NATIONAL BANK OF GREECE

Economic Analysis Division

Emerging Markets Analysis

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Emerging Markets Analysis

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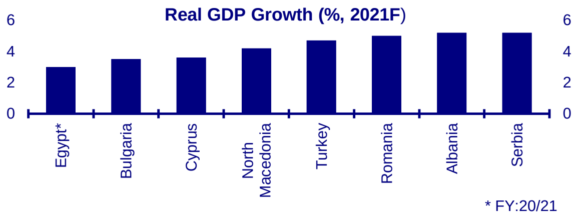
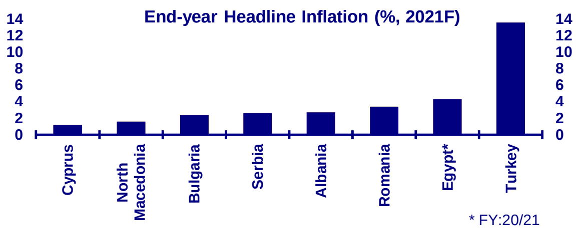
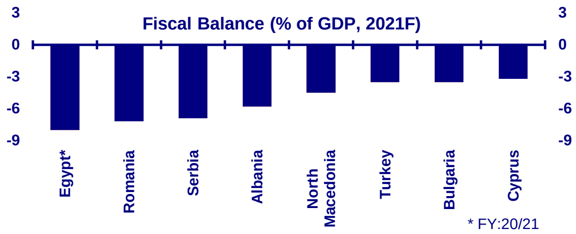
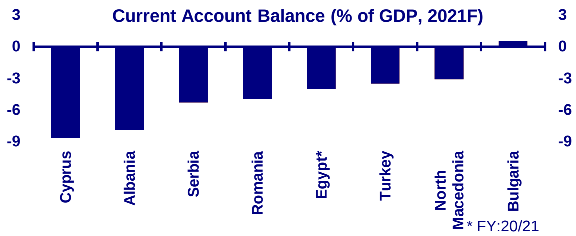
Bi-Weekly Report

6 - 19 April 2021







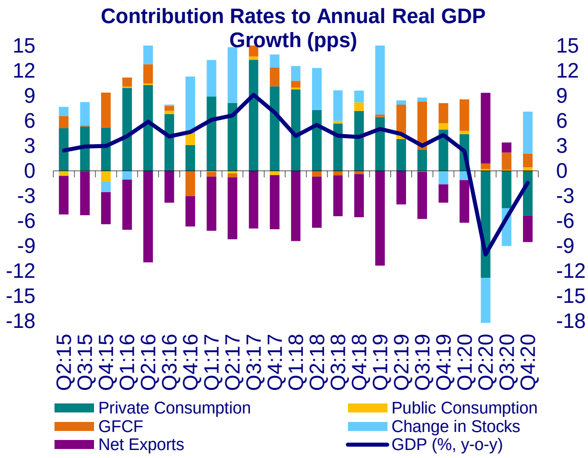


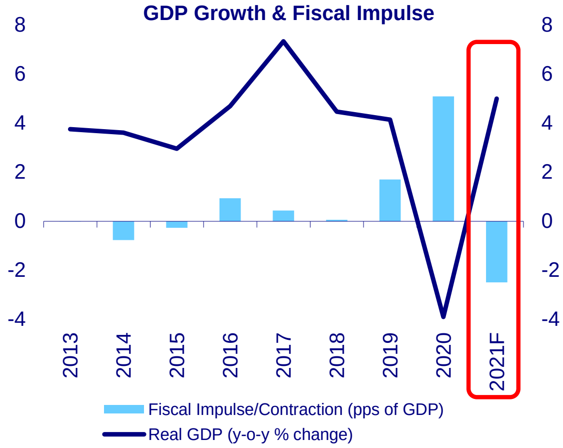
Sources: National authorities & NBG estimates

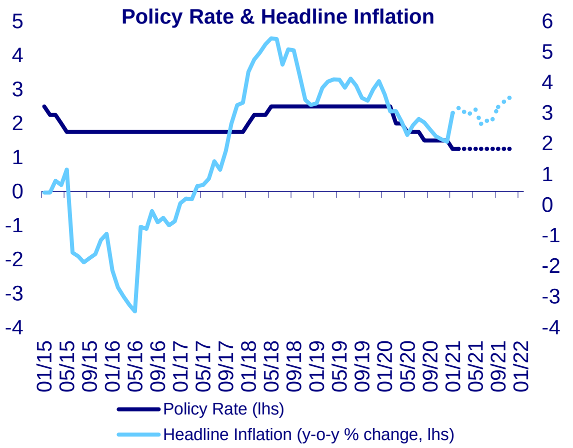
Please see disclosures on page 5

Romania

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







	19 Apr.	3-M F	6-M F	12-M F
1-m ROBOR (%)	1.6	1.5	1.5	1.8
RON/EUR	4.93	4.93	4.94	4.95
Sov. Spread (2024, bps)	79	80	78	75

	19 Apr.	1-W %	YTD %	2-Y %
BET-BK	2,146	-0.8	15.0	34.4

	2018	2019	2020E	2021F	2022F
Real GDP Growth (%)	4.5	4.1	-3.9	5.0	4.0
Inflation (eop, %)	3.3	4.0	2.1	3.4	3.0
Cur. Acct. Bal. (% GDP)	-4.6	-4.9	-5.2	-5.0	-4.7
Fiscal Bal. (% GDP)	-2.9	-4.6	-9.7	-7.2	-5.7

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

Despite headwinds from a 2nd COVID-19 wave, GDP dropped modestly by 1.4% y-o-y in Q4:20, containing full-year contraction to just 3.9%. A closer look at the GDP breakdown painted, however, a somewhat less encouraging picture, with stock rebuilding emerging as the main growth driver in Q4:20. Note, though, that this item includes statistical discrepancies and thus its improvement could also reflect stronger domestic absorption. The latter appears to have strengthened moderately in Q4:20, with the expansion in fixed investment more than offsetting the slight weakening in private consumption, in the wake of the reinstatement of some social-distancing measures. Unsurprisingly, in view of stronger domestic demand, net exports turned into a drag on overall growth in Q4:20. With the Q4:20 outcome, full-year GDP contraction was contained to just 3.9%, comparing well with the EU average (down 6.2%). This outperformance was largely attributed to the milder containment measures imposed in Romania compared with the EU and the solid (mostly state-supported) growth in the construction sector. The drop in GDP would have been even milder (down 3.3%) had the agricultural not plunged, due to severe drought.

Orderly fiscal adjustment should allow GDP to rebound strongly in FY:21. High frequency indicators suggest that economic activity has been affected by the extension of measures to contain COVID-19 in Q1:21, but modestly (implying a small but positive sequential growth).

Assuming that the epidemiological situation improves over the next few weeks, we expect economic recovery to gain momentum. Indeed, the release of pent-up demand, together with favourable base effects, should result in a rebound in private consumption. On a negative note, the envisaged (further) deterioration in the labour market (unemployment was up 1.1 pp to 5.0% in FY:20), in the wake of the expiry of the emergency employment schemes, could delay the recovery.

Fixed investment should also pick up, driven by higher EU-backed public capital spending, especially towards the end of the year. Note that Romania is eligible to receive funds worth c. 8.0% of FY:20 GDP under the NextGenerationEU programme in 2021-27, with the country's historical low EU funds absorption rate posing, however, serious challenges in this regard. On the other hand, despite accommodative monetary conditions, private investment is set to recover slowly this year, reflecting spare capacity and still weak corporate profitability.

Despite the recovery in the EU, Romania's main trade partner (accounting for 75% of its exports), net exports will remain a drag on overall growth, as reviving domestic demands feeds into imports (the latter account for 112% of GDP as compared with 62% for exports).

Importantly, despite the apparent need for fiscal consolidation (recall that the FY:20 budget deficit reached 9.7% of GDP, reflecting, *inter alia*, a weak starting position), the latter is set proceed at a measured pace (with the budget deficit projected to narrow modestly to 7.2% of GDP in FY:21) so as not to jeopardize economic recovery.

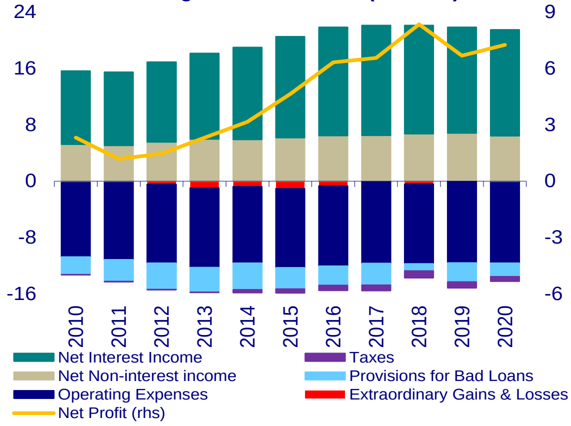
At the same time, monetary conditions are set to remain accommodative, despite rising cost-push inflationary pressures. Recall that the NBR has responded to the COVID-19 shock with a 125 bp cut in its key rate to a low of 1.25% (or -1.5% in real *ex-post* terms) and a series of liquidity-enhancing measures.

All said, in view of the sizeable carry-over from Q4:20 (3.0 pps), we see GDP growth rebounding to 5.0% in FY:21. Besides the risks related to the duration and severity of the pandemic, other downside risks include political uncertainty, which could, *inter alia*, distort ongoing fiscal consolidation efforts. The recent flare-up in tensions within the ruling coalition over the dismissal of the health minister seems to confirm the traditionally tense and complex domestic political environment.

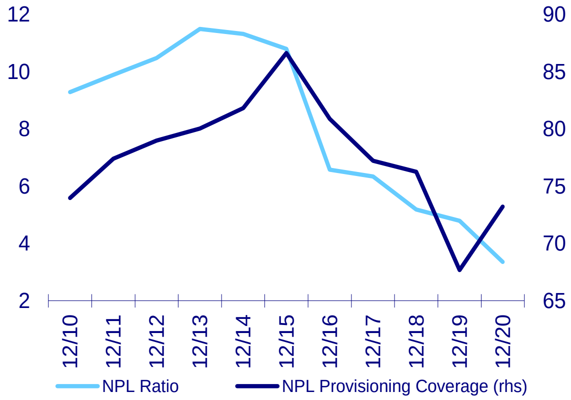
North Macedonia

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

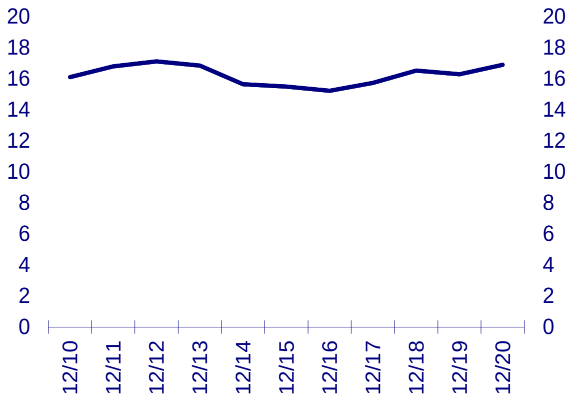
Banking Sector Net Profit (bn MKD)



NPL Ratio and Provisioning Coverage (%)



Capital Adequacy Ratio (%)



	19 Apr.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.2	1.2	1.2	1.3
MKD/EUR	61.6	61.6	61.6	61.6
Sov. Spread (2025. bps)	228	220	210	195

	19 Apr.	1-W %	YTD %	2-Y %
MBI 100	5,012	0.8	6.5	37.8

	2018	2019	2020	2021F	2022F
Real GDP Growth (%)	2.9	3.2	-4.5	4.2	4.0
Inflation (eop. %)	0.9	0.5	2.2	1.8	2.0
Cur. Acct. Bal. (% GDP)	-0.1	-3.3	-3.5	-3.1	-2.6
Fiscal Bal. (% GDP)	-1.8	-2.0	-8.1	-4.9	-3.5

Sources: Reuters, NBRNM & NBG estimates

Bank profitability remained solid in FY:20, despite being eroded by higher provisioning and weaker pre-provision operating income, due to the COVID-19 fallout. In FY:20, banks' profits rose by 8.5% y-o-y to MKD 7.3bn (1.1% of GDP), with ROAE easing marginally to a still robust 11.3%, among the highest in the region. This improvement is solely attributed to the removal of the (loss-making) Eurostandard Bank (ESB) from the dataset, following the revocation of its license in August, due to the lender's non-compliance with minimum capital requirements. Given that the ESB's financial statements for this year are not available, it is difficult to make any comparison between the FY:20 banking system profitability and that of 2019. Anyway, adjusted for the impact of the ESB, we estimate banks' profitability to have come under pressure in FY:20, in line with higher provisioning needs and weaker pre-provision operating income.

Indeed, with the economy in recession (GDP dropped 4.5% in FY:20), due to the COVID-19 fallout, households' and corporates' debt repayment capacity was significantly affected. As a result, banks are estimated to have increased provisioning charges in FY:20, despite the drop in the NPL ratio. The latter fell to a historical low of 3.4% at end-2020 from 4.8% a year ago, with the bulk of the improvement (c. 1.0 pp) attributed to the closure of the ESB. The remaining part of the improvement is considered to be temporary, resulting from the central bank's initiatives to: i) lengthen the limit for classifying NPLs to 150 days from 90 days previously (effective until end-2020); and ii) allow banks to restructure loans (including deferring debt payments, effective until March 2021). Importantly, the NPL coverage ratio remained high at c. 73%, comparing well with that of euro area banks (c. 45%).

At the same time, pre-provision operating income is estimated to have weakened, driven by lower net non-interest income (mainly fees and commission) and higher operating expenses (due to increased COVID-19-related spending and a hike in deposit insurance premia). Despite the continuing expansion in interest earning assets (adjusted for the closure of the ESB, credit to the private sector increased by c. 6.0% y-o-y at end-2020, a pace broadly equal to that observed a year ago), net interest income (NII) is unlikely to have improved in FY:20, in view of a lower net interest margin (standing at 275 bps in FY:20, still well above the euro area average of 135 bps), reflecting deferred debt payments and the drop in lending rates and debt yields. The latter came on the back of a looser monetary policy, including policy rate cuts of 75 bps as well as reductions in the reserve requirement base for the amount of credits extended to sectors heavily affected by the crisis. All said, the efficiency of the banking system remained strong, with the cost-to-income ratio standing 54.1%, well below that of euro area banks (c. 65%)

Strong profitability base and fundamentals provide a line of defense against potential losses. Banks should continue building up provisions this year, reflecting elevated credit risk, amid an improving, yet still fragile, operating environment (note that GDP is due to return to its pre-crisis levels only in early-2022). Indeed, the NPL ratio is due to rise upon expiry of the central bank's forbearance measures, albeit from a low base. At the same time, in light of subdued interest rates, and in view of the impact of the debt moratorium, NII is set to remain depressed, despite the continuing credit expansion.

Importantly, banks have enough room to absorb potential losses. Indeed, the system is well-capitalised, with the capital adequacy ratio standing at 16.7%, above the minimum regulatory threshold of 8.0%. The central bank's decision to suspend dividend payouts by end-2021 should also help to this end.

ROMANIA	2018	2019	2020	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	204,633	223,104	218,306	233,166	248,598
GDP per capita (EUR)	10,477	11,497	11,251	12,018	12,814
GDP growth (real, %)	4.5	4.1	-3.9	5.0	4.0
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	3.4	3.0
Inflation (%, aop)	4.6	3.8	2.6	3.1	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	63,062	57,551	60,790	63,983
Merchandise imports (EUR million)	77,160	80,918	76,717	80,294	83,892
Trade balance (EUR million)	-15,340	-17,856	-19,166	-19,504	-19,909
Trade balance (% of GDP)	-7.5	-8.0	-8.8	-8.4	-8.0
Current account balance (EUR million)	-9,495	-10,913	-11,421	-11,712	-11,633
Current account balance (% of GDP)	-4.6	-4.9	-5.2	-5.0	-4.7
Net FDI (EUR million)	4,944	4,848	1,856	2,784	3,480
Net FDI (% of GDP)	2.4	2.2	0.9	1.2	1.4
International reserves (EUR million)	33,065	32,926	38,527	37,899	38,096
International reserves (Months[a])	4.3	4.0	5.1	4.7	4.5
Public Finance					
Primary balance (% of GDP)	-1.5	-3.4	-8.3	-5.7	-4.2
Fiscal balance (% of GDP)	-2.9	-4.6	-9.7	-7.2	-5.7
Gross public debt [b] (% of GDP)	34.6	35.0	46.0	51.0	53.5
External Debt					
Gross external debt (EUR million)	99,841	109,783	125,927	129,407	135,237
Gross external debt (% of GDP)	48.8	49.2	57.7	55.5	54.4
External debt service (EUR million)	19,132	17,442	16,372	16,600	17,200
External debt service (% of reserves)	57.9	53.0	42.5	43.8	45.1
External debt service (% of exports)	22.3	19.4	20.1	19.2	18.9
Financial Markets					
Policy rate (1-w repo rate, %, eop)	2.5	2.5	1.5	1.3	1.5
Policy rate (1-w repo rate, %, aop)	2.4	2.5	1.8	1.3	1.4
10-Y Bond Yield (%, eop)	4.8	4.5	3.1	3.2	3.6
Exchange rate: EUR (eop)	4.65	4.79	4.86	4.94	4.97
Exchange rate: EUR (aop)	4.65	4.74	4.84	4.92	4.95

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

NORTH MACEDONIA	2018	2019	2020	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	10,759	11,221	10,789	11,466	12,163
GDP per capita (EUR)	5,180	5,397	5,189	5,515	5,850
GDP growth (real, %)	2.9	3.2	-4.5	4.2	4.0
Unemployment rate (%, aop)	20.7	17.3	16.4	16.5	16.1
Prices and Banking					
Inflation (%, eop)	0.9	0.5	2.2	1.8	2.0
Inflation (%, aop)	1.5	0.8	1.2	2.0	2.0
Loans to the Private Sector (% change, eop)	7.2	6.1	4.7		
Customer Deposits (% change, eop)	9.5	9.8	6.2		
Loans to the Private Sector (% of GDP)	48.3	49.1	53.2		
Retail Loans (% of GDP)	23.6	25.0	27.9		
Corporate Loans (% of GDP)	24.7	24.1	25.3		
Customer Deposits (% of GDP)	53.0	55.8	61.3		
Loans to Private Sector (% of Cust. Deposits)	91.1	88.1	86.8		
Foreign Currency Loans (% of Total Loans)	40.4	41.5	41.6		
External Accounts					
Merchandise exports (EUR million)	4,883	5,323	4,813	5,163	5,482
Merchandise imports (EUR million)	6,619	7,293	6,621	7,082	7,437
Trade balance (EUR million)	-1,736	-1,970	-1,809	-1,919	-1,955
Trade balance (% of GDP)	-16.1	-17.6	-16.8	-16.7	-16.1
Current account balance (EUR million)	-0,007	-0,372	-0,373	-0,355	-0,313
Current account balance (% of GDP)	-0.1	-3.3	-3.5	-3.1	-2.6
Net FDI (EUR million)	0,604	0,363	0,206	0,242	0,296
Net FDI (% of GDP)	5.6	3.2	1.9	2.1	2.4
International reserves (EUR million)	2,867	3,263	3,360	3,660	3,860
International reserves (Months[a])	4.4	4.6	5.3	5.3	5.3
Public Finance					
Primary balance (% of GDP)	-0.6	-0.8	-6.9	-3.7	-2.3
Fiscal balance (% of GDP)	-1.8	-2.0	-8.1	-4.9	-3.5
Gross public debt [b] (% of GDP)	48.4	49.0	59.7	61.4	61.4
External Debt					
Gross external debt (EUR million)	7,844	8,154	8,630	9,058	9,220
Gross external debt (% of GDP)	72.9	72.7	80.0	79.0	75.8
External debt service (EUR million)	2,228	2,468	3,300	3,550	2,950
External debt service (% of reserves)	77.7	75.6	98.2	97.0	76.4
External debt service (% of exports)	34.5	35.5	52.7	52.9	41.4
Financial Markets					
28-d CB bill rate (%, eop)	2.8	2.3	1.5	1.3	1.8
28-d CB bill rate (%, aop)	2.9	2.3	1.6	1.3	1.5
1-Y T-bill rate [c] (%, eop)	0.9	0.6	0.4	0.4	0.8
Exchange rate: EUR (eop)	61.4	61.4	61.6	61.6	61.6
Exchange rate: EUR (aop)	61.4	61.4	61.5	61.6	61.6

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