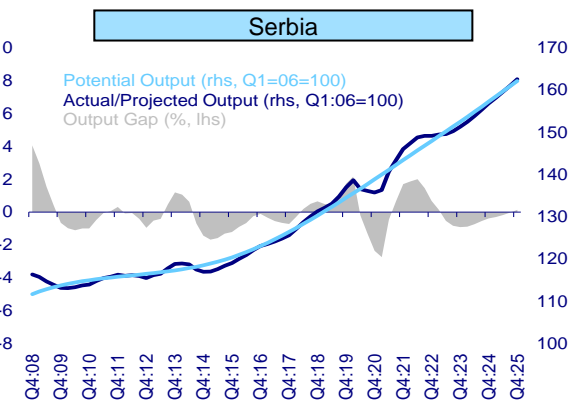
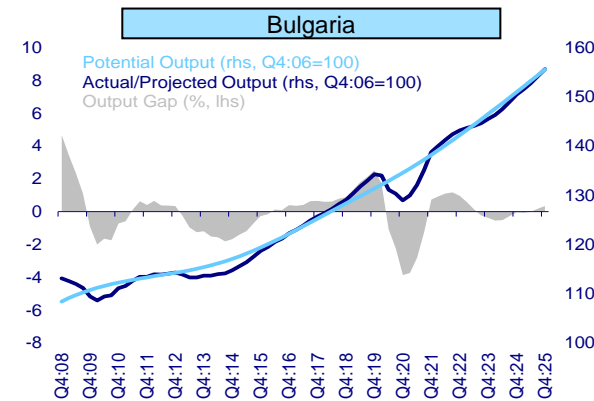
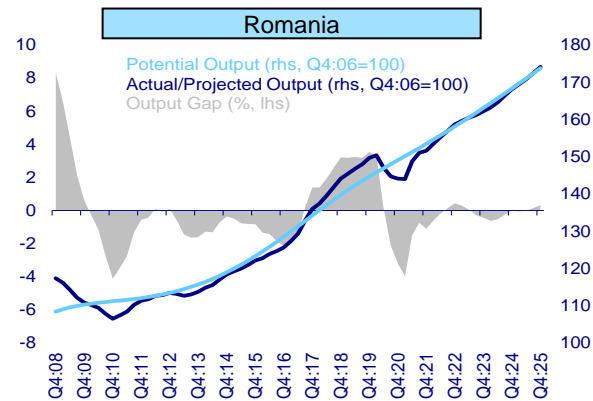
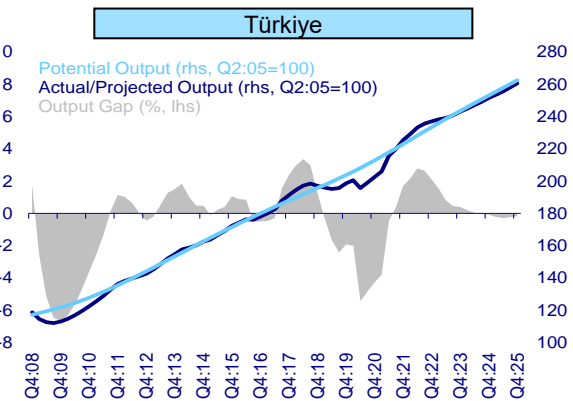


- The **spending spree** unleashed in the wake of the easing of COVID-19 restrictions helped **GDP growth beat expectations** in the first 3 quarters of 2022
- Looking ahead, we expect a **u-shaped recovery** from the negative terms of trade shock that has hit the region

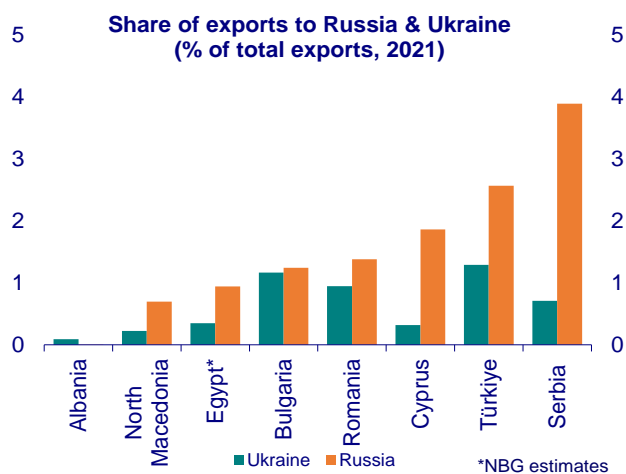


# Output gap (4-quarter rolling)

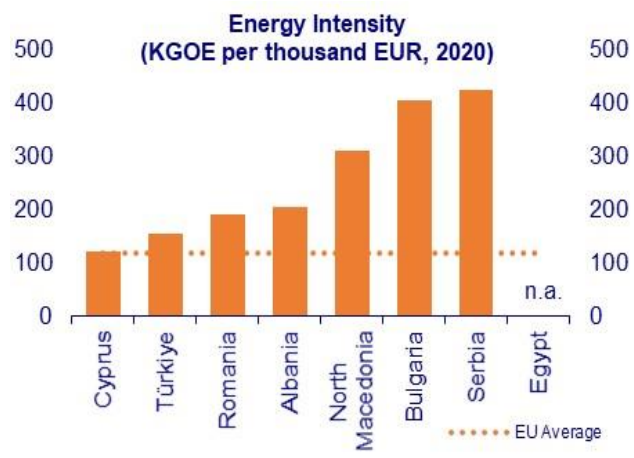
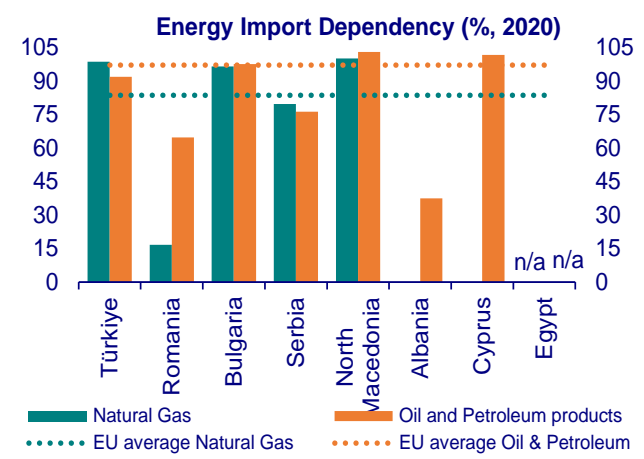
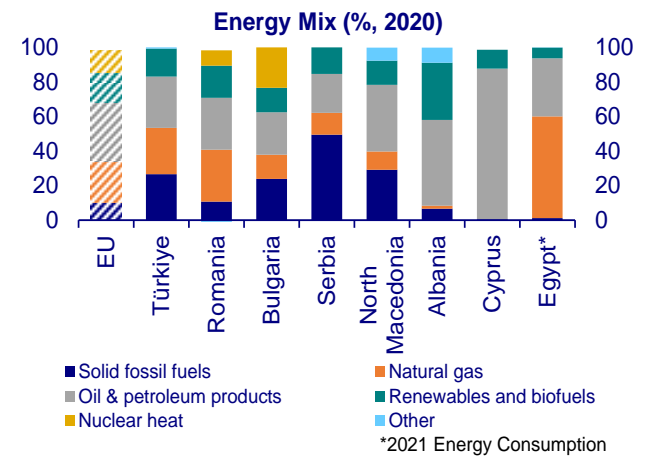
- The **COVID-19** & the **Russia-Ukraine conflict** shocks have settled the economies on a **lower growth path**
- Under our baseline scenario, most of the economies under review should see a small **negative** output gap until late-2024



- The impact of the Russia-Ukraine conflict on the economies' under review in terms of **direct exports of goods** has been small, reflecting their **limited exposure to these countries**. Still, **slowing economic growth in the EU**, the region's main trade partner, together (albeit to a smaller extent) with the war-induced disruptions to supply chains, should weigh on the economies' export performance
- The abrupt halt in tourist inflows from Russia and Ukraine has affected the **economies dependent on tourism**, especially **Cyprus**. The authorities' efforts to diversify the source countries for tourists, together with the strong rebound in tourism activity globally, following the easing of COVID-19 restrictions, largely masked this impact in FY:22. In contrast, **Türkiye** and **Egypt** have benefited from the ongoing rerouting of Russian tourists away from the EU, emerging as the 1<sup>st</sup> and 2<sup>nd</sup> most popular destination for Russians, respectively
- The impact of the EU sanctions levied on Russia has been larger for **Cyprus**, for which Russia is a key export market of business services (accounting for a sizeable c. 11.5% of domestic GDP). Yet, growing interest from companies operating in Russia, Ukraine and Belarus to relocate in Cyprus, so as to continue their business away from the risks related to Russia, should partly compensate for the aforementioned losses



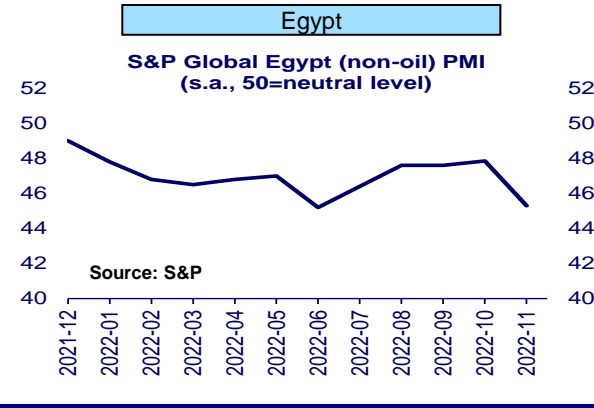
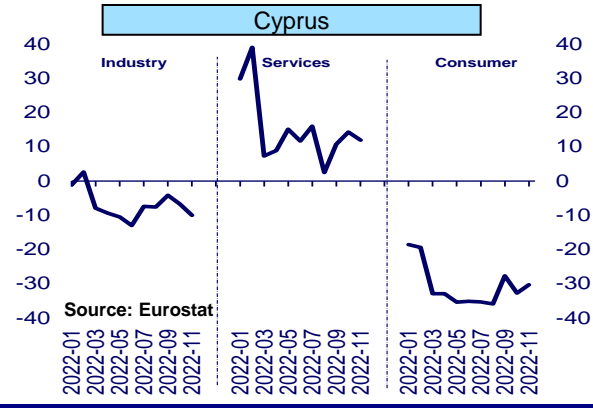
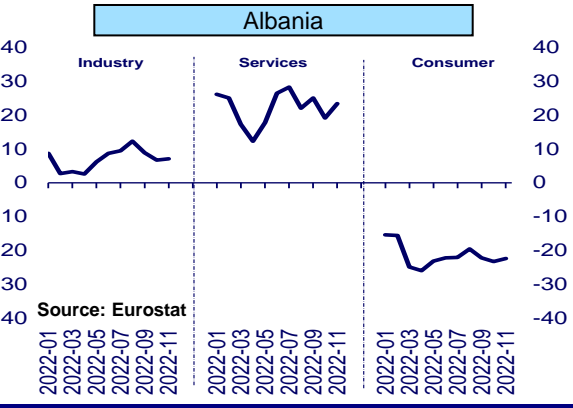
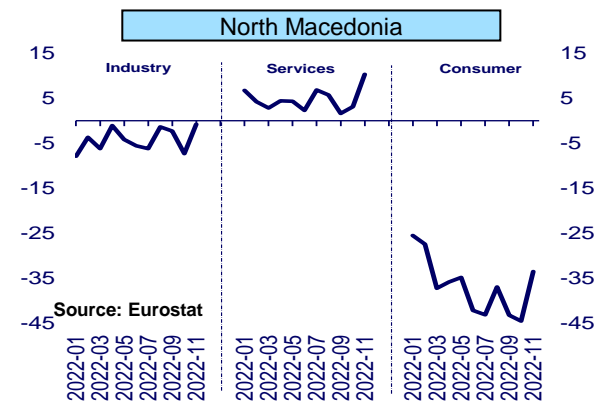
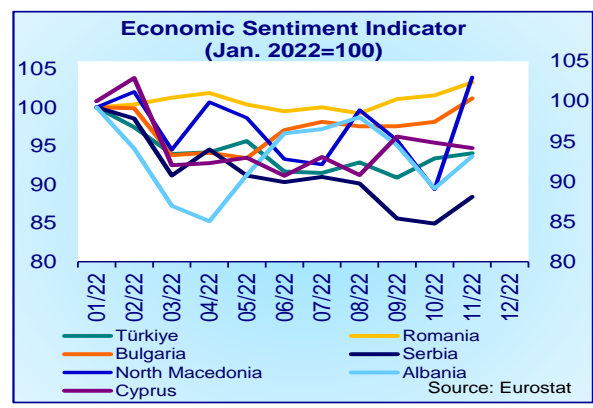
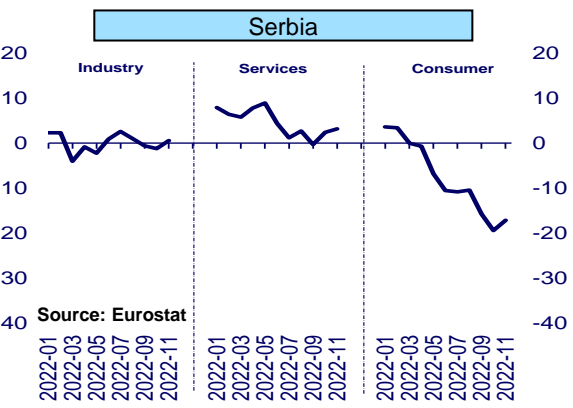
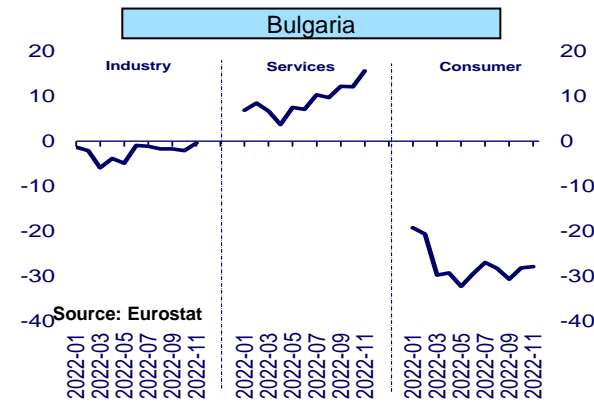
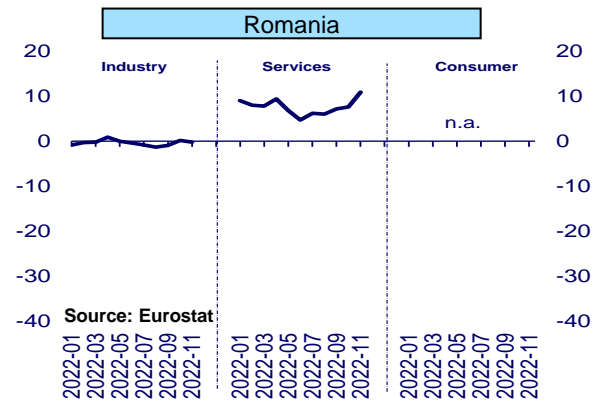
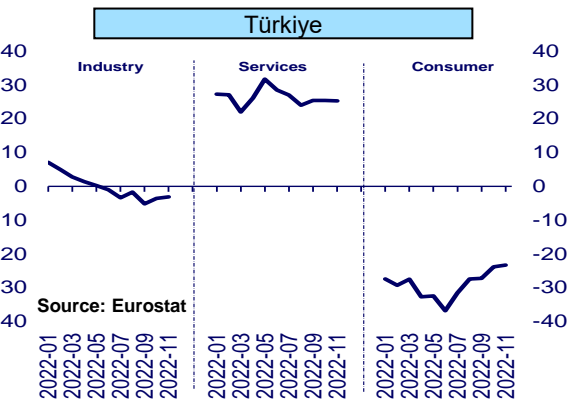
- **Fossil fuels play dominant role in the region's energy mix**, with oil & petroleum products holding the biggest share, followed by natural gas. Importantly, solid fuels account for a significant share in most of the economies' energy mix (much larger than that of the EU), especially in Serbia, serving, to some extent, as a buffer to the current energy shock
- On a negative note, the economies' **very high energy intensity**, which, *inter alia*, stems from a relatively **low energy efficiency**, increases their **vulnerability to energy price volatility and potential disruptions to energy flows**
- Although the **ongoing diversification** has led to increased energy imports from other sources, the countries' **limited import capacity** (with the latter being constrained by infrastructure), together with **the low substitution elasticities** between gas and other energy inputs, leave the economies under review exposed to **energy security risks. Weakening energy consumption and filled gas reserves seem** reduce the risk of a serious disruption for the time being. In terms of energy import dependency, **Albania and Romania** appear to be better placed than their peers



Source: Energy statistics - europa.eu

# Economic Sentiment Indicator (the difference between the % of respondents giving positive and negative replies, s.a.)

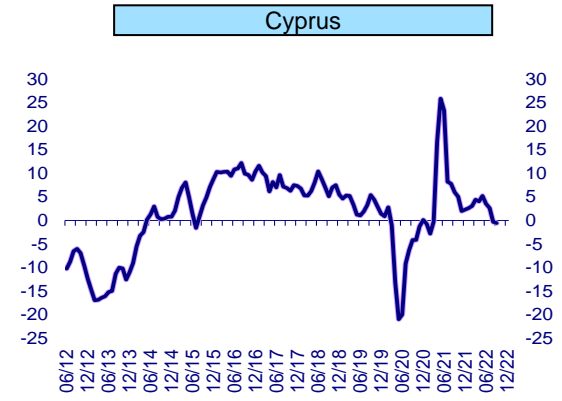
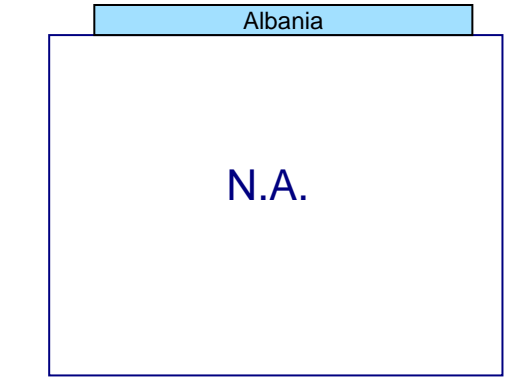
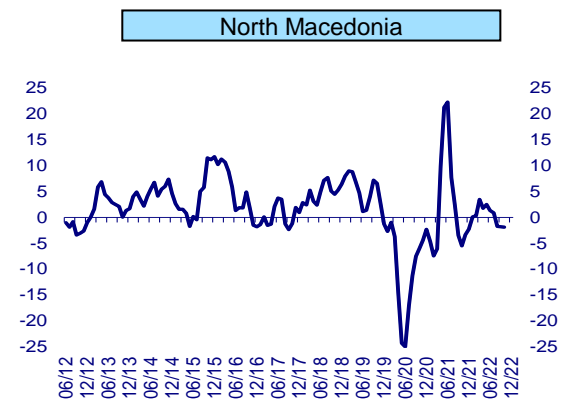
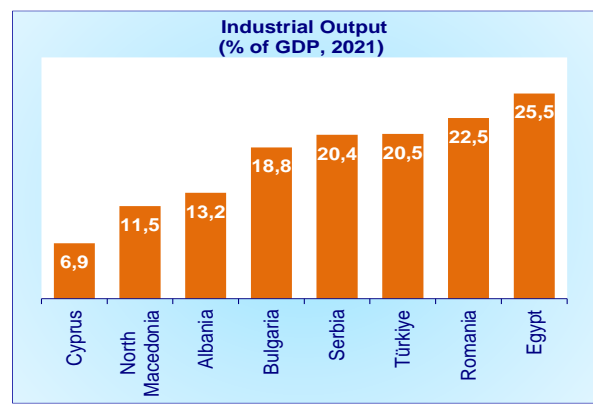
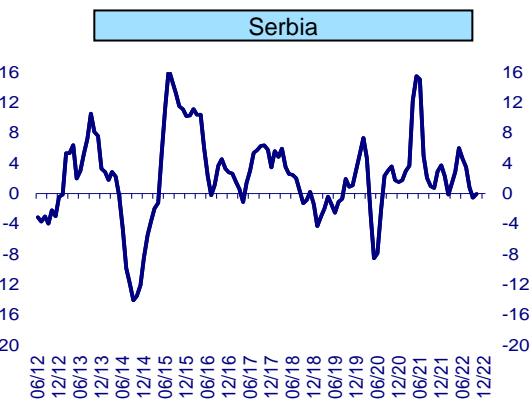
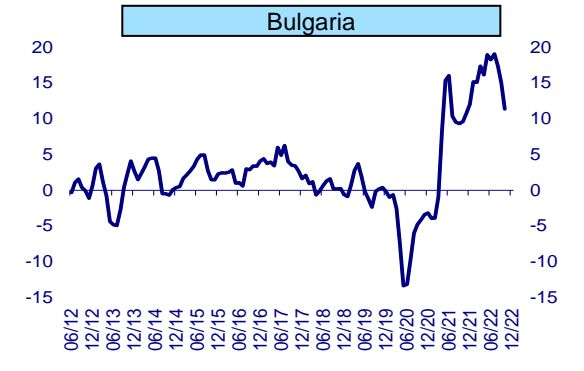
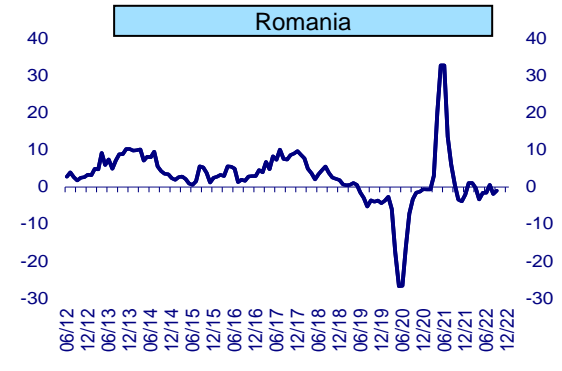
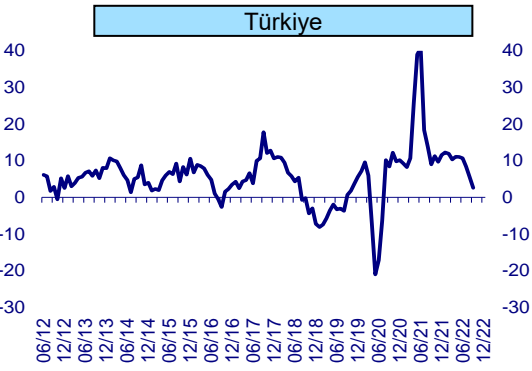
▪ **Economic sentiment** in all the countries under review **has deteriorated**, in the aftermath of the Russia-Ukraine conflict, adding to headwinds to economic growth. Still, the latest surprisingly strong confidence readings observed lately (mainly underpinned by the services sector) suggest that the envisaged slowdown in economic growth may be milder than initially assumed





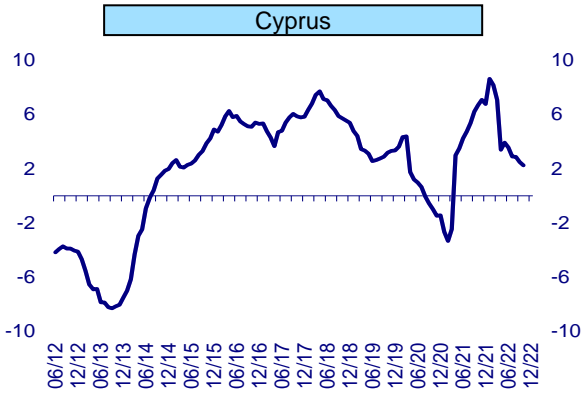
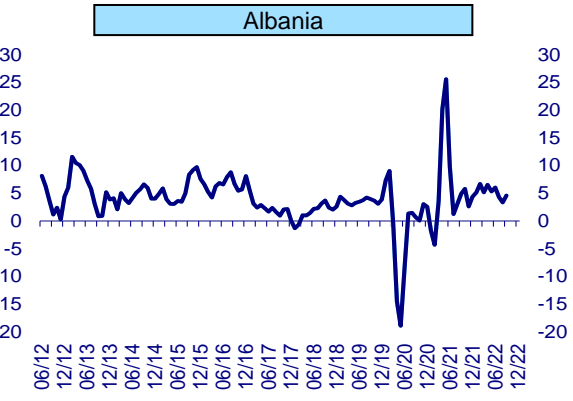
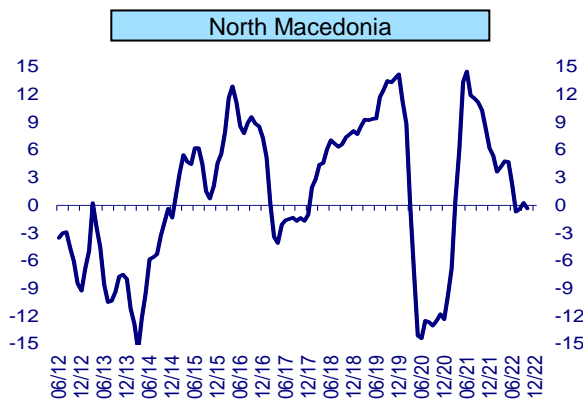
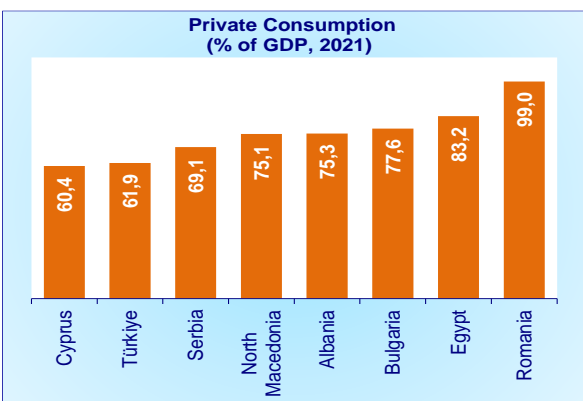
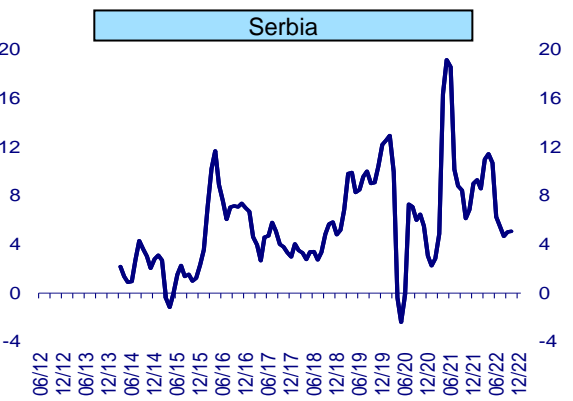
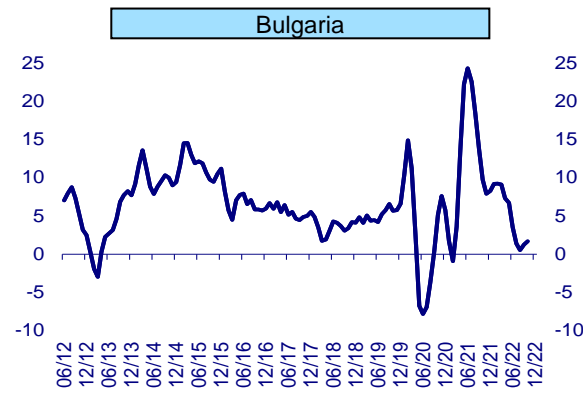
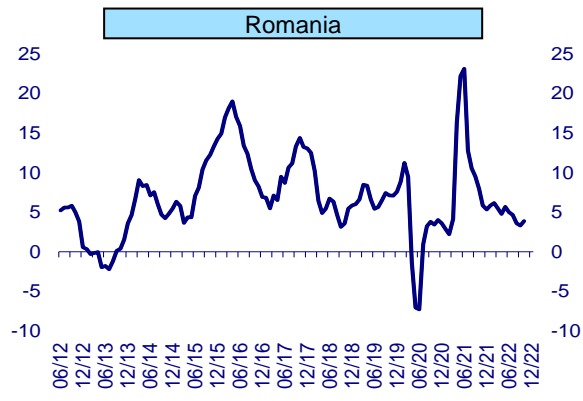
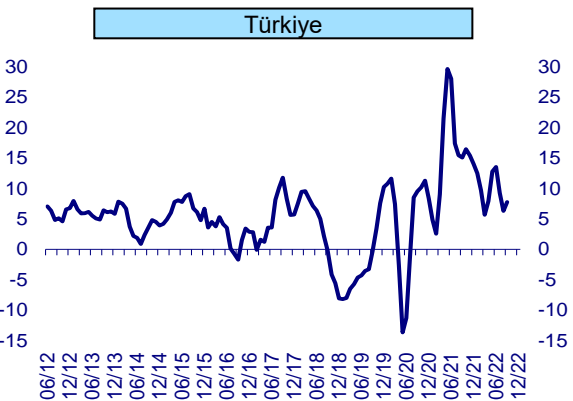
# Industrial production (3-month rolling, y-o-y % change)

- **Growth in industrial production has been slowing** lately in all the economies under review. In **Bulgaria**, an upscale in coal-based power generation for export purposes has been the main driver of the overperformance of the industrial sector
- With **high energy costs forcing businesses to curtail production**, on the one hand, and **domestic and external demand weakening**, on the other hand, the outlook for industrial sector appears to be bleak, despite the projected easing in global supply strains



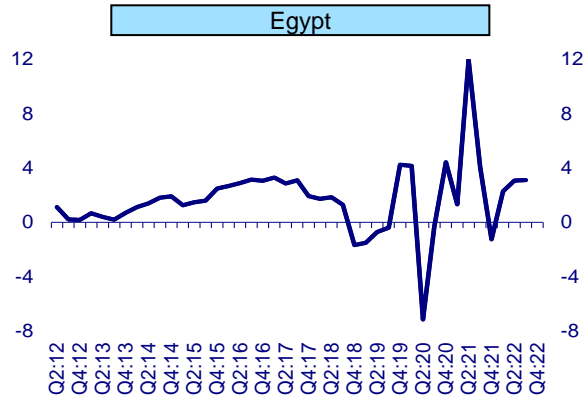
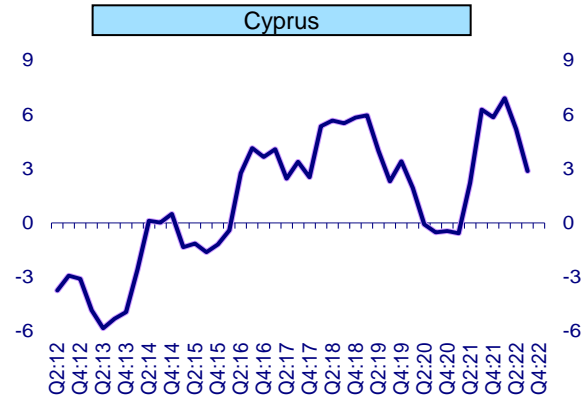
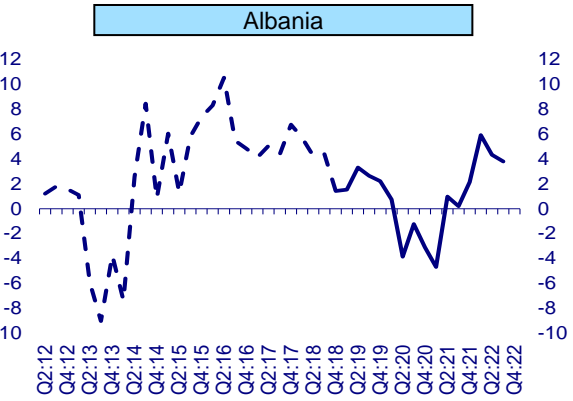
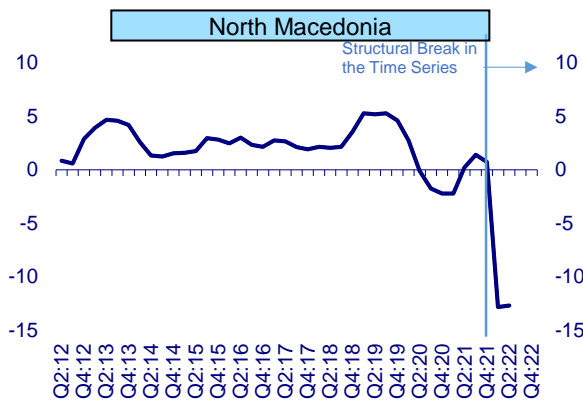
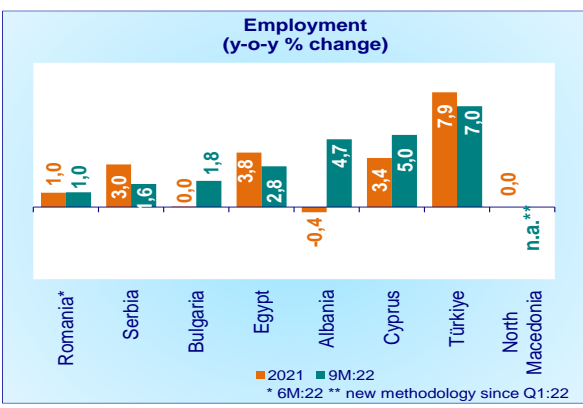
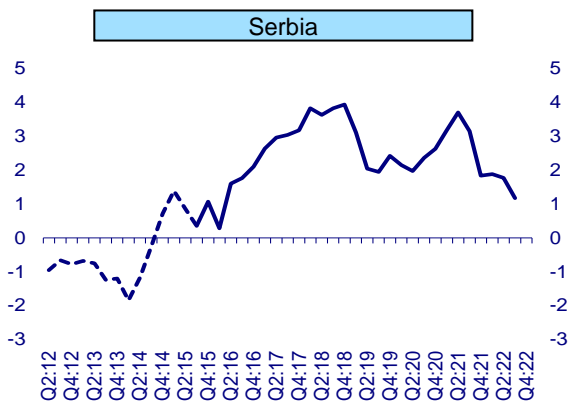
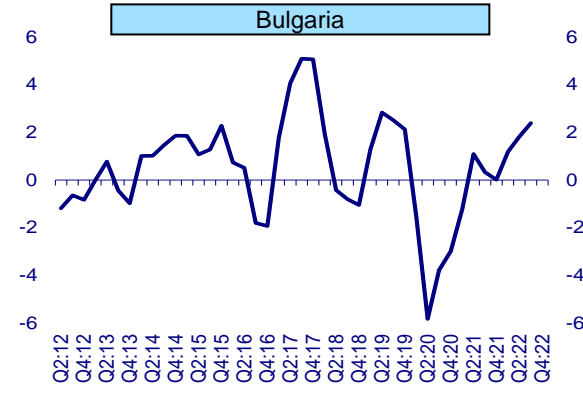
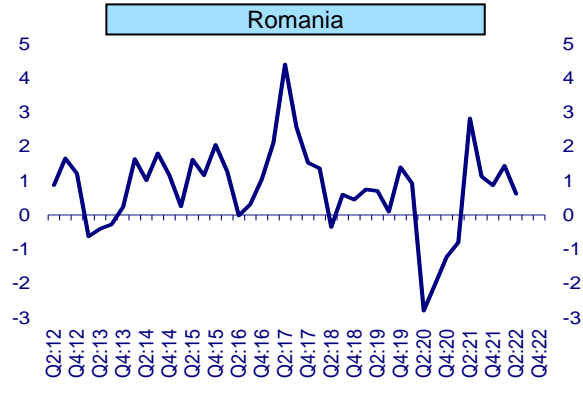
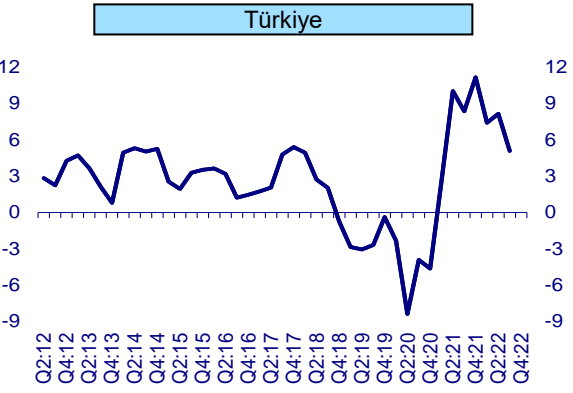
# Retail Sales (constant terms, 3-month rolling, y-o-y % change)

With the impetus from the reopening of the economies from COVID-19 restrictions fading and record-high inflation eroding households' purchasing power, growth in retail sales cannot but remain on a downward trend in the period ahead



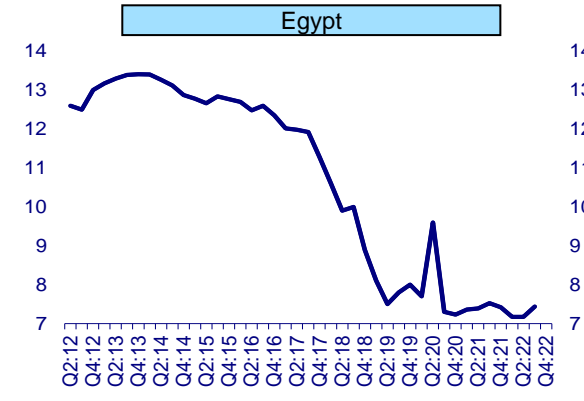
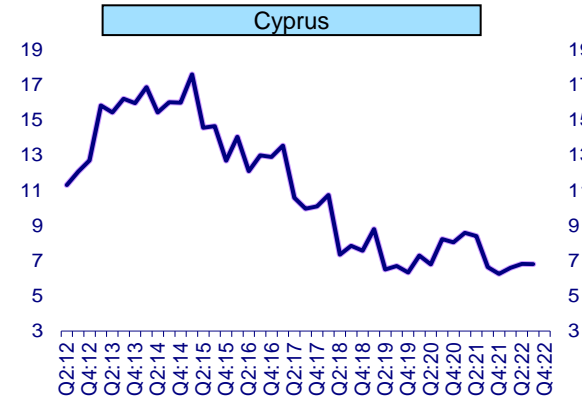
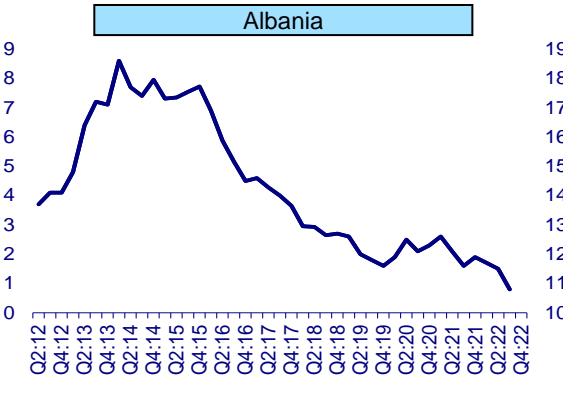
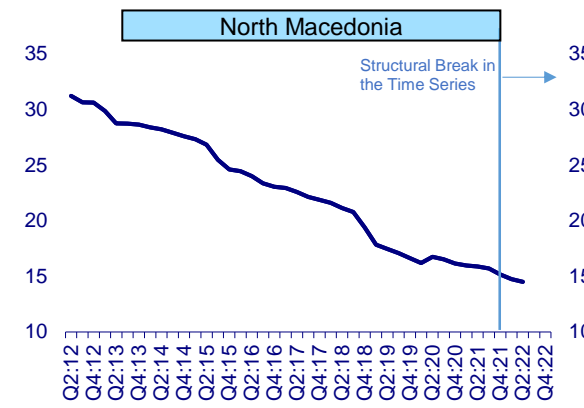
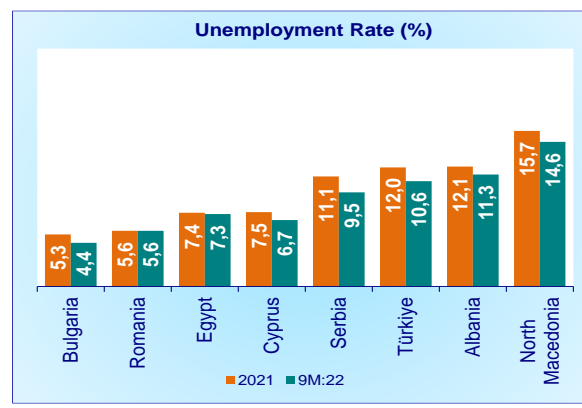
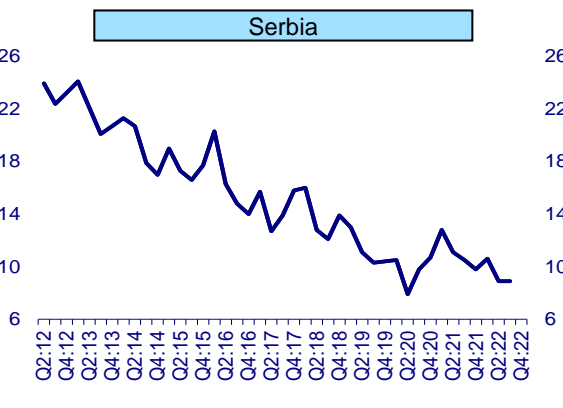
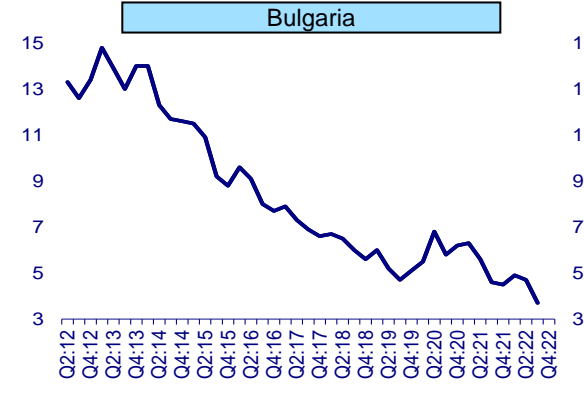
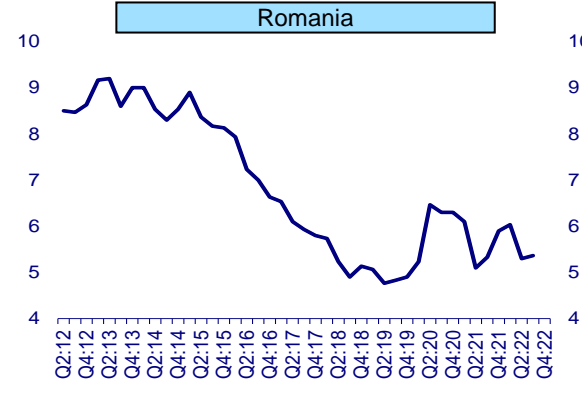
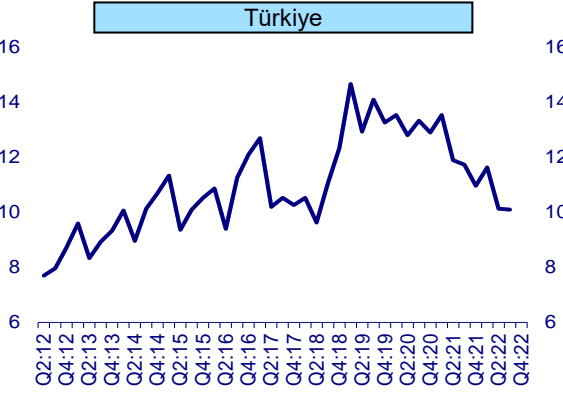
# Employment growth (y-o-y % change)

Following a strong start to the year, which saw headcount employment hitting all-time highs in most of the economies under review, **employment growth is set to weaken** in the period ahead, in line with **slowing economic growth**



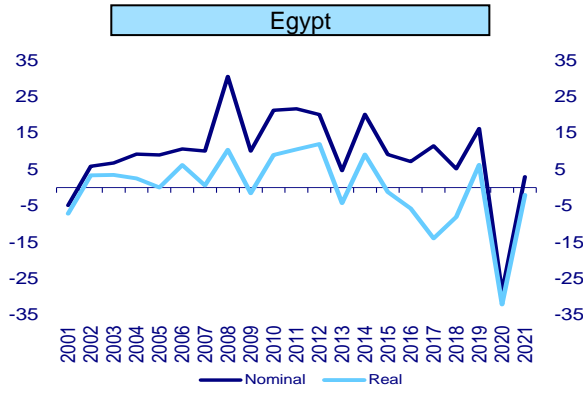
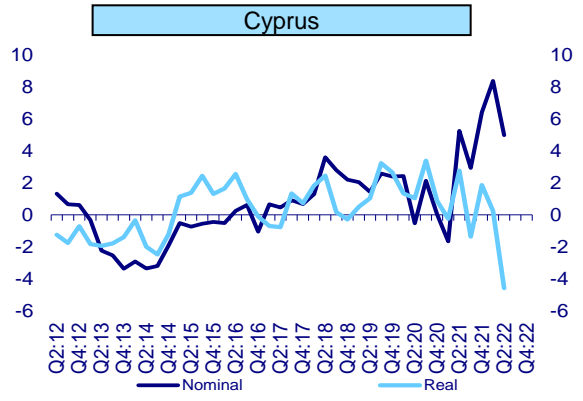
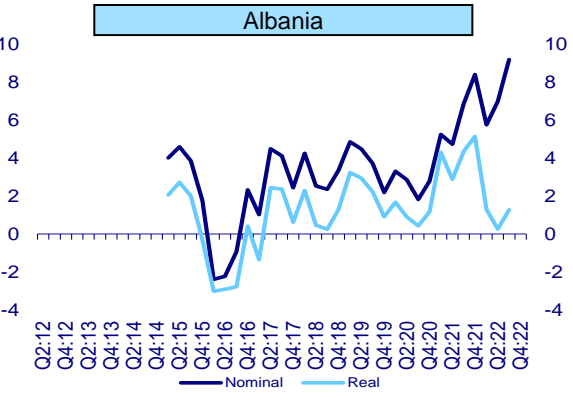
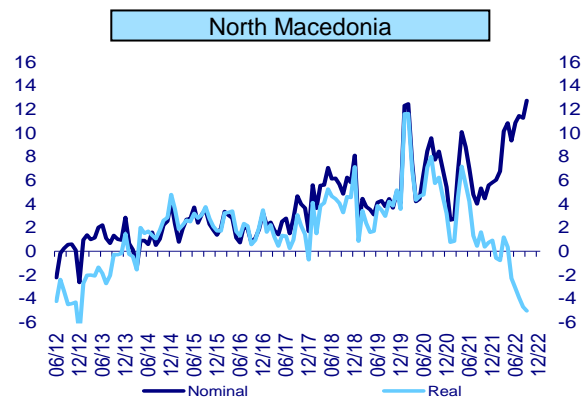
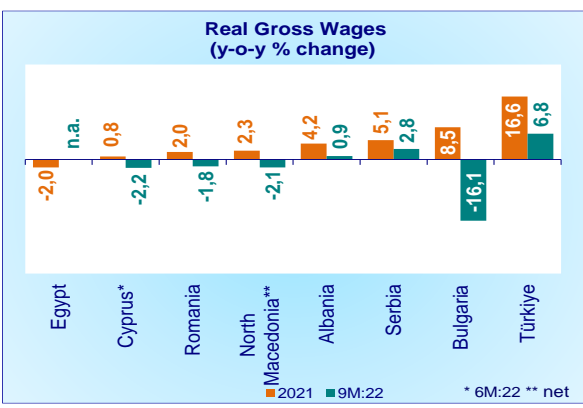
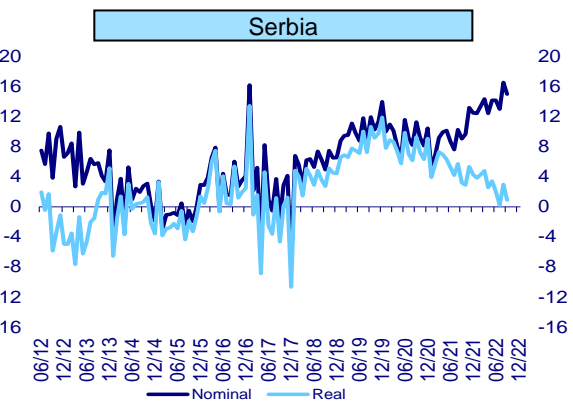
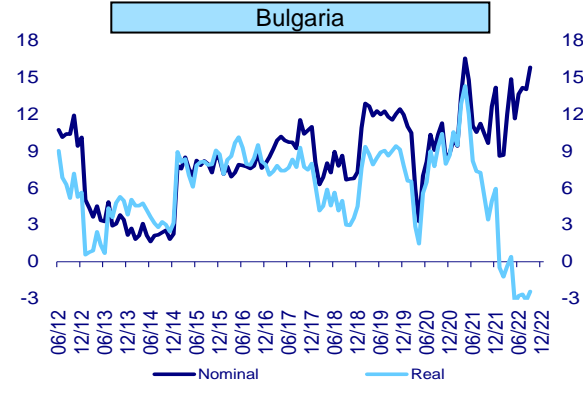
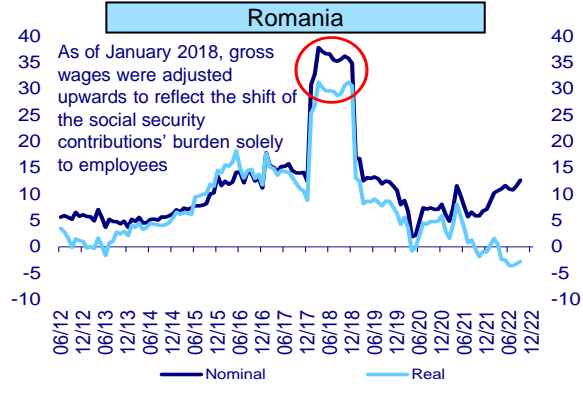
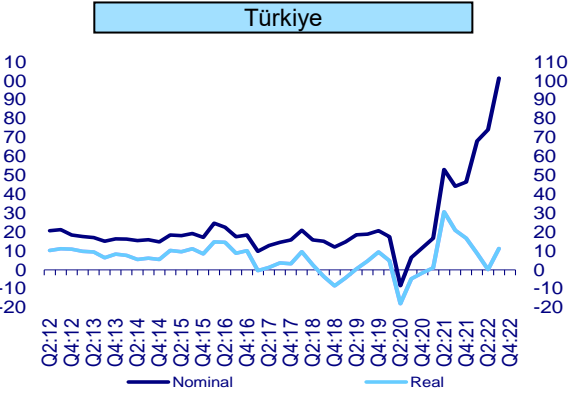
# Unemployment rate (%)

- Unemployment remains close to historic-low levels in most of the economies under review
- In view of persistent shortages and mismatches in most of the labour markets under review, **underlying slack is unlikely to increase materially**, at least in the short term, despite slowing economic growth

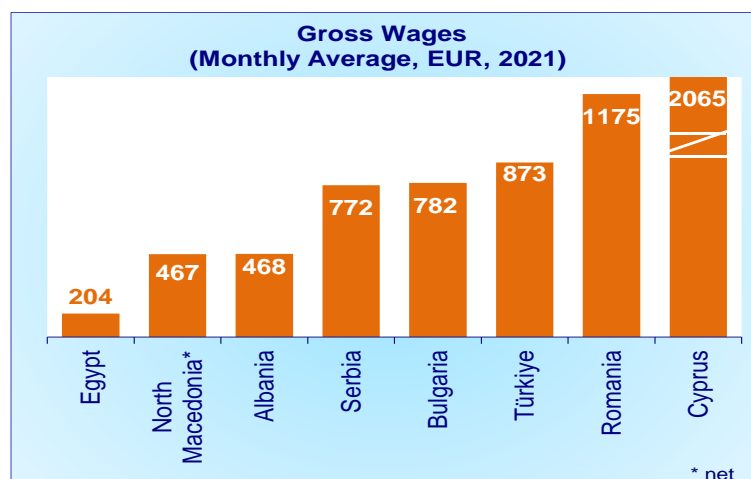


# Nominal and real wages (y-o-y % change)

- **Nominal wage growth has gained steam**, as higher inflation expectations have fed into wage negotiations
- Nevertheless, reflecting persistently high inflation, **real wage growth should remain subdued or negative** in the period ahead
- **The risk of a wage-price spiral** appears to be **low**, for the time being, in most countries, despite the envisaged lagged acceleration in real wage growth in 2023



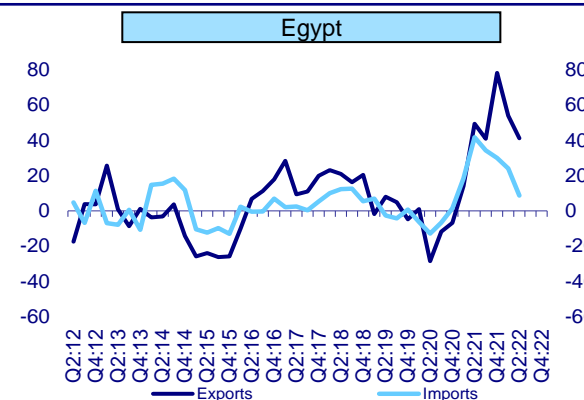
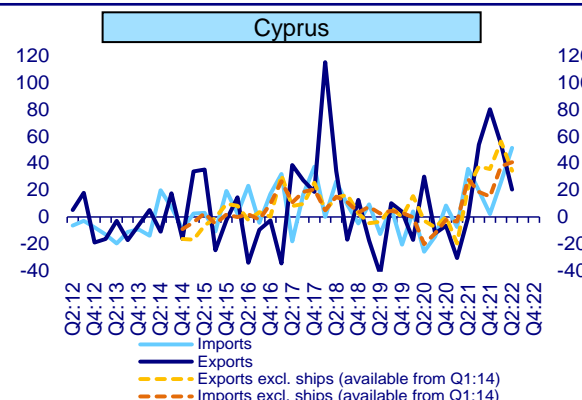
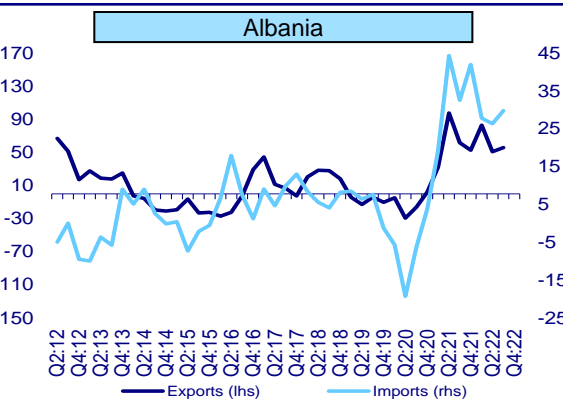
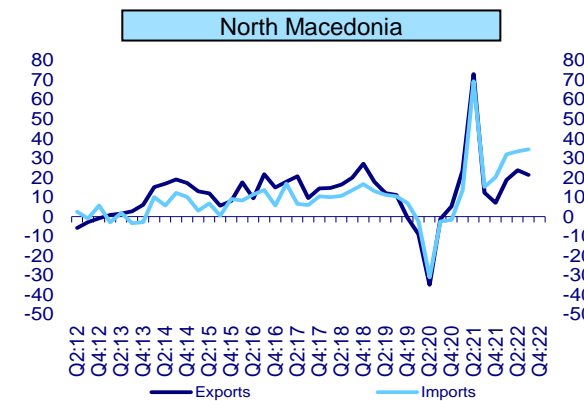
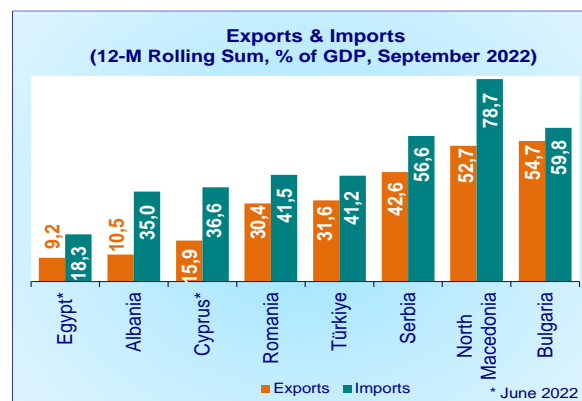
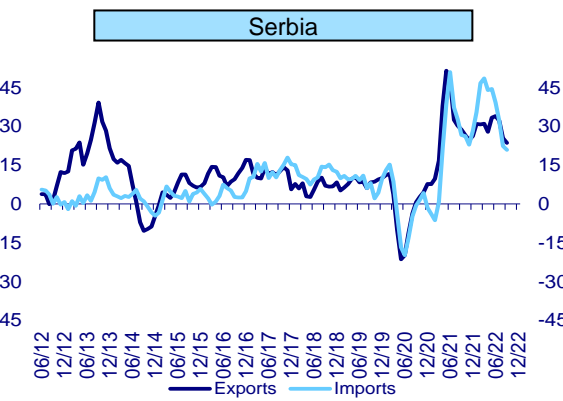
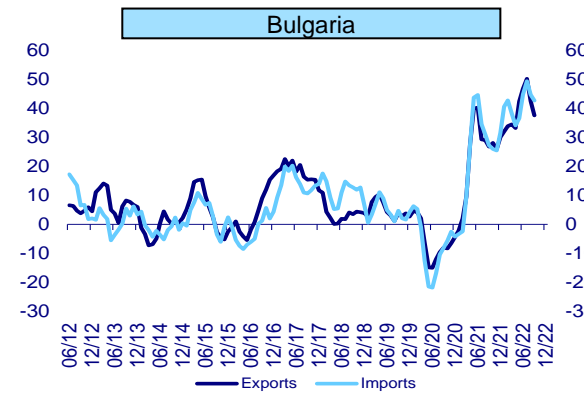
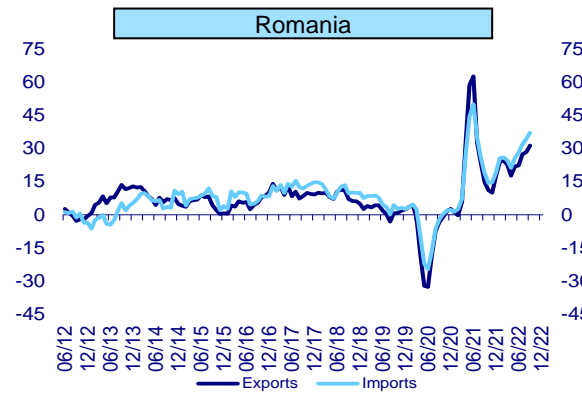
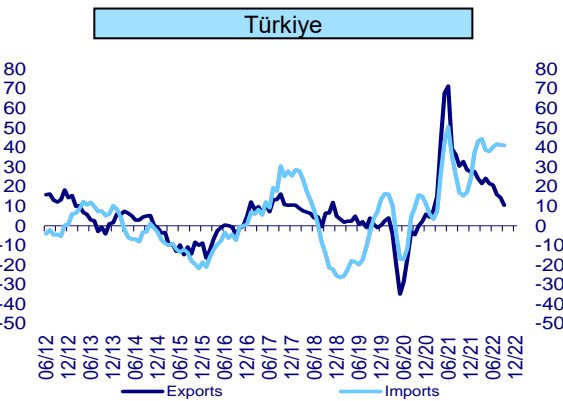
- North Macedonia and Albania remain the most competitive countries in terms of labour costs in Southeastern Europe
- Bulgaria and North Macedonia have the most favourable personal and corporate income tax rates



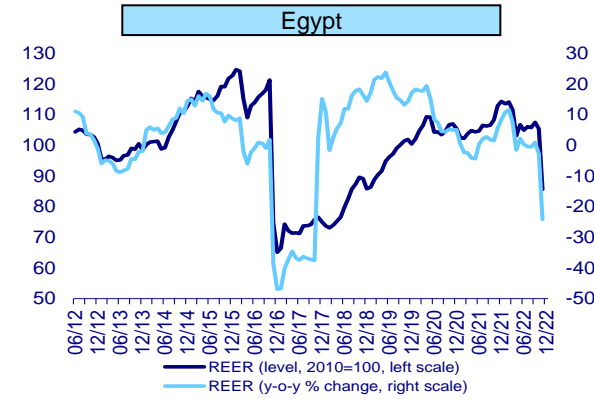
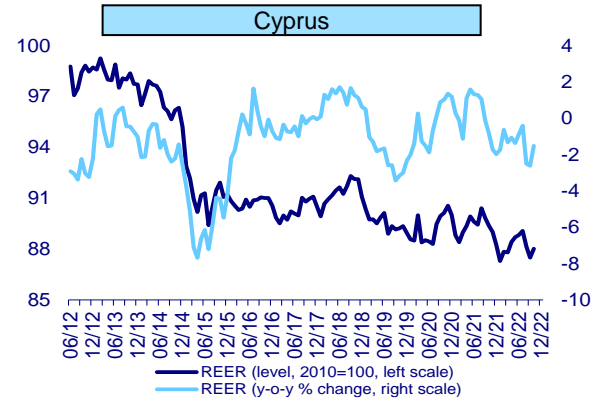
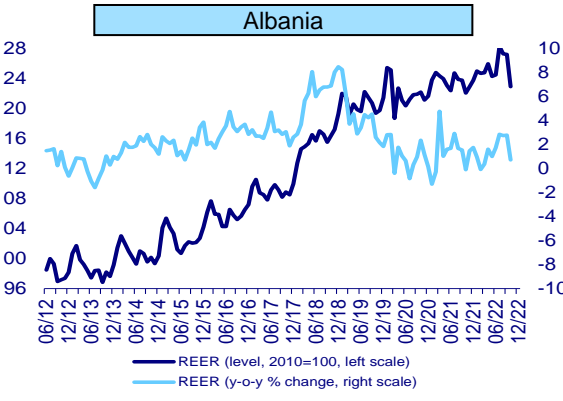
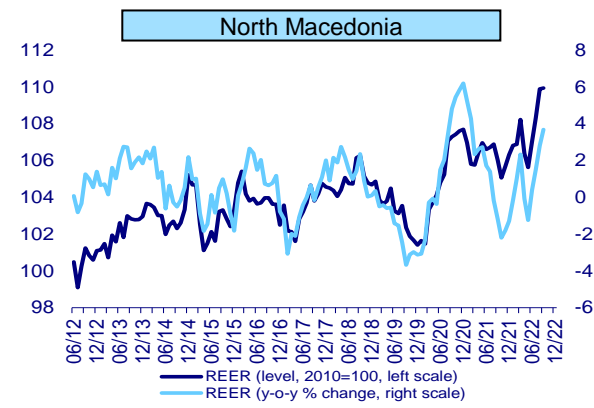
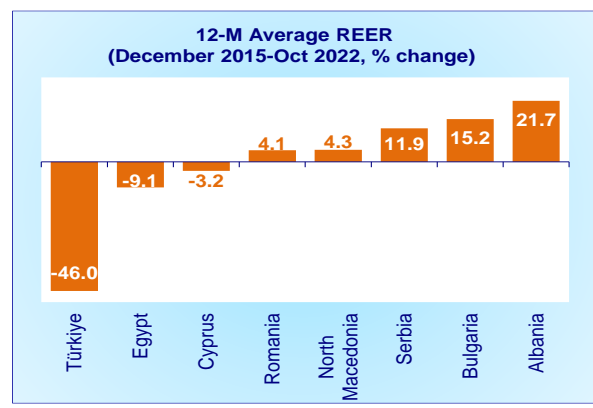
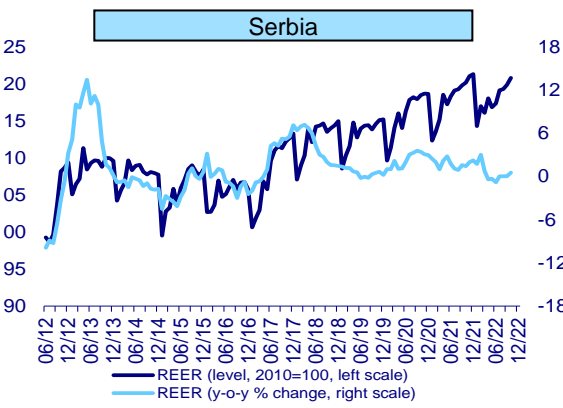
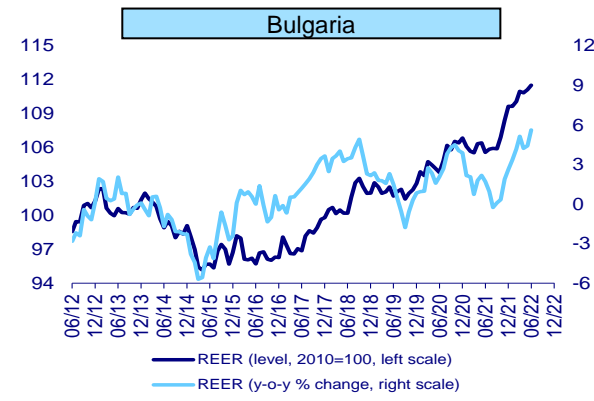
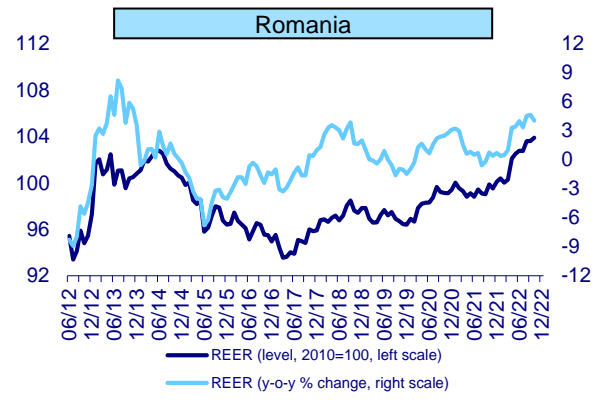
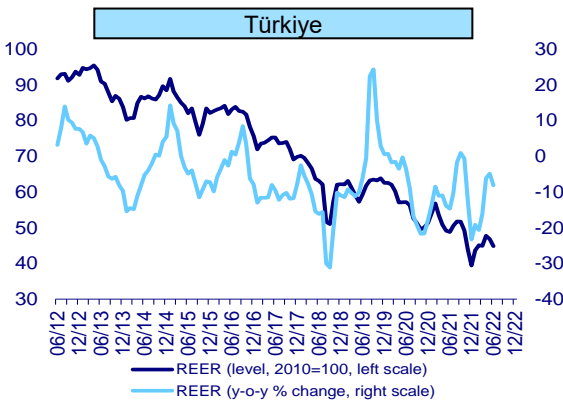
Tax Rates (% , 2022)		
	Personal Income	Corporate Income
Türkiye	15.0 - 40.0	23.0
Romania	10.0	16.0
Bulgaria	10.0	10.0
Serbia	10.0 – 20.0	15.0
North Macedonia	10.0	10.0
Albania	13.0 - 23.0	5.0 - 15.0
Cyprus	20.0 - 35.0	12.5
Egypt	2.5 – 25.0	22.5
Greece	9.0 - 44.0	22.0

# External trade (3-month rolling, y-o-y % change)

The rebound in external trade turnover has been driven by prices rather than volumes



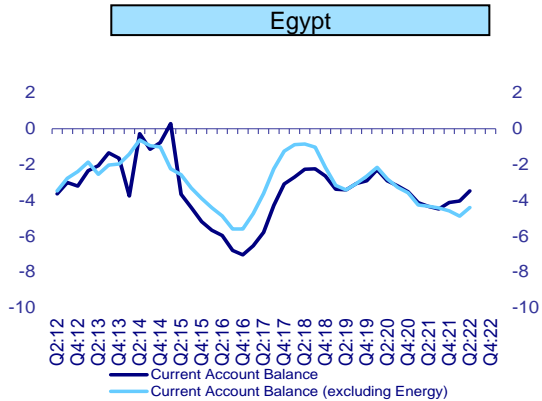
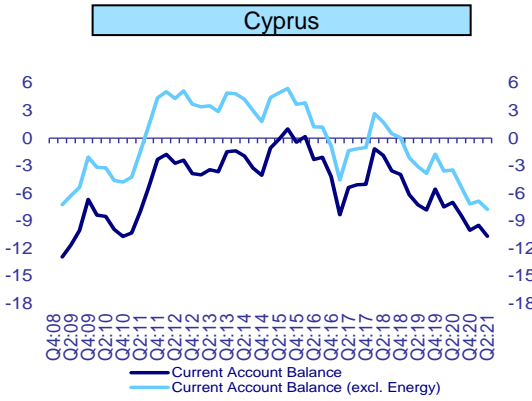
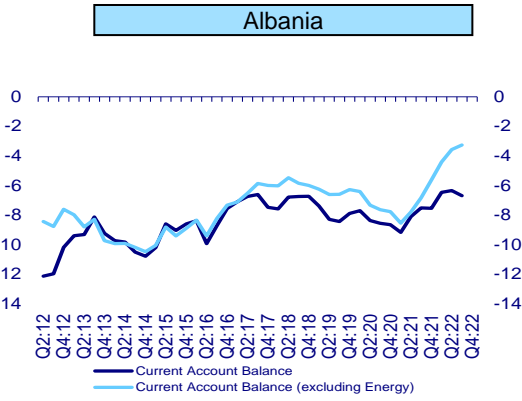
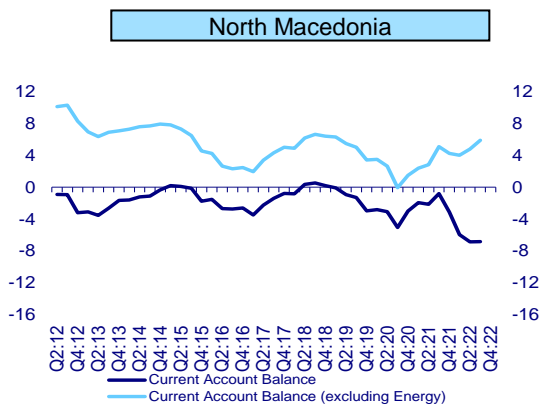
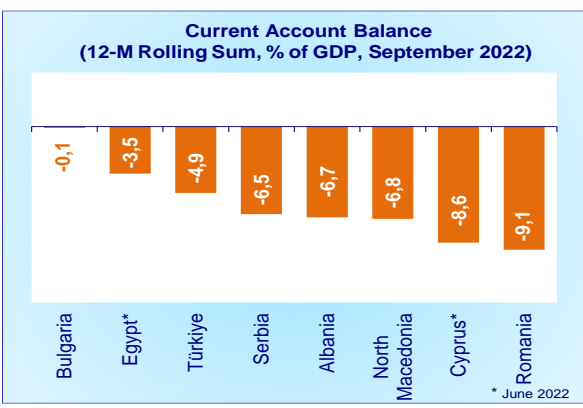
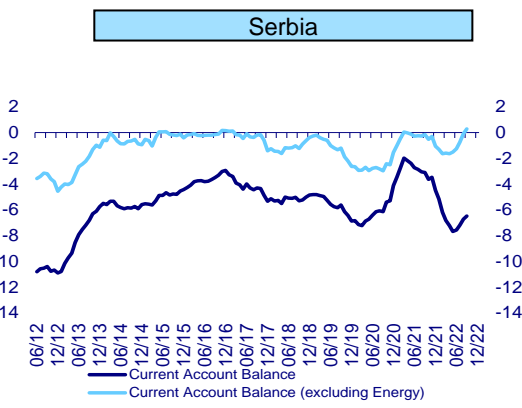
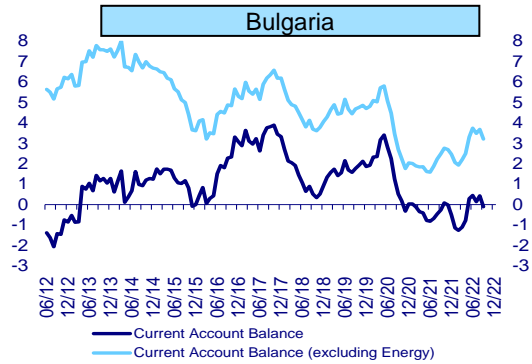
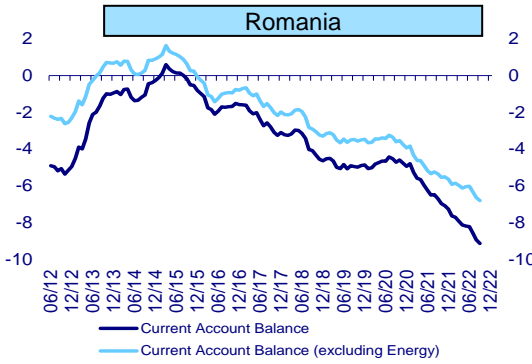
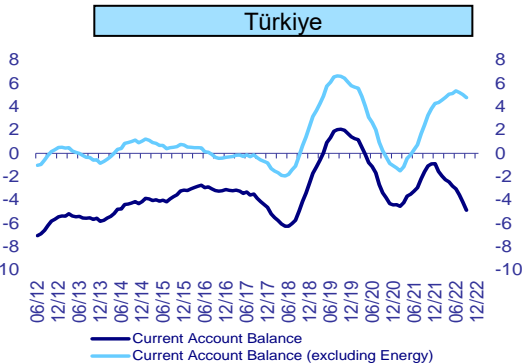
■ Türkiye's external competitiveness has improved significantly over the past 7 years. That said, and in contrast to previous episodes of massive nominal TRY depreciation, the REER has embarked on an upward trend since early 2022, due to surging inflation





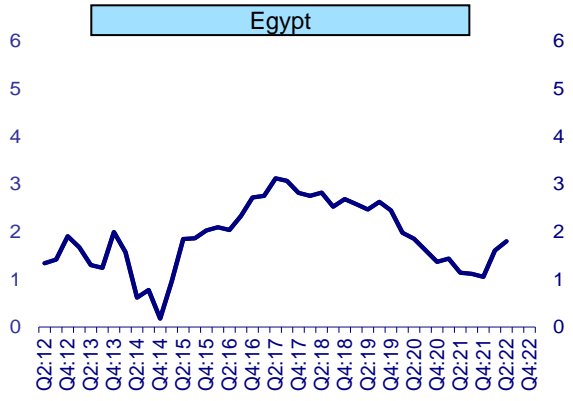
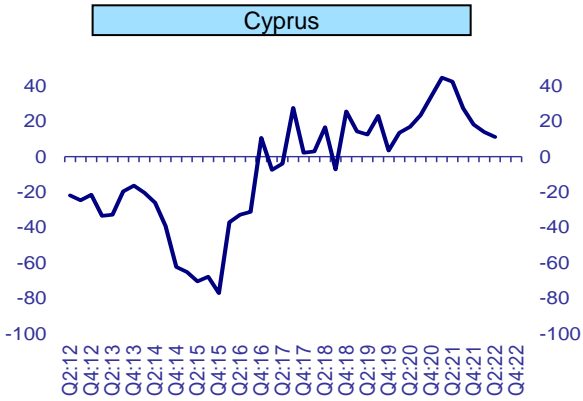
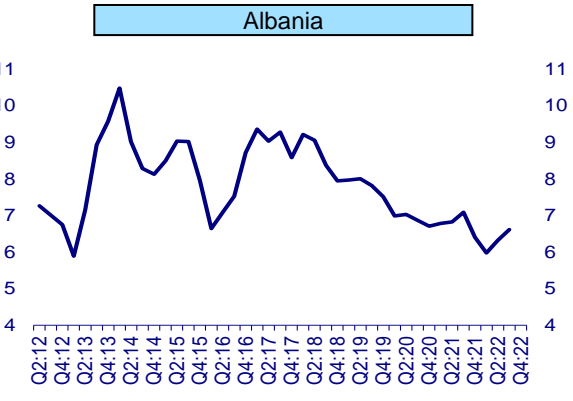
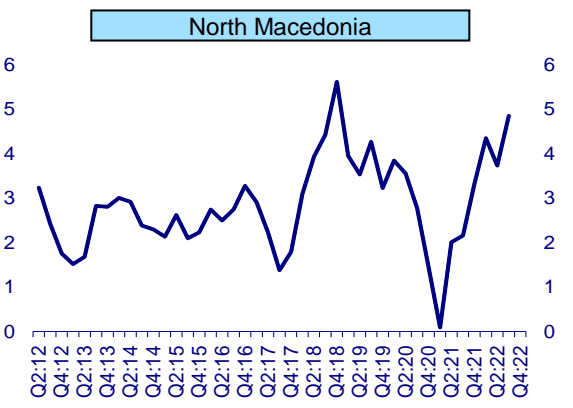
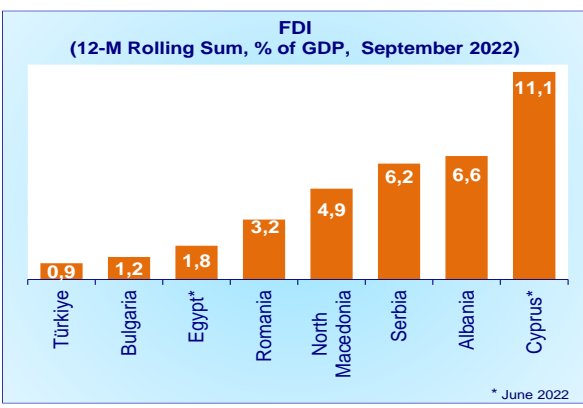
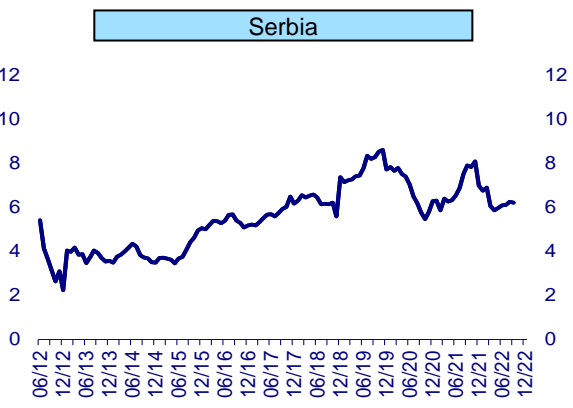
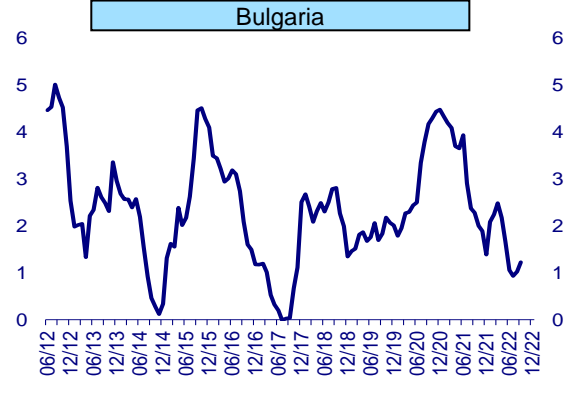
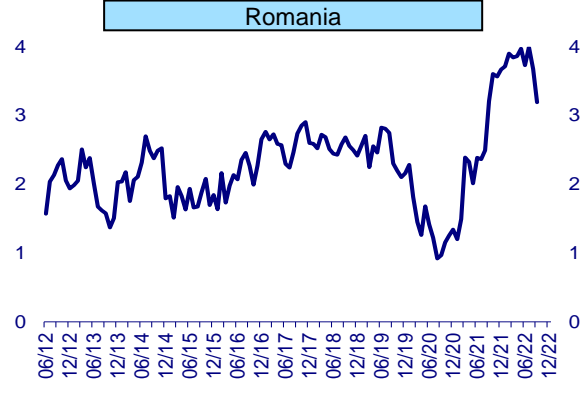
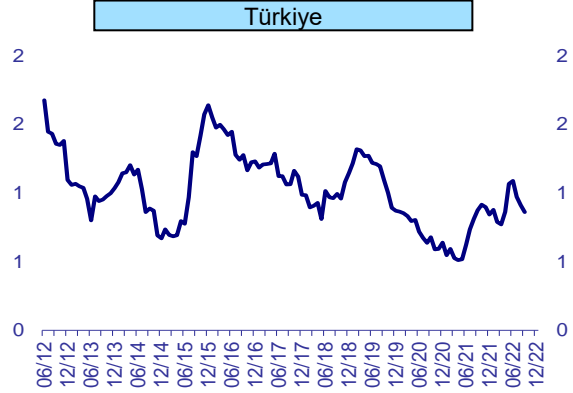
# Current account balance (12-month rolling, % of GDP)

- External imbalances have been on the rise in most of the economies under review, in line not only with unfavourable global commodity prices but also still strong domestic demand
- Excluding energy, the current account surplus remains in sizeable surplus in **Türkiye**, reflecting the impact of the weaker TRY. **Egypt, Bulgaria** and **Albania** have benefited from an improvement in the tourism services balance



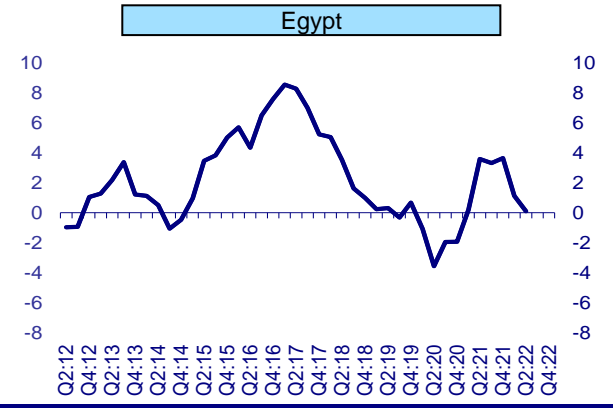
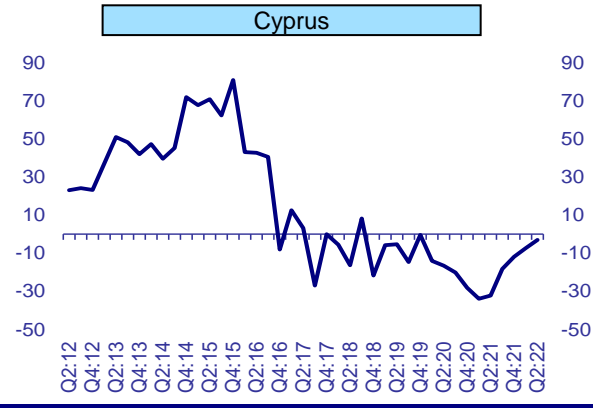
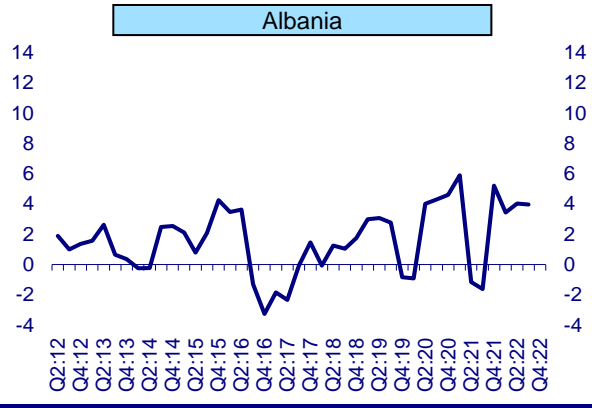
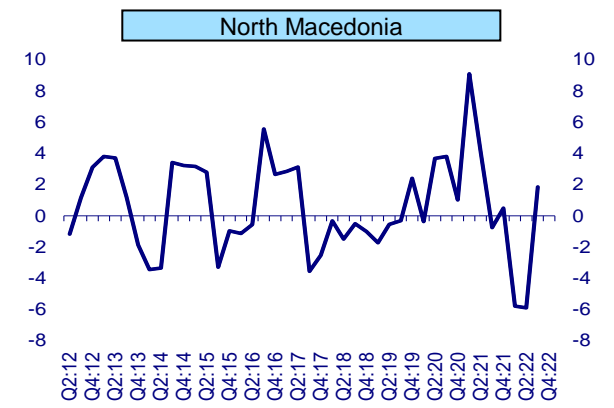
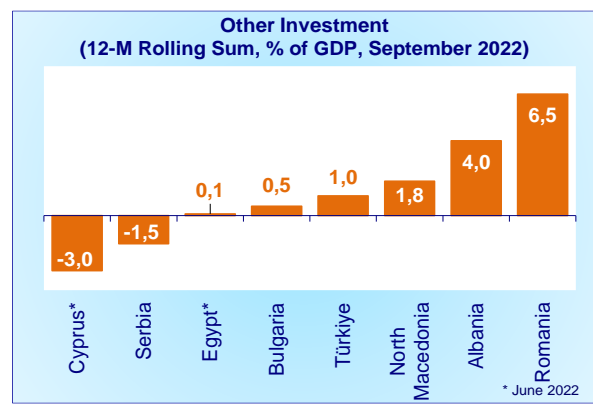
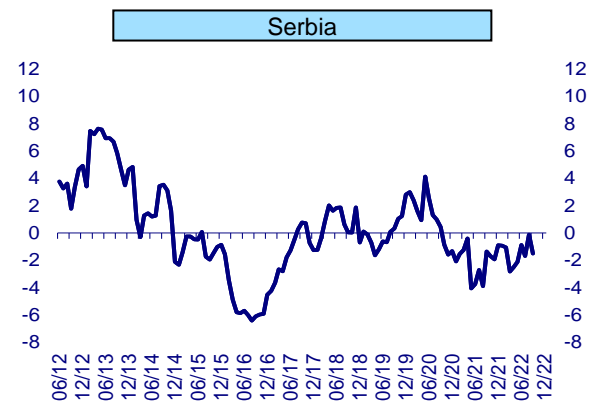
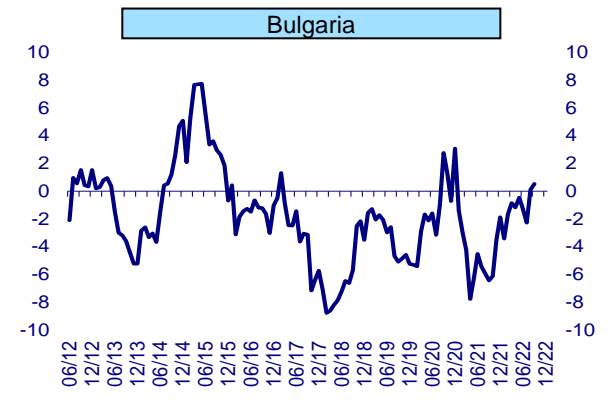
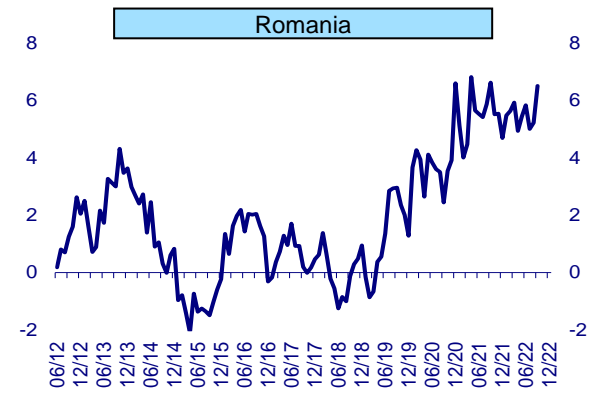
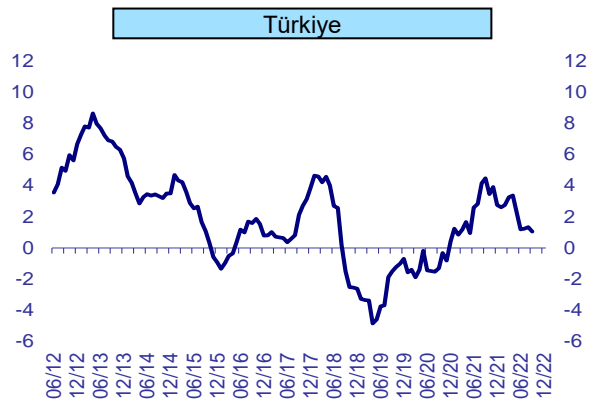
# Net foreign direct investment (12-month rolling, % of GDP)

- **Heightened uncertainty**, in the aftermath of the ongoing geopolitical tensions, together with the relatively **weak economic outlook**, cannot but weigh on FDI flows in the period ahead
- **Intercompany lending** should remain the dominant form of FDI



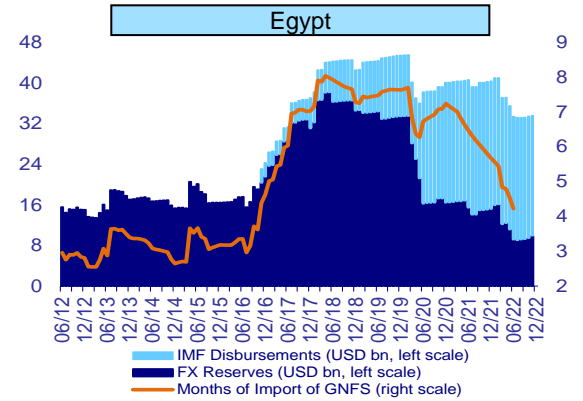
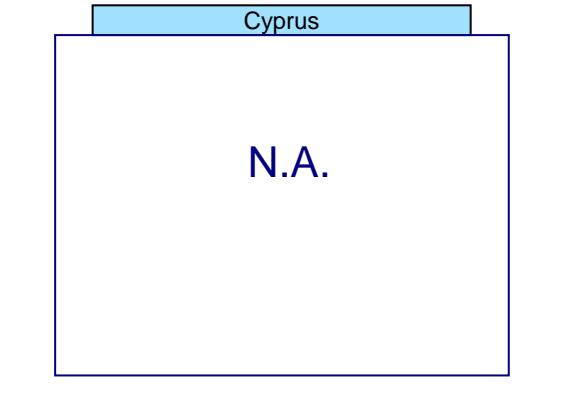
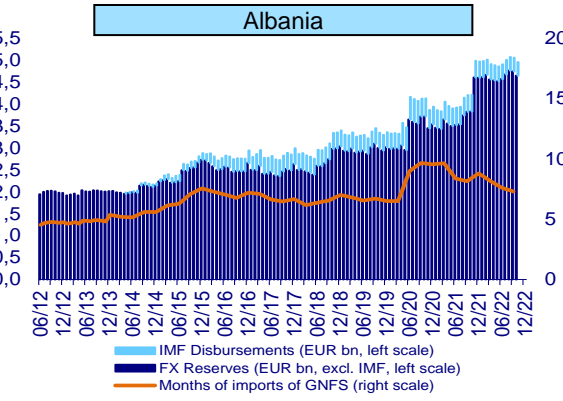
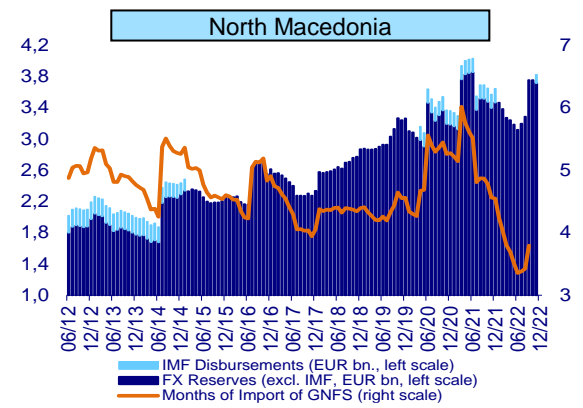
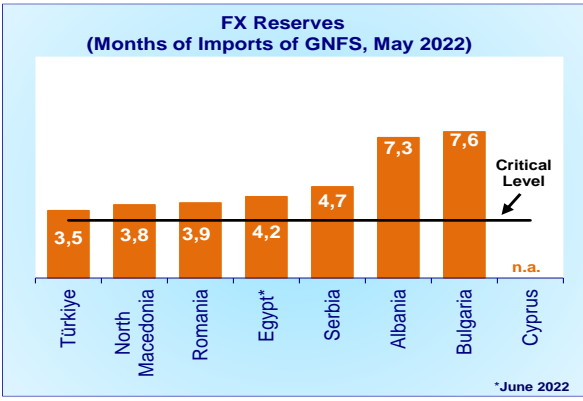
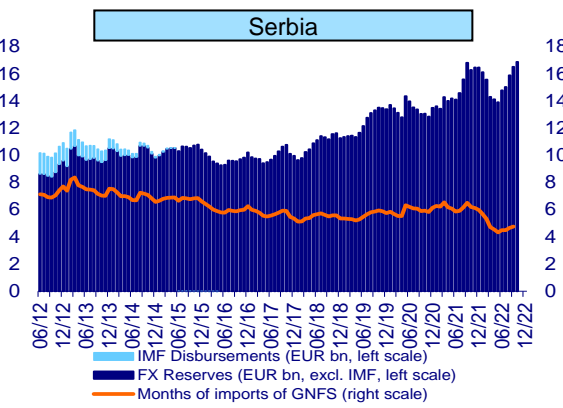
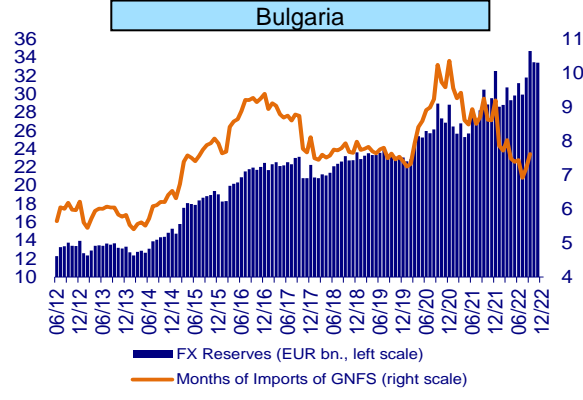
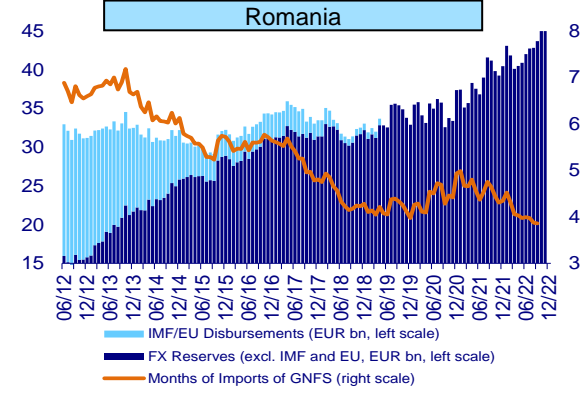
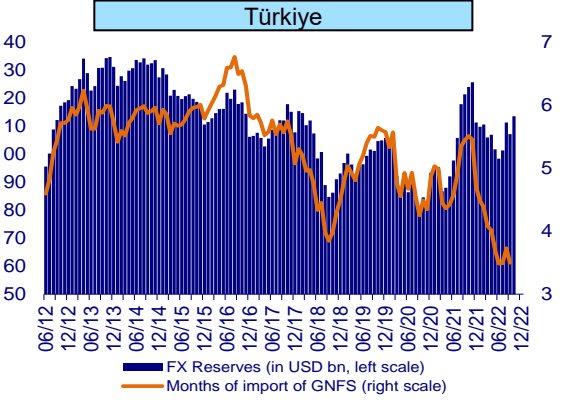
# Other net capital flows, excluding IMF funding and net errors and omissions (12-month rolling, % of GDP)

- Tightening global liquidity conditions, together with elevated risk aversion, in the wake of the Russia-Ukraine conflict, cloud the external financing outlook
- Romania, Bulgaria and Cyprus will continue to benefit from increased flow of funds under the EU Recovery & Resilience Facility



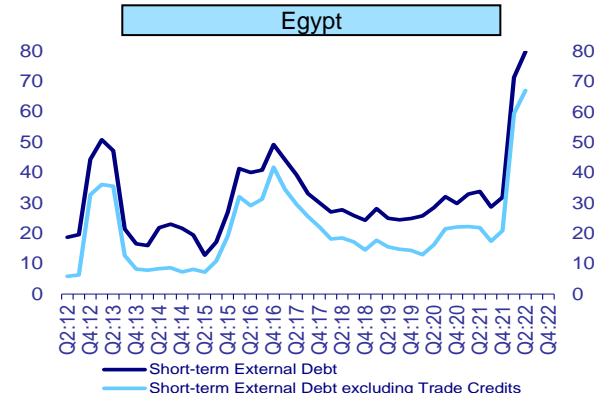
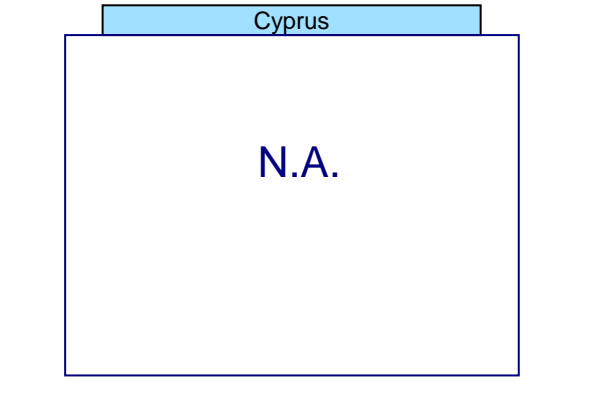
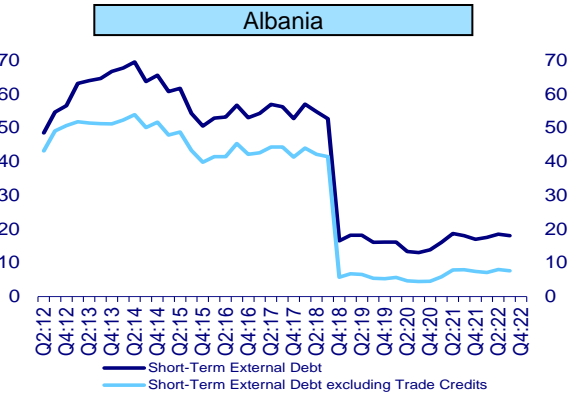
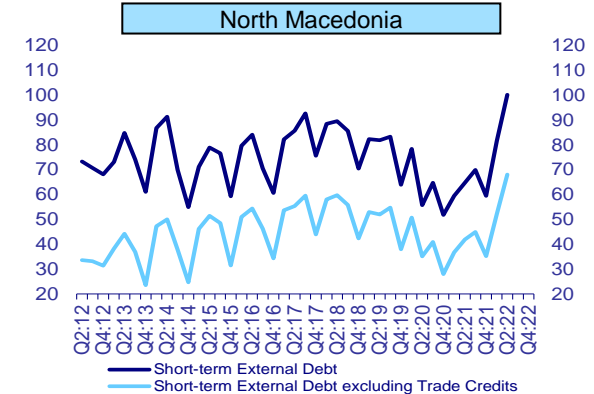
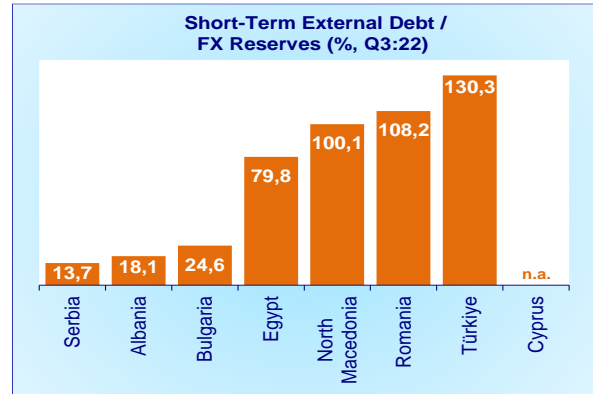
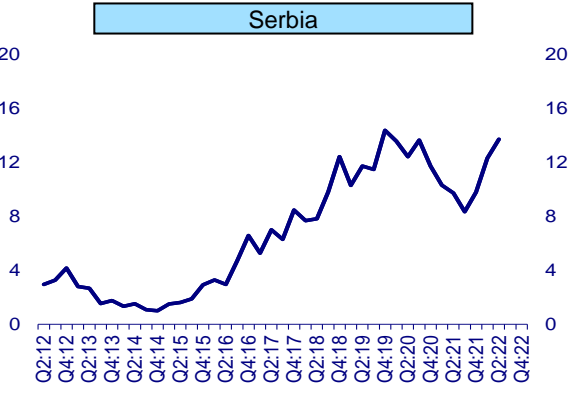
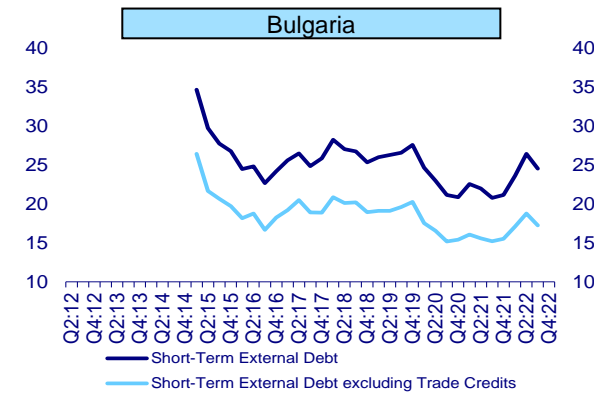
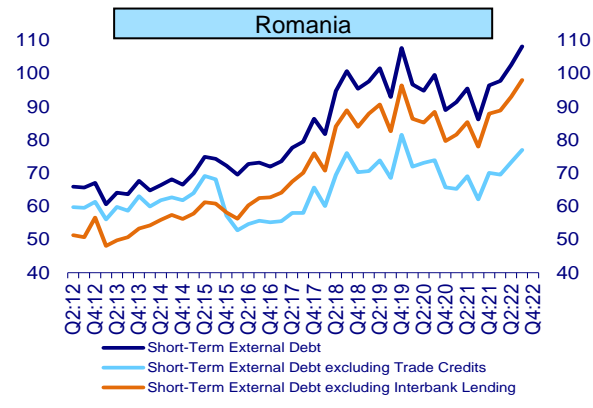
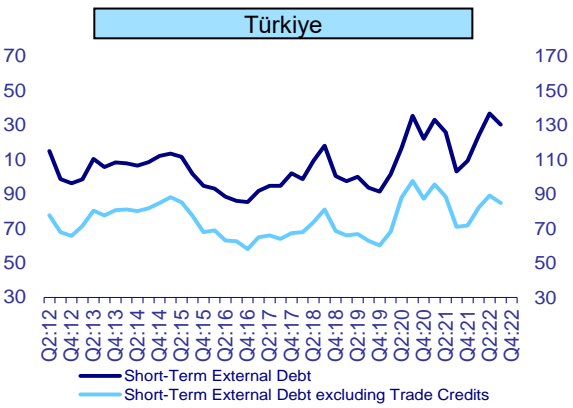
# Foreign exchange reserves

- FX reserves stand at adequate levels in all countries under review. Underlying pressures mostly reflect increased FX needs, on the back of higher global energy prices
- The picture is, however, misleading in the case of **Türkiye**, where net FX reserves have long turned negative, reflecting the CBRT's increased borrowing from banks
- Egypt** has been relying on IMF funding to bolster its FX reserves position



# Short-term external debt-to-Foreign exchange reserves ratio (%)

Short-term external debt is comfortably covered by FX reserves in all countries under review, except for Türkiye, Romania and North Macedonia



## Balance of payments (12-month rolling, % of GDP)

- Albeit narrowing, due to weakening domestic demand, **external imbalances are projected to remain well above their pre-Russia-Ukraine conflict levels** in most of the economies under review next year as well, reflecting still elevated global commodity (especially energy) prices
- Despite tightening external financing conditions, most countries under review (with the notable exception of **Türkiye**) should be able to **plug their external financing gaps** next year without drawing on their FX reserves

Türkiye	Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
Current account balance	-0.9	-5.5	-3.8	-2.8
Net FDI	0.8	0.9	0.9	0.9
Other net capital inflows *	2.7	1.2	1.1	1.3

Bulgaria	Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
Current account balance	-0.5	0.0	0.2	0.6
Net FDI	1.4	1.2	1.2	1.3
Other net capital inflows *	2.5	-0.4	0.3	0.1

North Macedonia	Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
Current account balance	-3.1	-7.5	-6.2	-5.0
Net FDI	3.3	4.5	3.8	3.9
Other net capital inflows *	0.5	2.0	2.5	2.4

Cyprus	Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
Current account balance	-6.8	-8.6	-7.0	-5.8
Net FDI **	18.2	15.9	19.0	22.5
Other net capital inflows *	-11.8	-7.3	-12.0	-16.7

\*\* Gross in/out-flows related to financial SPEs are sizeable and volatile

\*: excluding IMF and ESM funding and net errors and omissions, #: Fiscal year ending on June 30<sup>th</sup>

Romania	Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
Current account balance	-7.3	-8.9	-7.7	-7.0
Net FDI	3.7	3.6	3.3	3.3
Other net capital inflows *	4.5	6.9	4.6	4.0

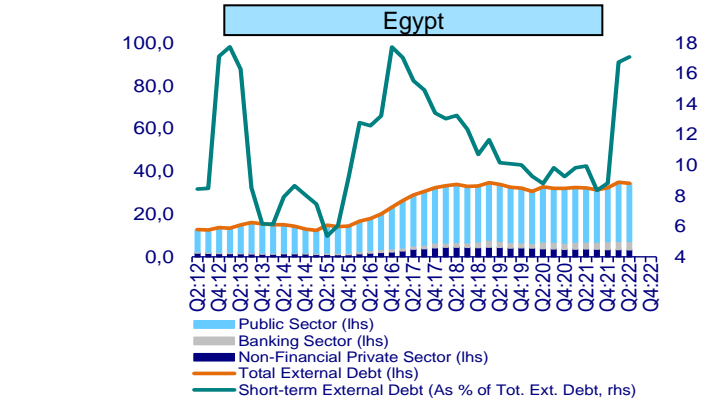
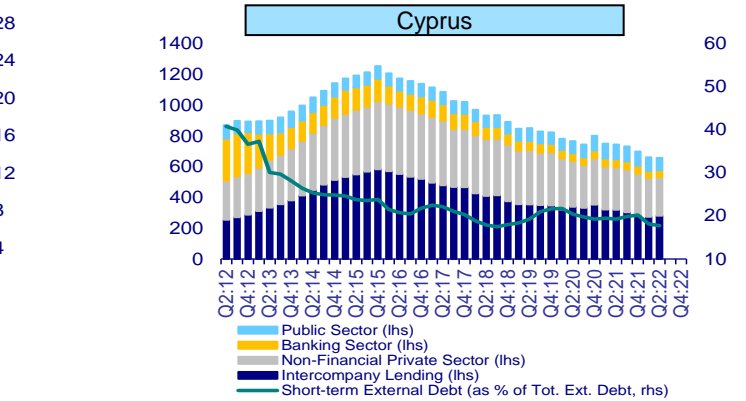
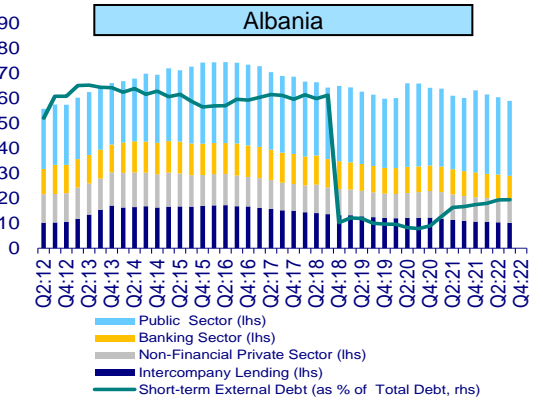
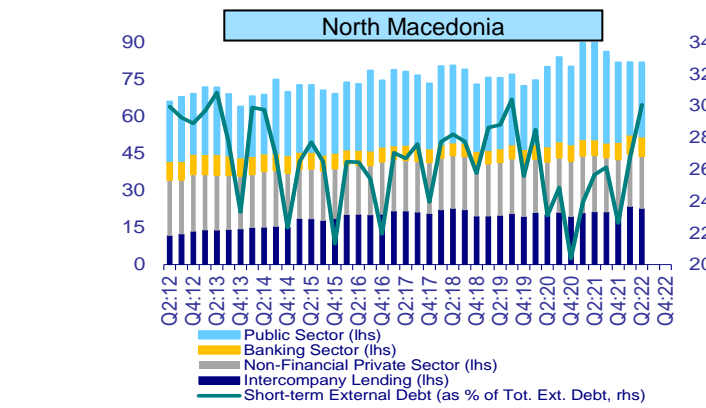
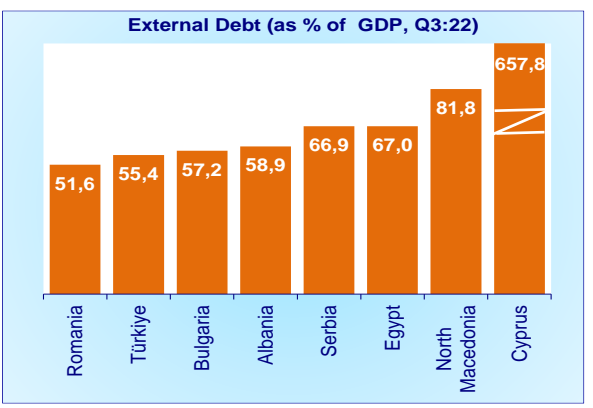
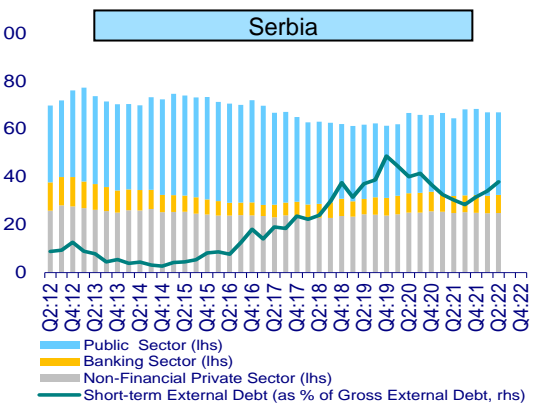
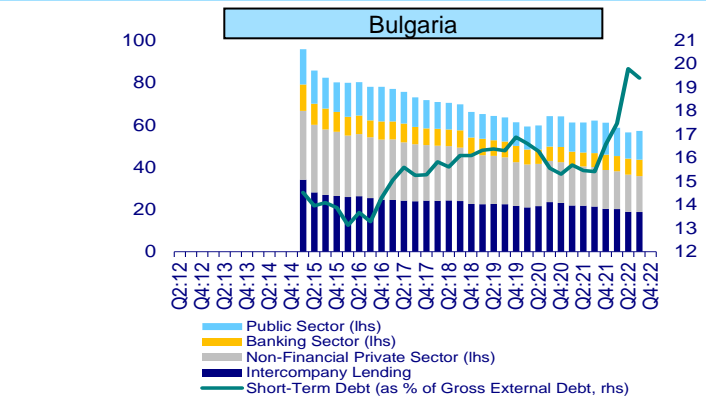
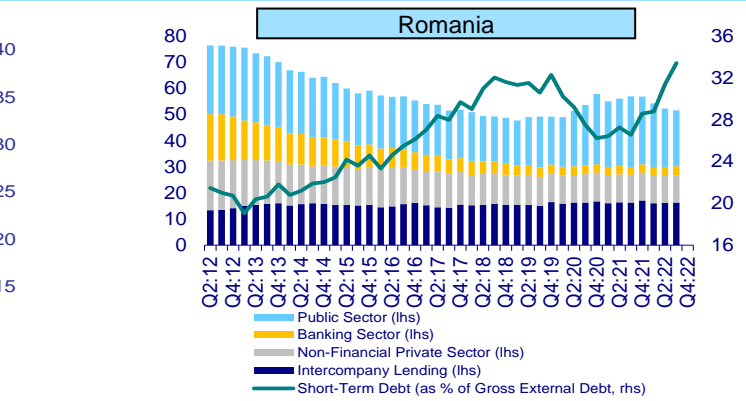
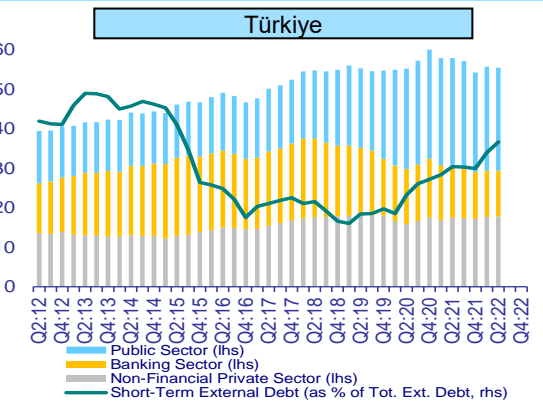
Serbia	Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
Current account balance	-4.5	-7.7	-7.1	-6.0
Net FDI	7.0	6.6	6.4	6.6
Other net capital inflows *	0.5	0.6	1.3	1.3

Albania	Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
Current account balance	-7.5	-7.2	-6.7	-6.2
Net FDI	6.4	6.8	6.8	6.7
Other net capital inflows *	5.2	0.1	0.5	0.5

Egypt #	June 21	June 22	June 23F	June 24F
Current account balance	-4.3	-3.5	-3.1	-2.5
Net FDI	1.1	1.8	2.4	2.6
Other net capital inflows *	3.6	0.3	1.1	1.5

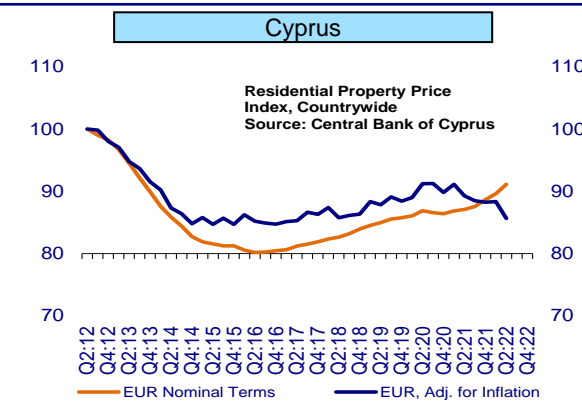
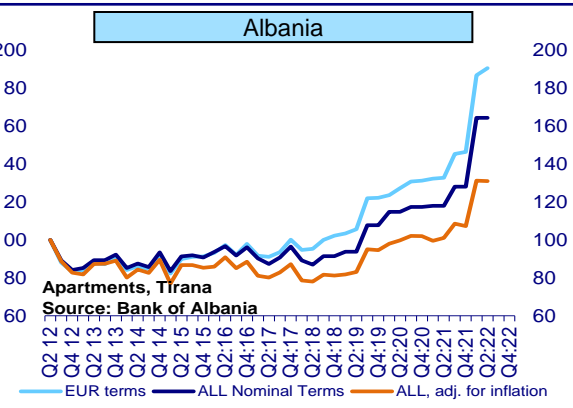
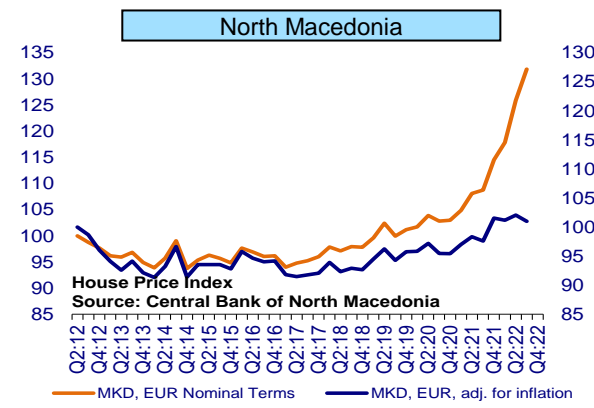
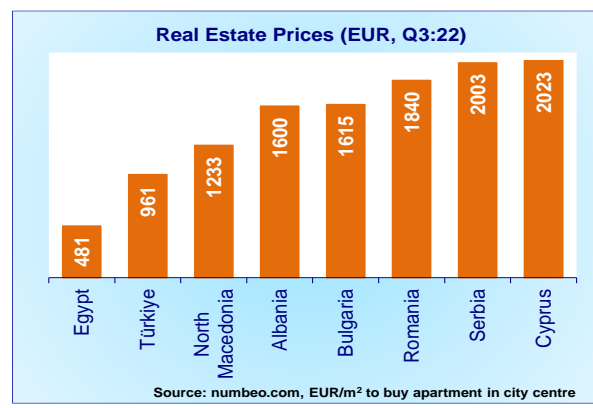
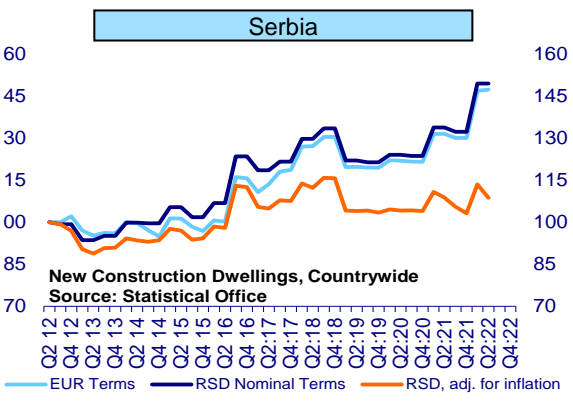
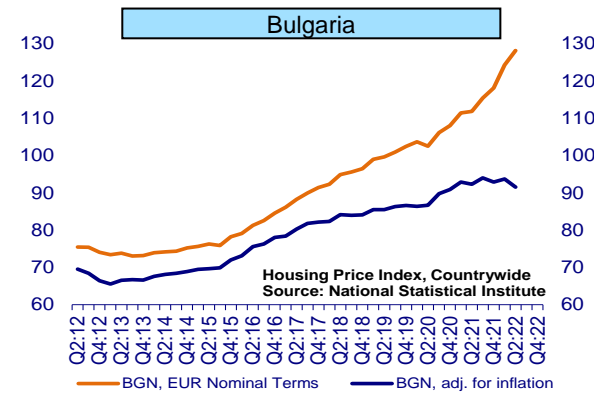
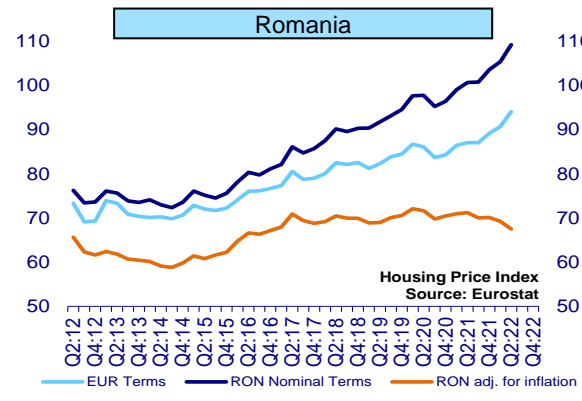
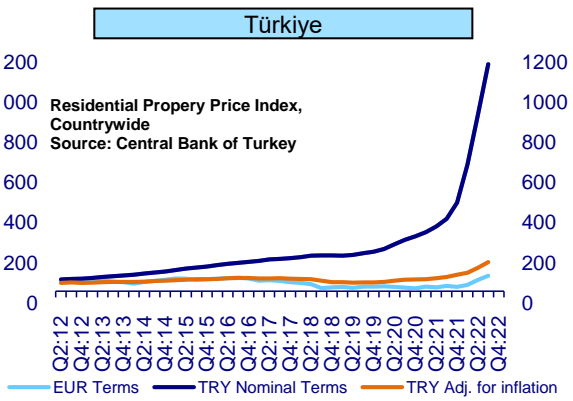
# External debt (% of GDP)

- Despite elevated external imbalances, the **external debt-to-GDP ratio should remain on a downward trend** in the period ahead, reflecting the impact of high inflation (denominator effect)
- However, debt accumulation should come at a **higher cost**, due to **tightening global liquidity conditions**



# Real estate prices

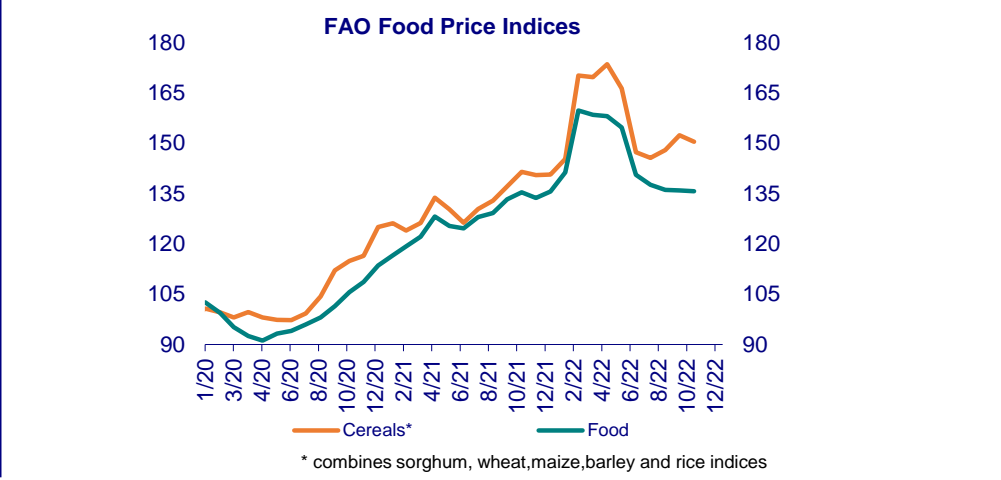
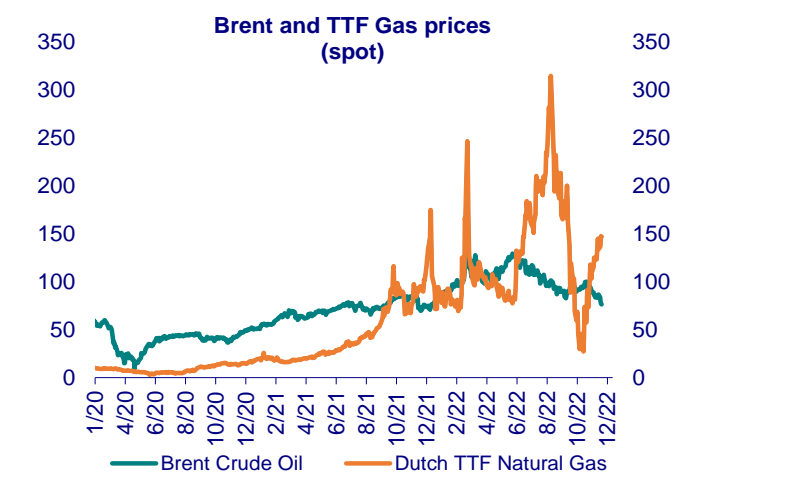
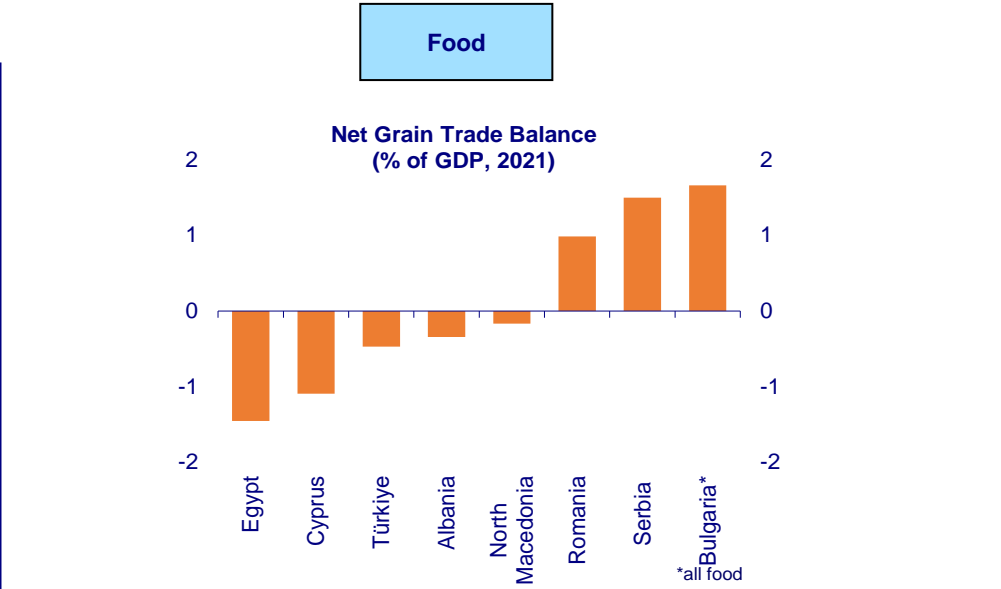
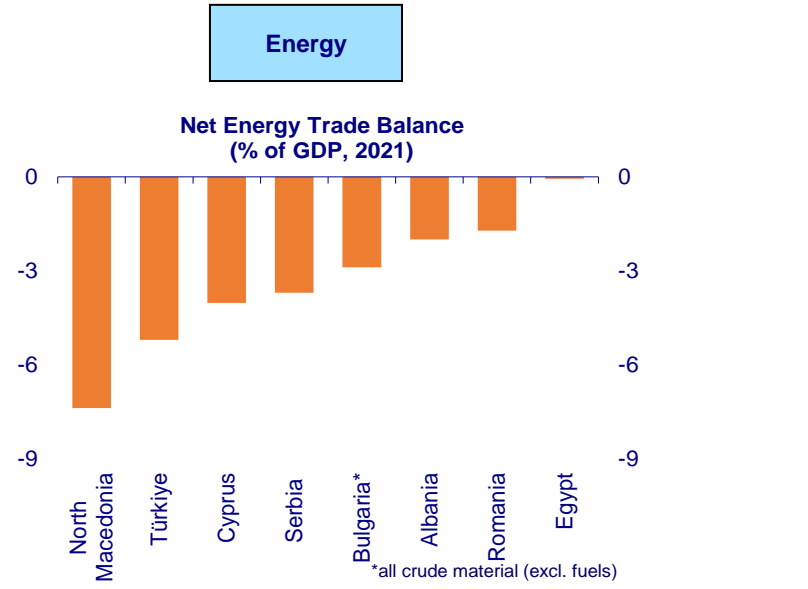
- Real estate prices continued their upward trend in H1:22 in most of the countries under review, following, *inter alia*, the pass-through of the ongoing increase in construction costs
- Looking further ahead, tighter financing conditions should eventually lead to a cooling-down in the real estate market





# Energy & Food Trade Balances and Global Commodity Prices

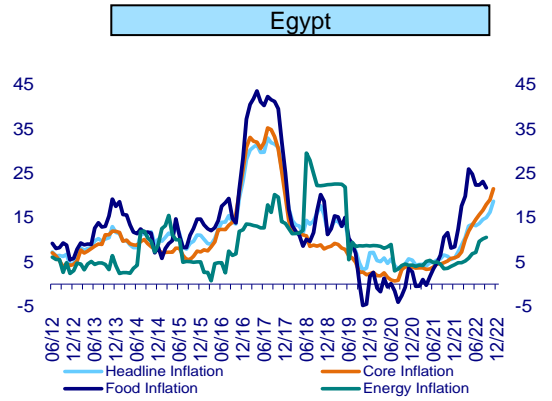
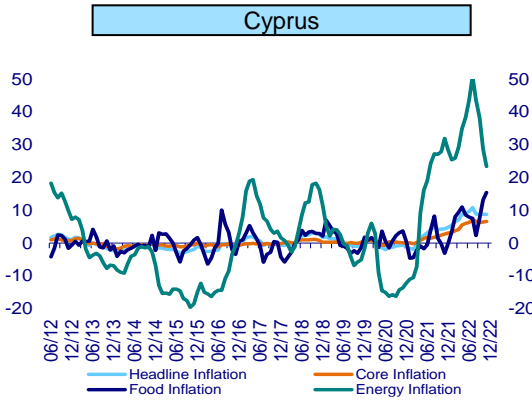
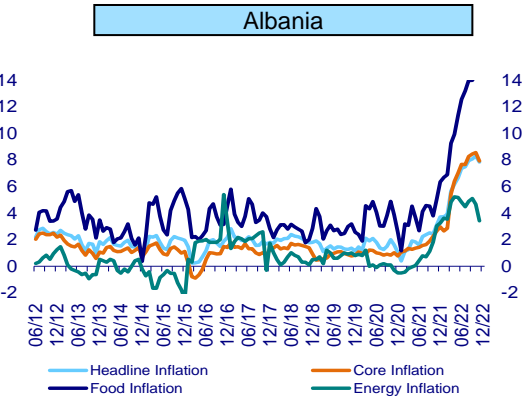
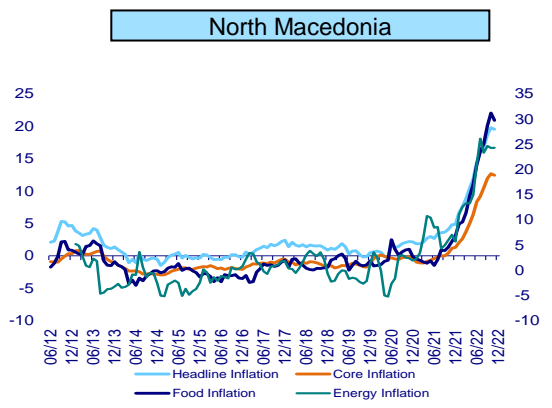
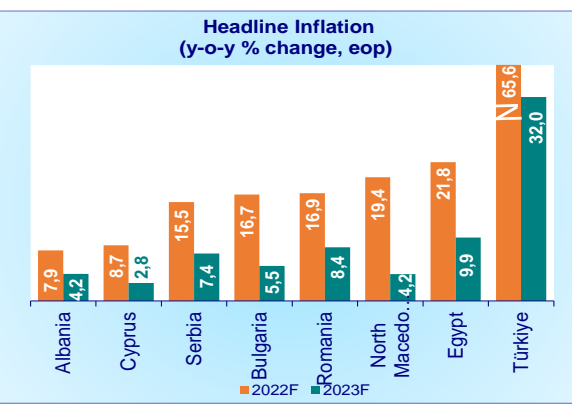
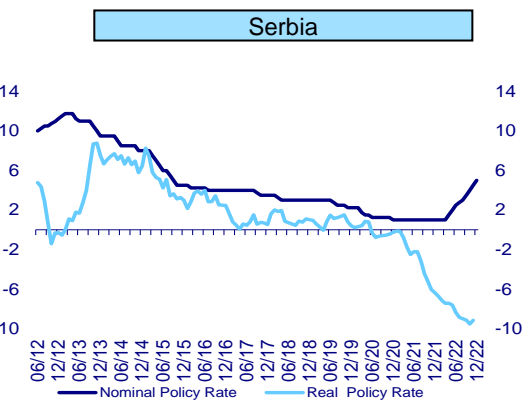
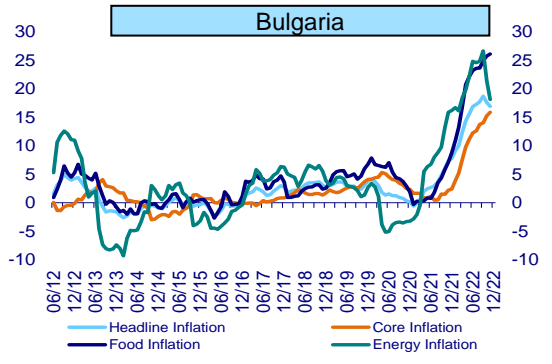
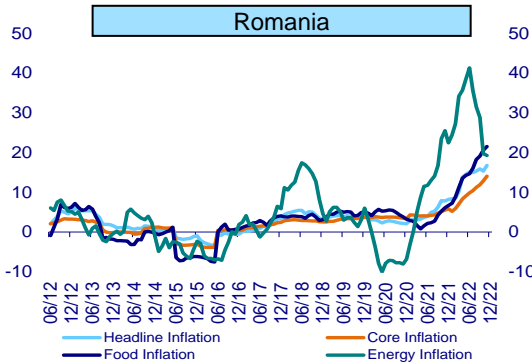
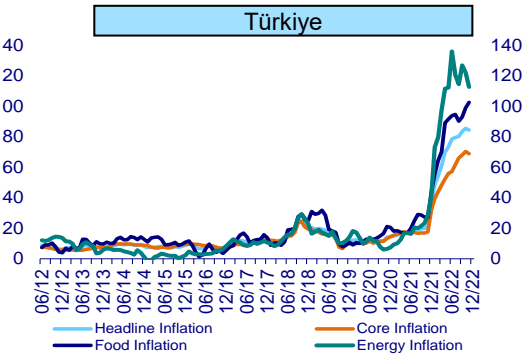
Given the economies' **reliance on imports** to cover their **energy** (but for Egypt) and **food (grain)** needs (but for Bulgaria, Romania and Serbia), as well as their relatively large weights in the respective CPI baskets, the spike in global commodity prices and associated second-round effects have **pushed up the domestic inflation rates to record-high levels** (see also next page)



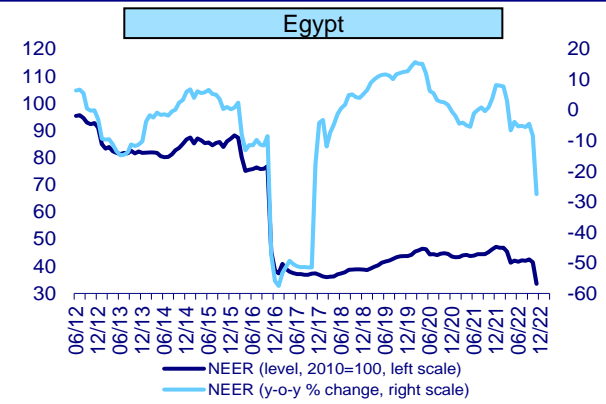
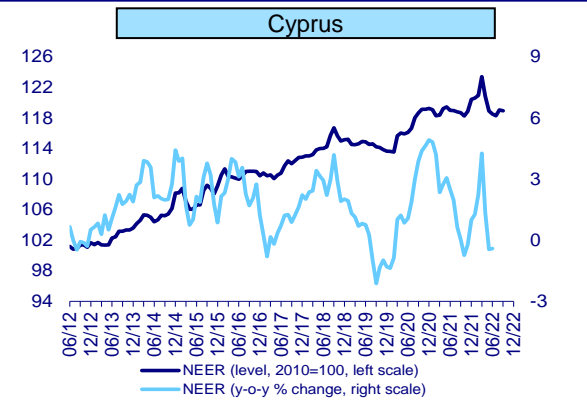
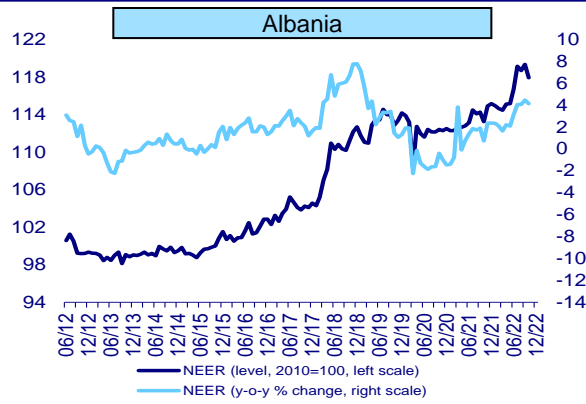
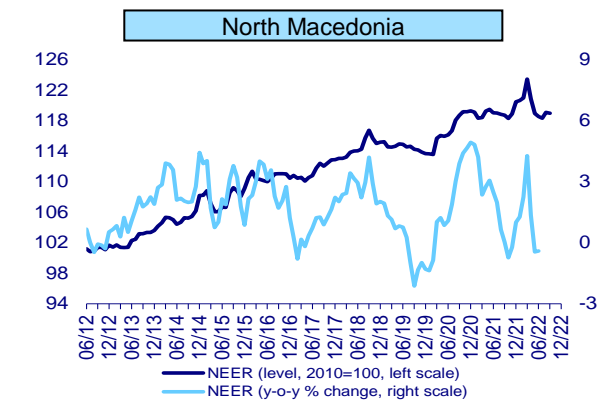
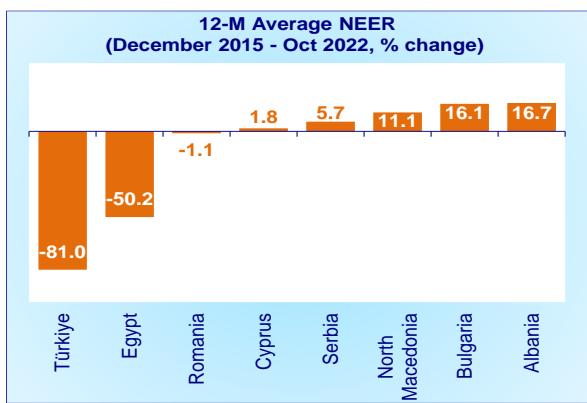
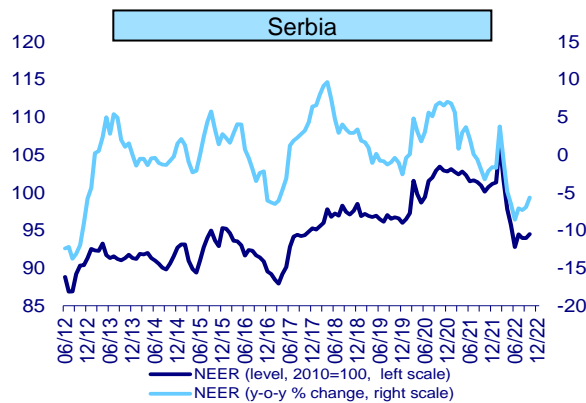
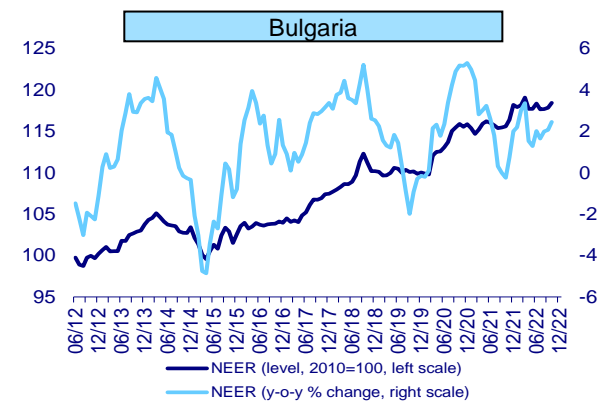
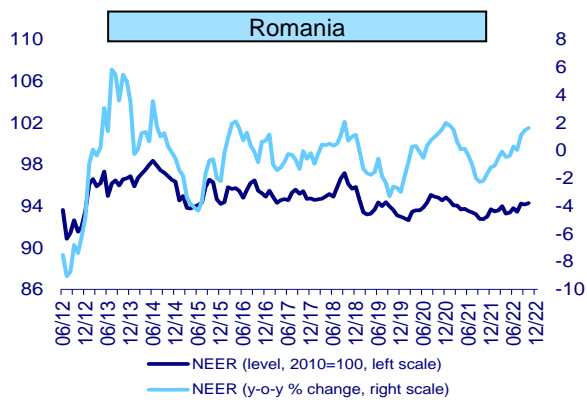
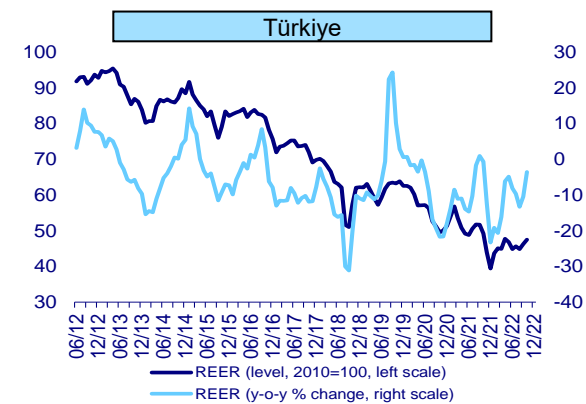
# Inflation (%)

• **Disinflation should kick-in** in the period ahead, supported by favourable base effects. Still, inflation is set to remain much higher on average in 2023 compared with 2022, continuing to surpass that in euro area, reflecting, *inter alia*, tight labour market conditions. A **return to more normal levels** is expected only in **2024**

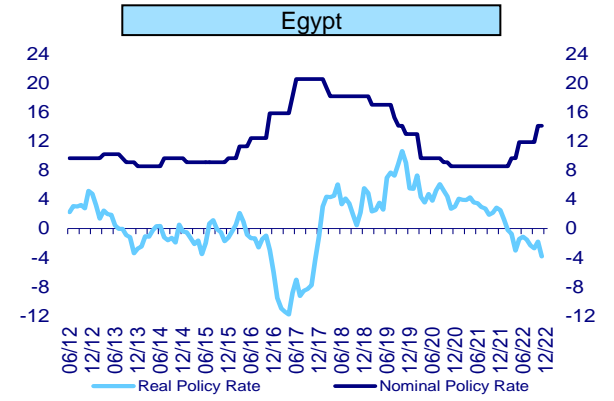
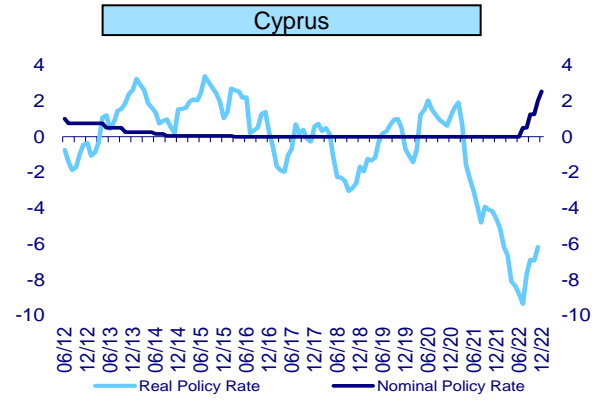
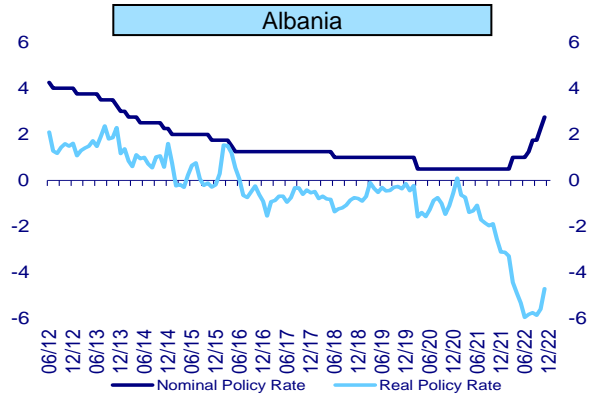
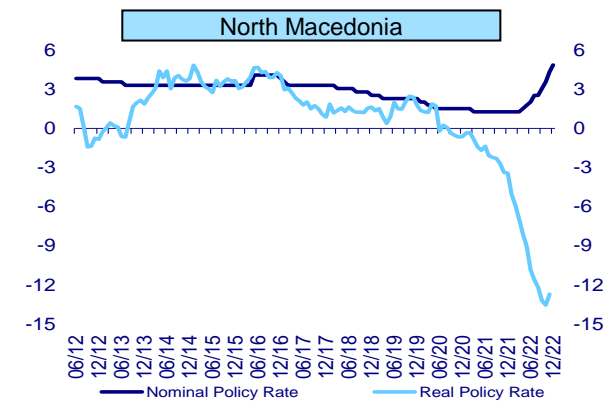
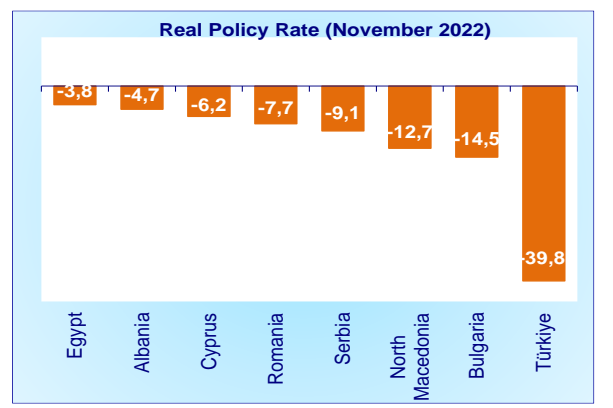
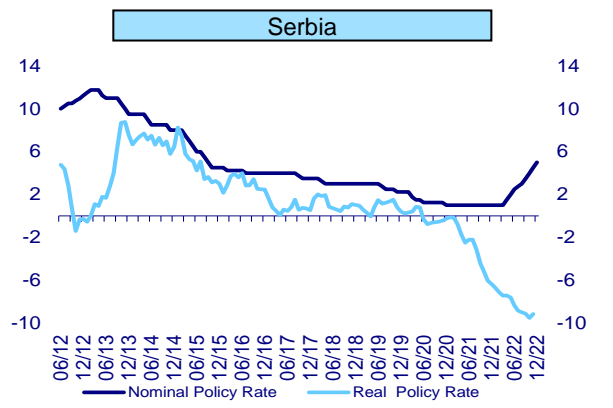
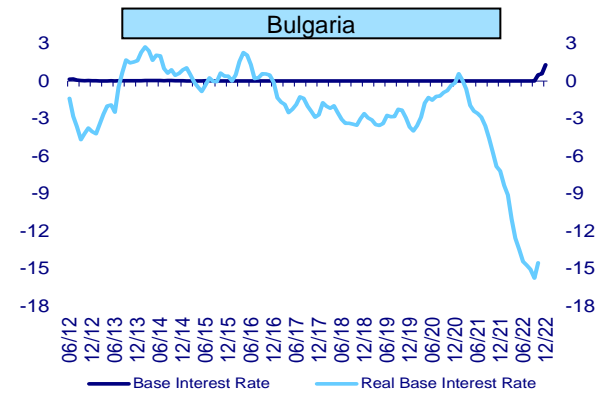
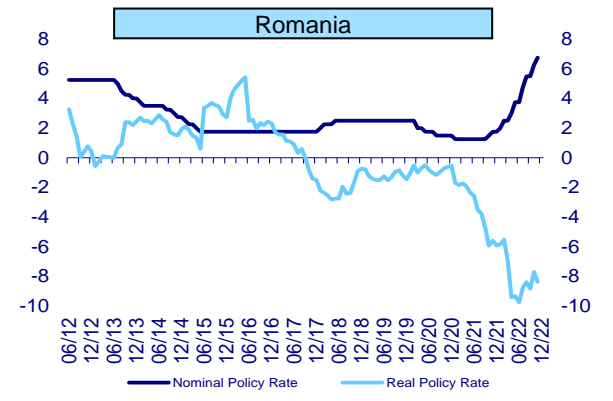
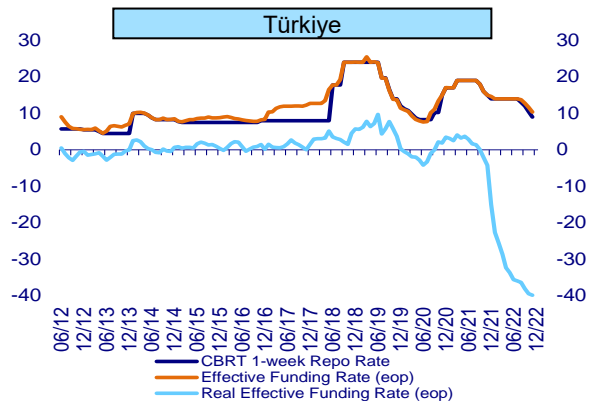
• With past increases in energy prices having yet to fully pass through to other inflation components, **core inflation**, which has already evolved as the **main driver**, is set to **remain above headline measure** over the medium-term.



▪ The TRY and the EGP have depreciated significantly in nominal terms over the past 7 years



**Rate-hiking cycles are nearing an end** in most of the economies under review, with central banks expected to remain on hold in the short-term, in view of heightened global risk aversion and strong upside risks to inflation. Some **modest cuts** are expected only in **2024**. Still, interest rates should remain markedly **higher than the pre-COVID period**, scarring the economies for the years to come



## Reserve requirement ratios

- In a bid to discourage euroization, the Central Bank of **North Macedonia** hiked its reserve requirement rate on FC liabilities
- In the context of its tightening monetary policy, the Central Bank of **Egypt** raised its reserve requirement rate on LC liabilities

### Türkiye

Reserve Requirement Ratios (%)			
	Dec. 2020	Dec. 2021	Dec. 2022
LC Liabilities	1.0-6.0	3.0-8.0	3.0-8.0
FC Liabilities	13.0-19.0	19.0-25.0	19.0-25.0

### Romania

Reserve Requirement Ratios (%)			
	Dec. 2020	Dec. 2021	Dec. 2022
LC Liabilities	8.0	8.0	8.0
FC Liabilities	5.0	5.0	5.0

### Bulgaria

Reserve Requirement Ratios (%)			
	Dec. 2020	Dec. 2021	Dec. 2022
LC Liabilities	10.0	10.0	10.0
FC Liabilities	5.0	5.0	5.0

### Serbia

Reserve Requirement Ratios (%)			
	Dec. 2020	Dec. 2021	Dec. 2022
LC Liab.	0.0 - 5.0	0.0 - 5.0	0.0 - 5.0
FC Liab.	13.0 - 20.0	13.0 - 20.0	13.0 - 20.0

### North Macedonia

Reserve Requirement Ratios (%)			
	Dec. 2020	Dec. 2021	Dec. 2022
LC Liabilities	8.0	8.0	5.0
FC Liabilities	15.0	15.0	18.0

### Albania

Reserve Requirement Ratios (%)			
	Dec. 2020	Dec. 2021	Dec. 2022
LC Liabilities	5.0-7.5	5.0-7.5	5.0-7.5
FC Liabilities	12.5-20.0	12.5-20.0	12.5-20.0

### Cyprus

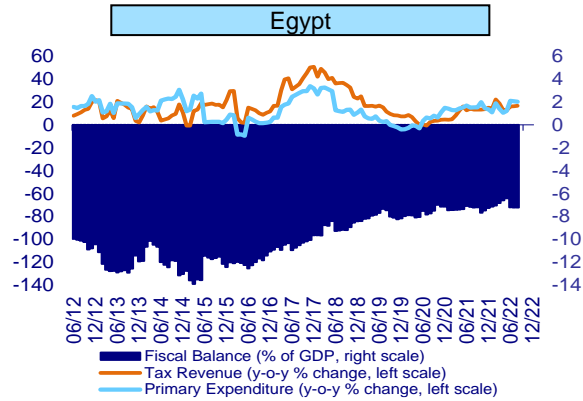
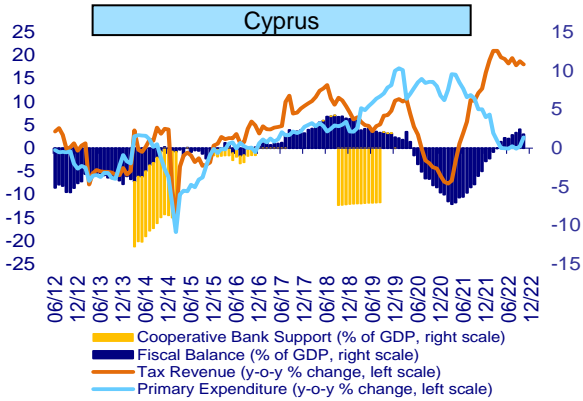
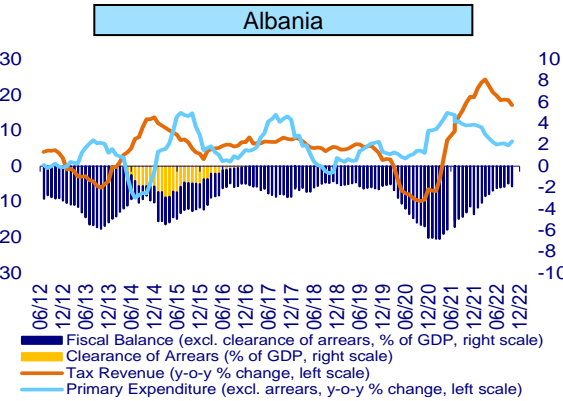
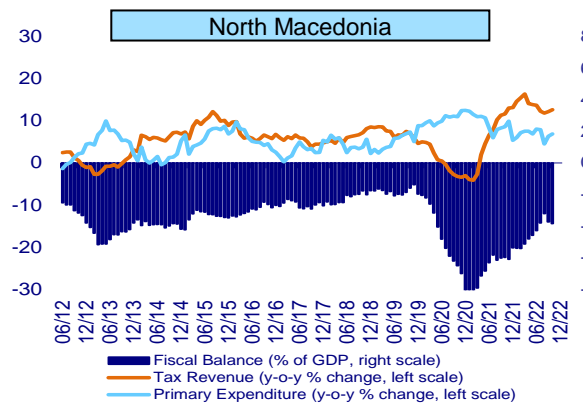
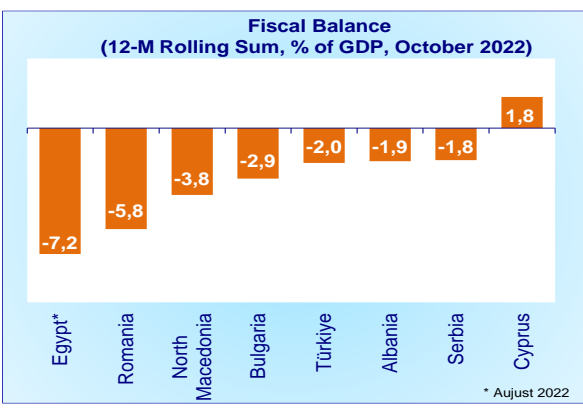
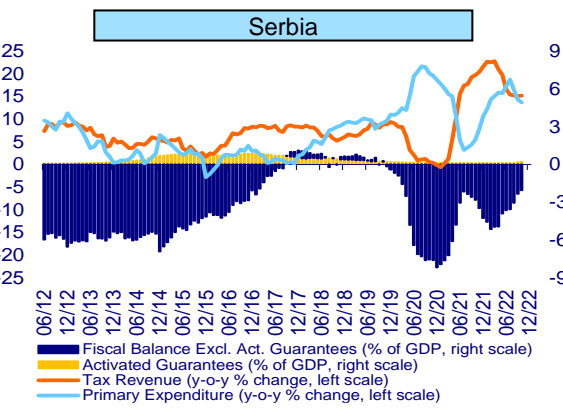
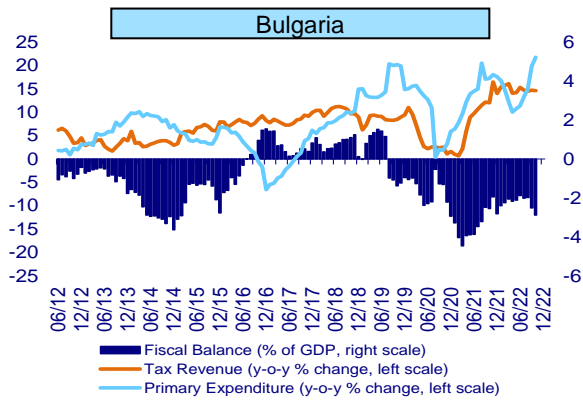
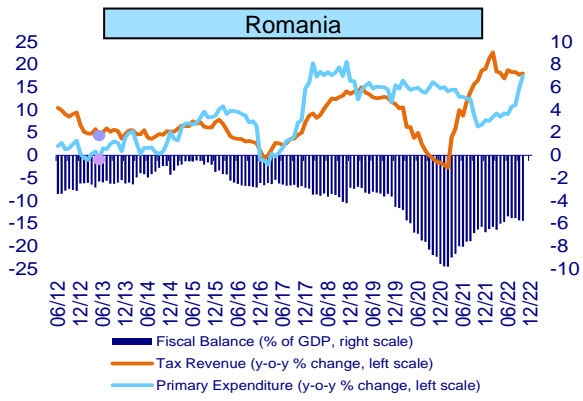
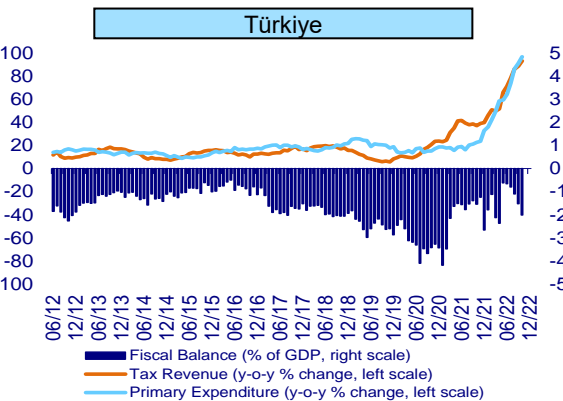
Reserve Requirement Ratios (%)			
	Dec. 2020	Dec. 2021	Dec. 2022
LC Liabilities	1.0	1.0	1.0
FC Liabilities	1.0	1.0	1.0

### Egypt

Reserve Requirement Ratios (%)			
	Dec. 2020	Dec. 2021	Dec. 2022
LC Liabilities	14.0	14.0	18.0
FC Liabilities	---	---	---

# Fiscal performance (12-month rolling)

Fiscal accounts in most of the countries under review have improved in 2022, as strong inflation-driven growth in (tax) revenue has more than offset growth in spending, despite measures to mitigate the impact of high energy prices. The phase-out of pandemic support measures has also helped to this end



## Fiscal balance (12-month rolling, % of GDP)

- The extension of energy support measures, together with the impact of slowing economic growth and rising interest rates, suggest a **slow pace of fiscal consolidation** next year
- A significant reduction in budget deficits is expected only in **2024**, thanks to a rebound in economic activity

### Türkiye

Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
-2.7	-3.5	-3.8	-3.2

### Romania

Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
-6.8	-6.0	-5.2	-4.2

### Bulgaria

Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
-2.8	-3.0	-3.0	-2.4

### Serbia

Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
-4.1	-3.8	-3.3	-2.5

### North Macedonia

Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
-5.4	-5.0	-4.5	-3.5

### Albania

Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
-4.5	-3.3	-3.0	-2.4

### Cyprus

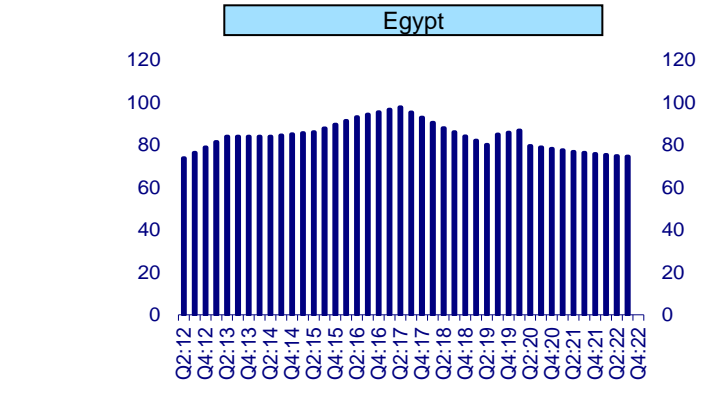
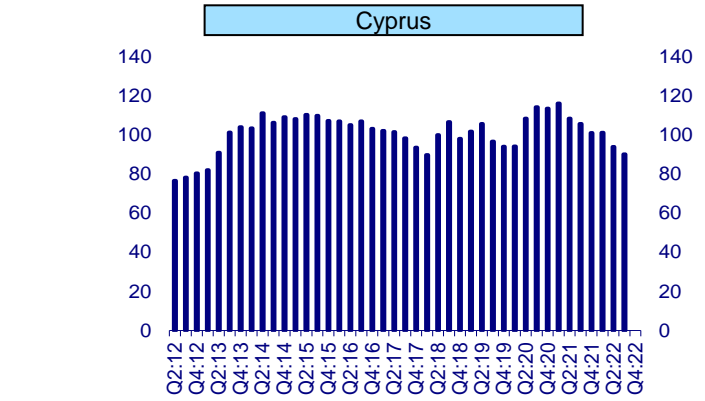
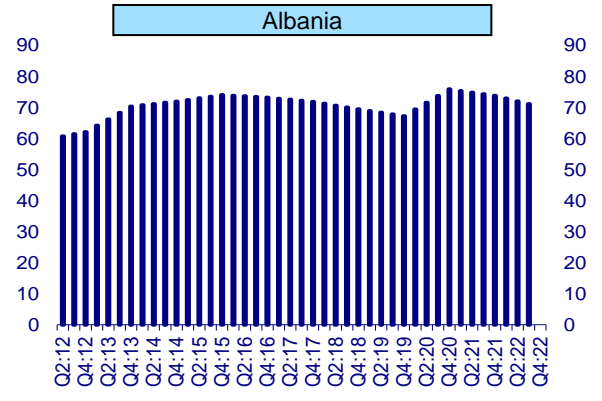
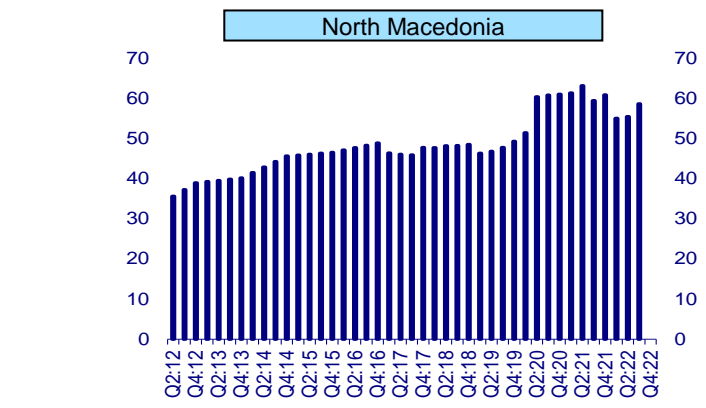
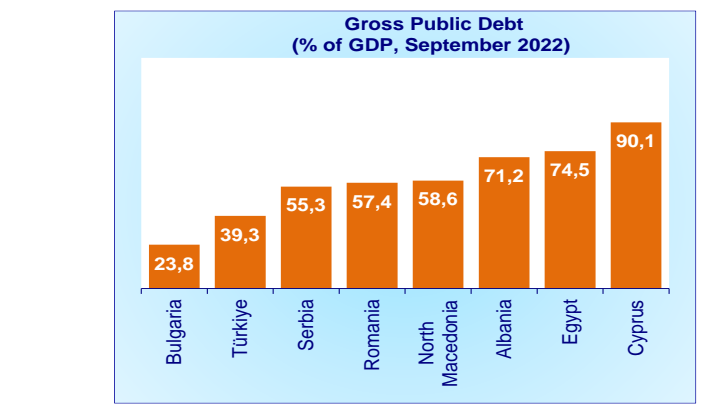
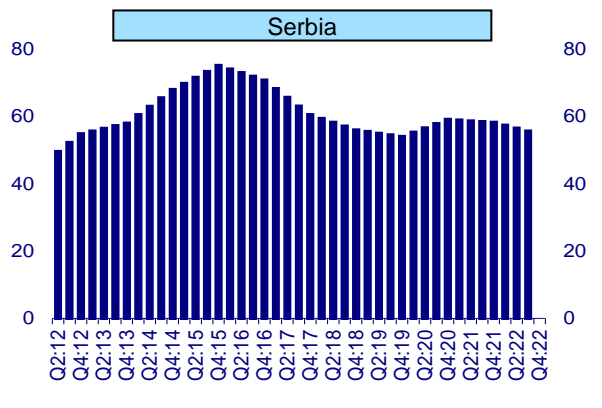
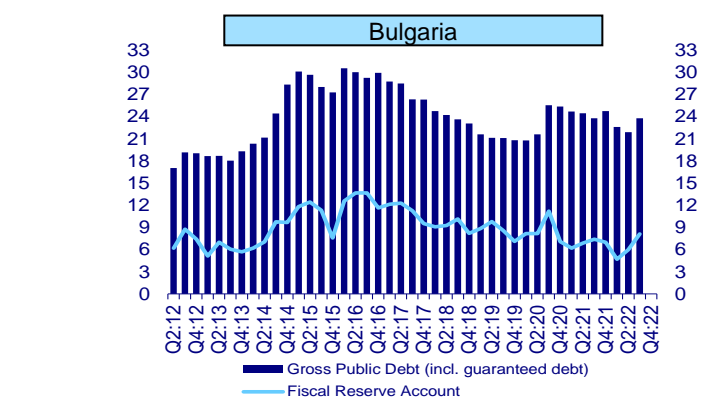
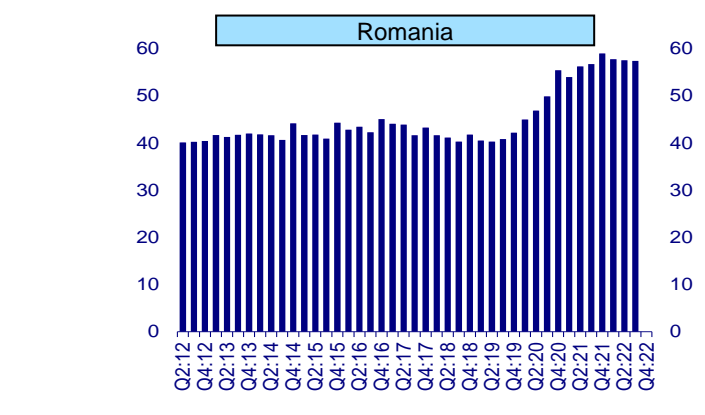
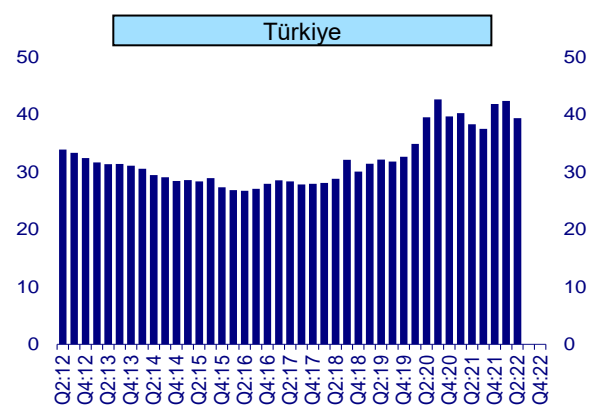
Dec. 21	Dec. 22F	Dec. 23F	Dec. 24F
-1.7	1.0	1.0	1.5

### Egypt\*

Jun. 21	Jun. 22E	Jun. 23F	Jun. 24F
-7.1	-7.2	-6.8	-6.2

\*: Fiscal year ending on June 30<sup>th</sup>.

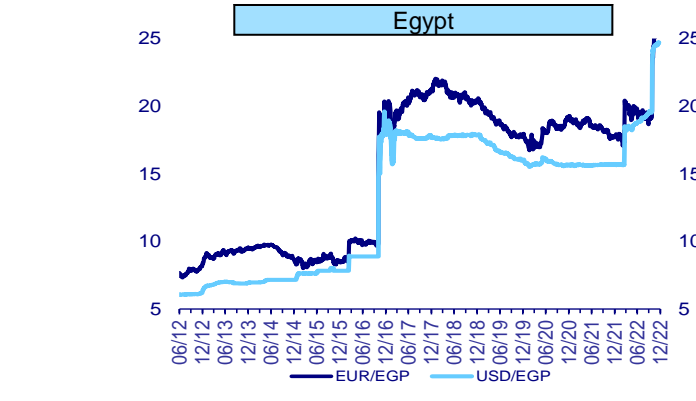
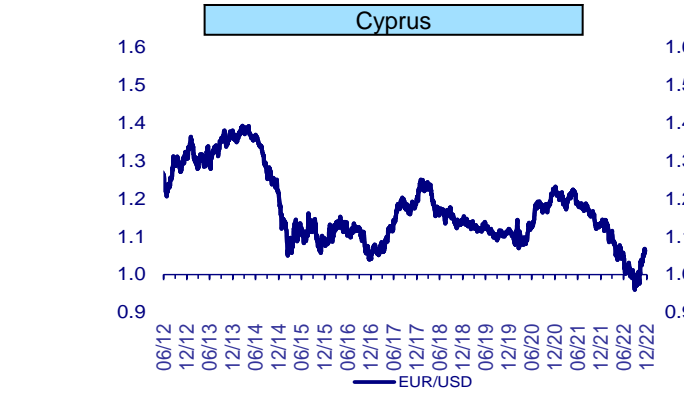
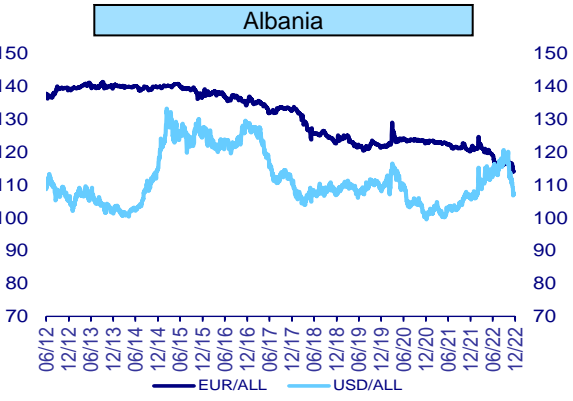
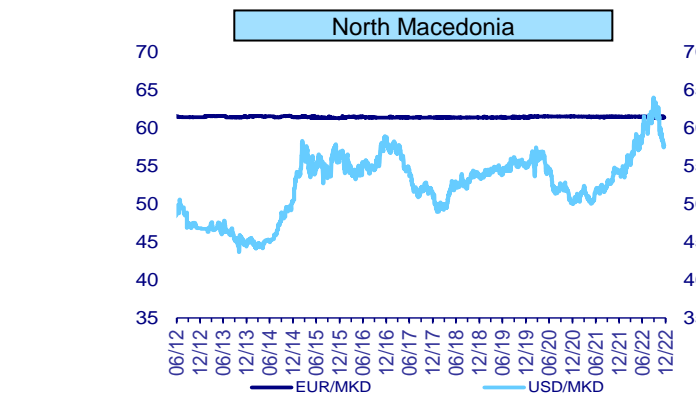
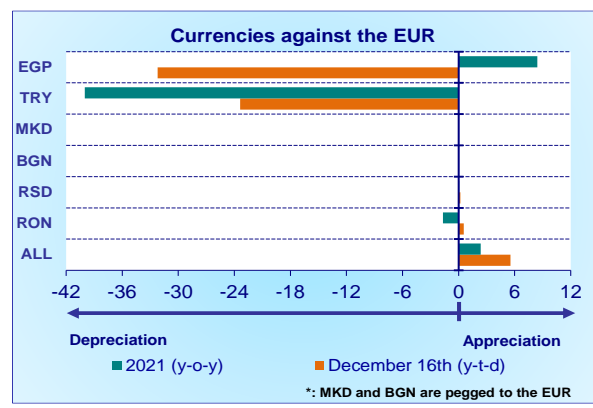
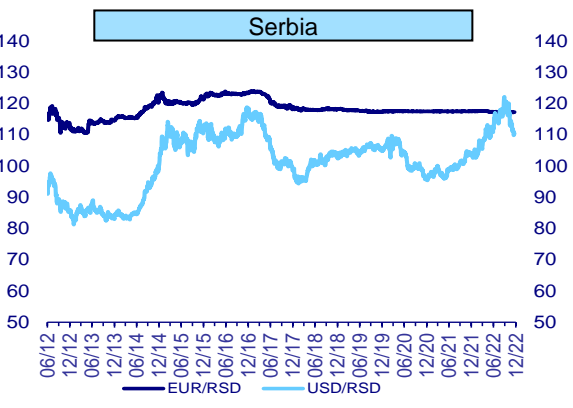
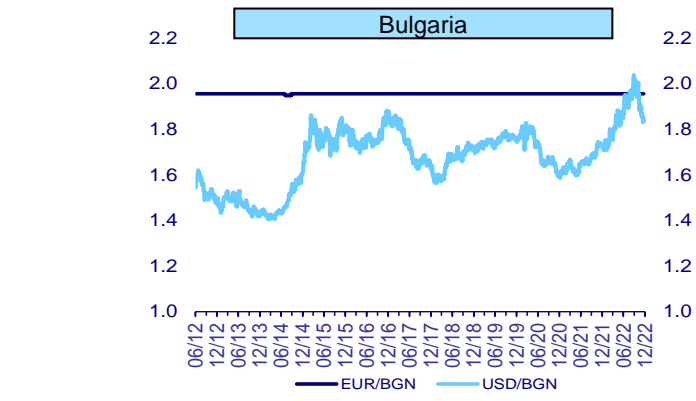
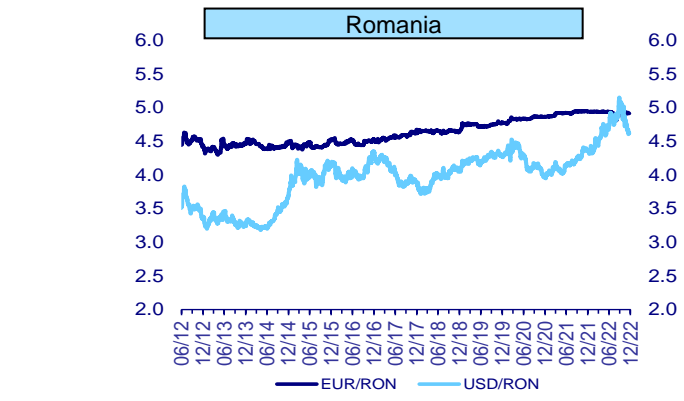
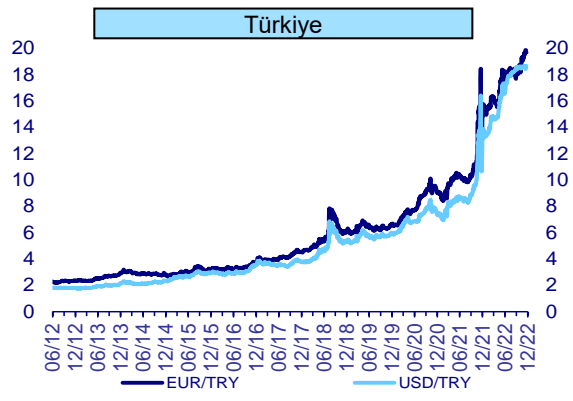
- Public debt dynamics have benefited from very strong nominal GDP growth rates (denominator effect)
- Still, public debt ratios are set to remain **above** their pre-COVID-19 levels in most countries under review



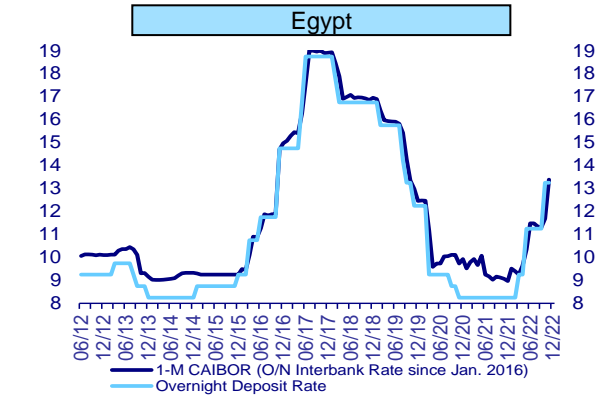
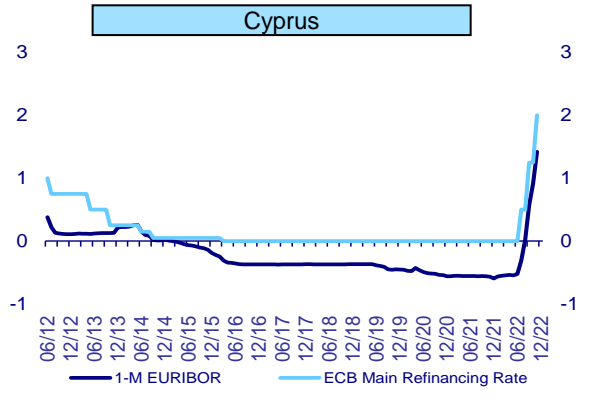
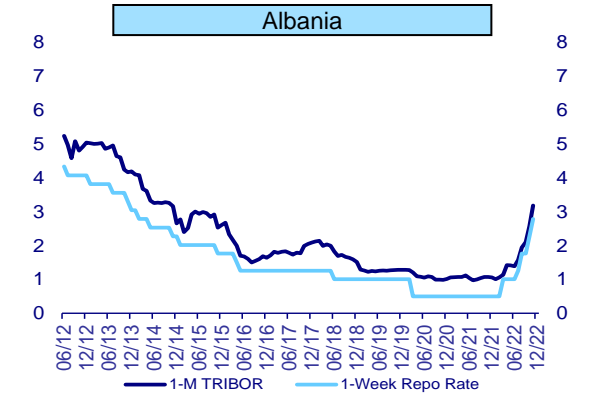
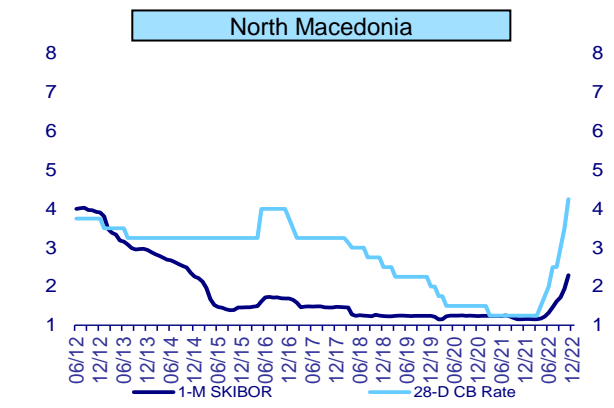
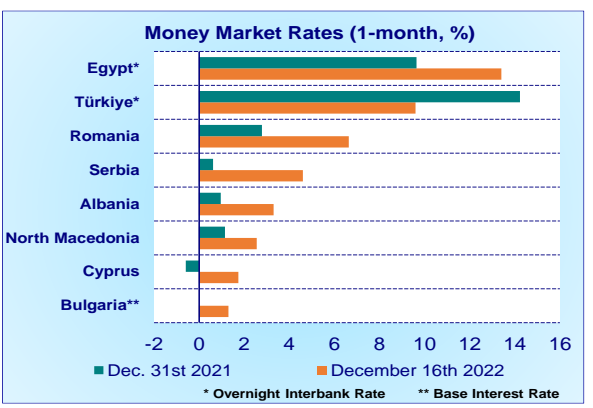
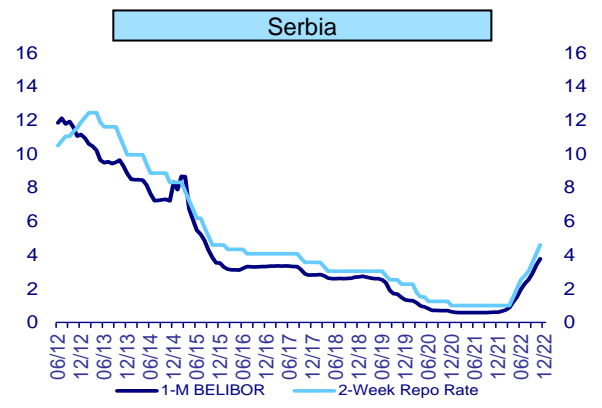
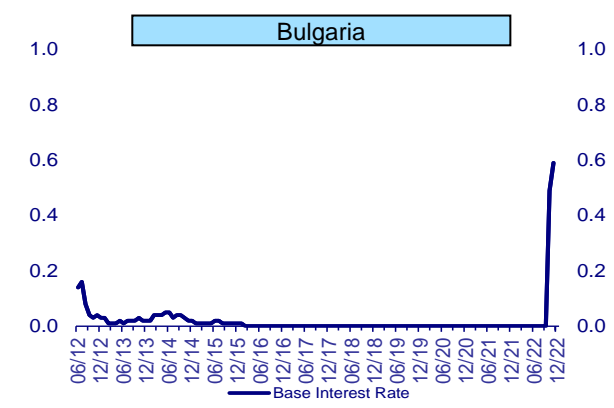
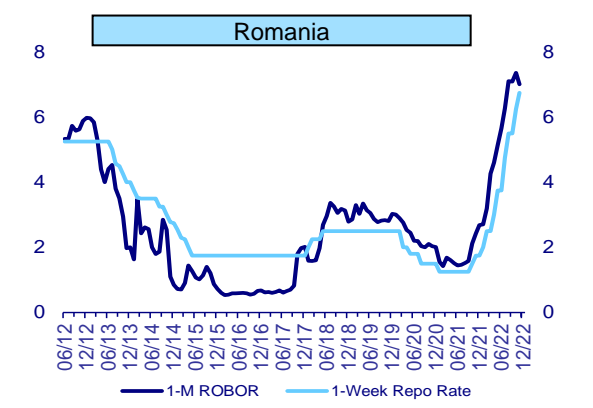
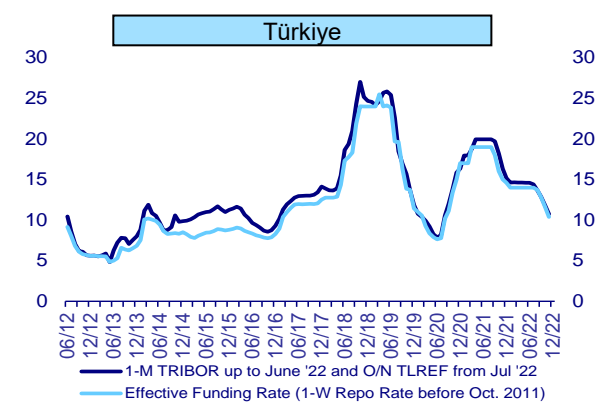


# Exchange rates

- Despite the recent correction, **all the currencies** under review **saw their value drop sharply against the USD** in 2022, due to the Fed's aggressive policy tightening
- Concerns over the consistency of the CBRT's policies, given the economy's vulnerabilities, have led to (another) massive depreciation in the **TRY** so far this year
- The **EGP** weakened sharply against the USD, following authorities' shift to a "durable" flexible exchange rate regime in November

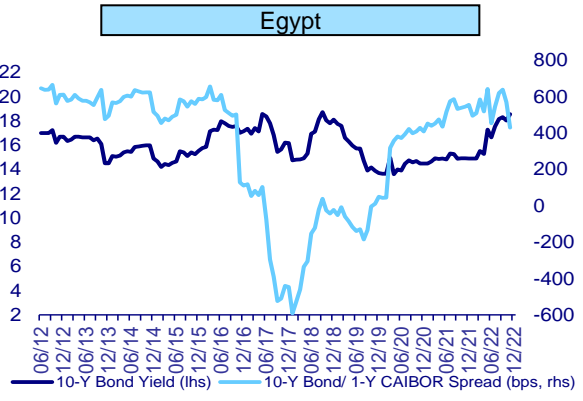
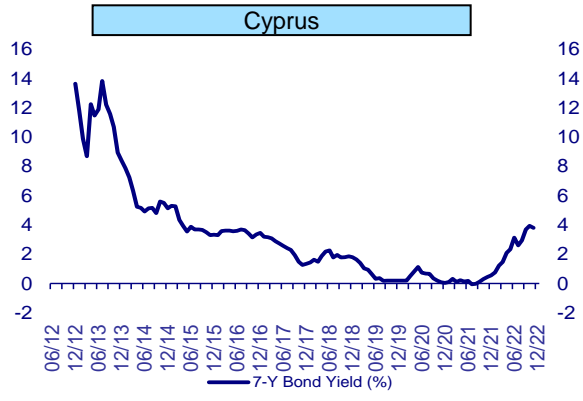
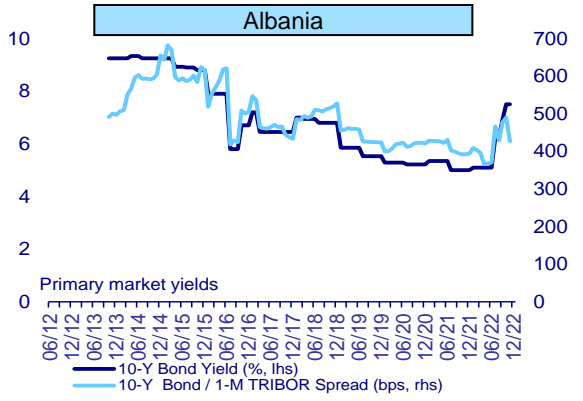
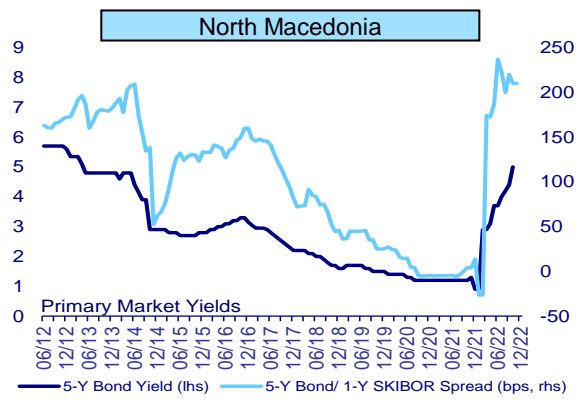
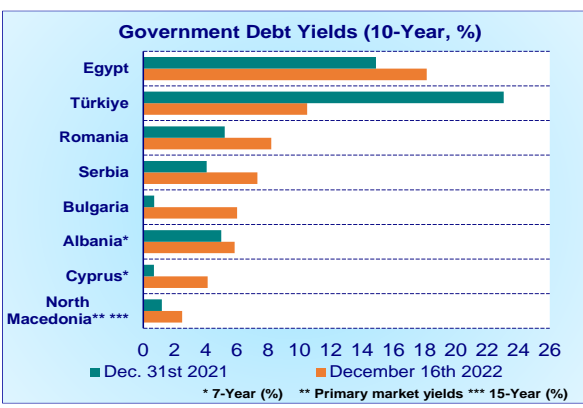
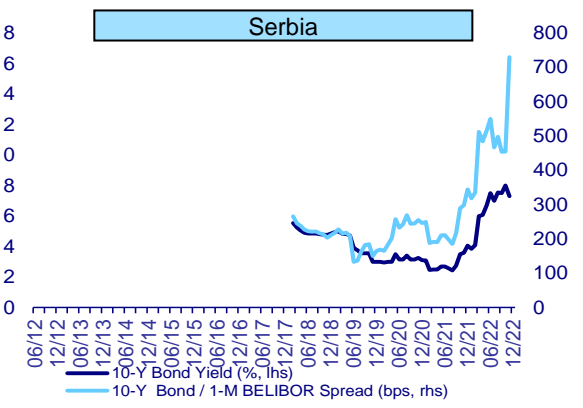
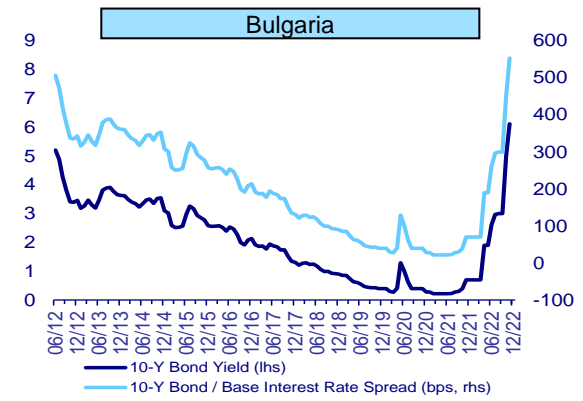
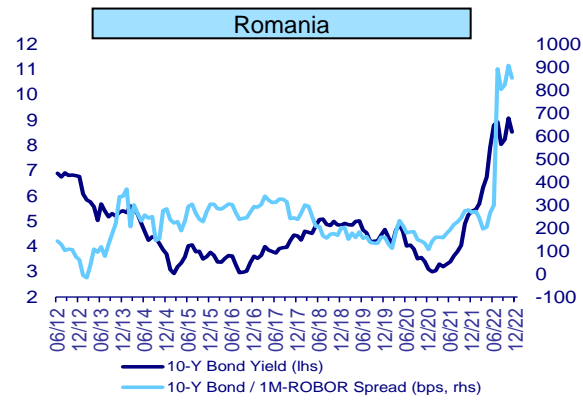
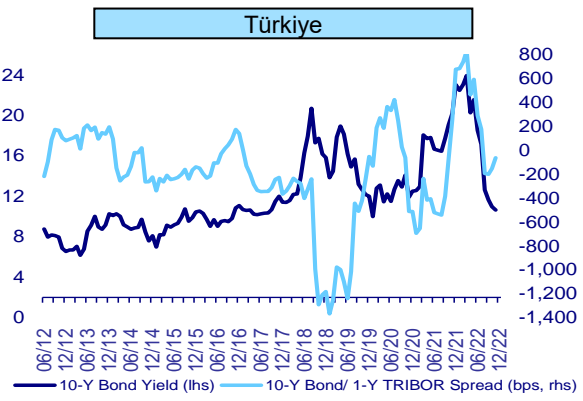


Money market rates have risen from historical low levels in virtually all the countries under review, reflecting tightening monetary policy conditions



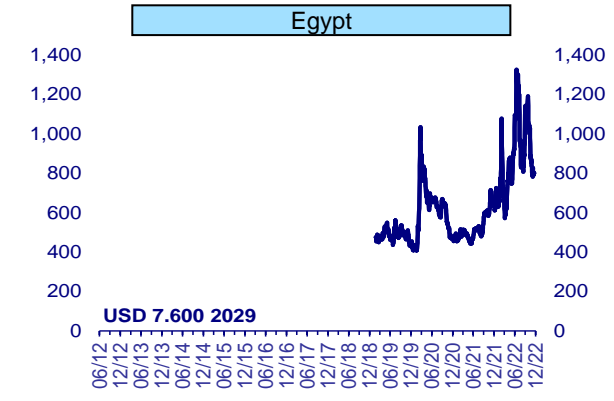
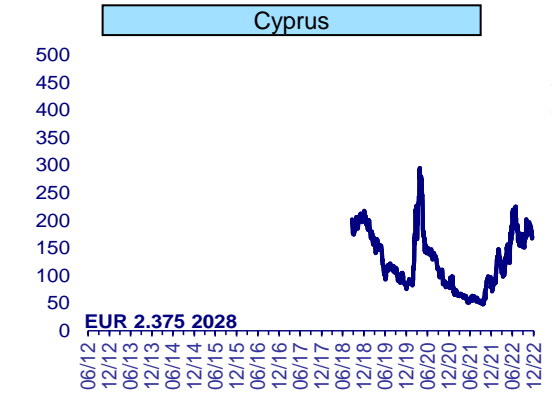
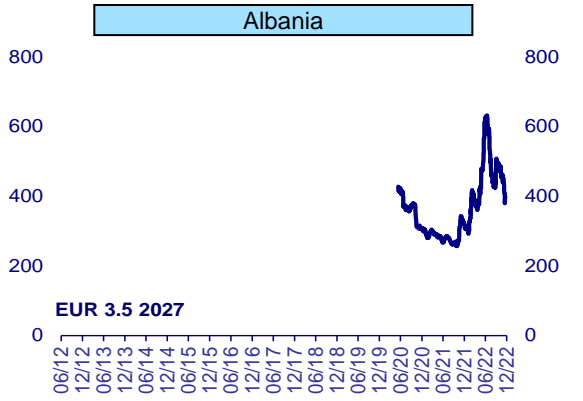
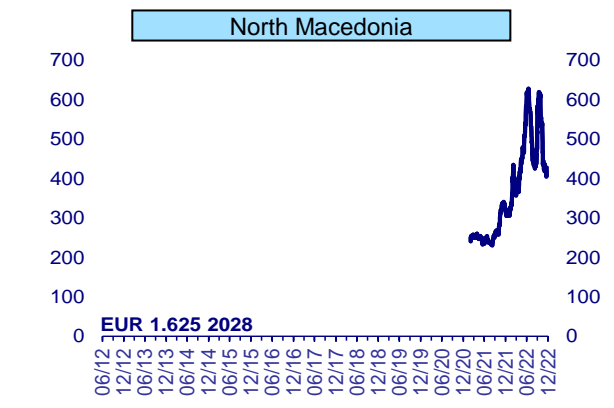
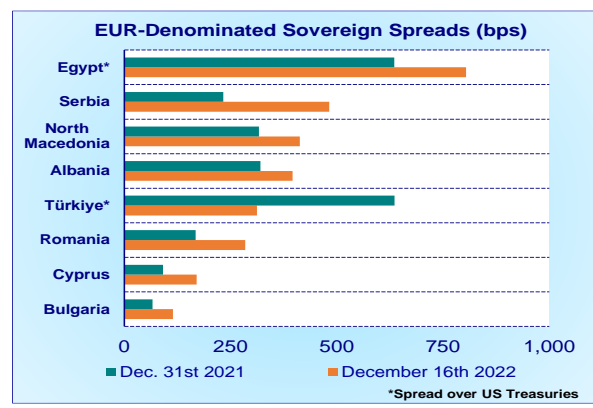
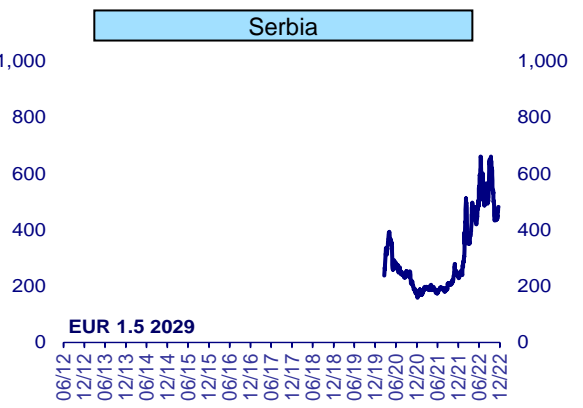
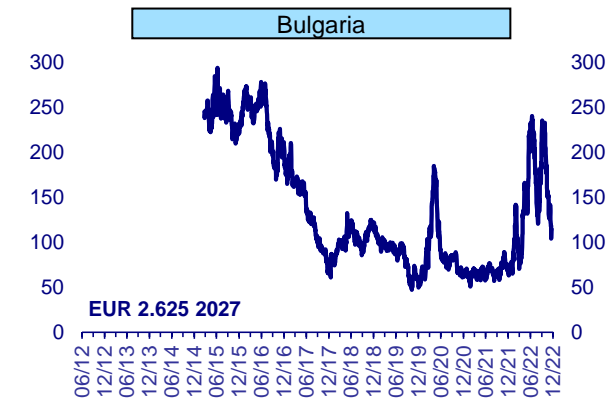
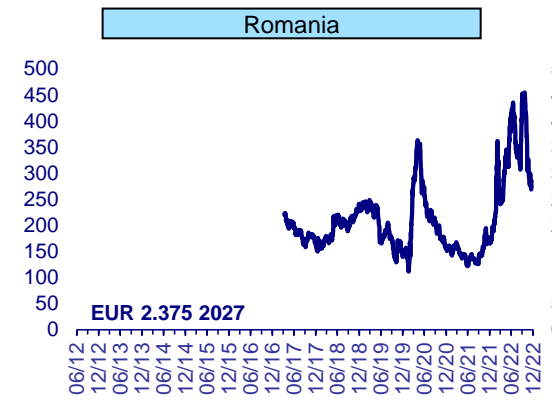
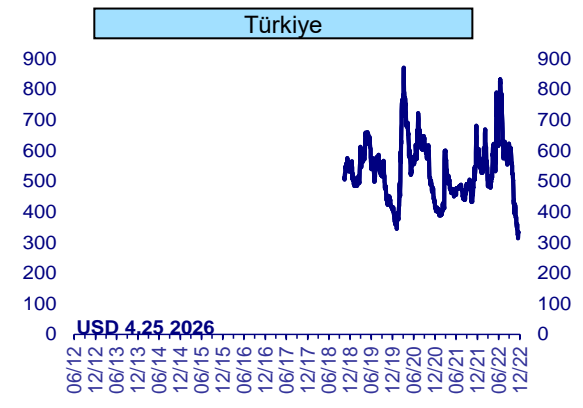
# Government debt yields (%)

- Record-high inflation and tightening monetary policy conditions have sent **debt yields soaring**, yet still below their GFC's highs
- The CBRT's bond regulations, aiming, *inter alia*, at containing dollarization, have distorted **Türkiye's** debt market



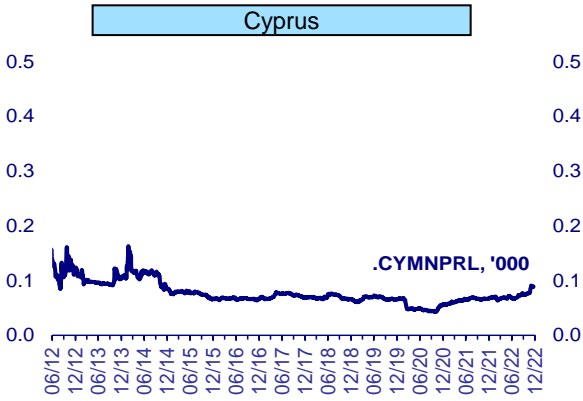
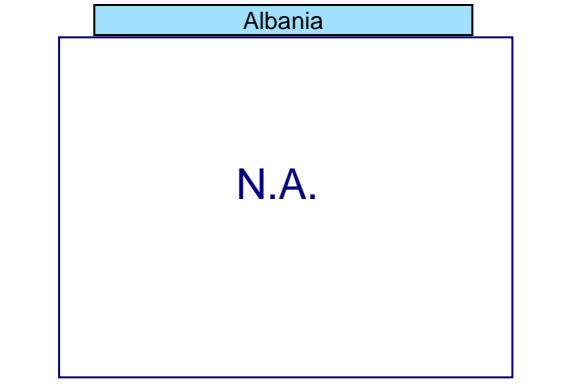
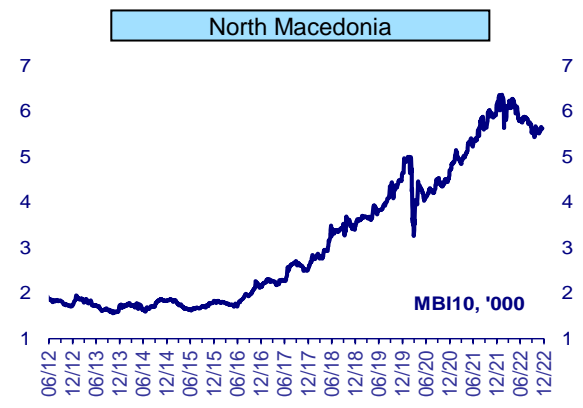
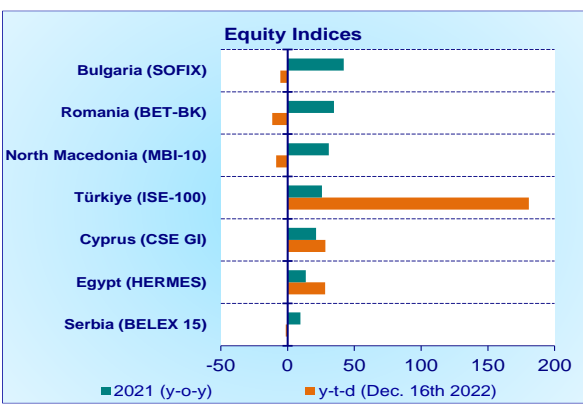
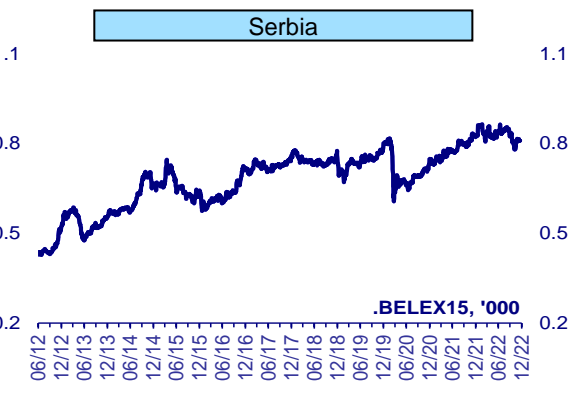
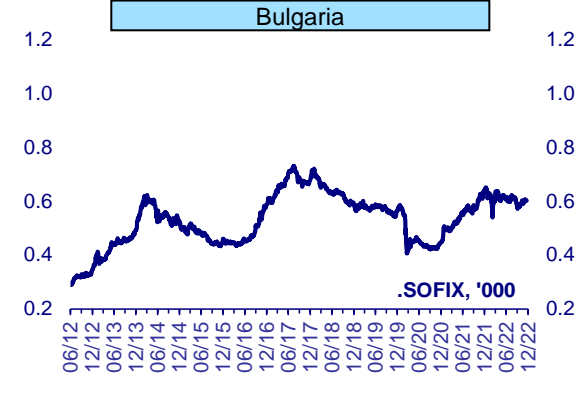
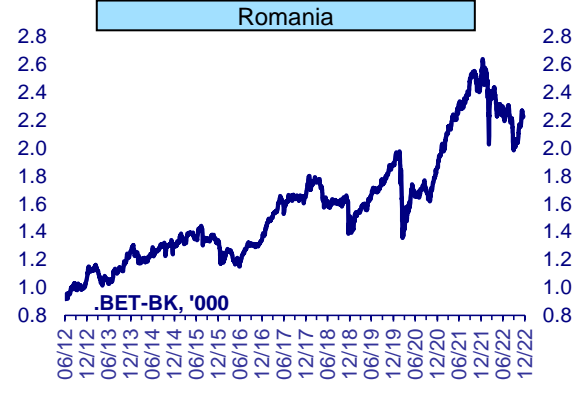
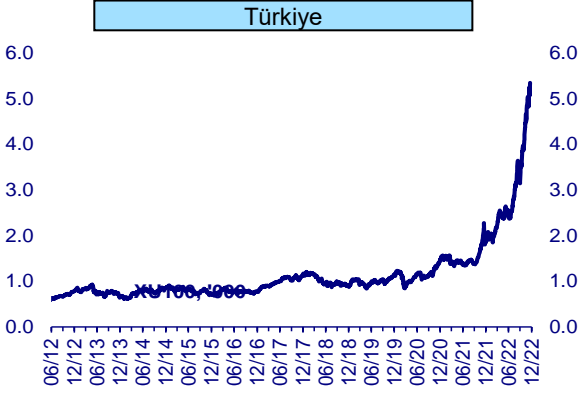
# Sovereign spreads (bps)

▪ Sovereign spreads have fallen off their recent peaks, yet remain elevated, reflecting still heightened uncertainty



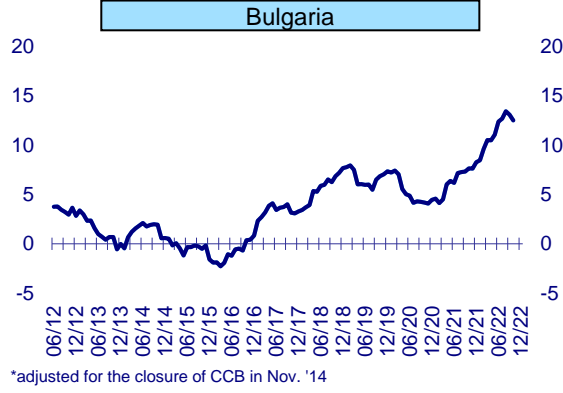
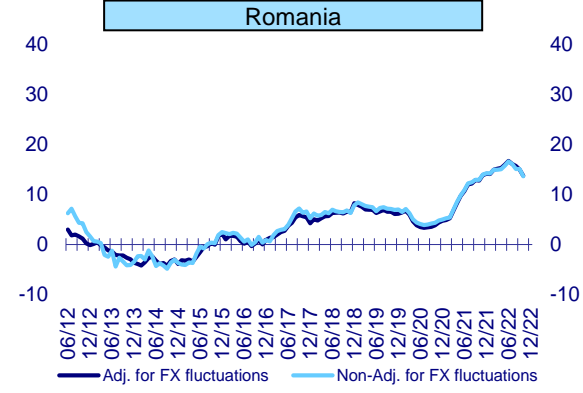
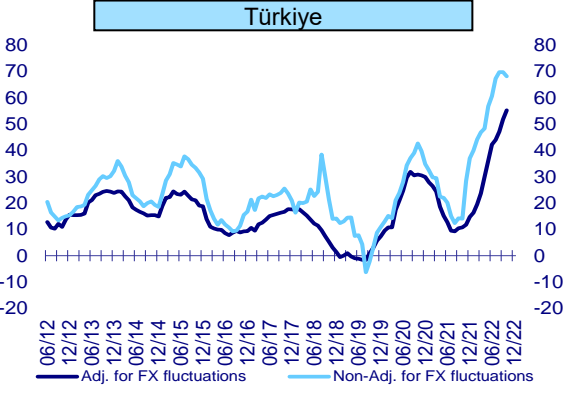
# Stock market

- Weakening economic fundamentals and tightening liquidity conditions keep stock markets remain on a **downward trend** in most of the countries under review
- In **Türkiye**, strong domestic demand for equities as a hedge against inflation has pushed up stock market valuations to record-high levels
- Following the depreciation of the EGP and the agreement with the IMF, the **Egyptian** stock market has been heading north

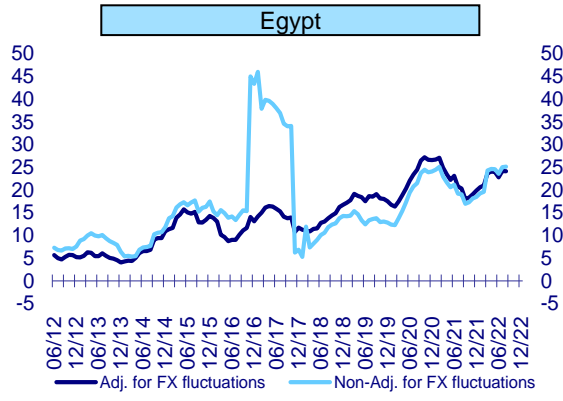
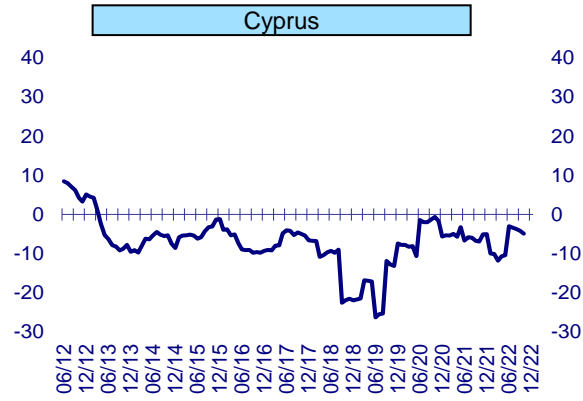
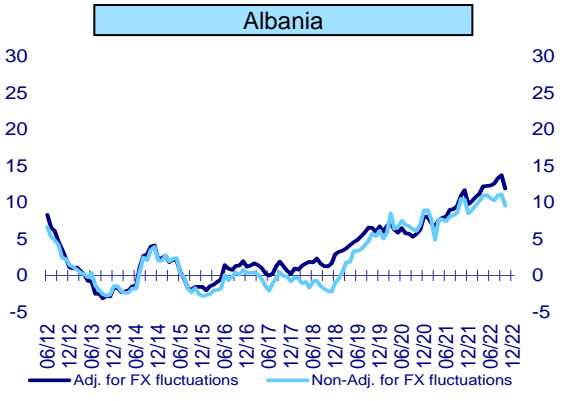
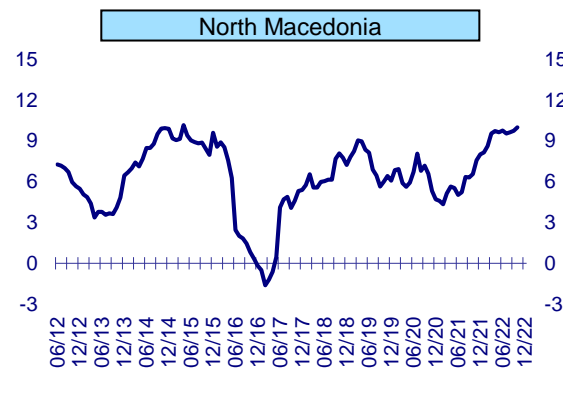
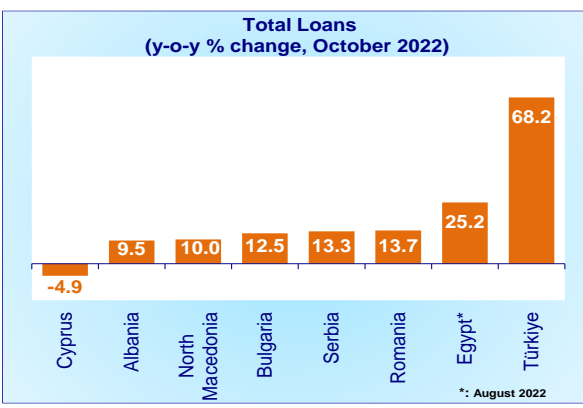
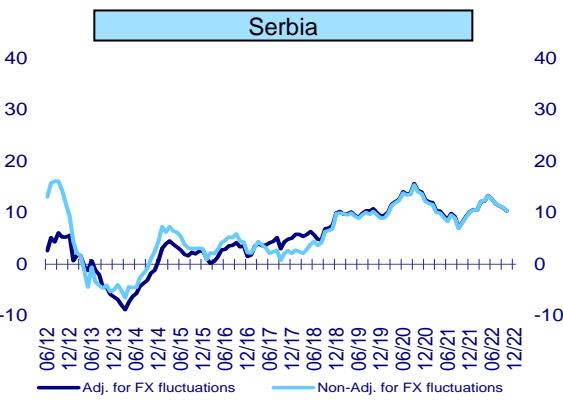


# Total loans (y-o-y % change)

- Following a strong credit expansion in 2022 (with corporate lending having emerged as the main driver), **credit uptake cannot but be affected by slowing economic growth and gradually tightening financing conditions** (as implied by rising interest rates and central banks' more stringent macroprudential policies)
- In **Türkiye**, credit growth has been surging, reflecting skyrocketing inflation against the backdrop of an inconsistently loose monetary policy

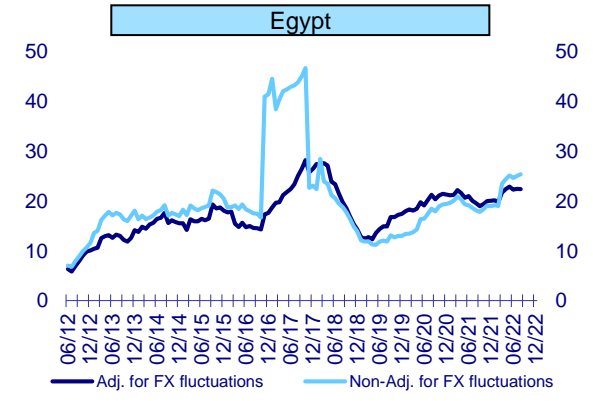
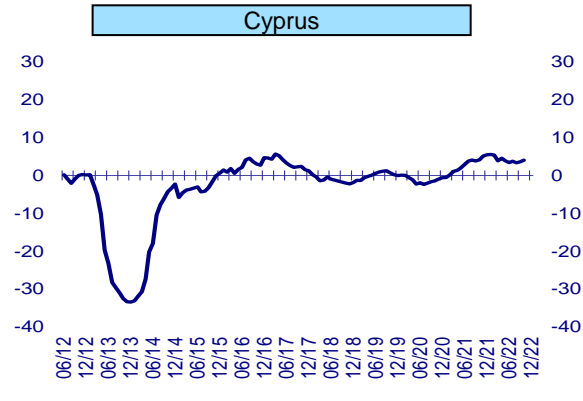
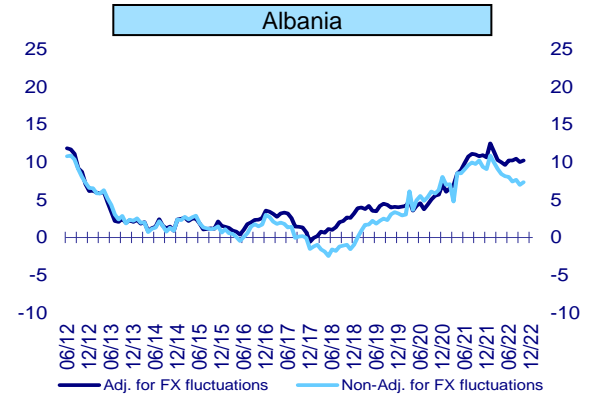
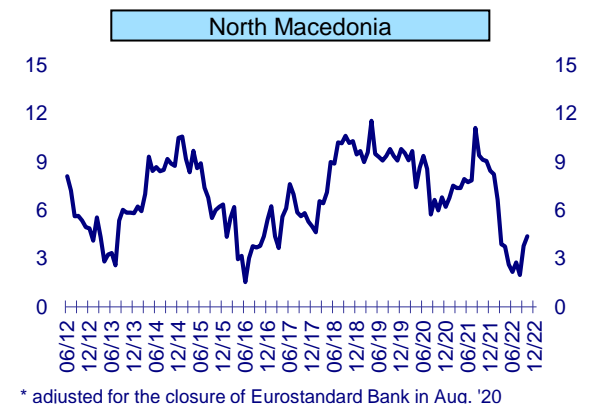
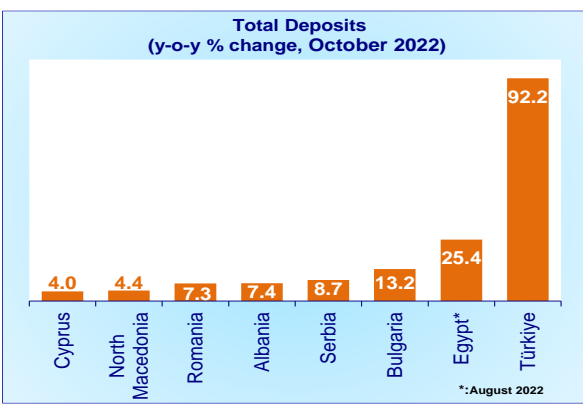
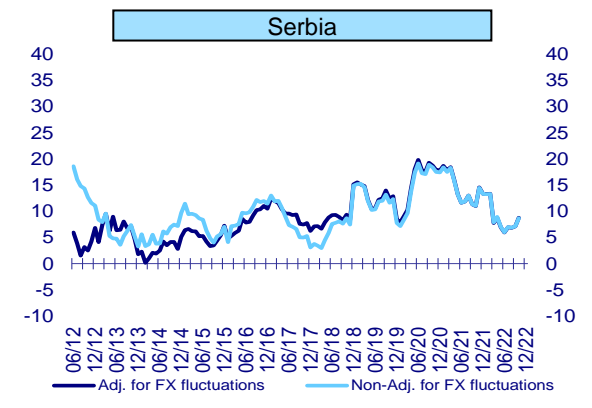
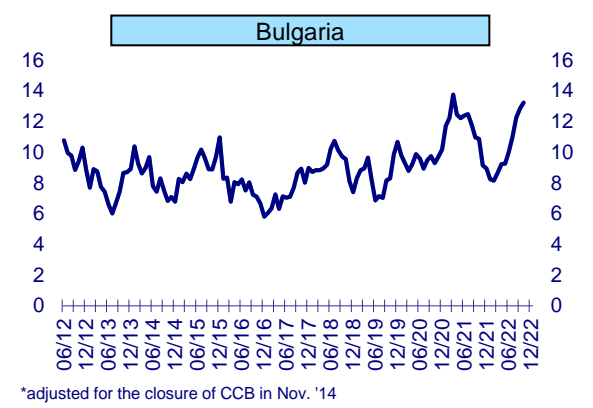
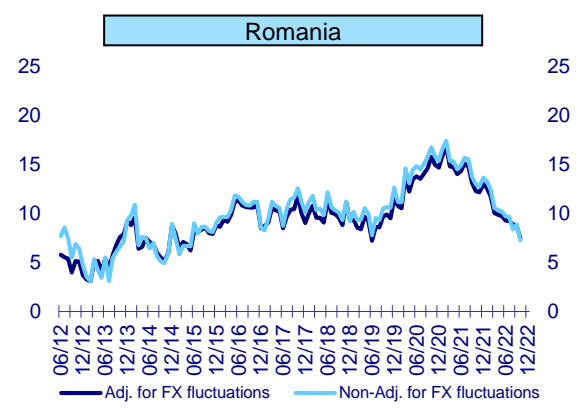
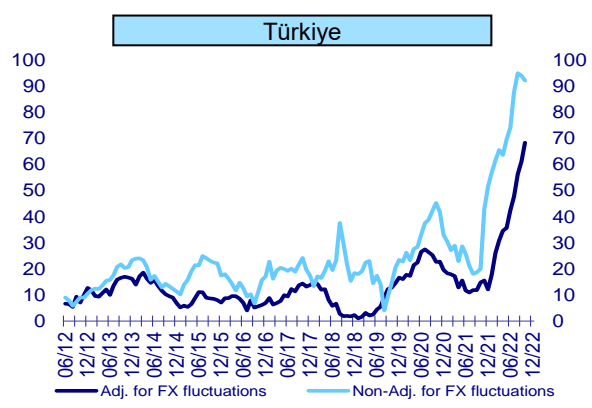


\*adjusted for the closure of CCB in Nov. '14

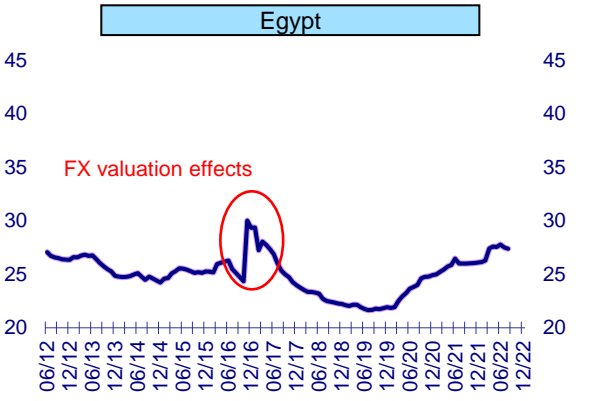
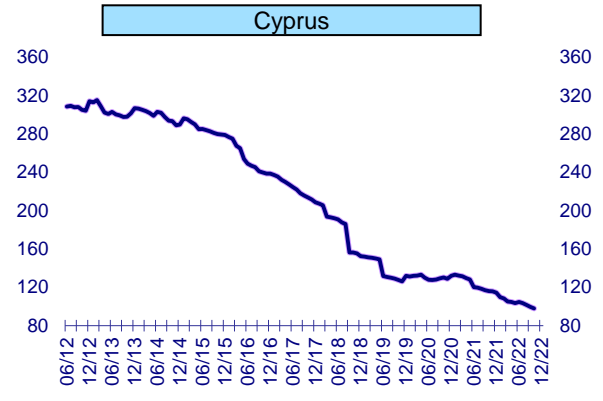
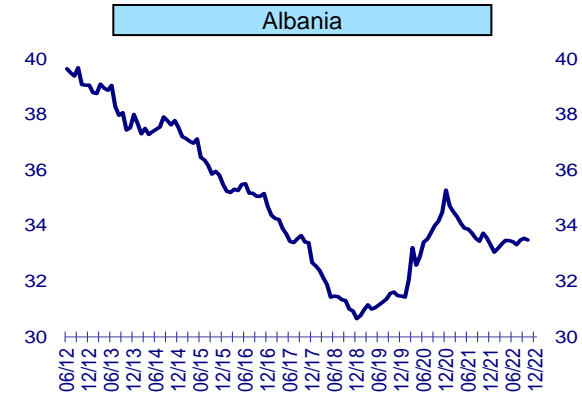
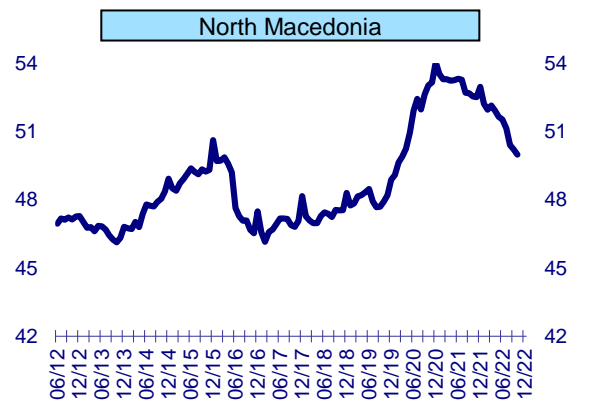
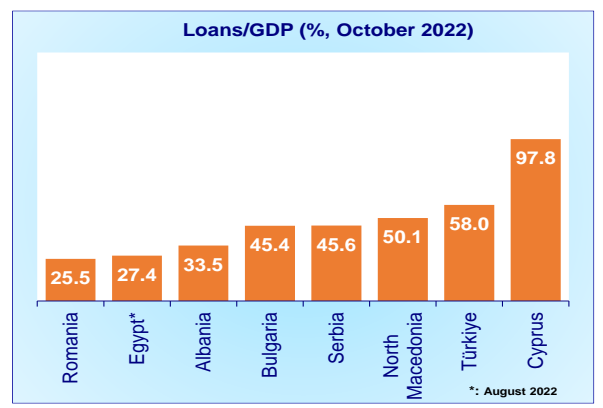
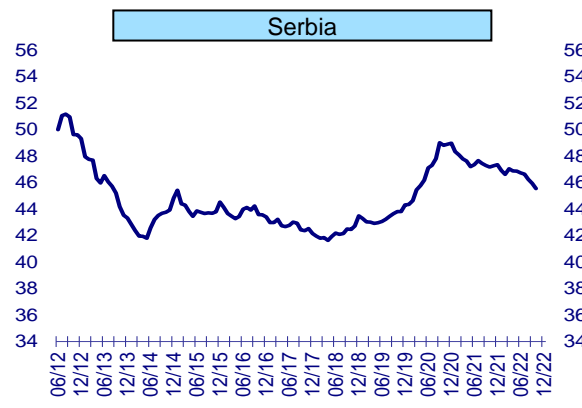
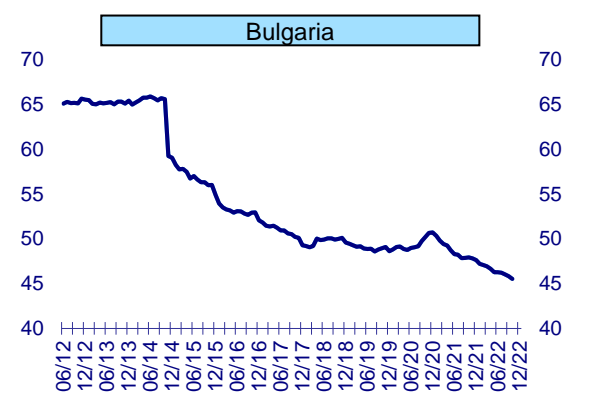
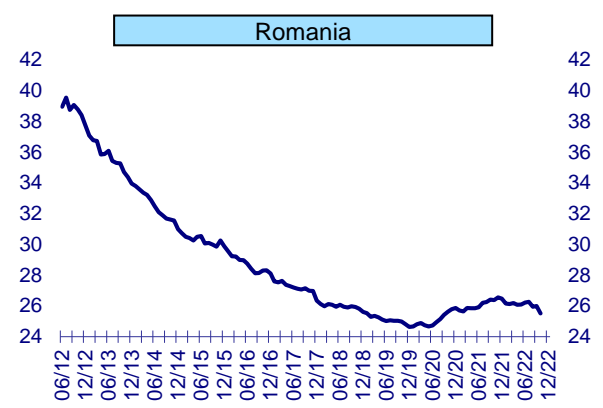
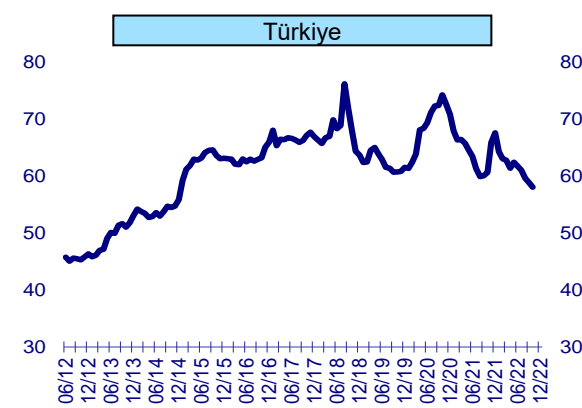


# Total deposits (y-o-y % change)

Increased recourse to deposits to counter the inflation shock has been translated into slowing deposit growth in most of the banking systems under review



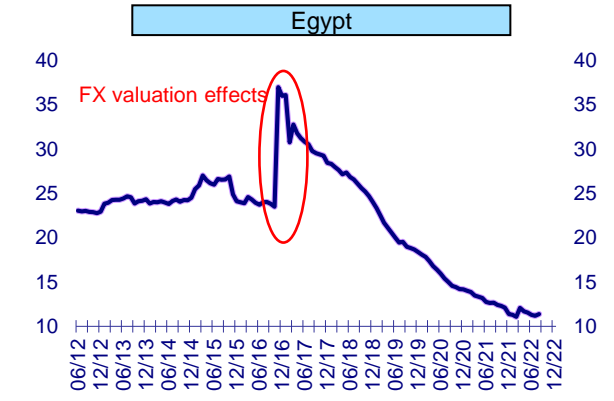
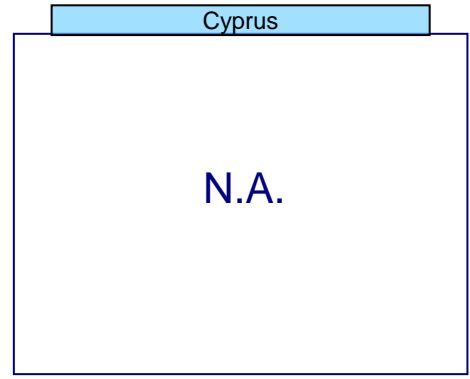
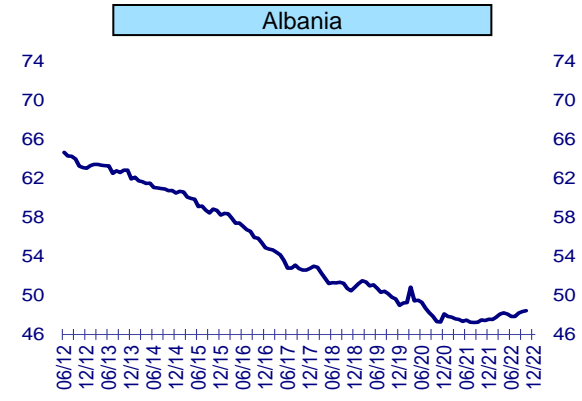
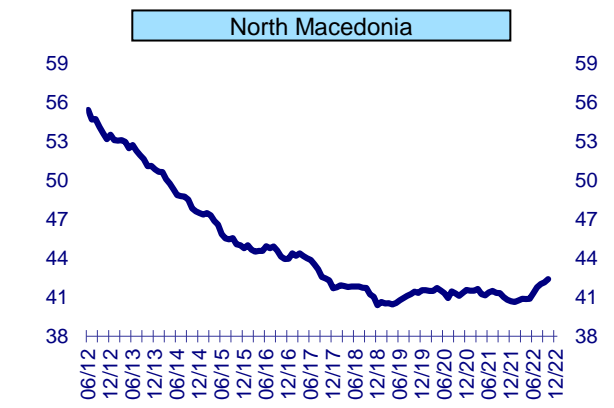
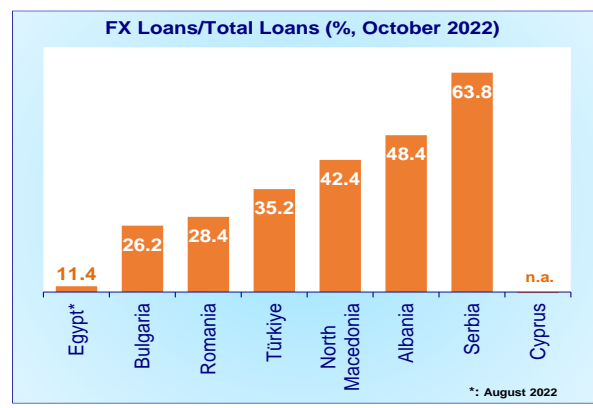
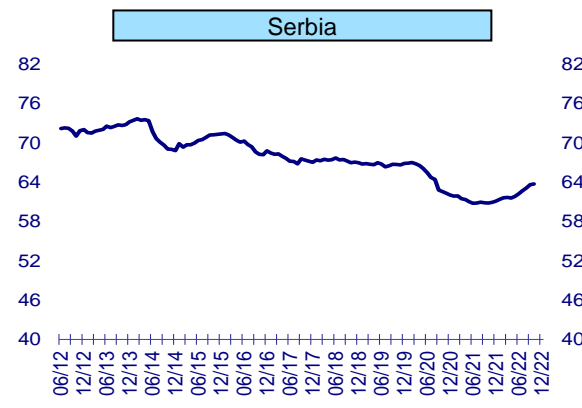
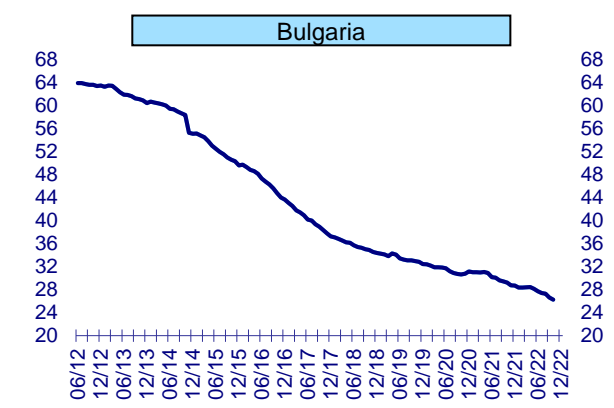
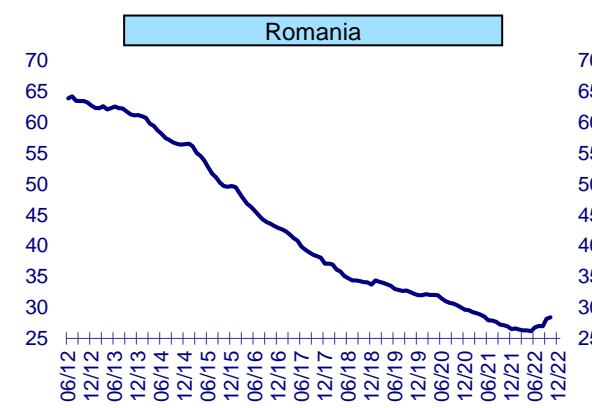
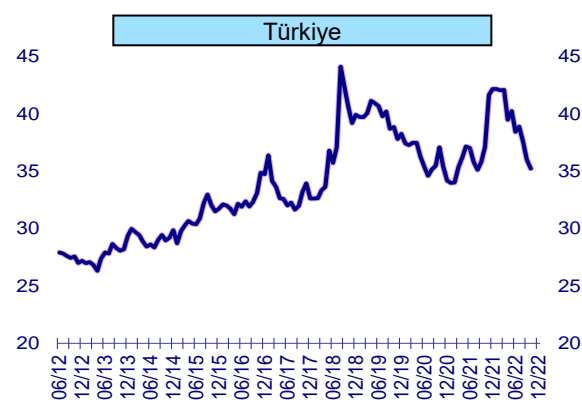
All economies under review, except Cyprus, are still **underpenetrated in terms of lending**



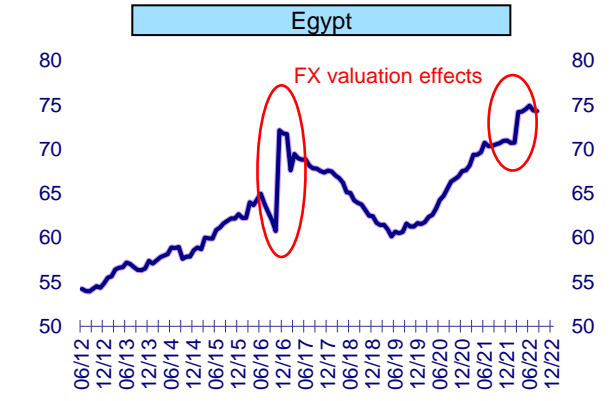
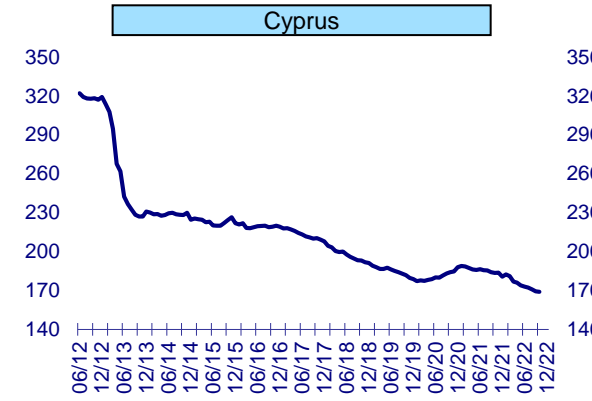
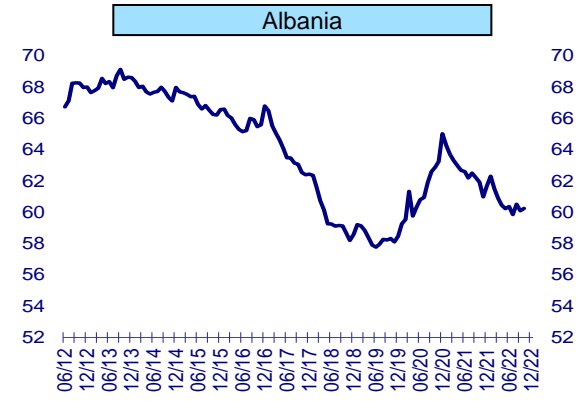
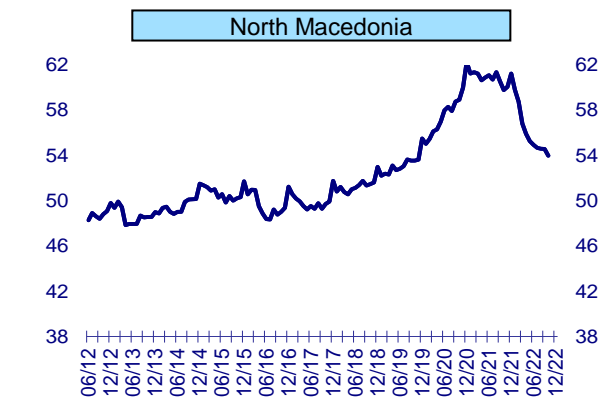
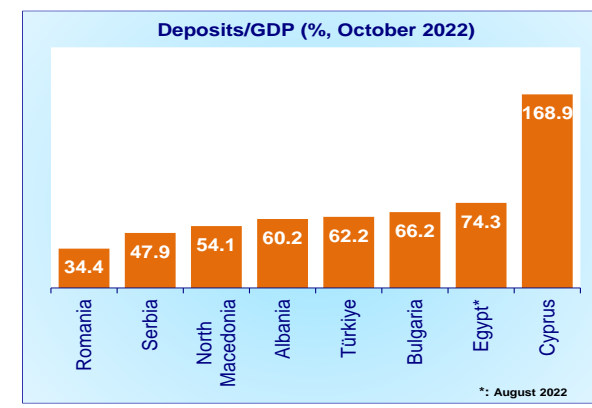
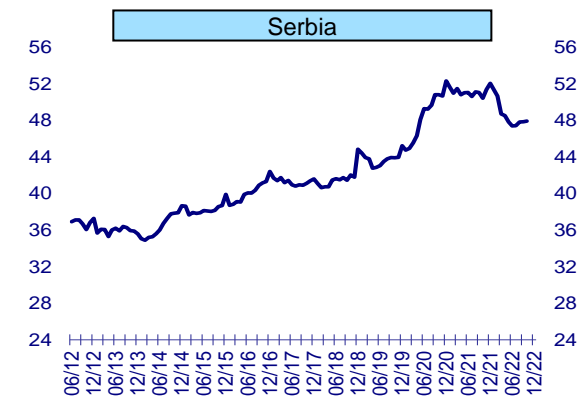
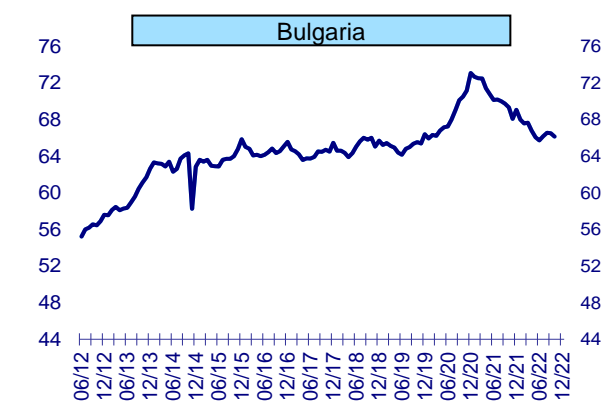
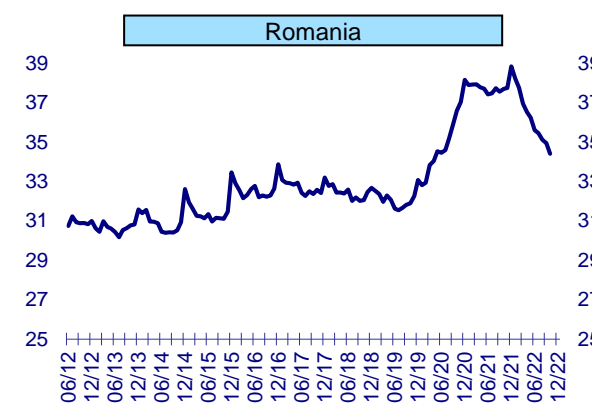
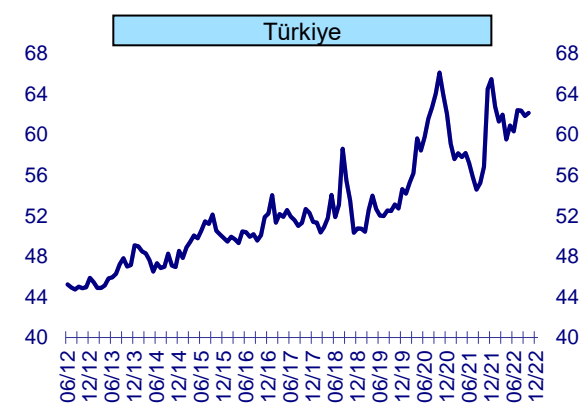


# FX loans-to-total loans ratio (%)

▪ Loan euro/dollarization remains low in most of the countries under review

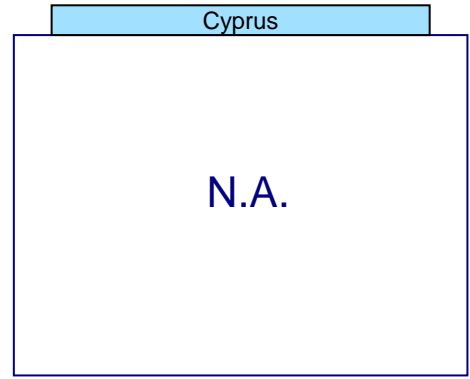
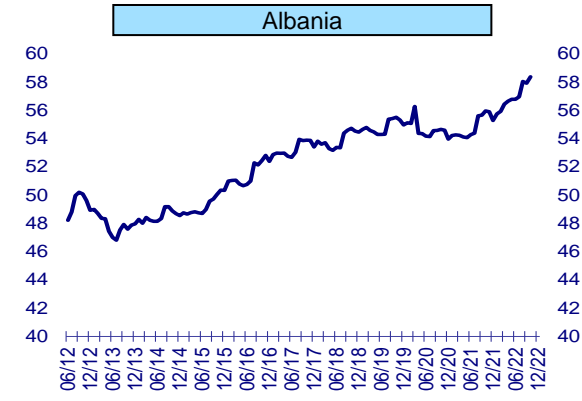
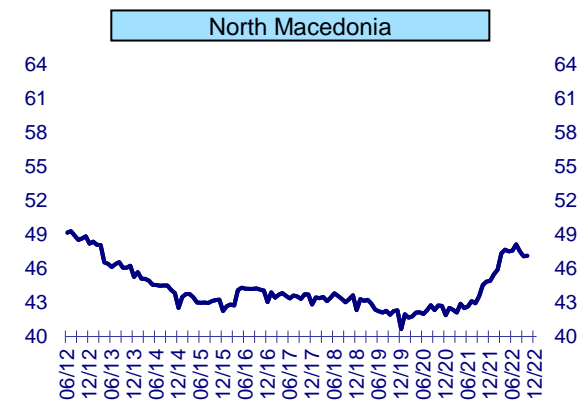
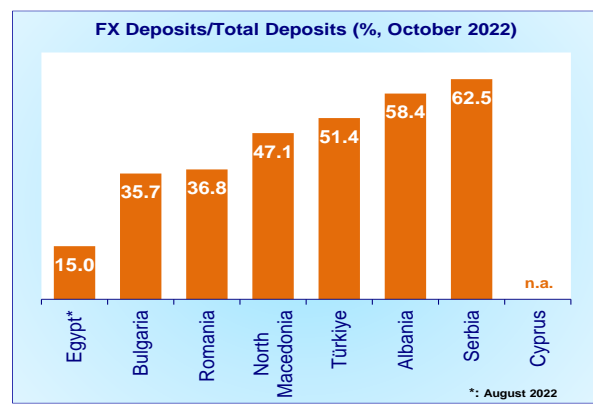
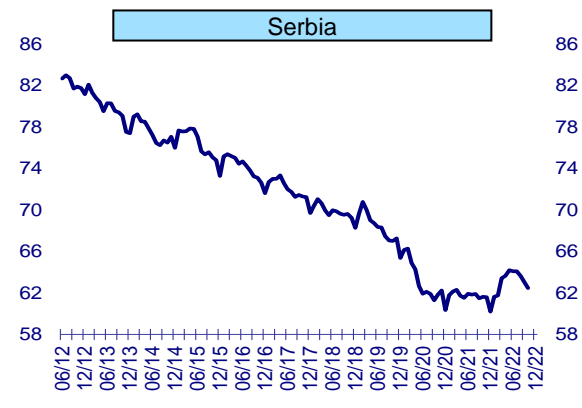
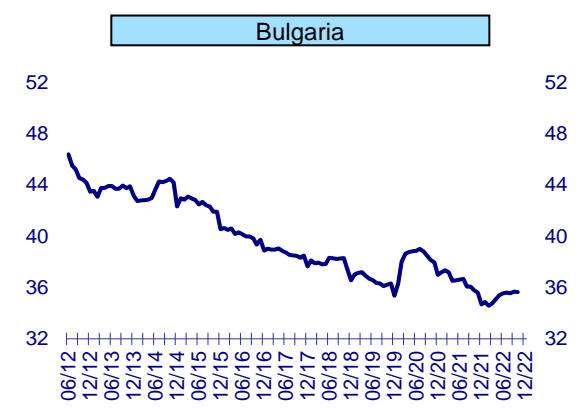
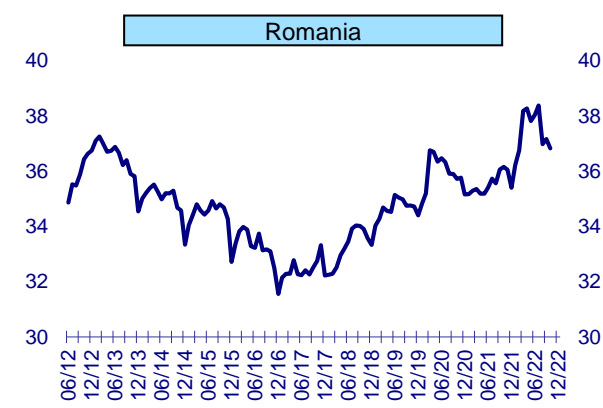
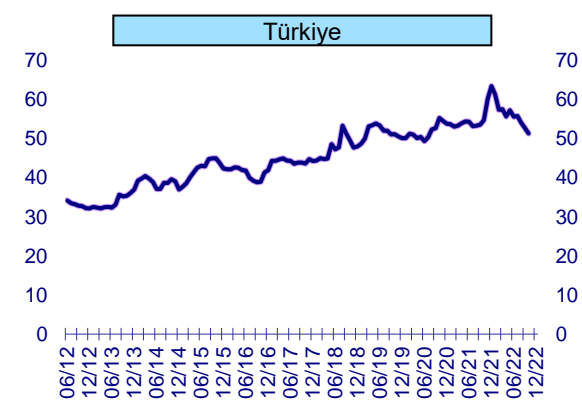


Amid stubbornly high inflation, the savings rate is expected to ease further in the period ahead



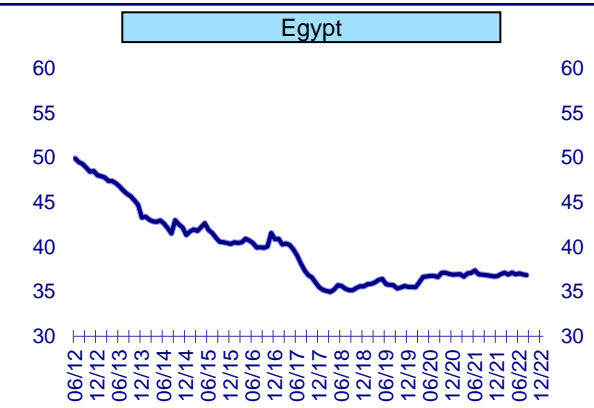
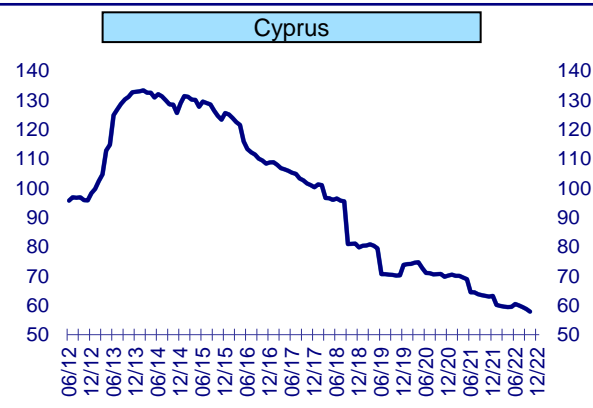
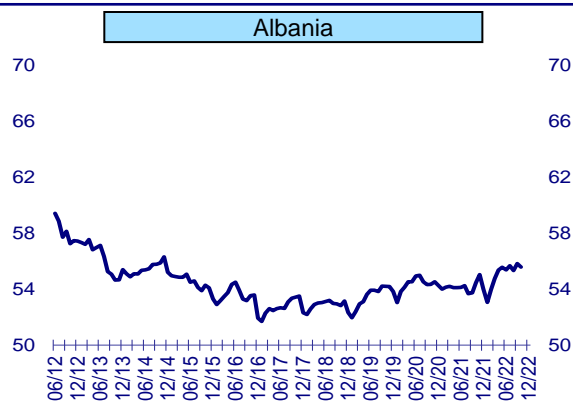
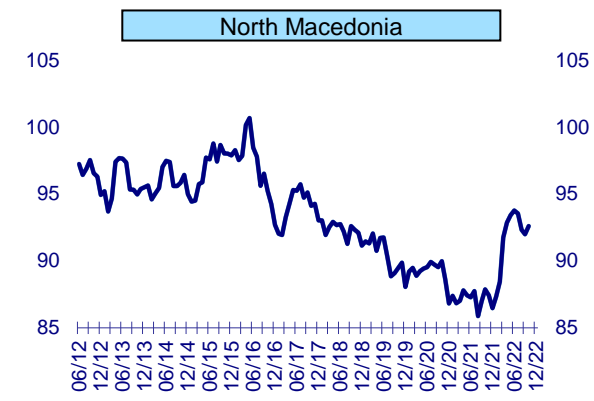
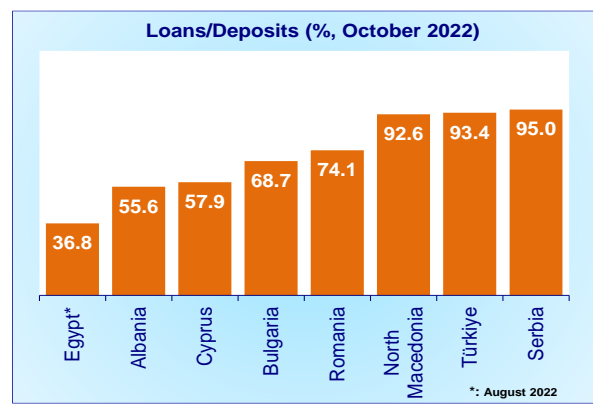
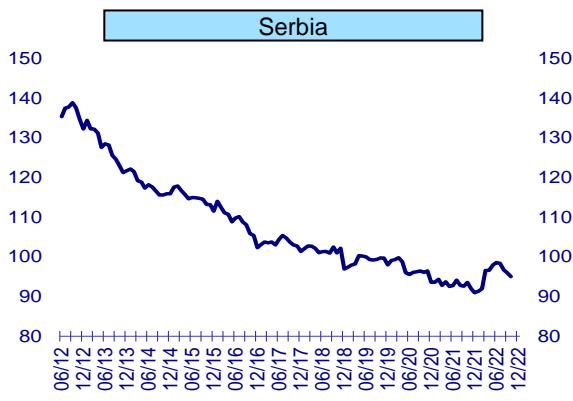
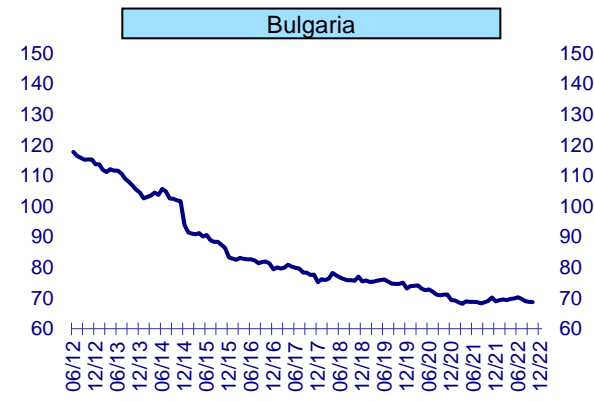
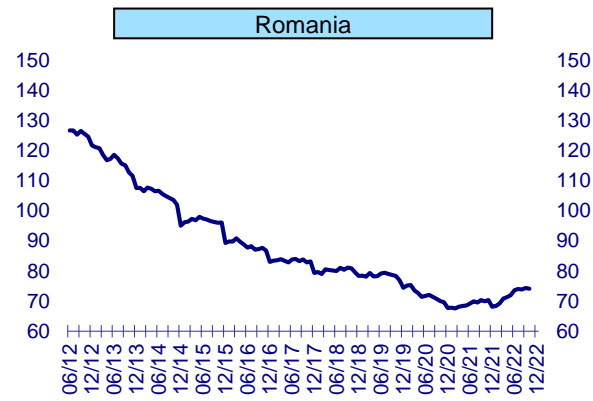
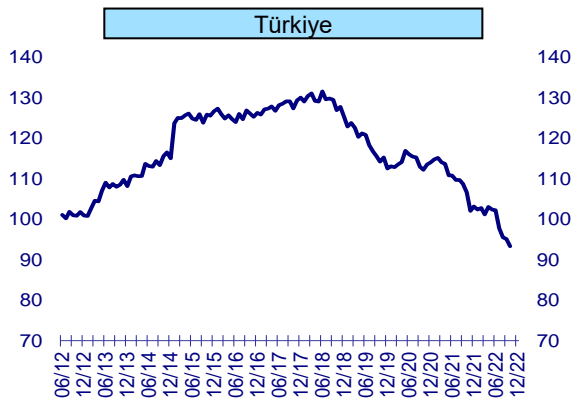
# FX deposits-to-total deposits ratio (%)

▪ The proportion of FX deposits in total deposits is higher than that for loans in most of the countries under review



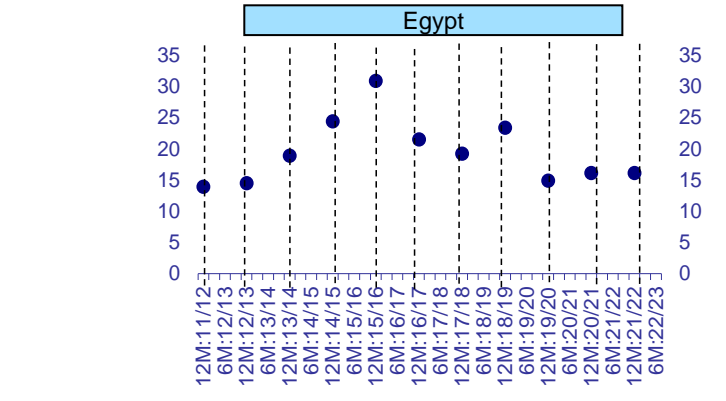
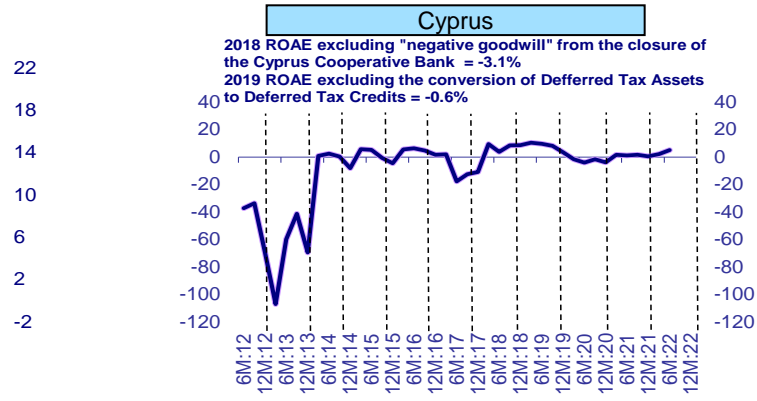
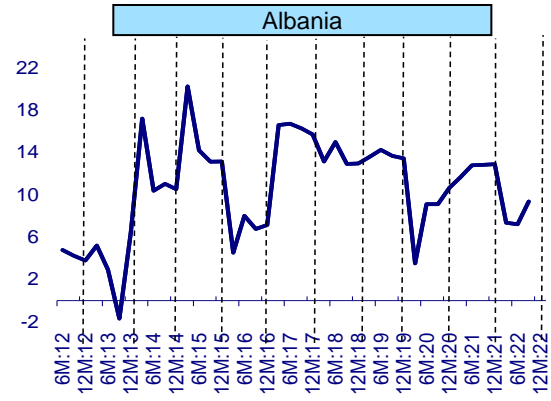
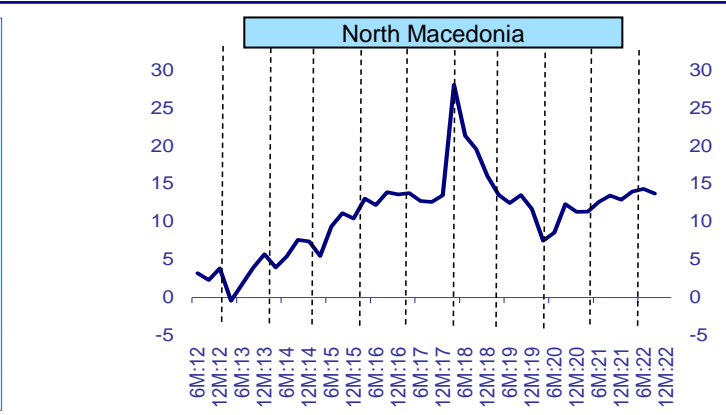
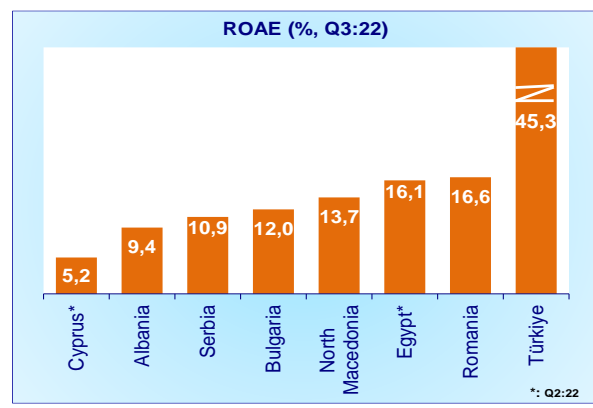
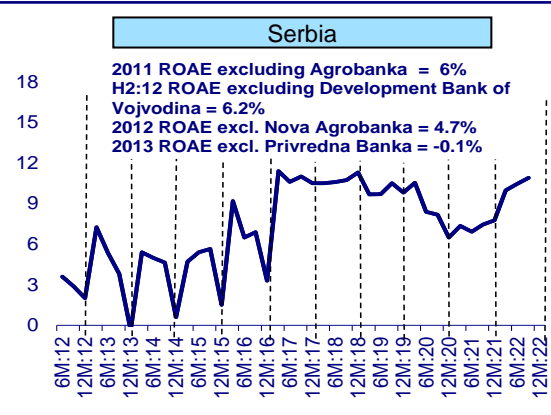
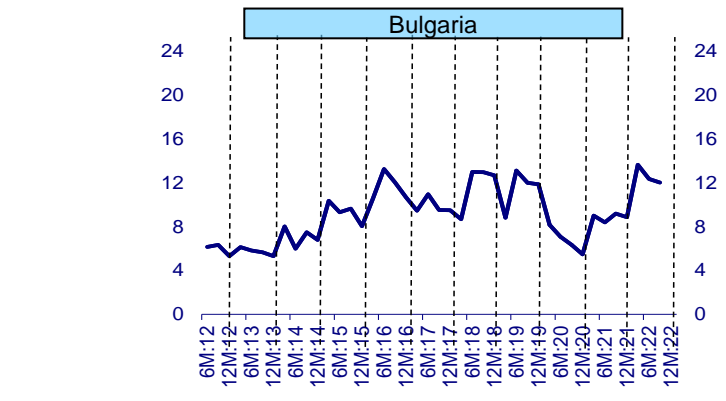
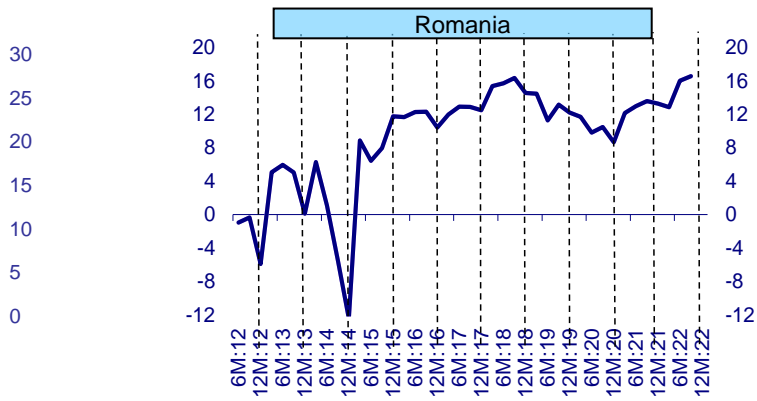
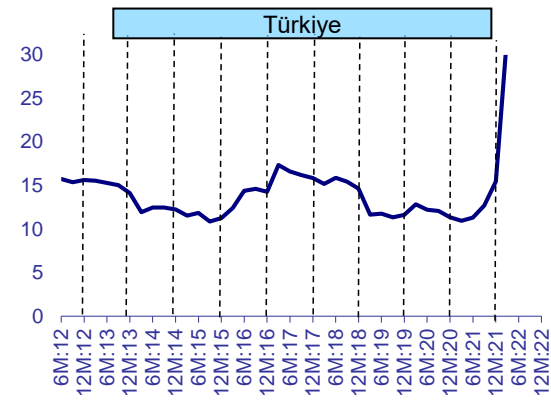
# Total loans-to-total deposits ratio (%)

• All banking systems under review enjoy a loan-to-deposit ratio below the 100% threshold



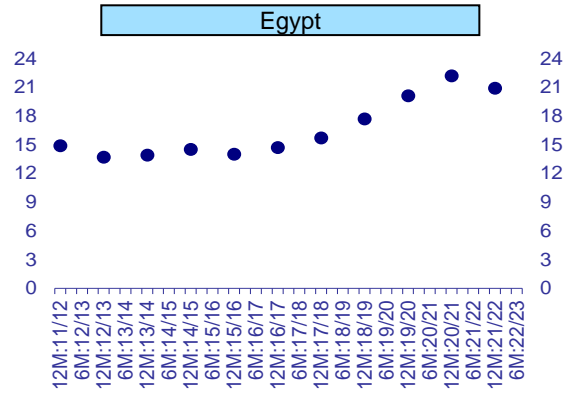
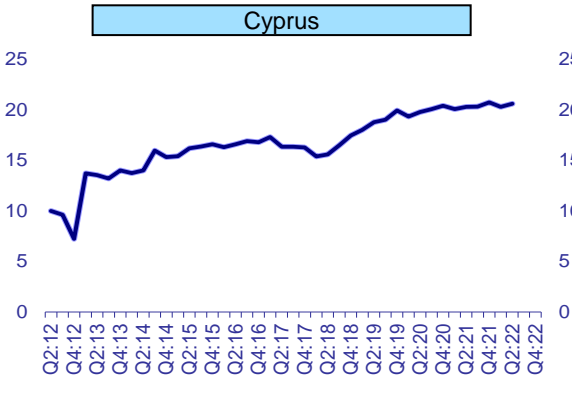
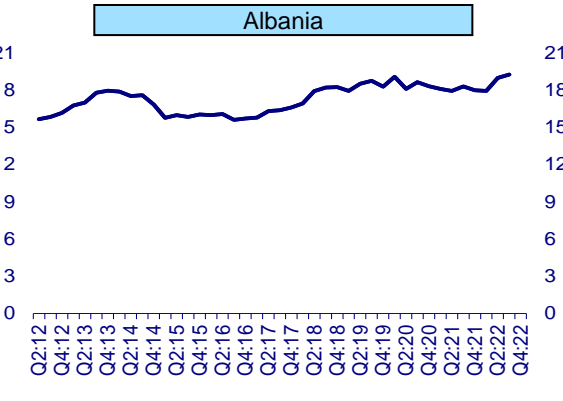
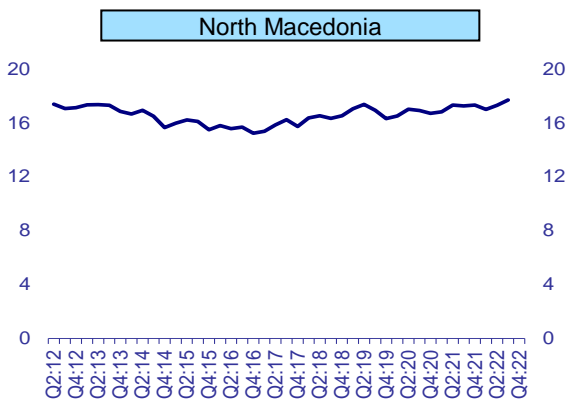
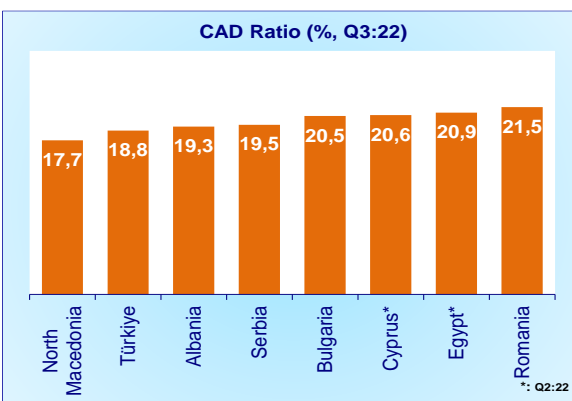
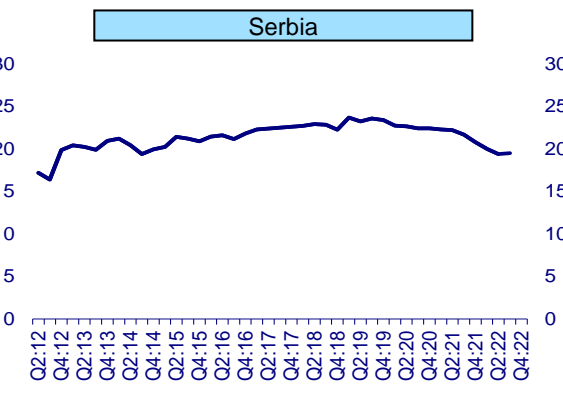
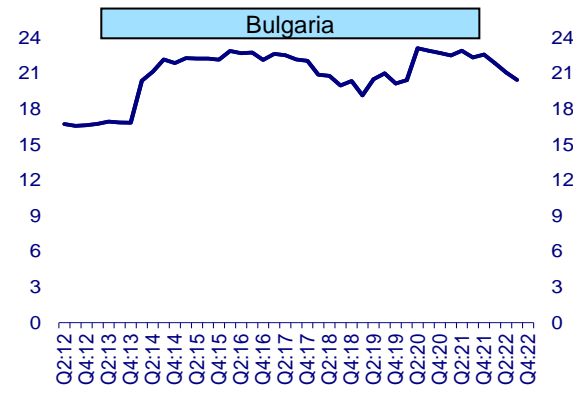
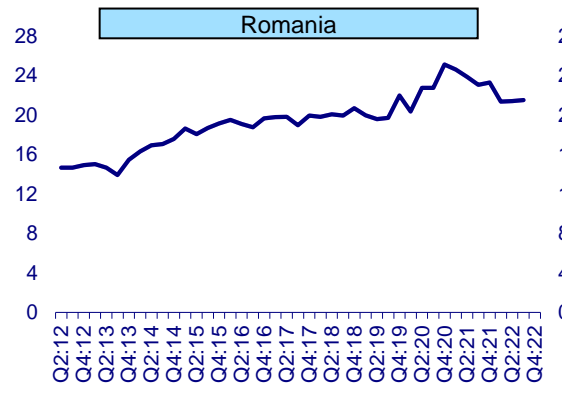
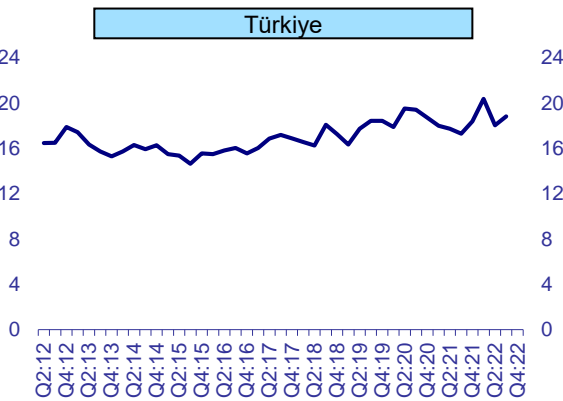
# Return-to-average equity ratio (% , cumulative and annualised)

- Despite challenges lying ahead, **banks' profitability has remained resilient** in most of the countries under review so far this year, sustained by rapidly widening net interest margins
- Turkish banks' overperformance** was largely attributed to a massive increase in gains from their CPI-indexed bond holdings

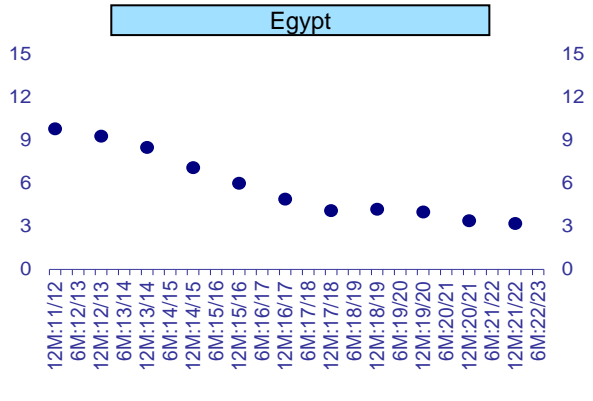
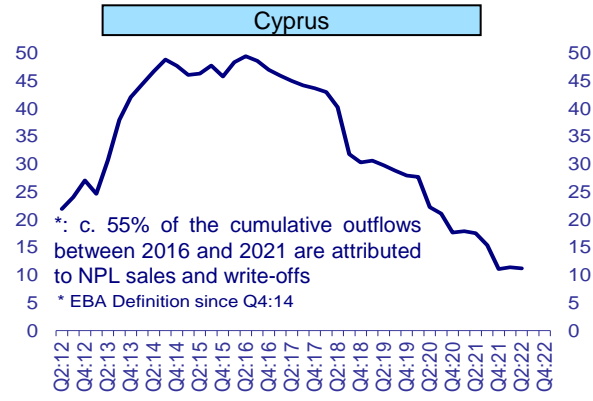
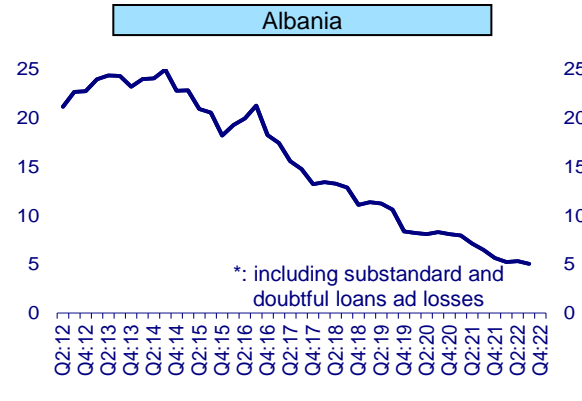
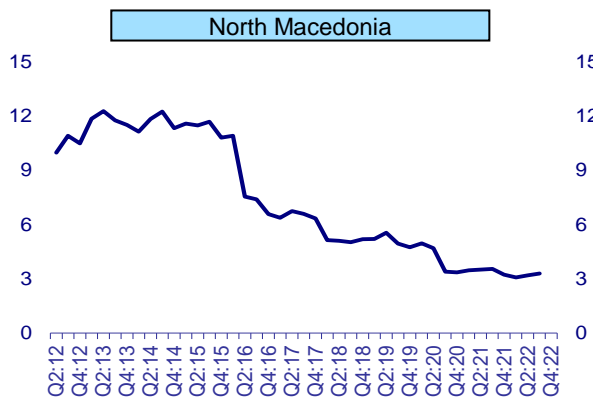
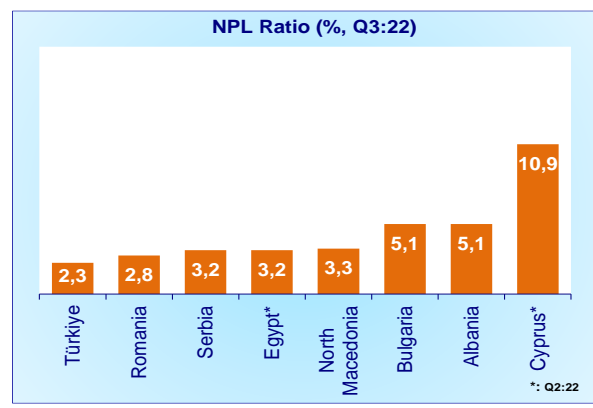
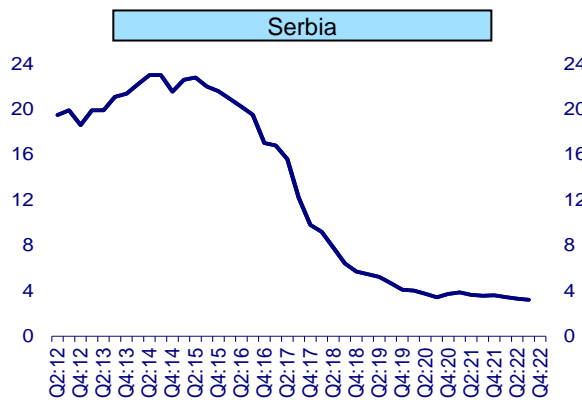
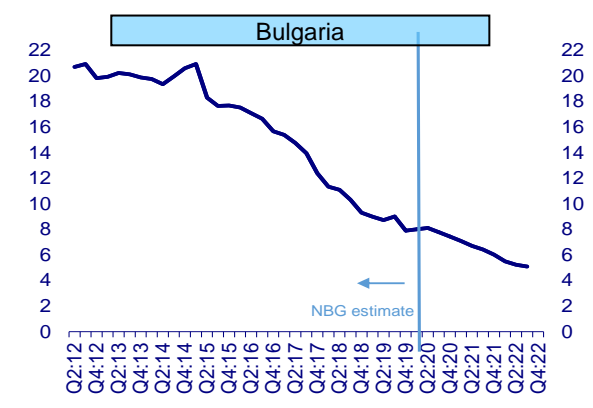
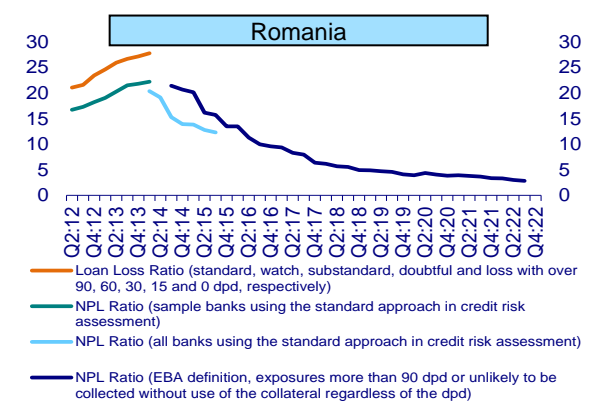
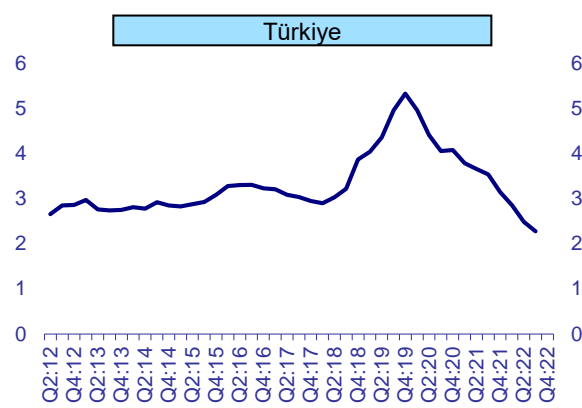


# Capital adequacy ratio (%)

Banking systems in all countries under review remain **well-capitalised**, suggesting that there is significant headroom to absorb potential losses



• Rampant inflation and rising interest rates are due to test the private sector's repayment capacity in the period ahead



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