NATIONAL BANK OF GREECE

Regional Economic Outlook & Prospects

2020

Economic Analysis Division

Emerging Markets Analysis

NBG - Economic Analysis Division
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Emerging Markets Analysis

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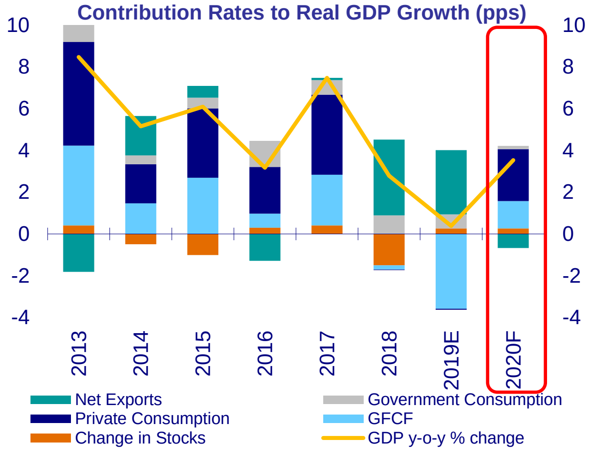
Turkey

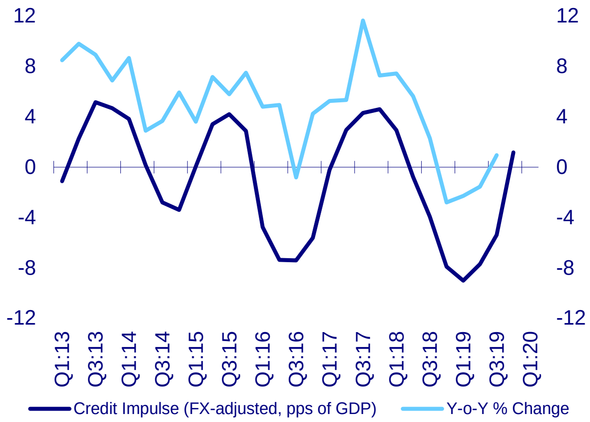
B+ / B1 / BB- (S&P/ Moody's / Fitch)

"Positive momentum with still considerable uncertainties"

Contribution Rates to Real GDP Growth (pps)



Real GDP Growth & Credit Impulse



Sources: TurkStat, BDDK & NBG estimates

- **Economic activity should accelerate on the back of monetary stimulus.** With limited room for fiscal manoeuvre, the authorities are now relying on monetary stimulus to support the economy. In fact, improving financing conditions (see below) together with easing inflationary pressures should help rebuild confidence in the economy, fostering domestic demand. On the other hand, net exports are unlikely to contribute significantly to economic growth, in view of weak global trade and the waning effects of the sharp TRY depreciation in FY:18 on the one hand, and a recovery in domestic demand on the other. All said, we see GDP growth accelerating to 3.5% in FY:20 from an estimated 0.4% in FY:19. Persistent geopolitical uncertainty and the risk of US sanctions together with a structurally weak labour market and large corporate balance sheet vulnerabilities could continue to cloud the economic outlook.
- **Headline inflation to ease to a 3-year low of 9.7% at end-2020 from 11.8% at end-2019.** Headline inflation will likely continue its downward trend this year, reflecting a milder depreciation of the TRY and better anchored inflation expectations. However, the pace of disinflation should be slower than in FY:19, in view of a looser monetary policy and the absence of significant base effects.
- **The CBRT is set to slow its pace of easing this year.** Following an aggressive 1200 bp cut in 4 rounds in H2:19, the central bank proceeded with a modest 75 bp reduction to its 1-week repo rate to 11.25% in January. We expect the CBRT to cut further its key rate by 100 bps to 10.25% by end-2020 (implying a real *ex-post* policy rate of 0.5%, still well below that of its EM peers). Besides rate cuts, the CBRT has also been stimulating credit activity by tying banks' required reserves and remuneration rates to loan growth.
- **Limited room for further fiscal easing**. In view of the sizeable one-off transfers from the CBRT to the FY:19 budget (including above-normal profits and reserve funds worth 1.5% of GDP in total) and the overly optimistic FY:20 budget assumptions (a GDP growth rate of 5.0%), we see the budget deficit widening to over 3.5% of GDP in FY:20 against the target (and the equivalent estimated FY:19 outcome) of 2.9%. Importantly, however, gross public debt is set to remain low (at c. 35% of GDP) -- a key strength for Turkey.
- **Following a significant adjustment since the 2018 currency crisis, the current account balance is expected to reverse course in FY:20, in line with the economic recovery**. We see the current account balance moving into a deficit of 1.4% of GDP in FY:20 from an estimated balanced position in FY:19, as the prospective recovery in economic activity will be accompanied by higher import spending. Filling the external financing gap should not be a problem, in view of improving confidence in the Turkish economy and accommodative global financing conditions. Nonetheless the country's large gross external financing needs (c. 24% of GDP in FY:20) and a still precarious net FX reserves position (covering c. 4 months of GNFS imports) leave the economy vulnerable to adverse shifts in investor sentiment.

Macroeconomic & Financial Indicators

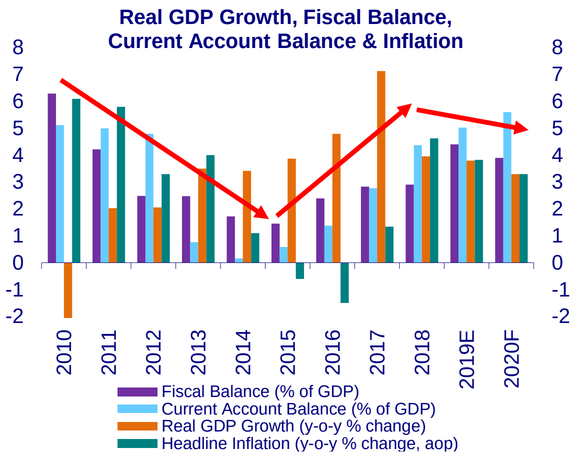
	2018	2019E	2020F	2021F
Nominal GDP (USD bn)	770.1	760.2	814.3	875.4
GDP growth (real, y-o-y % change)	2.8	0.4	3.5	3.8
CPI (y-o-y % change, eop)	20.3	11.8	9.7	9.2
CPI (y-o-y % change, aop)	16.2	15.4	11.2	9.1
TRY/USD (eop)	5.29	5.95	6.25	6.60
TRY/USD (aop)	4.84	5.68	6.10	6.43
Effective Funding Rate (%, eop)	24.06	11.43	10.25	9.75

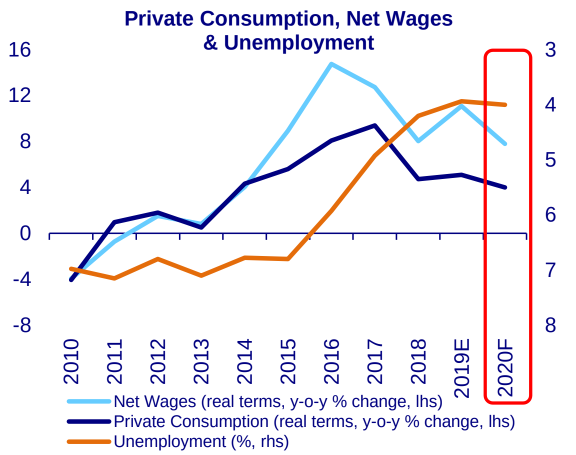
	2018	2019E	2020F	2021F
Current Account Balance (% of GDP)	-3.5	0.0	-1.4	-2.2
FDI (% of GDP)	1.2	1.3	1.3	1.4
International reserves (USD billion)	93.0	106.4	108.5	112.0
Gross external debt (% of GDP)	57.7	59.3	56.7	54.4
Fiscal balance (% of GDP)	-1.9	-2.9	-3.5	-3.0
Primary Balance (% of GDP)	0.0	-0.4	-1.2	-1.8
Gross Public debt (% of GDP)	30.4	31.9	32.8	33.7

Romania

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

"The need for fiscal consolidation clouds the economic picture"





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

- **With no help from fiscal policy, economic growth is set to slow to a still solid 3.3% in FY:20 from an estimated 3.8% in FY:19**. Private consumption will remain the main engine of growth, with its pace of expansion moderating, however, compared with FY:19, in line with slower employment growth in a labour market close to full employment and the fading impact of past hikes in public sector wages. At the same time, in view of weak business confidence and the negative base effect from the boost in construction activity in FY:19, in the aftermath of the fiscal changes introduced, investment is unlikely to maintain momentum, despite accommodative financing conditions. Amid weak global trade, net exports will also remain a drag on overall growth in FY:20, albeit by less than in FY:19. Risks to our forecast are tilted to the downside, as an escalation in political uncertainty and/or the authorities' failure to put public finances back on track could hurt sentiment further.
- **Headline inflation should marginally fall within the NBR's target range (2.5±1%) this year.** Disinflation should be sustained by gradually easing demand-side pressures and supportive base effects from the price hikes in tobacco, telecommunication and TV services last year, which should more than offset the impact of the gradual liberalization of the energy market. We see headline inflation at end-2020 at 3.4% y-o-y against 4.0% y-o-y at end-2019.
- **Against the backdrop of a challenging domestic environment, the NBR is set to keep its key rate flat at 2.5% throughout FY:20.** In view of the wide twin deficits and the risk of policy complacency ahead of a long pre-election period (general election is officially due at end-year, but the interim minority PNL Government wants to bring it forward to mid-year), the NBR should continue to refrain from joining the wave of global monetary easing.
- **The budget deficit is set to remain above the critical EU threshold of 3.0% of GDP for a 2nd consecutive year in FY:20**. The main challenge for the budget is to accommodate the impact of the controversial new pension law, which entails doubling pensions by 2022. However, fiscal consolidation appears to be a difficult task, in view of the rigid budget structure and the uncertain domestic political environment. All said, we expect the budget deficit to narrow to 3.9% of GDP in FY:20 from an estimated 4.4% in FY:19, well above the 3.0% threshold. That means that the EC could launch its excessive deficit procedure this year.
- **The current account deficit is set to widen further to a still manageable, albeit alarming, 5.6% of GDP in FY:20**. Amid an unfavourable external environment, the trade deficit is set to continue to widen this year, albeit at a slower pace compared with FY:19, reflecting a moderation in domestic demand. Worryingly, in view of rising gross external financing needs (23.0% of GDP), FX reserves could come under pressure this year (down EUR 2.4bn to a critical EUR 30.5bn at and-2020 -- covering 3½ months of GNFS imports), despite accommodative global financing conditions.

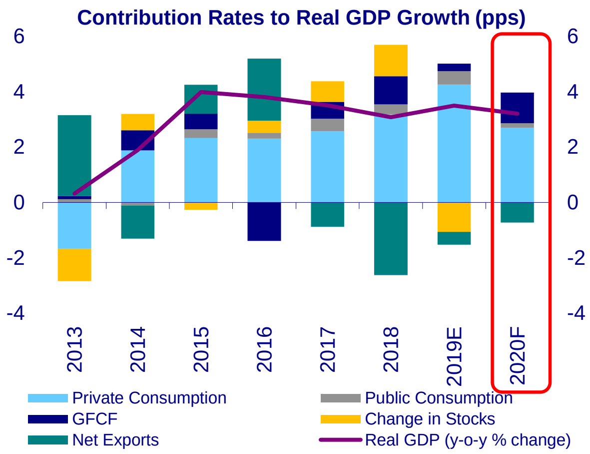
Macroeconomic & Financial Indicators

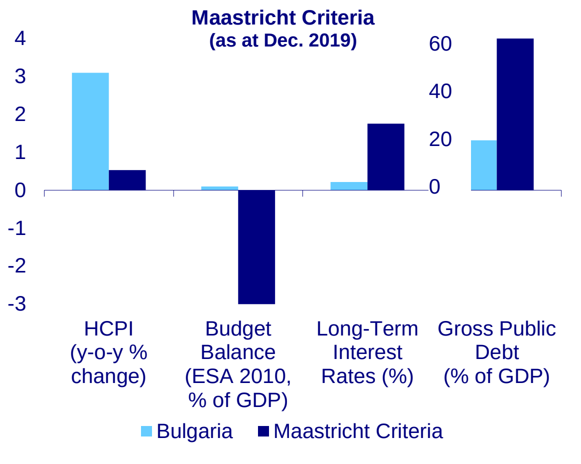
	2018	2019E	2020F	2021F		2018	2019E	2020F	2021F
Nominal GDP (EUR bn)	204.8	220.9	233.7	246.9	**Current Account Balance (% of GDP)**	-4.4	-5.0	-5.6	-5.5
GDP growth (real, y-o-y % change)	4.0	3.8	3.3	3.1	**FDI (% of GDP)**	2.4	2.3	2.3	2.3
CPI (y-o-y % change, eop)	3.3	4.0	3.4	3.1	**International reserves (EUR billion)**	33.1	32.9	30.5	28.5
CPI (y-o-y % change, aop)	4.6	3.8	3.3	3.1	**Gross external debt (% of GDP)**	48.8	50.3	50.0	48.9
RON/EUR (eop)	4.65	4.79	4.85	4.88	**Fiscal balance (% of GDP)**	-2.9	-4.6	-3.9	-3.4
RON/EUR (aop)	4.65	4.74	4.82	4.87	**Primary Balance (% of GDP)**	-1.5	-3.0	-2.4	-2.0
1-week Repo Rate (%, eop)	2.50	2.50	2.50	2.75	**Gross Public debt (% of GDP)**	42.1	43.5	44.9	46.1

Bulgaria

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

"Solid outlook on the prospect of ERM-2 membership"





Sources: NSI, Eurostat, ECB & NBG estimates

- **Moderate, but more balanced, GDP growth in FY:20 (up 3.2% against an estimated 3.5% in FY:19).** Albeit losing some momentum, domestic demand should continue to drive economic growth in FY:20, but with a shift from private consumption to investment. Indeed, against the backdrop of rising industrial capacity utilization, investment is due to strengthen, in line with favorable domestic liquidity conditions and better absorption of EU funds. At the same time, private consumption should continue to expand, but at a slower pace compared with FY:19, as the structurally weak labour market approaches full employment. Worryingly, net exports could remain a drag on overall growth (see below).
- **Albeit easing (to 3.1% y-o-y at end-2020 from 3.8% at end-2019), headline inflation is set to remain well above its historical average (1.7%).** The envisaged normalization in volatile food prices, together with some cooling-off in private consumption, should gradually bring down headline inflation this year.
- **Bulgaria could join the Exchange Rate Mechanism (ERM-2) -- a precursor to euro adoption -- this year.** The key remaining issue is addressing the capital shortfalls found at 2 domestically-owned banks in last year's AQR. This is a precondition for the acceptance into the Banking Union, which Bulgaria committed to join in tandem with the ERM-2. Although the ultimate ERM-2 accession decision is considered to be a political one, as no formal criteria are specified, we expect that Bulgaria will be eventually allowed to join this year. Once in the ERM-2, Bulgaria will need to maintain its currency within prescribed narrow limits for at least 2 years. This should not be a problem, as Bulgaria has been successfully operating a currency board since 1997. Besides FX stability, other convergence criteria for adopting the euro include: price stability, sound public finances and low interest rates. With the exception of price stability, Bulgaria currently meets the remaining criteria (see chart).
- **Authorities remain committed to fiscal prudence.** The FY:20 budget targets a balanced position against an estimated deficit of 1.0% of GDP in FY:19 (with the latter, however, including a once-off military purchase worth 1.8%). The target appears to be comfortably within reach, as rising tax collection should broadly compensate for the cost of a looser incomes policy. Importantly, Bulgaria's already low gross public debt is set to decline further to 20.3% of GDP at end-2020. The latter, together with the large fiscal reserves (8.5% of GDP), provide a strong buffer against shocks.
- **Bulgaria is set to post a strong current account surplus of 6.4% of GDP in FY:19 (against an estimated 8.1% in FY:19), remaining the best performer in the region.** In view of weak demand from the EU (absorbing c. ⅔ of Bulgaria's exports) and the elimination of the positive base effect from the temporary shutdown in the country's largest oil refinery in H1:18, the trade deficit should reverse course and widen this year. With the current account still in a sizeable surplus, however, covering the external financing needs should not be an issue.

Macroeconomic & Financial Indicators

	2018	2019E	2020F	2021F
Nominal GDP (EUR bn)	56.1	60.5	64.7	68.9
GDP growth (real, y-o-y % change)	3.1	3.5	3.2	3.3
CPI (y-o-y % change, eop)	2.7	3.8	3.1	2.8
CPI (y-o-y % change, aop)	2.8	3.1	3.5	3.0
BGN/EUR (eop)	1.956	1.956	1.956	1.956
BGN/EUR (aop)	1.956	1.956	1.956	1.956
Base Interest Rate (%, eop)	0.0	0.0	0.0	0.0

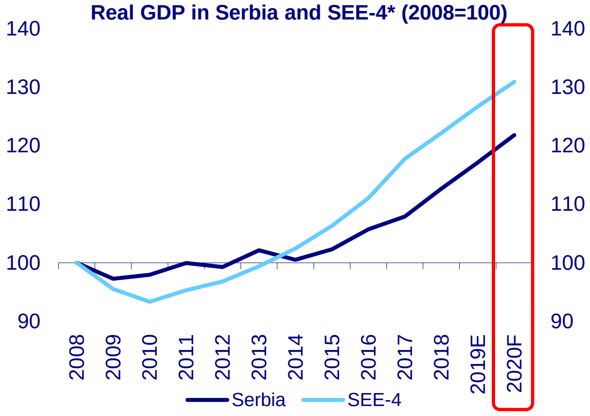
	2018	2019E	2020F	2021F
Current Account Balance (% of GDP)	5.4	8.1	6.4	5.6
FDI (% of GDP)	0.6	1.3	1.3	1.3
International reserves (EUR billion)	23.6	23.1	24.1	24.4
Gross external debt (% of GDP)	59.1	57.5	55.4	53.9
Fiscal balance (% of GDP)	0.1	-1.0	0.0	0.0
Primary Balance (% of GDP)	0.8	-0.5	0.5	0.4
Gross Public debt (% of GDP)	23.2	21.3	20.3	19.3

Serbia

BB+ / Ba3 / BB+ (S&P/ Moody's / Fitch)

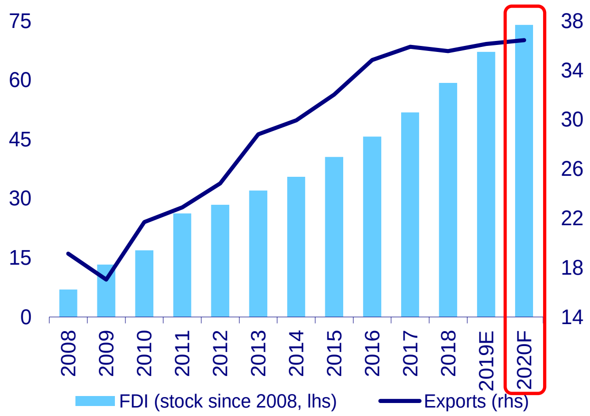
"Strengthened macroeconomic fundamentals and the IMF anchor underpin a positive outlook"

Real GDP in Serbia and SEE-4* (2008=100)



*SEE-4 includes Romania, Bulgaria, North Macedonia and Albania

Exports and FDI (% of GDP)



Sources: NBS, OPBC, MoF & NBG estimates

- **Economic activity is set to remain strong this year (up 4.0%), despite an adverse external environment and limited support from economic policies.** Private consumption should remain the main growth driver, on the back of the hike in the minimum wage (by 11.1%), public sector wages (by 8-15%) and pensions (by 5%) and their spillover to the private sector amid tighter labour market conditions (the unemployment rate is expected to reach historically low levels this year). Moreover, investment growth should maintain its double-digit growth rate, supported by improved confidence in the domestic economy (on the back of strengthening fundamentals, under the IMF's Policy Coordination Instrument, PCI, and accelerating EU-related reforms), higher public infrastructure projects and strong credit growth. Worryingly, despite the envisaged double-digit growth in exports (reflecting the past years' large FDIs), net exports are expected to remain a drag on overall growth this year, as stronger domestic demand should boost imports. Our baseline scenario assumes that the policy drive will be sustained after the upcoming parliamentary election (due at end-April). In fact, with the opposition remaining fragmented, polls suggest that the ruling SNS party should retain an absolute majority. All said, GDP is set to grow at a solid pace of 4.0% in FY:20 (remaining above its long-term potential of 3.5% for a 3rd successive year), unchanged from the estimated FY:19 outcome and slightly below a post-global crisis high of 4.4% in FY:18.
- **The NBS has further scope to cut rates in FY:20.** Following cuts of 75 bps in FY:19, we expect the NBS to further cut its 2-week repo rate by 25 bps to an all-time low of 2.0% by end-Q1:20, in view of muted inflationary pressures, RSD stability and accommodative global financing conditions.
- **A neutral fiscal stance envisaged this year.** Despite a looser incomes policy, the rise in the non-taxable income threshold and the cut in the employers' pension insurance contribution rate, we expect the FY:20 budget deficit to remain contained (at 0.5% of GDP, unchanged from FY:19), reflecting a cut in subsidies and lower interest payments. Importantly, the public debt-to-GDP ratio is set to ease further, for a 5th successive year, to (a 9-year low of) 51.5% of GDP in FY:20 from 52.7% in FY:19.
- **The current account deficit (CAD) is expected to reverse its upward trend in FY:20.** The CAD is set to narrow by 0.4 pps to 6.4% of GDP in FY:20, after having widened by an estimated 1.6 pps in FY:19. The narrowing in the CAD should not only reflect the expansion of export capacity following the past years' strong investment growth, but also softer high-import-content FDI inflows (note that the Serbian part of the TurkStream gas pipeline was completed in H2:19). Filling the external financing gap should not be a problem, as net FDI inflows should continue to more than cover the CAD (FX reserves are set to reach a historical high of EUR 3.6bn at end-2020, covering c. 5.5 months of GNFS imports). Importantly, the continued engagement with the IMF through the (non-financing) PCI provides a buffer against external shocks.

Macroeconomic & Financial Indicators

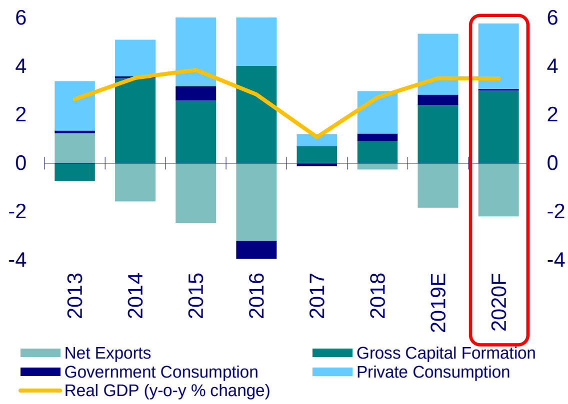
	2018	2019E	2020F	2021F		2018	2019E	2020F	2021F
Nominal GDP (EUR bn)	42.83	45.53	48.52	51.68	**Current Account Balance (% of GDP)**	-5.2	-6.8	-6.4	-6.3
GDP growth (real, y-o-y % change)	4.4	4.0	4.0	3.7	**FDI (% of GDP)**	7.4	7.9	6.9	6.4
CPI (y-o-y % change, eop)	2.0	1.9	2.4	2.6	**International reserves (EUR billion)**	11.3	13.4	13.3	13.5
CPI (y-o-y % change, aop)	2.0	1.9	2.0	2.3	**Gross external debt (% of GDP)**	62.8	62.0	60.5	59.0
RSD/EUR (eop)	118.20	117.47	117.00	116.50	**Fiscal balance (% of GDP)**	0.6	-0.5	-0.5	-0.5
RSD/EUR (aop)	118.14	117.73	117.24	116.75	**Primary Balance (% of GDP)**	2.8	1.6	1.4	1.4
2-week Repo Rate (%, eop)	3.0	2.3	2.0	2.5	**Gross Public debt (% of GDP)**	54.5	52.7	51.4	47.8

North Macedonia

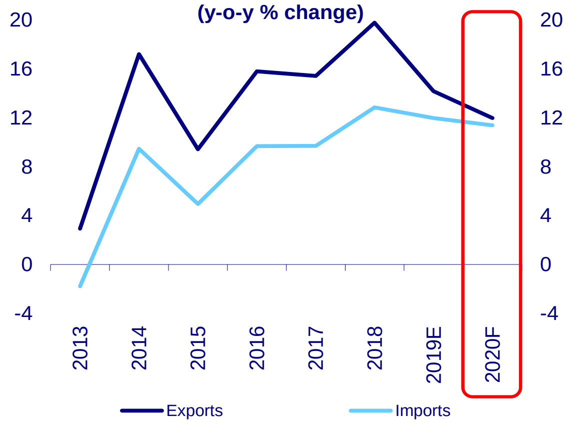
BB- / NR / BB+ (S&P/ Moody's / Fitch)

"The resolution of uncertainties could boost the economy's upside potential"

Contributions to Real GDP Growth (pps)



External Trade (y-o-y % change)



Sources: State Statistical Office, NBRNM & NBG estimates

- **The unstable domestic political environment remains a key source of risk.** Following the EU's failure to open accession talks with the country in October 2019, snap Parliamentary elections were called for April. The latest opinion polls show the main opposition party, the right-wing VMRO/DPMNE, leading the ruling centre-left SDSM. In this context, the pro ethnic-Albanian parties could act as a kingmaker in the formation of the next Government. Importantly, with all political parties committed to the country's EU path, we expect no back-tracking on EU-related reforms, although we acknowledge that their pace may slow in the event of further postponement (the next key date is May 2020).
- **Economic growth to maintain its pace in FY:20 (up 3.5%), on the back of strong domestic demand**. Investment should remain the key driver of economic growth, reflecting accommodative financing conditions and the extension of a state incentive scheme. At the same time, private consumption is set to accelerate, supported by favourable labour market dynamics. Indeed, employment should continue to expand strongly, benefiting from state-subsidised programmes, and wage growth should accelerate, due to a spillover effect from the significant hikes in the minimum and public sector wages. Worryingly, amid weak external demand, net exports could remain a drag on overall growth (see below).
- **Headline inflation is set to rebound to a still modest 1.7% y-o-y at end-2020 from 0.4% at end-2019.** Solid domestic demand, together with a strong base effect from the sharp decline in volatile food prices last year, should push headline inflation higher in FY:20.
- **The Central Bank is likely to maintain its key rate unchanged at a low of 2.0% in FY:20.** Despite the favourable global financing backdrop, we expect the NBRNM to remain on hold, in view of the (small) positive output gap, modestly rising inflation and ample liquidity (the loan-to-deposit ratio stands at c. 90%).
- **Modest fiscal slippage in sight for FY:20.** A series of expansionary measures, including hikes in public sector wages and pensions, together with higher employment and investment subsidies and the full-year impact of the recently-adopted VAT reimbursement scheme, should boost current spending in FY:20. All said, we see the budget deficit widening to 2.0% of GDP in FY:20 from an estimated 1.6% in FY:19, still below the target of 2.3%.
- **The current account deficit (CAD) is set to widen to 1.7% of GDP in FY:20 from 1.1% in FY:19.** Amid weak demand from the EU (absorbing 80% of the country's exports), the trade deficit should widen this year, not only due to solid domestic demand, but also to increasing supply constraints of foreign companies operating in the country (accounting for 60% of its exports). Despite elevated political noise, financing the CAD should not be a problem, in view of abundant global liquidity. In fact, FDI should remain the key driver, reflecting a favourable business environment (North Macedonia ranks 10th in the World Bank's Ease of Doing Business Index) and strong price competitiveness.

Macroeconomic & Financial Indicators

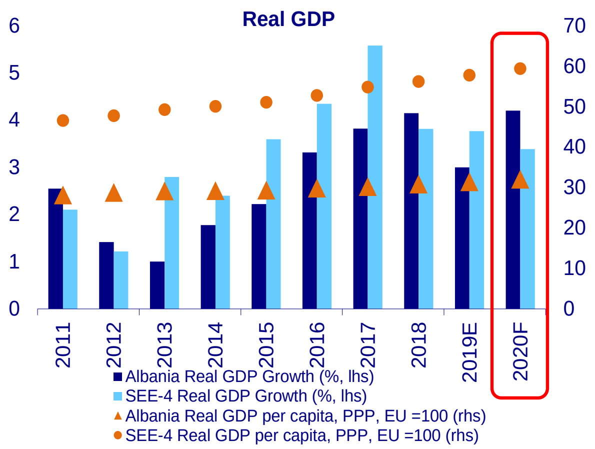
	2018	2019E	2020F	2021F
Nominal GDP (EUR bn)	10.7	11.2	11.8	12.4
GDP growth (real, y-o-y % change)	2.7	3.5	3.5	3.3
CPI (y-o-y % change, eop)	0.9	0.4	1.7	2.2
CPI (y-o-y % change, aop)	1.5	0.8	1.5	1.8
MKD/EUR (eop)	61.42	61.42	61.42	61.42
MKD/EUR (aop)	61.42	61.42	61.42	61.42
28-d CB bill Rate (%, eop)	2.75	2.25	2.0	2.25

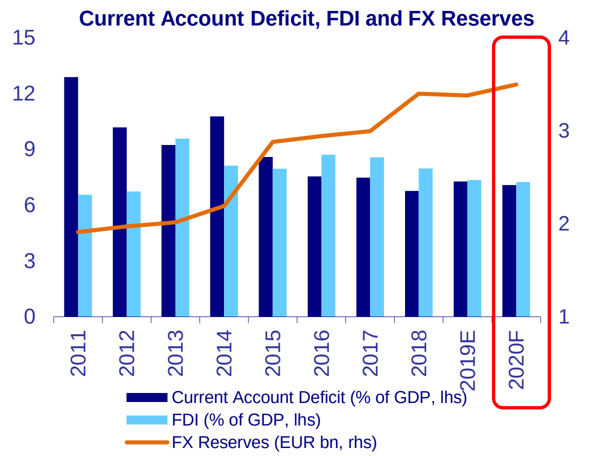
	2018	2019E	2020F	2021F
Current Account Balance (% of GDP)	-0.1	-1.1	-1.7	-2.0
FDI (% of GDP)	5.6	2.2	2.4	2.5
International reserves (EUR billion)	2.9	3.3	3.6	3.8
Gross external debt (% of GDP)	73.2	76.2	76.8	75.7
Fiscal balance (% of GDP)	-1.8	-1.6	-2.0	-2.0
Primary Balance (% of GDP)	-0.6	-0.4	-0.8	-0.8
Gross Public debt (% of GDP)	48.6	49.1	49.6	49.9

Albania

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

"Positive economic outlook, on the back of a consistent policy mix under the IMF's Post-Programme Monitoring"





Sources: BoA, Instat, MoF & NBG estimates

- **GDP growth is set to rebound to a post-global crisis high of 4.2% in FY:20 -- slightly above its long-term potential of 4.0% -- after (temporarily) slowing to an estimated 3.1% in FY:19.** Despite a broadly neutral policy mix this year, GDP is set to strengthen -- recording the highest growth rate in SEE-5 -- on the back of: i) the normalization in electricity production (fully based on hydroelectric production), following a sharp drop in FY:19 due to unfavourable weather conditions; and ii) the elimination of the negative base effect from the ban on betting operations imposed at end-2018. Economic activity in FY:20 should also be supported by a tightening labour market, increasing remittances and tourism inflows, as well as the authorities' strong commitment to economic reforms under the IMF's Post-Programme Monitoring (PPM) process. Risks to our forecast are titled to the downside reflecting an escalation in domestic political uncertainty (note that the ruling Socialist Party has launched impeachment proceedings against the President) and a further postponement of the EU accession negotiations.
- **Albeit rising gradually, headline inflation should remain well below the BoA's target (of 3.0%) throughout 2020 (for a 9th successive year).** Despite low imported inflationary pressures, inflation is set to embark on a mild upward trend this year, ending 2020 at 1.5% y-o-y, above the end-2019 outcome of 1.1%, driven by firming demand-side pressures.
- **The BoA is set to maintain its key rate on hold at a record low of 1.0% this year.** In light of persistently weak inflation and sustained FDI inflows on the one hand, and with the help of accommodative global financing conditions on the other, we expect the BoA to maintain its 1-week repo rate unchanged throughout the year.
- **The 2020 Budget is set to underperform its target of 1.6% of GDP by a wide margin, unless corrective fiscal measures are introduced.** Budget spending is unlikely to remain within allocations, in view of the large (unbudgeted) reconstruction costs related to the devastating November 2019 earthquake. The implied spending slippage should be only partly compensated by lower interest payments, which are traditionally overstated in the budget. In the absence of new measures on the revenue side, we see the FY:20 budget deficit widening, for a 2nd successive year, to a 5-year high of 2.5% of GDP from the estimated FY:19 outcome of 2.1% of GDP. Importantly, despite the expansionary fiscal stance, the public debt-to-GDP ratio is set to remain on its downward trend, reaching an 8-year low of 64.5% of GDP in FY:20 (still the highest in SEE-5) mainly driven by robust real GDP growth.
- **The negative current account trend is set to reverse course this year.** We see the current account deficit (CAD) narrowing by 0.2 pps y-o-y to 7.1% of GDP in FY:20, on the back of a sharp drop in energy imports (after a drought-driven drop in electricity generation in FY:19). External financing should not be an issue, as large FDI inflows should continue to more than cover the CAD and other financing needs, boosting FX reserves by EUR 100mn to a high of EUR 3.5bn (covering an adequate 6.0 months of GNFS imports).

Macroeconomic & Financial Indicators

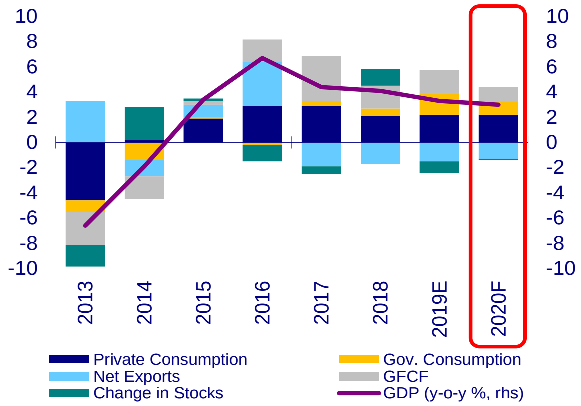
	2018	2019E	2020F	2021F		2018	2019E	2020F	2021F
Nominal GDP (EUR bn)	12.812	13.881	14.795	15.683	**Current Account Balance (% of GDP)**	-6.8	-7.3	-7.1	-6.9
GDP growth (real, y-o-y % change)	4.1	3.0	4.2	4.0	**FDI (% of GDP)**	8.0	7.4	7.3	7.2
CPI (y-o-y % change, eop)	1.8	1.1	1.5	1.8	**International reserves (EUR billion)**	3.399	3.381	3.498	3.759
CPI (y-o-y % change, aop)	2.0	1.4	1.3	1.7	**Gross external debt (% of GDP)**	65.1	61.2	60.5	59.9
ALL/EUR (eop)	123.3	121.6	121.5	121.0	**Fiscal balance (% of GDP)**	-1.6	-2.1	-2.5	-1.8
ALL/EUR (aop)	127.3	122.7	121.6	121.3	**Primary Balance (% of GDP)**	0.6	0.1	-0.4	0.1
1-week Repo Rate (%, eop)	1.0	1.0	1.0	1.3	**Gross Public debt (% of GDP)**	69.9	66.3	64.5	62.0

Cyprus

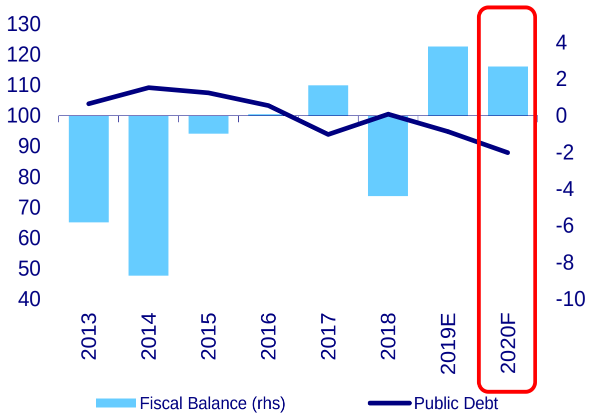
BBB- / Ba2 / BBB- (S&P / Moody's / Fitch)

"Growth moderates, but prospects remain favourable"

Contributions to Real GDP Growth (pps) excl. SPEs



Fiscal Balance and Public Debt (% of GDP)



Sources: CBC, CYSTAT & NBG estimates

- **Solid, albeit slowing, GDP growth (up 3.0% in FY:20).** The main driver behind the envisaged economic slowdown should be the normalization in investment activity following 4 years of overperformance. The latter was mainly due to increased residential construction (supported by the Citizenship by Investment scheme, whose eligibility requirements have been tightened, however, as of mid-2019) and tourism infrastructure investment. At the same time, despite the continuing reversal of crisis-era public wage and pension cuts, private consumption is unlikely to improve in FY:20, due to the impact of the hike in health and social security contributions on disposable income as well as an intensification in loan servicing under the *"Estia"* NPL subsidy scheme and the strengthened foreclosure and insolvency framework. On a positive note, the drag from net exports on overall growth should diminish slightly this year (see below). Overall, we see FY:20 GDP growth easing to 3.0% from an estimated 3.3% in FY:19, still above the economy's long-term potential (c. 2.0%) and the euro area average (up 1.2%).
- **Headline inflation is gradually rising, but remains weak.** We expect headline inflation to rise modestly to 1.0% y-o-y at end-2020 from 0.7% at end-2019, in line with the still positive output gap. Note that, despite the high GDP growth rates, inflation remains persistently low, reflecting: i) strong employment growth in low-paid sectors, such as construction and tourism, as well as the large slack in the labour market (albeit declining rapidly, the unemployment rate still remains above its pre-GFC lows); and ii) strengthening competition among retailers.
- **The declining but still sizeable fiscal surplus (projected at 2.7% of GDP in FY:20) should keep public debt on a downward trend.** The adjustment of the budget surplus will mainly be the result of: i) the elimination of the (once-off) surplus in the budget of the National Health System (NHS, c. 0.5% of GDP), created by the 3-month lag between the initiation of collection of health insurance contributions and State payments to the NHS in 2019; and ii) a further reversal of wage cuts (projected to cost 0.3 pps of GDP). Overall, we see the fiscal surplus narrowing by 1.1 pp to 2.7% of GDP, in line with its target. Importantly, the public-debt-to-GDP ratio should continue on a downward trend, reaching 86.6% at end-2020 from an estimated 93.6% at end-2019. Besides the large primary surplus, debt reduction should be supported by a strong "snowball effect", reflecting historically low interest rates and solid GDP growth.
- **The current account deficit is set to narrow to 7.9% of GDP in FY:20 (from an estimated 8.7% in FY:19).** The external adjustment should be driven by an improvement in the core trade balance (excl. ships and energy), stemming from softer domestic demand, as the (mostly imported) investment boom dissipates. The narrowing in the core trade balance should be partly offset, however, by a further decline in revenue from tourism, Cyprus' flagship industry, reflecting weak economic activity in the EU, the impact of Brexit and the bankruptcy of Thomas Cook (accounting for 7.0% of arrivals in FY:19), as well as increasing regional competition.

Macroeconomic & Financial Indicators

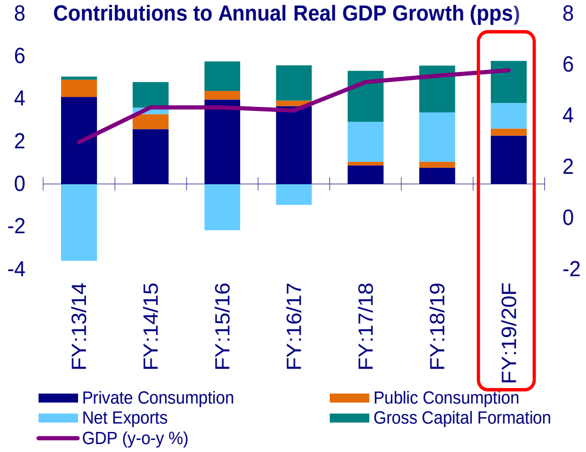
	2018	2019E	2020F	2021F
Nominal GDP (EUR bn)	21.1	21.9	22.7	23.7
GDP growth (real, y-o-y % change)	4.1	3.3	3.0	2.9
CPI (y-o-y % change, eop)	1.7	0.7	1.0	1.3
CPI (y-o-y % change, aop)	1.4	0.3	0.7	1.5
EUR/USD (eop)	1.15	1.12	1.15	1.18
EUR/USD (aop)	1.18	1.12	1.14	1.17
ECB Refinancing Rate (%, eop)	0.0	0.0	0.0	0.0

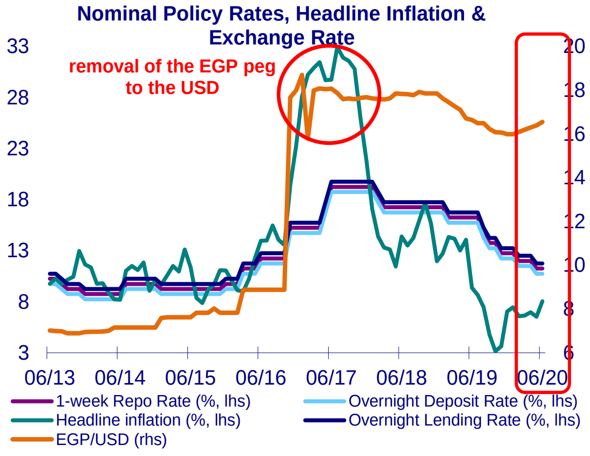
	2018	2019E	2020F	2021F
Current Account Balance (% of GDP)	-4.4	-8.7	-8.0	-6.8
FDI (% of GDP)	34.5	35.7	24.9	23.9
International reserves (EUR billion)	---	---	---	---
Gross external debt (% of GDP)	990.9	972.2	944.0	922.2
Fiscal balance (% of GDP)	-4.4	3.8	2.7	2.7
Primary Balance (% of GDP)	-1.9	6.1	5.1	5.2
Gross Public debt (% of GDP)	100.6	94.8	87.9	83.7

Egypt

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

"The significant IMF-supported policy adjustment over the past 3 years has boosted macroeconomic stability"





Sources: Reuters, CBE, MoF & NBG estimates

- **GDP growth is set to pick up slightly, to a 12-year high of 5.8% this fiscal year (ending in June 2020), still above the economy's long-term potential (of 5.0%).** GDP growth is set to maintain its momentum this year, but with a shift from investment and net exports to private consumption. Indeed, following a sharp IMF-mandated adjustment over recent years, private consumption should rebound from a low base, reflecting record low unemployment, easing inflation and a looser monetary policy. At the same time, albeit normalizing, growth in gross capital formation should be sustained by increased investment in the oil and natural gas sectors and the return of investor confidence, due to improved security conditions and the ongoing structural reforms. Against the backdrop of stronger domestic demand, the contribution by net exports to overall growth should diminish in FY:19/20, despite buoyant activity in the tourism sector and rising production of natural gas at the Zohr field.
- **Headline inflation to decline further to (an 8-year low of) 8.0% y-o-y in June 2020 from 9.4% in June 2019.** The re-emergence of demand side pressures this year should be more than offset by lower food and regulated prices and the positive impact of the past year's EGP appreciation.
- **The CBE is likely to cut its key policy rate by an additional 150 bps in H1:20, following cumulative cuts of 650 bps since the start of the cycle of monetary policy loosening in February 2018.** Further rate cuts are on the cards, in view of a benign inflation outlook, sustained fiscal consolidation and a stable domestic currency. This should bring down the overnight deposit to 10.75% at the end of the fiscal year -- still among the highest in emerging markets and above levels witnessed before the 2016 EGP flotation.
- **Fiscal consolidation to continue in FY:19/20.** The budget deficit is on track to narrow by 0.9 pps to an 11-year low of 7.2% of GDP this year. The fiscal improvement should come on the back of lower current spending, resulting from further cuts in energy and food subsidies and a significant drop in interest payments (on the back of a looser monetary policy). The sustained primary surplus (2.0% of GDP in FY:19/20), together with high nominal GDP growth and falling interest rates, will help reduce further the general government debt to 82.0% of GDP in FY:19/20 from 85.0% in FY:18/19.
- **The current account deficit is set to remain broadly stable in the current fiscal year (FY:19/20).** Further improvement in the energy bill (with the country set to become a net oil and gas exporter for the first time since 2012/13), following the expansion of the capacity of the Zohr gas field, and higher tourist receipts, should compensate for the widening in the non-energy trade deficit, on the back of stronger domestic demand and somewhat lower remittances from Gulf countries. The external financing gap should be fully covered by FDI inflows and the disbursement of the final IMF tranche, leaving FX reserves broadly unchanged at a USD 44.2bn in June 2020 (covering 6.5 months of GNFS imports) -- well above the pre-Revolution high (of USD 36.0bn in Q4:10).

Macroeconomic & Financial Indicators

	2017/18	2018/19E	2019/20F	2020/21F		2017/18	2018/19E	2019/20F	2020/21F
Nominal GDP (USD bn)	250.8	303.0	361.5	413.8	**Current Account Balance (% of GDP)**	-2.4	-2.7	-2.7	-2.4
GDP growth (real, y-o-y % change)	5.3	5.6	5.8	6.0	**FDI (% of GDP)**	3.0	1.8	2.0	2.3
CPI (y-o-y % change, eop)	14.4	9.4	8.0	8.8	**International reserves (USD billion)**	44.3	44.4	44.2	44.3
CPI (y-o-y % change, aop)	21.6	13.9	6.4	8.8	**Gross external debt (% of GDP)**	34.7	30.2	24.2	20.8
EGP/USD (eop)	17.84	16.65	16.55	17.05	**Fiscal balance (% of GDP)**	-9.7	-8.1	-7.2	-6.5
EGP/USD (aop)	17.70	17.56	16.57	16.70	**Primary Balance (% of GDP)**	0.1	1.9	2.0	1.3
O/N Deposit Rate (%, eop)	16.8	15.8	10.8	10.8	**Gross Public debt (% of GDP)**	92.7	85.2	91.9	79.2