



Economic Analysis Division Emerging Markets Analysis

Bi-Weekly Report 26 January - 8 February 2021



NBG - Economic Analysis Division
<https://www.nbg.gr/en/the-group/press-office/e-spot/reports>

Emerging Markets Analysis

Head: Konstantinos Romanos-Louizos

☎ : +30 210 33 41 225

✉ : romanos.louizos.k@nbg.gr

ROMANIA 1

The budget deficit hit a record-high of 9.8% of GDP in FY:20 (up 5.2 pps against the FY:19 outcome), highlighting the weak starting point from which Romania entered the COVID-19 crisis

The budget deficit is set to narrow modestly to a still high 7.2% of GDP in FY:21, suggesting the need for further serious fiscal consolidation

The NBR appears to have limited room for further easing in order to bolster the post COVID-19 recovery

BULGARIA 2

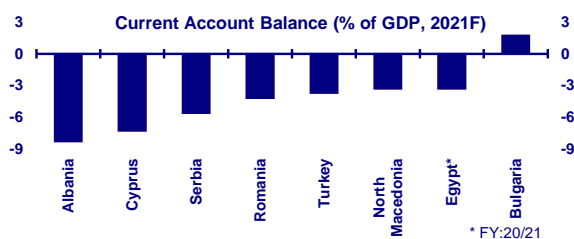
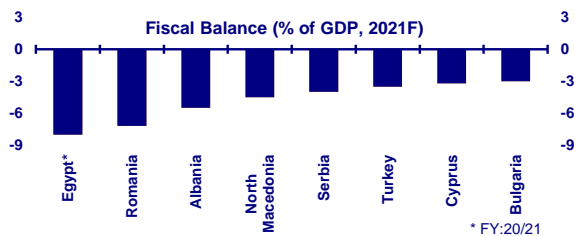
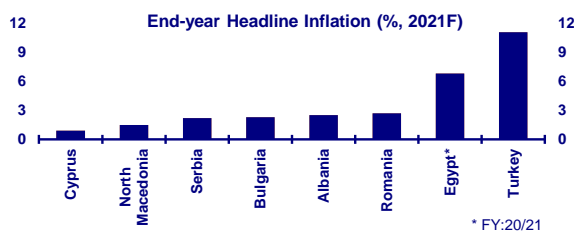
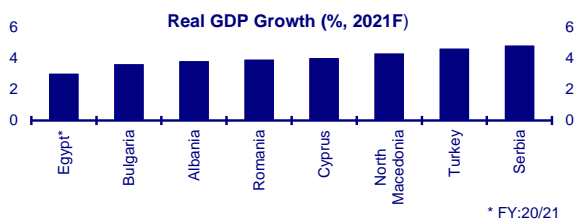
Headline inflation eased to a 4-year low of 0.1% y-o-y at end-2020 from 3.8% at end-2019, due to weaker domestic demand and lower energy prices

Domestic headline inflation is set to rebound in the period ahead, outpacing that of the euro area

Credit expansion lost steam in 2020 (up 4.5% y-o-y at end-year against 7.4% at end-2019), amid high uncertainty and rising credit risk

The deposit base continued to expand at a solid pace during the pandemic (up 10.2% y-o-y at end-2020)

APPENDIX: MACROECONOMIC & FINANCIAL INDICATORS 3

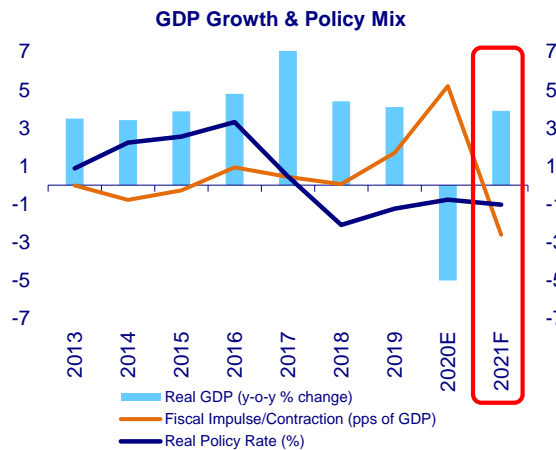
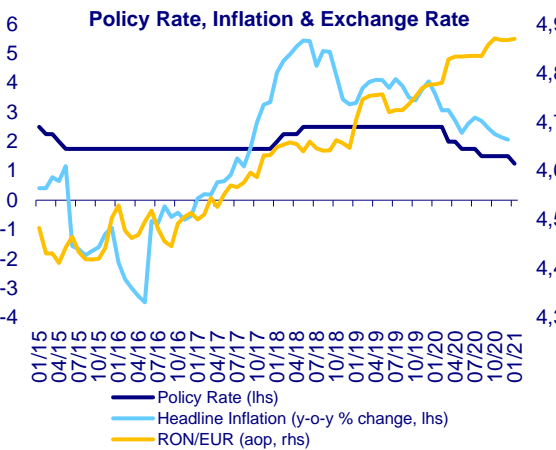
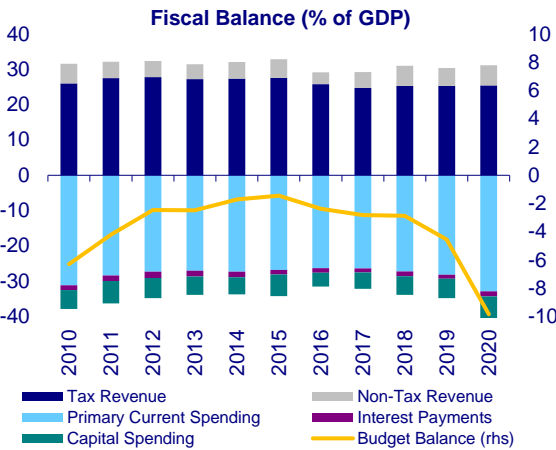


Sources: National authorities & NBG estimates



Romania

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



The budget deficit hit a record-high of 9.8% of GDP in FY:20 (up 5.2 pps against the FY:19 outcome), highlighting the weak starting point from which Romania entered the COVID-19 crisis.

The main driver behind this deterioration was increased spending to mitigate the economic impact of the pandemic. Indeed, the direct cost of the relief measures implemented (estimated at c. 2.0% of GDP, placing Romania at the bottom of the relative EU ranking), together with the impact of automatic stabilisers and the 14% hike in pensions in September, boosted current spending in FY:20 (up 5.0 pps to 34.3% of GDP). Adding to budget pressures, public investment rose markedly in FY:20 (up 1.2 pps to a high of 6.7% of GDP). Importantly, tax revenue remained intact in FY:20 (up 0.2 pps to 25.5% of GDP), as the employment support measures implemented prevented a drastic contraction of the tax base (especially that of social security contributions). Part of the fiscal cost of the support measures was covered by increased EU grants (up 0.9 pps to 3.3% of GDP in FY:20). As a result of the economic contraction and the sharp deterioration in the primary budget deficit, gross public debt jumped to an estimated 45.5% of GDP at end-2020 from 35.0% at end-2019, still below the EU threshold of 60.0%

The budget deficit is set to narrow modestly to a still high 7.2% of GDP in FY:21, suggesting the need for further serious fiscal consolidation. Current spending is expected to drop this year, albeit moderately, reflecting: i) the continuation of some of the previously adopted measures by mid-2021; and ii) the full-year impact of the 2020 hike in pensions (implying a total cost of 1.2 pps of GDP). At the same time, tax revenue is set to pick-up, in line with economic recovery (see below). Note that capital spending is also due to rise further in FY:21, with the increase, however, being budget neutral as it would be financed by the Next Generation EU Fund.

All said, we see the budget deficit narrowing to 7.2% of GDP in FY:21 from 9.8% in FY:20, broadly in line with its target. The implied fiscal contraction would be among the smallest in the EU, highlighting the structural nature of Romania's budget deficit. Indeed, budget flexibility remains limited, with personnel and social spending accounting for 95% of tax revenue in FY:20 (up from an already high 80% in FY:19). In this context, we envisage a slow fiscal consolidation process, with the budget deficit projected to eventually fall below the critical EU threshold of 3.0% of GDP only in FY:25.

The NBR appears to have limited room for further easing to bolster the post COVID-19 recovery. In a surprise move in early-January, the NBR cut its key rate by another 25 bps to 1.25%, bringing the total cuts to 125 bps since the COVID-19 outbreak. The benign inflation outlook (headline inflation is projected to hover around the mid-point of the NBR's target range of 2.5±1% throughout the year) and worries over a sluggish recovery (GDP growth is now seen at 3.9% in FY:21, with the economy projected to fully recoup its COVID-19-related losses only in mid-2022) appear to have motivated the NBR to cut rates. At its current level, the real ex-post policy rate stands at c. -1.3%, broadly in line with that of its peers.

In light of an elevated risk premium, mainly reflecting concerns over the unsustainably high budget deficit and the high (yet still manageable) current account deficit, and with the risk of a credit rating downgrade looming, we expect the NBR to remain cautious in the period ahead, mainly with a view to containing the RON. In this context, we expect the NBR to focus on maintaining liquidity in the banking system and stimulating credit activity. Importantly, the NBR's ability to defend the currency is still adequate, with FX reserves currently standing at EUR 37.5bn (covering 5 months of GNFS imports).

	8 Feb.	3-M F	6-M F	12-M F
1-m ROBOR (%)	1.4	1.4	1.3	1.2
RON/EUR	4.88	4.90	4.91	4.93
Sov. Spread (2024, bps)	88	85	80	70

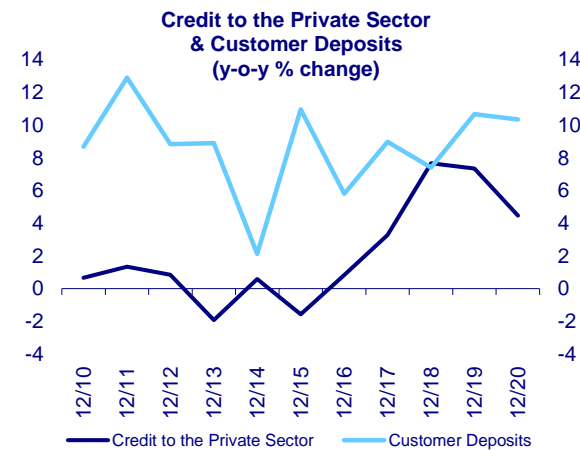
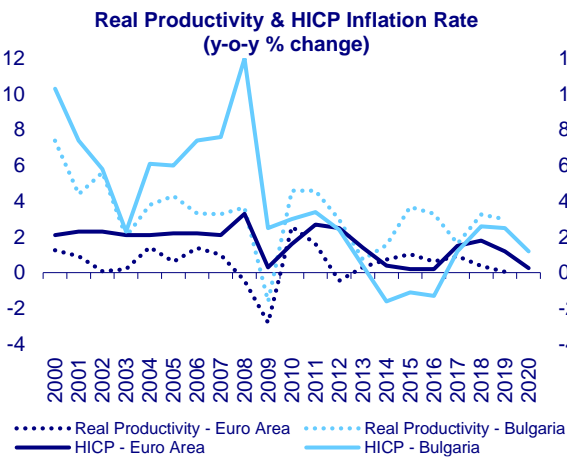
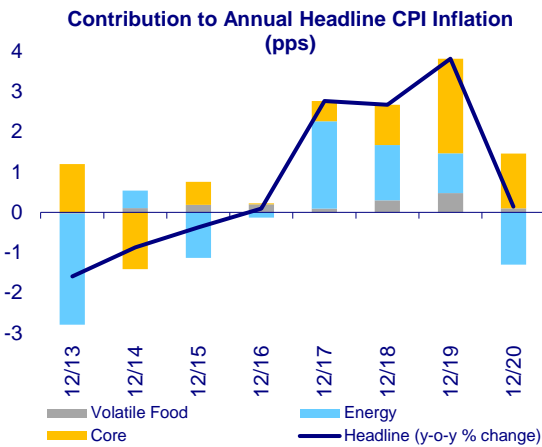
	8 Feb.	1-W %	YTD %	2-Y %	
BET-BK	2,028	3.0	8.6	35.3	
	2018	2019	2020E	2021F	2022F
Real GDP Growth (%)	4.5	4.1	-5.0	3.9	3.8
Inflation (eop, %)	3.3	4.0	2.1	2.7	2.9
Cur. Acct. Bal. (% GDP)	-4.4	-4.7	-4.6	-4.3	-4.3
Fiscal Bal. (% GDP)	-2.9	-4.6	-9.8	-7.2	-5.6

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



Bulgaria

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



	8 Feb.	3-M F	6-M F	12-M F
Base Interest Rate (%)	0.0	0.0	0.0	0.1
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2022, bps)	59	57	55	50

	8 Feb.	1-W %	YTD %	2-Y %	
SOFIX	494	-0.6	10.5	-14.0	
	2018	2019	2020E	2021F	2022F
Real GDP Growth (%)	3.1	3.7	-4.5	3.6	3.6
Inflation (eop, %)	2.7	3.8	0.1	2.3	2.7
Cur. Acct. Bal. (% GDP)	1.0	3.0	0.5	1.5	1.7
Fiscal Bal. (% GDP)	0.1	-1.0	-3.0	-3.0	-1.2

Sources: Reuters, NSI & NBG estimates

Headline inflation eased to a 4-year low of 0.1% y-o-y at end-2020 from 3.8% at end-2019, due to weaker domestic demand and lower energy prices. The main driver of disinflation was the sharp decline in energy inflation (to -3.2% y-o-y at end-2020 from 2.7% at end-2019), in line with developments in global energy markets. Adding to the latter, core inflation decelerated markedly (to 2.4% y-o-y at end-2020 from 4.1% at end-2019), reflecting: i) weaker domestic demand, due to limited spending options amid the pandemic; and ii) the impact of the temporary tax cuts on HoReCa services.

Domestic headline inflation is set to rebound in the period ahead, outpacing that of the euro area. Indeed, core inflation is due to gain momentum, especially after mid-year, when we expect the COVID-19 restrictions to be lifted, reflecting recovering domestic demand, amid improved consumer confidence. The envisaged pick-up in energy prices should also add to inflationary pressures. All said, we see headline inflation at 2.3% y-o-y at end-2021, with average inflation remaining broadly flat at 1.6% this year. Following the complete elimination of the output gap (projected in mid-2022), headline inflation should stabilise at c. 3.0%, nearly double that of the euro area.

Against this backdrop, meeting the price stability criterion to adopt the euro could prove challenging for Bulgaria. Indeed, under a fixed FX rate, improvements in productivity would be eventually translated into higher inflation (Balassa-Samuelson effect). Note that prices in Bulgaria currently stands at c. ½ of the euro area average, confirming their significant upside potential. To this end, it is important that the euro area convergence process is supported by appropriate policies.

Credit expansion lost steam in 2020 against the backdrop of high uncertainty and rising credit risk. Credit to the private sector rose by 4.5% y-o-y at end-2020 against 7.4% at end-2019, reflecting both lower demand and supply of loans. The former was mainly attributed to higher uncertainty, following the eruption of COVID-19, while the latter was mostly due to tightening lending standards, in the face of rising credit risk. Indeed, with the economy under stress, household and corporate balance sheets have come under pressure, with negative implications on debt repayment capacity. In this context, the introduction of a debt payment moratorium (effective until March 2021, with take up amounting to c. 15% of the stock of loans) has temporarily mitigated asset quality deterioration, with the NPE ratio standing at 7.4% at end-2020, a tad lower than at end-2019, but still higher than that of Bulgaria's peers.

From a segment perspective, retail lending (up 7.2% y-o-y at end-2020 against 11.6% at end-2019, sustained by still double-digit growth in mortgage lending) was the main driver, with corporate lending growing at much slower pace (up 2.6% y-o-y at end-2020 against 4.7% at end-2019). Lending activity would have been weaker without the state guarantee scheme for new loans to affected entities (effective until mid-2021). All said, the loan-to-GDP ratio reached 52.5% at end-2020, the highest in the region, together with that of North Macedonia, but still well below the euro area average (c. 100%).

The deposit base continued to expand at a solid pace during the pandemic. Despite the plunge in economic activity, customer deposits increased by a strong 10.2% y-o-y at end-2020, a pace broadly equal to that observed at end-2019. From a segment perspective, growth in corporate deposits lost some steam (up 9.8% y-o-y at end-2020 against 15.2% at end-2019), reflecting the sector's increased liquidity needs, during the time of the crisis. In contrast, growth in household deposits strengthened (up 10.4% y-o-y at end-2020 against 8.6% at end-2019), in line with the pick-up in the underlying savings rate, on the back of the lack of opportunity and/or confidence to spend amid the pandemic.



ROMANIA					
	2018	2019	2020e	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	204,633	223,444	214,088	225,374	239,035
GDP per capita (EUR)	10,477	11,515	11,033	11,616	12,321
GDP growth (real, %)	4.5	4.1	-5.0	3.9	3.8
Unemployment rate(ILO definition, %, aop)	4.2	3.9	5.0	5.4	5.0
Prices and Banking					
Inflation (% eop)	3.3	4.0	2.1	2.7	2.9
Inflation (% aop)	4.6	3.8	2.6	2.3	2.8
Loans to the Private Sector (% change, eop)	7.9	8.4	8.4		
Customer Deposits (% change, eop)	9.2	10.2	10.2		
Loans to the Private Sector (% of GDP)	25.6	25.9	25.9		
Retail Loans (% of GDP)	14.0	14.1	14.1		
Corporate Loans (% of GDP)	11.6	11.8	11.8		
Customer Deposits (% of GDP)	32.7	33.0	33.0		
Loans to Private Sector (% of Deposits)	78.4	78.4	78.4		
Foreign Currency Loans (% of Total Loans)	33.7	34.4	34.4		
External Accounts					
Merchandise exports (EUR million)	61,820	63,086	56,295	60,157	63,476
Merchandise imports (EUR million)	76,625	80,510	74,152	78,113	82,241
Trade balance (EUR million)	-14,805	-17,424	-17,857	-17,956	-18,765
Trade balance (% of GDP)	-7.2	-7.8	-8.3	-8.0	-7.9
Current account balance (EUR million)	-8,959	-10,481	-9,909	-9,752	-10,355
Current account balance (% of GDP)	-4.4	-4.7	-4.6	-4.3	-4.3
Net FDI (EUR million)	4,944	4,848	2,424	2,909	3,636
Net FDI (% of GDP)	2.4	2.2	1.1	1.3	1.5
International reserves (EUR million)	33,065	32,926	37,379	38,036	38,817
International reserves (Months ^a)	4.3	4.0	5.0	4.8	4.6
Public Finance					
Primary balance (% of GDP)	-1.5	-3.4	-8.4	-5.8	-4.3
Fiscal balance (% of GDP)	-2.9	-4.6	-9.8	-7.2	-5.6
Gross public debt ^b (% of GDP)	34.6	35.0	45.5	50.2	52.8
External Debt					
Gross external debt (EUR million)	99,841	109,783	120,531	124,857	128,601
Gross external debt (% of GDP)	48.8	49.1	56.3	55.4	53.8
External debt service (EUR million)	19,132	17,442	16,500	16,500	17,000
External debt service (% of reserves)	57.9	53.0	44.1	43.4	43.8
External debt service (% of exports)	22.3	19.3	20.5	19.2	18.7
Financial Markets					
Policy rate (1-w repo rate, %, eop)	2.5	2.5	1.5	1.3	1.8
Policy rate (1-w repo rate, %, aop)	2.4	2.5	1.8	1.3	1.5
10-Y Bond Yield (% eop)	4.8	4.5	3.1	2.6	3.0
Exchange rate: EUR (eop)	4,652	4,786	4,863	4,930	4,970
Exchange rate: EUR (aop)	4,651	4,743	4,835	4,896	4,950

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



BULGARIA					
	2018	2019	2020e	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	56,111	61,239	59,769	62,912	66,806
GDP per capita (EUR)	8,016	8,810	8,647	9,157	9,783
GDP growth (real, %)	3.1	3.7	-4.5	3.6	3.6
Unemployment rate(ILO definition, %, aop)	5.2	4.2	5.0	5.2	4.8
Prices and Banking					
Inflation (% eop)	2.7	3.8	0.1	2.3	2.7
Inflation (% aop)	2.8	3.1	1.7	1.6	2.5
Loans to the Private Sector (% change, eop)	7.5	7.4	4.5		
Customer Deposits (% change, eop)	7.4	10.7	10.2		
Loans to the Private Sector (% of GDP)	49.7	48.9	52.3		
Retail Loans (% of GDP)	19.1	19.5	21.5		
Corporate Loans (% of GDP)	30.6	29.3	30.8		
Customer Deposits (% of GDP)	65.8	66.8	75.4		
Loans to Private Sector (% of Deposits)	75.4	73.2	69.4		
Foreign Currency Loans (% of Total Loans)	34.4	32.4	31.1		
External Accounts					
Merchandise exports (EUR million)	27,744	29,119	26,976	28,640	30,243
Merchandise imports (EUR million)	30,443	32,011	28,887	30,678	32,662
Trade balance (EUR million)	-2,699	-2,891	-1,911	-2,039	-2,419
Trade balance (% of GDP)	-4.8	-4.7	-3.2	-3.2	-3.6
Current account balance (EUR million)	0,554	1,847	0,291	0,920	1,103
Current account balance (% of GDP)	1.0	3.0	0.5	1.5	1.7
Net FDI (EUR million)	0,779	0,825	0,577	0,624	0,717
Net FDI (% of GDP)	1.4	1.3	1.0	1.0	1.1
International reserves (EUR million)	25,072	24,836	30,848	31,492	31,212
International reserves (Months ^a)	8.5	8.0	11.2	10.7	9.9
Public Finance					
Primary balance (% of GDP)	0.8	-0.4	-2.5	-2.5	-0.7
Fiscal balance (% of GDP)	0.1	-1.0	-3.0	-3.0	-1.2
Gross public debt ^b (% of GDP)	22.3	20.2	26.2	25.4	24.7
External Debt					
Gross external debt (EUR million)	34,487	35,178	38,372	38,880	37,545
Gross external debt (% of GDP)	61.5	57.4	64.2	61.8	56.2
External debt service (EUR million)	7,415	6,598	6,400	6,400	7,600
External debt service (% of reserves)	29.6	26.6	20.7	20.3	24.3
External debt service (% of exports)	20.1	16.8	18.9	17.3	19.1
Financial Markets					
Base Interest Rate (% eop)	0.0	0.0	0.0	0.0	0.0
Base Interest Rate (% aop)	0.0	0.0	0.0	0.0	0.0
10-Y Bond Yield (% eop)	0.9	0.4	0.4	0.4	0.7
Exchange rate: EUR (eop)	1.956	1.956	1.956	1.956	1.956
Exchange rate: EUR (aop)	1.956	1.956	1.956	1.956	1.956

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



DISCLOSURES: *This report has been produced by the Economic Analysis Division of the National Bank of Greece, which is regulated by the Bank of Greece, and is provided solely for the information of professional investors who are expected to make their own investment decisions without undue reliance on its contents, i.e. only after effecting their own independent enquiry from sources of the investors' sole choice. The information contained in this report does not constitute the provision of investment advice and under no circumstances is it to be used or considered as an offer or an invitation to buy or sell or a solicitation of an offer or invitation to buy or sell or enter into any agreement with respect to any financial asset, service or investment. Any data provided in this report has been obtained from sources believed to be reliable but have to be not been independently verified. Because of the possibility of error on the part of such sources, National Bank of Greece does not guarantee the accuracy, timeliness or usefulness of any information. The National Bank of Greece and its affiliate companies, its representatives, its managers and/or its personnel or other persons related to it, accept no liability for any direct or consequential loss arising from any use of this report. The final investment decision must be made by the investor and the responsibility for the investment must be taken by the investor. This report is not directed to nor intended for distribution to use or used by any person or entity that is a citizen or resident of or located in any locality, state, country or other jurisdiction where such a distribution, publication, availability or use would be contrary to any law, regulation or rule. The report is protected under intellectual property laws and may not be altered, reproduced or redistributed, to any other party, in whole or in part, without the prior written consent of the National Bank of Greece*