NATIONAL BANK OF GREECE

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Emerging Markets Analysis

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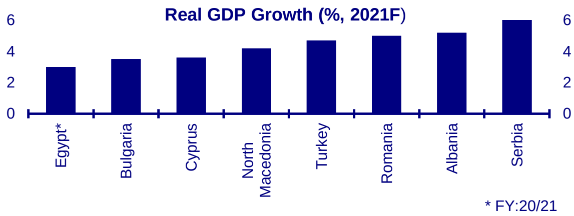
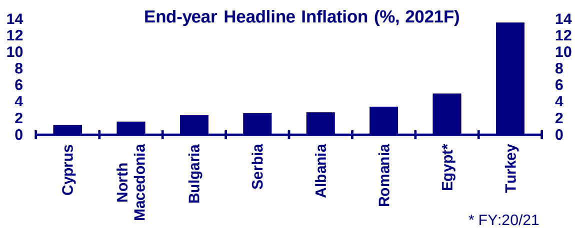
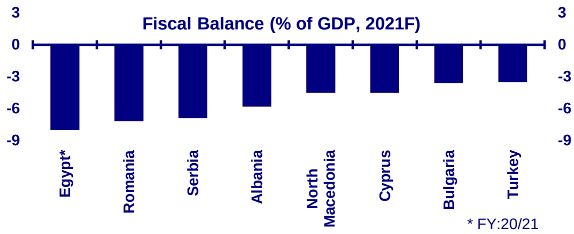
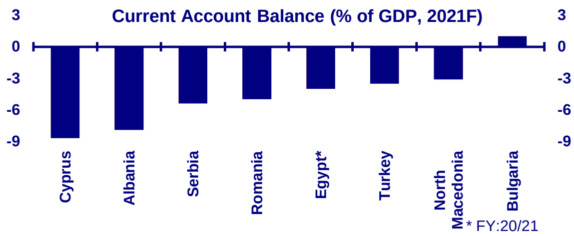








Sources: National authorities & NBG estimates

Economic Analysis Division

Emerging Markets Analysis

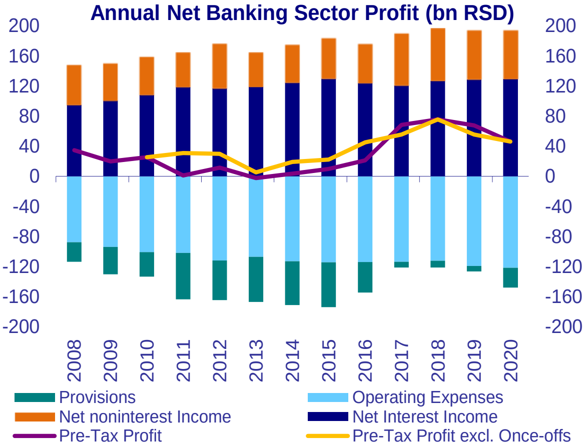
Bi-Weekly Report

20 April - 10 May 2021

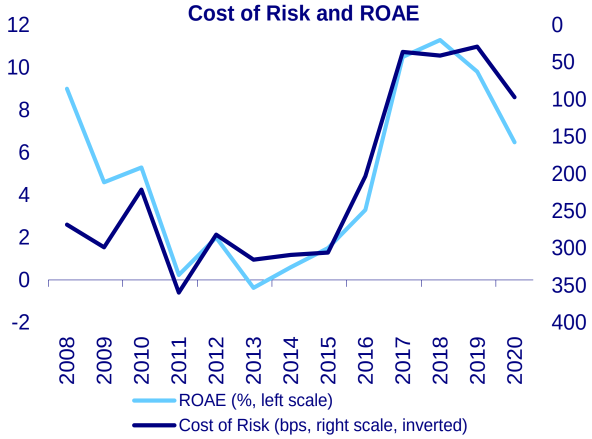
Serbia

BB+ / Ba2 / BB+ (S&P / Moody's / Fitch)

Annual Net Banking Sector Profit (bn RSD)



Cost of Risk and ROAE



Non-Performing Loans & Coverage Ratio

	10 May	3-M F	6-M F	12-M F
1-m BELIBOR (%)	0.6	0.6	0.6	0.6
RSD/EUR	117.6	117.5	117.5	117.5
Sov. Spread (2029, bps)	186	180	170	150

	10 May	1-W %	YTD %	2-Y %
BELEX-15	755	-0.3	0.9	3.2

	2018	2019F	2020	2021F	2022F
Real GDP Growth (%)	4.5	4.2	-1.0	6.1	4.2
Inflation (eop, %)	2.0	1.9	1.3	2.6	2.6
Cur. Acct. Bal. (% GDP)	-4.8	-6.9	-4.3	-5.4	-5.2
Fiscal Bal. (% GDP)	0.6	-0.2	-8.1	-6.9	-3.8

Sources: Reuters, NBS & NBG estimates

The IMF reached a staff-level agreement with Serbia on a new (non-financing) Policy Coordination Instrument (PCI). The previous 3-year PCI expired in early-2021. The new arrangement, which will run through 2023, is expected to be endorsed by the IMF by mid-June.

The agreed policies and reforms supported by the new PCI will aim to: i) underpin the recovery of the economy from the COVID-19 shock; ii) rebuild policy buffers; and iii) advance structural reforms (including the improvement of business climate and the reform of SOEs). All said, the renewed arrangement with the IMF should help cement confidence in the Serbian economy, bolstering its prospects.

Bank profitability was hit by COVID-19 fallout in FY:20. The banking system's net (pre-tax) profit dropped 31.9% in FY:20 to RSD 46.1bn (0.8% of GDP). As a result, ROAA and ROAE moderated to a still solid 1.1% and 6.5% in FY:20, respectively, from 1.8% and 9.8% in FY:19. Note that the drop in profitability is understated, as the FY:19 bottom line includes the losses from the conversion of the CHF-denominated mortgage loans into EUR with a 38% haircut (estimated at c. RSD 12bn).

Against the backdrop of higher credit risk, banks were prompted to increase provisioning charges in FY:20, despite the low NPL ratio. With the economy in (mild) recession (GDP fell by 1.0% in FY:20, which was, however, by far the best performance in the region), household and corporate balance sheets have come under stress. As a result of higher credit risk, banks increased significantly provisioning charges in FY:20 (up 275%, with the cost of risk jumping to 102 bps), despite the subdued NPL ratio. Indeed, the introduction of a debt payment moratorium (effective until mid-2021), together with fast credit expansion, temporarily mitigated asset quality deterioration, with the NPL ratio easing to a low of 3.7% at end-2020 from 4.1% at end-2019.

Pre-provision income came under (modest) pressure in FY:20, amid a weak operating environment. Net non-interest income dropped slightly in FY:20 (down 0.8%), driven by net fees and commission income. Adding to profitability pressures, operating expenses increased in FY:20 (up 2.0%), in line with higher personnel spending.

Importantly, despite the income losses induced by the debt moratorium, net interest income (NII) remained intact in FY:20 (up 0.5%), supported by strong expansion in banks' loan portfolio (up 10.8%). The latter came against the backdrop of a substantial easing in monetary and macroprudential policies by the NBS, including a 125 bp cut in the policy rate (to a low of 1.0%). Unsurprisingly, the expansion in banks' loan portfolio came at the expense of a somewhat lower net interest margin (down 30 bps to 307 bps in FY:20, still double that of EA banks).

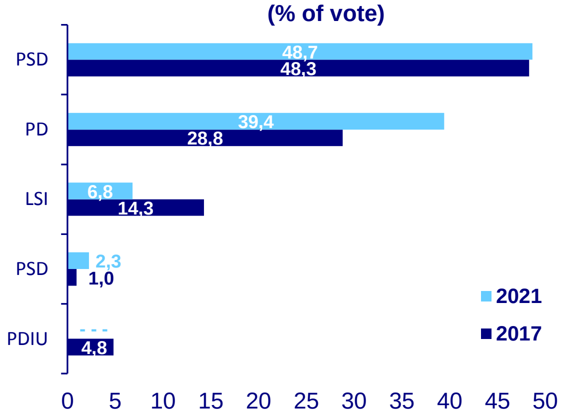
All said, the efficiency of the banking system deteriorated slightly, with the cost-to-income ratio rising to 62.6% in FY:20.

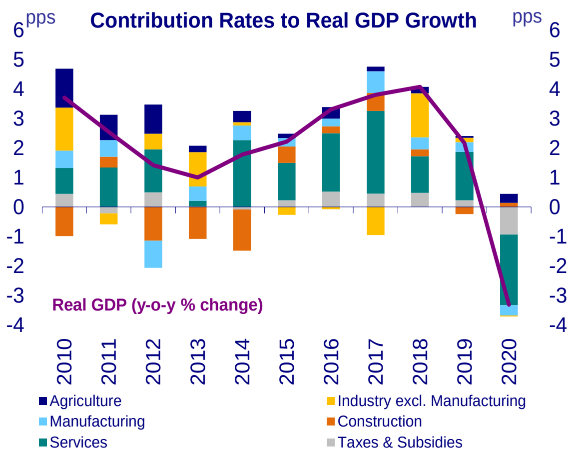
The favourable macroeconomic outlook minimizes the challenges stemming from the upcoming expiry of the debt payment moratorium. Following the expiry of the debt payment moratorium in mid-year, we expect pressures on asset quality to increase, prompting banks to continue building up provisions in the period ahead. We recognize, however, that the additional provisioning needs of the domestic banking system will likely be smaller than those of regional peers, reflecting the economy's fast recovery from the COVID-19 shock (see table). NII should also grow in FY:21, albeit slowly, underpinned by strong credit expansion. Note that the increasing number of lawsuits contesting the legality of loan processing fees banks are facing could pose additional costs to their profitability. Importantly, the banking system remains well-capitalised (the total capital adequacy ratio stands at 22.4%, with CET1 accounting for c. 95% of total capital), suggesting that there is significant headroom to absorb any potential stress.

Albania

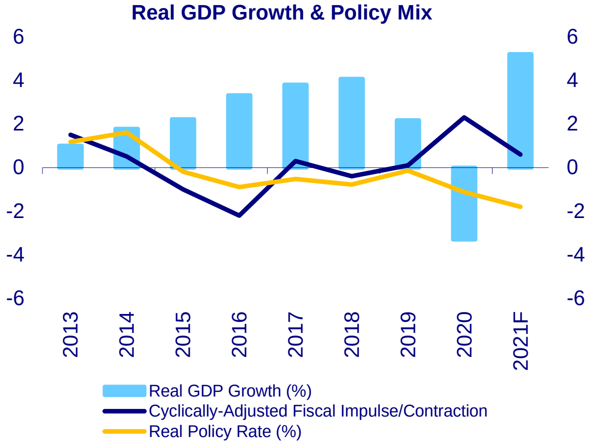
B+ / B1 / NR (S&P / Moody's / Fitch)

Parliamentary Election Results (% of vote)





Real GDP Growth & Policy Mix



	10 May	3-M F	6-M F	12-M F
1-m TRIBOR (%)	1.1	1.1	1.1	1.3
ALL/EUR	123.0	123.6	124.0	124.8
Sov. Spread (2027, bps)	282	275	265	245

	10 May	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2018	2019	2020E	2021F	2022F
Real GDP Growth (%)	4.1	2.2	-3.3	5.2	4.1
Inflation (eop. %)	1.8	1.1	1.1	2.8	2.8
Cur. Acct. Bal. (% GDP)	-6.7	-8.0	-8.9	-7.9	-6.7
Fiscal Bal. (% GDP)	-1.6	-1.9	-6.9	-5.8	-3.6

Sources: Reuters, CEC, INSTAT, BoA, Ministry of Finance & NBG estimates

Incumbent PM E. Rama to serve a 3rd term after his Socialist Party (PS) won the April Parliamentary election. In a highly contested election, the PS won 48.7% of the vote, securing 74 out of 140 seats in the Parliament. Its main rival, the centre-right Democratic Party (PD), in coalition with 12 smaller parties, garnered 39.4% of the vote (59 seats), followed by its ally, the Socialist Movement for Integration (LSI), with 6.8% of the vote (4 seats), and the Social Democratic party (PSD), with 2.3% of the vote (3 seats). Note that the DP and the LSI have long been at loggerheads with the SP, which they accuse of corruption. Their standoff had escalated over the previous 2 years, with the opposition boycotting the Parliament and the 2019 local elections, despite appeals by the EU.

Worryingly, political tensions are unlikely to ease soon, as several MPs of the ruling party launched an impeachment inquiry into the LSI-linked President I. Meta. However, we believe that it would be difficult for the SP to secure the 2/3rds majority required for the initiative to pass.

All said, broad policy continuity is expected after the elections, as authorities remain committed to macroeconomic stability. At the same time, we underline that the new Government should accelerate efforts to comply with the prerequisites for opening EU accession negotiations. Despite the progress made so far, their launch has not yet been made possible, as there are some shortfalls to be met, in particular in relation to the fight against corruption and the judicial reform.

In the midst of a 2nd COVID-19 wave, GDP rebounded in Q4:20 (up 3.0% y-o-y), due to supportive base effects, containing full-year contraction to just 3.3%. The improvement was mainly due a strong base effect from the temporary freeze in economic activity in the wake of the earthquake that hit Albania at end-2019. With the Q4:20 outcome, full-year GDP contraction was contained to 3.3%, markedly better than the EU average (down 6.2%). Indeed, although authorities adopted some of the toughest restrictions in Europe, due to the country's close links to hard-hit Italy, and despite the economy's reliance on tourism (accounting for 21% of GDP, the highest in the region), Albania outperformed the EU, reflecting (in addition to the aforementioned base effect): i) the small share of other (non-tourism) contact intensive activities in total output; ii) higher renewable energy production, on the back of favourable weather conditions; and iii) (modest) growth in the relatively heavily-weighted agricultural sector (accounting for 18% of GDP).

Strong post-earthquake reconstruction activity, together with positive COVID-19-related base effects, should boost GDP growth in FY:21. We estimate economic activity to have remained subdued in Q1:21, amid a severe 3rd COVID-19 wave. Once again, the construction sector is estimated to have remained the main pillar of growth, reflecting high post-earthquake reconstruction needs.

The improving epidemiological situation should allow for the easing of restrictions over the next few weeks. In this context, we expect economic activity to gain pace, driven by the services sector. The loose incomes policy (including a 15% rise in the minimum wage and targeted hikes in public sector wages) bodes well for the recovery. Stronger demand from the EU should also help to this end.

Importantly, the policy mix should continue to support growth this year (see chart). Indeed, adjusting for cyclicality, fiscal policy should remain expansionary, driven by pre-election and COVID-19-related spending and public investment. At the same time, monetary conditions are set to remain accommodative, with the BoA concentrating its efforts on stimulating credit activity (accounting for a low of c. 35% of GDP).

All said, in view of the strong carry-over from Q4:20 (4.0 pps), we see GDP rebounding by 5.2% in FY:21, more than recouping its FY:20 losses. The uncertainty over the evolution of COVID-19, together with the ongoing slow vaccine rollout, pose downside risks to our forecast.

SERBIA	2018	2019	2020	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	42,939	46,017	46,493	50,609	54,062
GDP per capita (EUR)	6,149	6,608	6,703	7,326	7,857
GDP growth (real, %)	4.5	4.2	-1.0	6.1	4.2
Unemployment rate (%, aop)	12.7	10.4	9.0	9.6	9.2
Prices and Banking					
Inflation (%, eop)	2.0	1.9	1.3	2.6	2.6
Inflation (%, aop)	2.0	1.9	1.6	2.4	2.5
Loans to the Private Sector (% change, eop)	9.9	8.9	12.2		
Customer Deposits (% change, eop)	14.9	7.8	17.4		
Loans to the Private Sector (% of GDP)	43.5	44.4	49.4		
Retail Loans (% of GDP)	20.1	20.5	22.8		
Corporate Loans (% of GDP)	23.4	23.8	26.6		
Customer Deposits (% of GDP)	44.9	45.3	52.7		
Loans to Private Sector (% of Deposits)	96.9	98.0	93.6		
Foreign Currency Loans (% of Total Loans)	67.0	66.9	62.7		
External Accounts					
Merchandise exports (EUR million)	15,106	16,415	16,032	17,113	18,147
Merchandise imports (EUR million)	20,191	22,038	21,257	23,016	24,204
Trade balance (EUR million)	-5,085	-5,623	-5,224	-5,903	-6,057
Trade balance (% of GDP)	-11.8	-12.2	-11.2	-11.7	-11.2
Current account balance (EUR million)	-2,076	-3,161	-1,981	-2,720	-2,827
Current account balance (% of GDP)	-4.8	-6.9	-4.3	-5.4	-5.2
Net FDI (EUR million)	3,157	3,551	2,902	3,265	3,592
Net FDI (% of GDP)	7.4	7.7	6.2	6.5	6.6
International reserves (EUR million)	11,262	13,379	13,492	14,336	15,101
International reserves (Months[a])	5.4	5.7	6.4	5.9	5.9
Public Finance					
Primary balance (% of GDP)	2.8	1.8	-6.1	-5.0	-2.0
Fiscal balance (% of GDP)	0.6	-0.2	-8.1	-6.9	-3.8
Central Government debt (% of GDP)	53.6	52.0	57.4	59.5	59.2
External Debt					
Gross external debt (EUR million)	26,662	28,254	30,813	32,643	34,059
Gross external debt (% of GDP)	62.1	61.4	66.3	64.5	63.0
External debt service (EUR million)	5,600	6,400	7,400	5,800	5,000
External debt service (% of reserves)	49.7	47.8	54.8	40.5	33.1
External debt service (% of exports)	26.4	27.4	33.3	24.4	19.9
Financial Markets					
Policy rate (2-w repo rate, %, eop)	3.0	2.3	1.0	1.0	1.3
Policy rate (2-w repo rate, %, aop)	3.1	2.7	1.5	1.0	1.1
5-Y T-bill rate[b] (%, eop)	n.a.	n.a.	2.6	2.2	2.5
Exchange rate: EUR (eop)	118.2	117.5	117.5	117.5	117.5
Exchange rate: EUR (aop)	118.1	117.7	117.5	117.5	117.5

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

ALBANIA	2018	2019	2020	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	12,849	13,683	13,026	13,837	14,565
GDP per capita (EUR)	4,483	4,768	4,547	4,836	5,100
GDP growth (real, %)	4.1	2.2	-3.3	5.2	4.1
Unemployment rate (%, aop)	12.3	11.6	11.7	12.2	11.5
Prices and Banking					
Inflation (%, eop)	1.8	1.1	1.1	2.8	2.8
Inflation (%, aop)	2.0	1.4	1.6	1.7	2.4
Loans to the Private Sector (% change, eop)	-1.0	6.1	8.9		
Customer Deposits (% change, eop)	-1.0	3.2	8.0		
Loans to the Private Sector (% of GDP)	30.7	31.7	36.1		
Retail Loans (% of GDP)	11.3	11.7	13.0		
Corporate Loans (% of GDP)	19.4	20.0	23.0		
Customer Deposits (% of GDP)	58.6	58.9	66.5		
Loans to Private Sector (% of Deposits)	52.3	53.8	54.3		
Foreign Currency Loans (% of Total Loans)	50.8	49.0	48.1		
External Accounts					
Merchandise exports (EUR million)	0,986	0,907	0,794	0,865	0,952
Merchandise imports (EUR million)	3,857	4,050	3,776	3,972	4,139
Trade balance (EUR million)	-2,871	-3,144	-2,982	-3,107	-3,188
Trade balance (% of GDP)	-22.3	-23.0	-22.9	-22.5	-21.9
Current account balance (EUR million)	-0,866	-1,089	-1,155	-1,088	-0,977
Current account balance (% of GDP)	-6.7	-8.0	-8.9	-7.9	-6.7
Net FDI (EUR million)	1,022	1,036	0,890	0,957	1,053
Net FDI (% of GDP)	8.0	7.6	6.8	6.9	7.2
International reserves (EUR million)	3,399	3,360	3,942	4,037	4,413
International reserves (Months[a])	7.0	6.5	9.6	9.0	9.5
Public Finance					
Primary balance (% of GDP)	0.6	0.2	-4.7	-3.7	-1.5
Fiscal balance (% of GDP)	-1.6	-1.9	-6.9	-5.8	-3.6
Gross public debt (% of GDP)	67.7	66.3	76.1	77.2	76.2
External Debt					
Gross external debt (EUR million)	8,353	8,246	8,554	8,754	9,004
Gross external debt (% of GDP)	65.0	60.3	65.7	63.3	61.8
External debt service (EUR million)	0,386	0,221	0,517	0,306	0,328
External debt service (% of reserves)	11.3	6.6	13.1	7.6	7.4
External debt service (% of exports)	9.5	5.0	13.3	7.2	7.0
Financial Markets					
Policy rate (1-week repo rate, %, eop)	1.0	1.0	0.5	0.5	1.0
Policy rate (1-week repo rate, %, aop)	1.1	1.0	0.6	0.5	0.8
1-Y T-bill rate [b] (%, eop)	1.5	1.8	1.8	1.8	2.2
Exchange rate: EUR (eop)	123.3	121.6	123.4	124.3	125.3
Exchange rate: EUR (aop)	127.3	122.7	123.4	123.7	124.8

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