NBG - Economic Analysis Division
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Emerging Markets Analysis

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Economic Analysis Division

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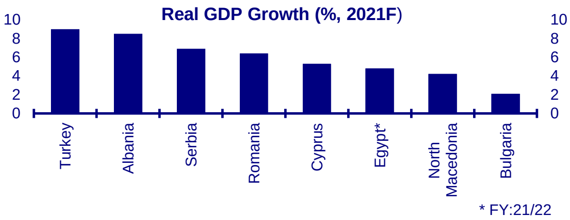
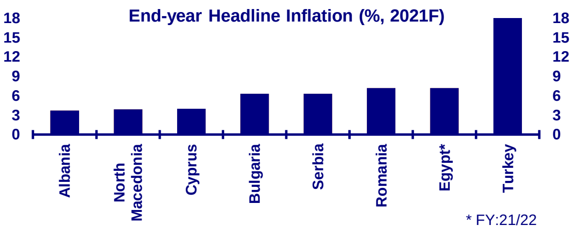
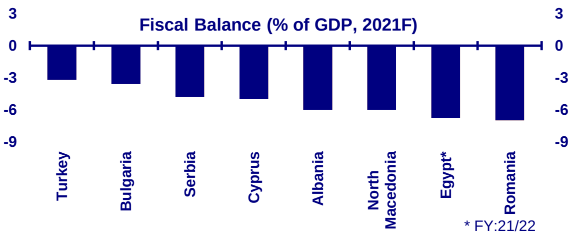
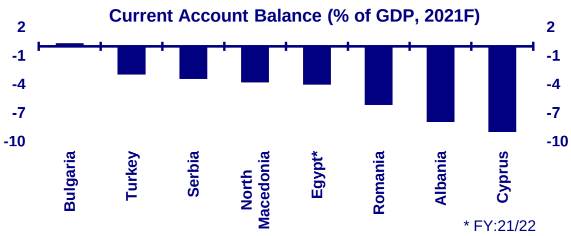
Bi-Weekly Report

2 – 15 November 2021









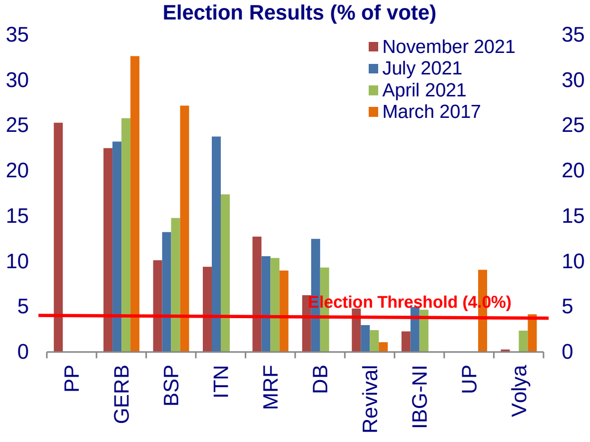
Sources: National authorities & NBG estimates

Please see disclosures on page 7

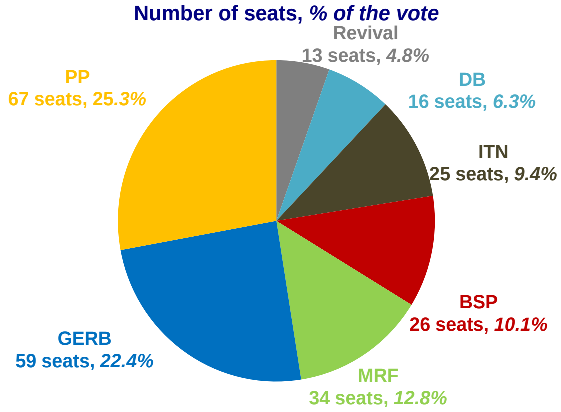
Bulgaria

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

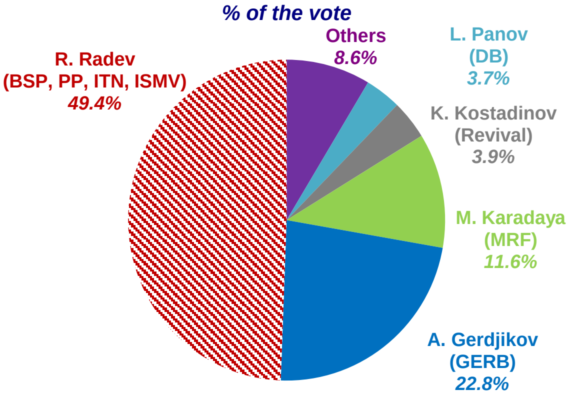
Election Results (% of vote)



Results of the 2021 Parliamentary Elections
Number of seats, *% of the vote*



Results of the 2021 Presidential Elections
% of the vote



	15 Nov.	3-M F	6-M F	12-M F
Base Interest Rate (%)	0.0	0.0	0.0	0.0
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2024, bps)	62	55	57	60

	15 Nov.	1-W %	YTD %	2-Y %
SOFIX	606	0.8	35.4	9.4

	2019	2020	2021F	2022F	2023F
Real GDP Growth (%) *	3.7	-4.2	2.1	4.3	4.5
Inflation (eop, %)*	3.8	0.1	6.3	2.4	2.4
Cur. Acct. Bal. (% GDP)*	1.9	-0.3	0.3	0.9	1.2
Fiscal Bal. (% GDP) *	-1.0	-3.0	-3.6	-2.2	-1.2

* Please see disclosure on page 4

Sources: Reuters, CEC & NBG estimates

Parliamentary elections deliver another hung Parliament, but the chances of forging a ruling coalition are higher this time. Recall that the November 14th election was the 3rd held within 2021, following 2 inconclusive outcomes in April and July. This election (which brought a historical low voter turnout -- 40%) was marked by the surprise performance of the new centrist anti-graft "We Continue the Change" (PP) party, led by two popular ministers of the interim Government, which finished 1st, with 25.3% of the vote, falling, however, short of an absolute majority. The centre-right GERB, whose almost decade-long rule was marred by corruption allegations, came in 2nd, with 22.4% of the vote. The Turkish-minority party, MRF, was 3rd, with 12.8% of the vote followed by the GERGB's traditional rival, the centre-left BSP party, with a disappointing 10.1% of the vote, In the wake of its failure to form a coalition Government after winning the July election, the populist ITN party sank to the 5th position, with just 9.4% of the vote. Another two parties managed to cross the 4.0% election threshold and enter the Parliament, namely the right-wing DB alliance, with 6.3% of the vote, and the nationalist Revival party, with 4.8% of the vote.

In our view, a grand coalition led by the PP and also including the BSP, ITN and DB parties is the most likely scenario. Still, we expect to see weeks of tough coalition talks, before a new Government takes office, eventually ending months of political uncertainty.

Incumbent President R. Radev set to win a 2nd mandate. The November 14 presidential election was a landslide victory for R. Radev, who is linked to the BSP but was also supported by the PP, ITN and IBG-NI parties, with 49.4% of the vote. This outcome leaves him better positioned to win the runoff, scheduled for November 21, against the GERB's candidate, A. Gerdjikov, who received just 22.8% of the vote in the first round. In fact, Radev has maintained a high approval rating since his first election in 2016, mainly over his efforts to root out corruption. Note that, though largely a ceremonial figure, the president comes to prominence in times of a political crisis, such as the current one, by appointing the caretaker Government. In addition, the President appoints top security and judicial officials and can veto legislation.

Significant challenges lie ahead for the new Government. In the very short-term, the main challenge for the authorities would be to deal with the ongoing, severe COVID-19 wave, which comes against the backdrop of the lowest vaccination coverage in the EU.

Looking further ahead, the new Government should focus on the fast and effective absorption of available EU funds. Note that Bulgaria is eligible to receive funds worth EUR 22.5bn (37% of FY:19 GDP) under the Next Generation EU Fund and the EU's Multiannual Financial Framework by 2027, the absorption of which is key to the country's post COVID-19 economic recovery and convergence with the EU. Worryingly, however, the historical low absorption rate poses a serious challenge in this regard.

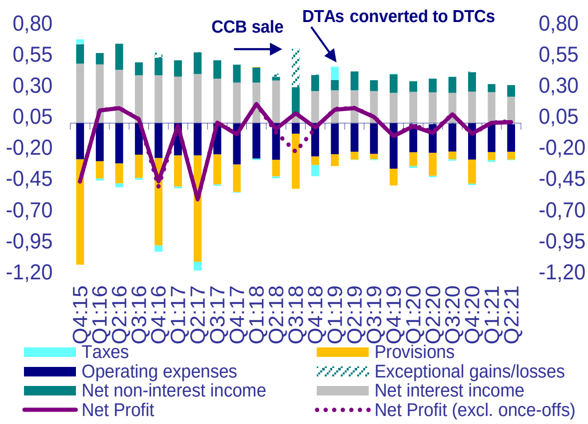
Other challenges the new Government should need to deal with include further enhancing the institutional framework and strengthening the fight against corruption and the rule of law. Recall that the EU's Cooperation & Verification Mechanism is still in place, 14 years after its initiation, suggesting ample room for further progress in these areas. Efforts should also be made to address the unfavourable demographics and structurally weak labour market, which cloud Bulgaria's growth potential.

Importantly, the anchors provided by the currency board arrangement, the inclusion of the BGN into the ERM-II, a precursor to the adoption of the euro, and Bulgaria's participation in the Banking Union, for all of which there is broad political consensus, limit the risk of a disruption in economic policies.

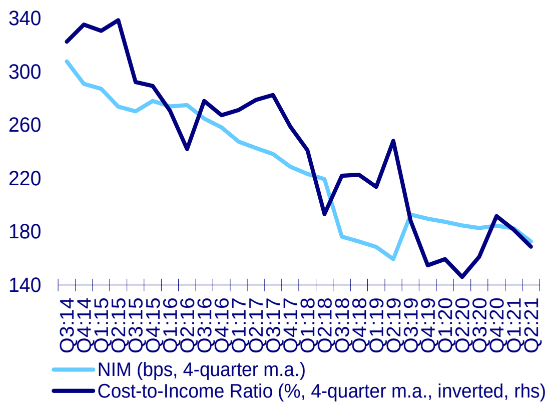
Cyprus

BBB- / Ba1 / BBB- (S&P / Moody's / Fitch)

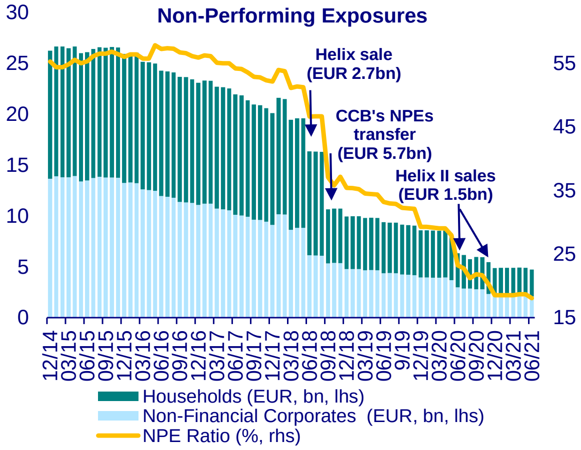
Quarterly Net Banking Sector Profit (bn, Euro)



Net Interest Margin and Cost-to-Income Ratio



Non-Performing Exposures



	15 Nov.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.57	-0.56	-0.54	-0.50
EUR/USD	1.14	1.15	1.16	1.17
Sov. Spread (2025, bps)	50	52	55	60

	15 Nov.	1-W %	YTD %	2-Y %
CSE Index	67	2.2	19.0	1.1

	2019	2020	2021F	2022F	2023F
Real GDP Growth (%)	5.3	-5.2	5.3	4.5	3.8
Inflation (eop, %)	0.7	-1.1	4.0	1.8	1.7
Cur. Acct. Bal. (% GDP)	-5.7	-10.1	-9.0	-7.0	-6.4
Fiscal Bal. (% GDP)	1.3	-5.7	-5.0	-2.5	-0.7

Sources: Reuters, CBC & NBG estimates

The banking sector got back in "the black" in H1:21, following a sharp decline in the cost of risk. Reflecting lower provisioning, the banking sector's bottom line turned to a marginal profit of EUR 8.5mn in H1:21 from a loss of EUR 103mn (0.5% of GDP) in H1:20. As a result, (annualised) ROAE and ROAA improved to 0.4% and 0.0%, respectively, in H1:21 from -4.0% and -0.4% in H1:20.

The cost of risk dropped sharply in H1:21, reflecting economic recovery and a negative base effect. Amid strong economic recovery from the COVID-19 shock (GDP was up 5.1% y-o-y in H1:21), the NPE ratio (adjusted for sales and write-offs) is estimated to have remained broadly flat (at 17.6% in June), despite the expiry of the (first) debt moratorium scheme (with high take-up, covering more than 40.0% of loans) at end-2020. In this context, banks reduced provisioning charges in H1:21, though much less than implied by the headline figure (down 57.7% y-o-y), which was inflated by the losses incurred by the Bank of Cyprus' (BoC), following the sale of an NPL portfolio. As a result, the (annualised) cost of risk fell significantly, by 100 bps y-o-y to 87 bps in H1:21. Note that the NPE provision coverage eased to 44.4% in June 2021, broadly in line with the EU average, from 46.6% a year ago, but mostly due to the write-off of NPEs that had been fully provided for.

Pre-provision income remained under pressure in H1:21, due to weaker top line revenue. Indeed, net interest income (NII) declined further in H1:21 (down 7.6% y-o-y), in line with: i) the continued decline in lending activity (down 2.2% y-o-y in June adjusted for sales and write-offs), on the one hand, and the further build-up of deposits (up 3.0% y-o-y in June 2021, with the latter accounting for 153% of loans), on the other hand; ii) the narrowing of the NIM (down 23 bps y-o-y to 163 bps in H1:21), amid a low interest rate environment and increasing competition for creditworthy borrowers; and, to a lesser extent, iii) the launch in January 2021 of a (second) loan moratorium, that lasted until June 2021, though with stricter eligibility criteria for targeted borrowers and thus significantly lower uptake. Weaker net non-interest income (NNII, down 18.7% y-o-y in H1:21), mainly arising from FX losses, also weighed on pre-provision earnings.

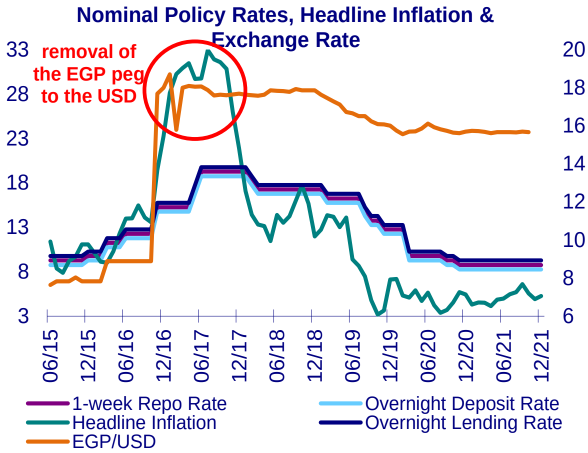
All said, the drop in top line revenue prompted a sharp deterioration in banking sector efficiency in H1:21 (with the cost-to-income ratio rising by 8 pps y-o-y to 73.8%), despite subdued operating expenses (up 0.3% y-o-y). Importantly, the system remains well-capitalised, with a CAR of 20.3%.

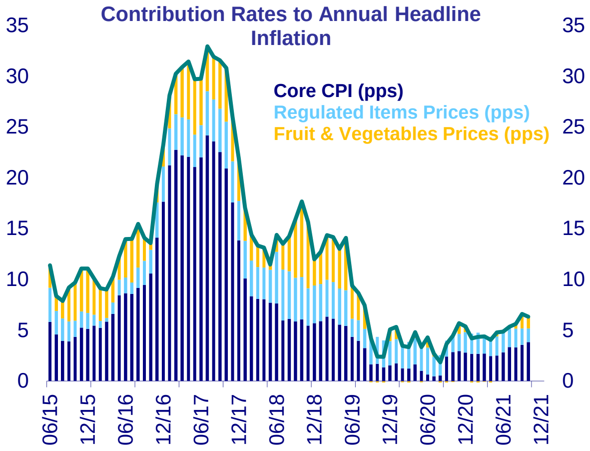
Amid continuing economy recovery, banks' profitability should remain positive but low. In view of economic recovery (we see GDP growth reaching 5.3% in FY:21 and moderating to a still robust 4.5% in FY:22), we expect provisioning charges to gradually stabilize at relatively low levels, despite the expiry of the second loan moratorium in June and banks' large exposure to severely hit sectors (with loans to the real estate & construction and tourism sectors accounting for 13.4% and 8.5%, respectively, of the loan book). Note that H2:21 results will also benefit from a positive base effect from the overprovisioning performed by banks, ahead of the expiry of the first loan moratorium, and the losses incurred by the BoC, following the sale of another NPL portfolio.

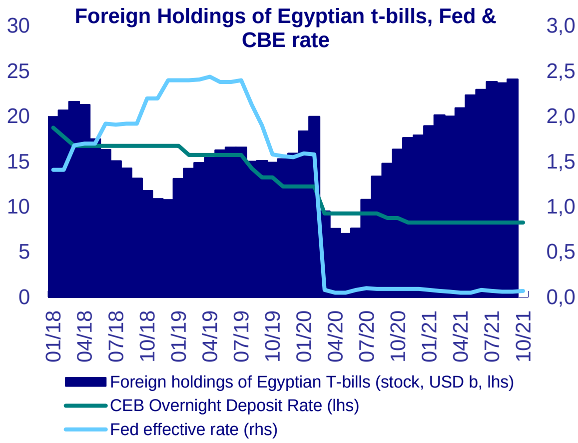
At the same time, we expect pre-provision income to recover slowly, in line with the envisaged pick-up in credit activity. The loan guarantees offered by the EIB and the state subsidy scheme for interest payments should also help to this end. Still, structural challenges emanating from low credit demand (largely due to high private sector indebtedness) and high operational costs, together with the current low interest rate environment, would continue to weigh on banks' profitability.

Egypt

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







	15 Nov.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	8.3	8.3	8.3	8.3
EGP/USD	15.73	15.86	16.00	16.25
Sov. Spread (2025, bps)	398	372	380	395

	15 Nov.	1-W %	YTD %	2-Y %
EGX 30	11,497	0.0	6.0	-21.0

	18/19	19/20	20/21E	21/22F	22/23F
Real GDP Growth (%)	5.6	3.6	3.3	4.8	5.1
Inflation (eop. %)	9.4	5.6	4.9	7.2	6.6
Cur. Acct. Bal. (% GDP)	-3.6	-3.1	-4.6	-4.0	-3.6
Fiscal Bal. (% GDP)	-8.1	-8.0	-7.4	-6.8	-6.4

Sources: Reuters, CBE & NBG estimates

Despite the global tightening bias, the CBE is likely to keep its policy rates on hold for long. The CBE maintained the overnight deposit, 1-week repo and overnight lending rates unchanged at 8.25%, 8.75% and 9.25%, respectively, for an 8th successive MPC meeting, in late October -- among the highest worldwide. Recall that, in a bid to mitigate the impact of COVID-19 on economic activity, the CBE had cut its rates by a cumulative 400 bps in FY:20. In our view, the main reasons lying behind the CBE's decision to remain on hold, defying the global tightening bias, include:

i) the still low, albeit rising, inflation. Headline inflation jumped to 6.3% y-o-y in October from 5.4% at end-2020, driven by higher food prices, still remaining, however, below the mid-target of the CBE's Q4:22 target range of 7±2%. At the same time, core inflation (excl. fruit & vegetables and regulated items) remained in check (at 5.2% y-o-y in October). Although there would be some pass-through of higher global prices, mainly through hikes in related regulated prices and second round effects, headline inflation is still expected to remain well within the CBE's target band, hovering around its midpoint until year-end.

ii) lingering risks to post-COVID recovery. Economic activity is gradually gaining momentum, with GDP growth projected to reach 4.8% in FY:21/22 against 3.3% in FY:20/21. Nevertheless, downside risks to this outlook remain high, as suggested by the recent resurgence in new COVID-19 infections, which come against the backdrop of slow vaccine uptake (with only 12% of total population fully vaccinated), and surging global energy prices (which are expected to take a certain toll on the country's high energy-dependent industrial sector, dominated by cement, steel, petrochemicals and fertilizers industries).

iii) EGP stability. The EGP has remained relatively resilient so far (broadly flat against the USD y-t-d), largely due to strong remittances and high portfolio inflows, reflecting Egypt's high nominal interest differential with its peers. In fact, following the return of foreign investors to the domestic debt market, foreign holdings of sovereign debt reached a historical high of USD 34bn in September (83% of CBE's FX reserves). As a result, FX reserves remain high, although below their pre-COVID-19 peak, standing at USD 40.8bn in October (up USD 4.8bn since their trough in May 2020), covering 6.5 months of GNFS imports and providing a significant buffer to external funding shocks.

It should be mentioned that, with tourism activity and Suez Canal receipts, which are the traditional sources of FX income, still remaining well below their historical levels -- though above their COVID-19-induced slump -- and given the country's low export base, (volatile) debt portfolio inflows have emerged as the country's most significant source of hard currency. On a positive note, the pending inclusion of Egypt's debt in JP Morgan Emerging Markets Bonds Index as of end-January 2022, and the expected settlement of its bonds by the Euroclear platform, likely in early-2022 should help sustain investor interest in sovereign debt in the period ahead.

All said, although economic fundamentals could justify lower real rates (note that the real *ex-post* policy rate currently stands at 2.2%, among the highest worldwide), we believe that, in view of its bias towards FX stability, the CBE is set to retain its rates on hold, so as to sustain the attractiveness of the domestic debt market and, thus, weather the impact of the imminent global monetary tightening on the EGP.

It is important to note that, by extending its rate pause, the CBE would help avoid an increase in the government's domestic debt-serving costs (with interest payments accounting for more than $^1/_3$ of public spending, surpassing 9.0% of GDP).

BULGARIA	2019	2020	2021f	2022f	2023f
Real Sector					
Nominal GDP (EUR million)	61,239 p	60,642p	64,949p	70,994 p	76,043p
GDP per capita (EUR)	8,810 p	8,773 p	9,454	10,396 p	11,203 p
GDP growth (real, %)	3.7 p	-4.2 p	2.1	4.3	4.5
Unemployment rate(ILO definition, %, aop)	4.2	5.1	5.4	5.0	4.8
Prices and Banking					
Inflation (%, eop)	3.8	0.1	6.3	2.4	2.5
Inflation (%, aop)	3.1	1.7	3.1	4.8	2.5
Loans to the Private Sector (% change, eop)	7.4	4.5			
Customer Deposits (% change, eop)	10.7	10.2			
Loans to the Private Sector (% of GDP)	48.9	52.0			
Retail Loans (% of GDP)	19.5	21.3			
Corporate Loans (% of GDP)	29.3	30.7			
Customer Deposits (% of GDP)	66.8	74.9			
Loans to Private Sector (% of Deposits)	73.2	69.4			
Foreign Currency Loans (% of Total Loans)	32.4	31.1			
External Accounts					
Merchandise exports (EUR million)	29,119	27,272	31,665	32,881	33,900
Merchandise imports (EUR million)	32,028	29,217	34,205	36,131	37,593
Trade balance (EUR million)	-2,908	-1,945	-2,540	-3,249	-3,694
Trade balance (% of GDP)	-4.7	-3.2	-3.9	-4.6	-4.9
Current account balance (EUR million)	1,148	-0,161	0,177	0,622	0,916
Current account balance (% of GDP)	1.9	-0.3	0.3	0.9	1.2
Net FDI (EUR million)	1,238	2,116	1,482	1,630	1,752
Net FDI (% of GDP)	2.0	3.5	2.3	2.3	2.3
International reserves (EUR million)	24,836	30,848	30,507	31,658	33,326
International reserves (Months[a])	8.0	11.1	9.4	9.2	9.3
Public Finance					
Primary balance (% of GDP)	-0.4	-2.5	-3.1	-1.7	-0.7
Fiscal balance (% of GDP)	-1.0	-3.0	-3.6	-2.2	-1.2
Gross public debt [b] (% of GDP)	20.2	25.0	26.6	27.3	27.1
External Debt					
Gross external debt (EUR million)	37,716	39,627	40,009	40,466	40,683
Gross external debt (% of GDP)	61.6	65.3	61.6	57.0	53.5
External debt service (EUR million)	6,957	7,041	7,000	8,200	7,100
External debt service (% of reserves)	28.0	22.8	22.9	25.9	21.3
External debt service (% of exports)	17.7	20.4	17.4	19.2	15.9
Financial Markets					
Base Interest Rate (%, eop)	0.0	0.0	0.0	0.0	0.2
Base Interest Rate (%, aop)	0.0	0.0	0.0	0.0	0.1
10-Y Bond Yield (%, eop)	0.4	0.4	0.6	0.9	1.3
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

p: Real and Nominal GDP data for 2019-20 are currently undergoing revision by the NSI. Until their finalization is completed (due on Dec. 7), historical data will be reported. The forecasts on nominal GDP are based on these historical values; f: NBG forecasts; a: months of imports of GNFS; b: ESA 2010

CYPRUS	2019	2020	2021f	2022f	2023f
Real Sector					
Nominal GDP (EUR million)	23,010	21,548	23,212	24,886	26,271
GDP per capita (EUR)	26.267	24.321	25.906	27.468	28,648
GDP growth (real, %)	5.3	-5.2	5.3	4.5	3.8
Unemployment rate (%, aop)	7.1	7.6	7.7	7.1	6.7
Prices and Banking					
Inflation (%, eop)	0.7	-1.1	4.0	1.8	1.7
Inflation (%, aop)	0.3	-0.6	2.3	2.6	1.7
Loans to the Private Sector (% change, eop)	-7.4	-5.6			
Customer Deposits (% change, eop)	0.0	-0.6			
Loans to the Private Sector (% of GDP)	133.1	134.1			
Retail Loans (% of GDP)	61.3	62.1			
Corporate Loans (% of GDP)	71.7	72.0			
Customer Deposits (% of GDP)	180.0	191.1			
Loans to Private Sector (% of Deposits)	73.9	70.2			
Foreign Currency Loans (% of Total Loans)	- - -	- - -			
External Accounts					
Merchandise exports (EUR million)	3,080	2,967	2,774	2,877	2,963
Merchandise imports (EUR million)	7,711	7,118	7,510	7,870	8,201
Trade balance (EUR million)	-4,631	-4,151	-4,736	-4,993	-5,238
Trade balance (% of GDP)	-20.1	-19.3	-20.4	-20.1	-19.9
Current account balance (EUR million)	-1,308	-2,177	-2,097	-1,750	-1,673
Current account balance (% of GDP)	-5.7	-10.1	-9.0	-7.0	-6.4
Net FDI (EUR million)	-0,082	3,864	4,637	6,028	7,685
Net FDI (% of GDP)	-0.4	17.9	20.1	24.3	29.4
International reserves (EUR million)	- - -	- - -	- - -	- - -	- - -
International reserves (Months[a])	- - -	- - -	- - -	- - -	- - -
Public Finance					
Primary balance [b] (% of GDP)	3.7	-3.4	-3.1	-0.6	1.2
Fiscal balance [b] (% of GDP)	1.3	-5.7	-5.0	-2.5	-0.7
Gross public debt (% of GDP)	91.1	115.3	107.5	101.5	96.8
External Debt					
Gross external debt (EUR million)	189,212	189,307	190,000	188,500	186,500
Gross external debt (% of GDP)	822.3	878.5	818.5	757.5	709.9
External debt service (EUR million)	- - -	- - -	- - -	- - -	- - -
External debt service (% of reserves)	- - -	- - -	- - -	- - -	- - -
External debt service (% of exports)	- - -	- - -	- - -	- - -	- - -
Financial Markets					
Policy rate (ECB refinancing rate, %, eop)	0,0	0,0	0,0	0,0	0,0
Policy rate (ECB refinancing rate, %, aop)	0,0	0,0	0,0	0,0	0,0
3-Y T-bill rate (%, eop)	-0,1	-0,1	-0,1	0,2	0,5
Exchange rate: USD (eop)	1,121	1,221	1,150	1,175	1,200
Exchange rate: USD (aop)	1,119	1,142	1,185	1,163	1,188

f: NBG forecasts; a: months of imports of GNFS; b: cash basis

EGYPT	2018/19*	2019/20*	2020/21f*	2021/22f*	2022/23f*
Nominal GDP (USD million)	303,034	362,776	400,274	443,797	483,784
GDP per capita (USD)	3.064	3.596	3.890	4.229	4.519
GDP growth (real, %)	5.6	3.6	3.3	4.8	5.1
Unemployment rate (%, aop)	8.6	8.3	7.3	7.0	6.8
Prices and Banking					
Inflation (%, eop)	9.4	5.6	4.9	7.2	6.6
Inflation (%, aop)	13.9	5.7	4.5	6.7	6.8
Loans to the Private Sector (% change, eop)	12.5	19.5	21.2		
Customer Deposits (% change, eop)	11.9	16.5	19.3		
Loans to the Private Sector (% of GDP)	22.9	25.0	28.1		
Retail Loans (% of GDP)	6.5	7.7	8.9		
Corporate Loans (% of GDP)	16.4	17.3	19.1		
Customer Deposits (% of GDP)	63.8	68.0	75.1		
Loans to Private Sector (% of Deposits)	35.8	36.8	37.4		
Foreign Currency Loans (% of Total Loans)	20.0	15.9	12.7		
External Accounts					
Merchandise exports (USD million)	28,495	26,376	28,677	32,332	34,809
Merchandise imports (USD million)	66,529	62,841	70,736	78,140	84,707
Trade balance (USD million)	-38,034	-36,465	-42,060	-45,808	-49,898
Trade balance (% of GDP)	-12.6	-10.1	-10.5	-10.3	-10.3
Current account balance (USD million)	-10,894	-11,167	-18,436	-17,910	-17,260
Current account balance (% of GDP)	-3.6	-3.1	-4.6	-4.0	-3.6
Net FDI (USD million)	7,862	7,102	4,835	5,681	6,533
Net FDI (% of GDP)	2.6	2.0	1.2	1.3	1.4
International reserves (USD million)	44,481	38,202	40,584	45,684	48,284
International reserves (Months[a])	7.5	6.7	6.5	6.3	6.3
Public Finance					
Primary balance (% of GDP)	1.9	1.8	1.4	1.5	1.2
Fiscal balance (% of GDP)	-8.1	-8.0	-7.4	-6.8	-6.4
Gross public debt (% of GDP)	90.4	87.7	89.8	88.3	87.0
External Debt					
Gross external debt (USD million)	108,699	123,491	137,860	142,500	150,000
Gross external debt (% of GDP)	35.9	34.0	34.4	32.1	31.0
External debt service [b] (USD million)	12,800	16,100	18,500	22,600	26,300
External debt service [b] (% of reserves)	28.8	42.1	45.9	49.5	54.5
External debt service (% of exports[c])	25.8	36.5	45.0	46.8	48.4
Financial Markets					
Policy rate (O/N deposit rate, %, eop)	15.8	9.3	8.3	8.3	8.3
Policy rate (O/N deposit rate, %, aop)	16.3	11.9	8.5	8.3	8.3
3-M T-bill rate (%, eop)	18.0	12.3	12.5	12.3	12.1
Exchange rate: USD (eop)	16.65	16.11	15.66	16.00	16.60
Exchange rate: USD (aop)	17.56	16.04	15.70	15.83	16.30

*: fiscal year starting in July and ending in June; f: NBG forecasts; a: months of imports of GNFS