NATIONAL BANK OF GREECE

NBG - Economic Analysis Division
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Emerging Markets Analysis

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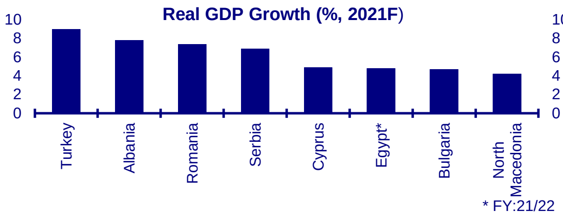

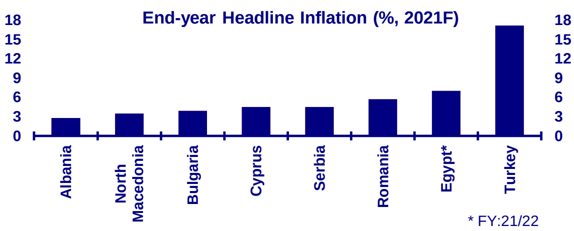

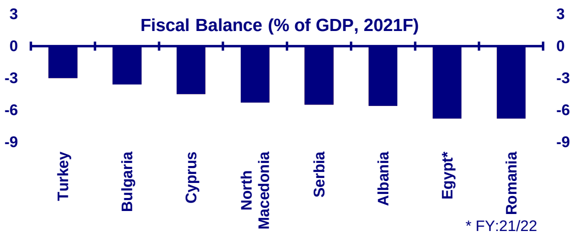

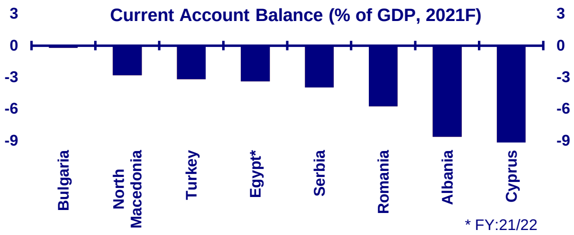

Sources: National authorities & NBG estimates

Economic Analysis Division

Emerging Markets Analysis

Bi-Weekly Report

21 September – 4 October 2021

The Central Bank of Turkey (CBRT) unexpectedly cut its key 1-week repo rate by 100 bps to 18.0%, pushing the TRY to a new record-low

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GDP growth surged in Q2:21 (to 13.1% y-o-y from -1.9% in Q1:21), due to a strong positive COVID-19 base effect

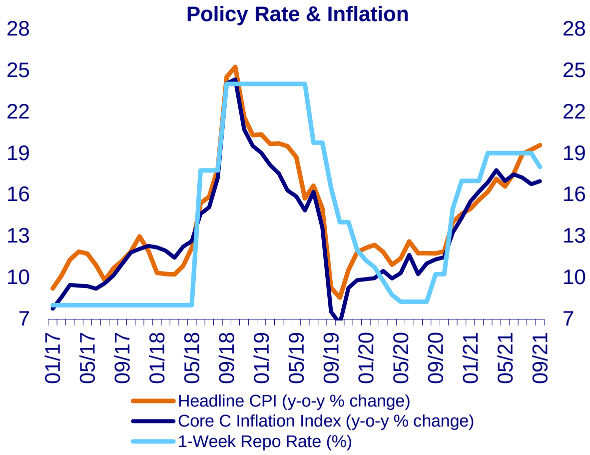
Despite the phasing out of state support, economic recovery should continue at a firm pace in the period ahead, driven by domestic demand

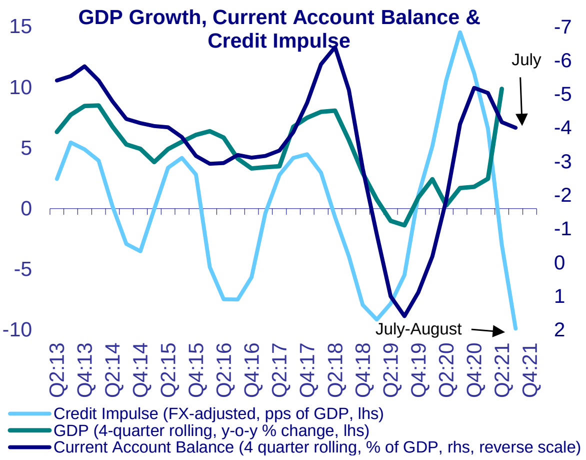
GDP growth maintained momentum in FY:20/21 (up 3.3%), underpinned by state support measures and public investment

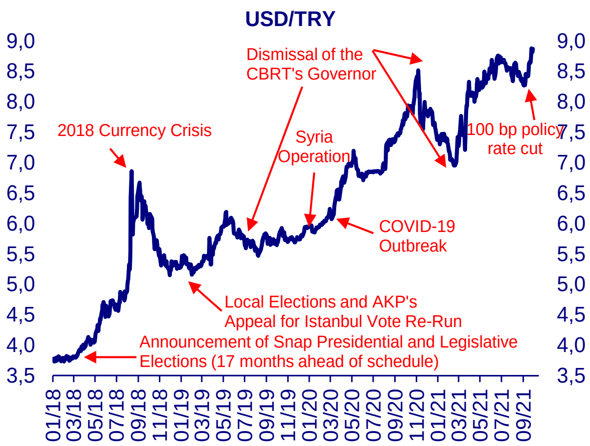
Economic activity is set to gradually regain its pre-COVID growth momentum, reaching 4.8% in FY:21/22, with a significant rebalancing from consumption towards investment and exports

Turkey

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







	4 Oct.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	18.8	18.2	16.9	14.4
TRY/USD	8.87	8.85	9.00	9.26
Sov. Spread (2025, bps)	506	510	470	400

	4 Oct.	1-W %	YTD %	2-Y %
ISE 100	1,394	0.7	-5.6	34.8

	2018	2019	2020	2021F	2022F
Real GDP Growth (%)	2.8	0.9	1.8	9.0	4.2
Inflation (eop, %)	20.3	11.8	14.6	17.2	11.4
Cur. Acct. Bal. (% GDP)	-2.8	0.9	-5.2	-3.2	-2.6
Fiscal Bal. (% GDP)	-1.9	-2.9	-3.4	-3.0	-2.7

Sources: Reuters, CBRT, BDDK, Turkstat & NBG estimates

The Central Bank of Turkey (CBRT) unexpectedly cut its key 1-week repo rate by 100 bps to 18.0%, pushing the TRY to a new record-low. In fact, market speculation for a turnaround in monetary policy had sharply increased since early-September, when Governor S. Kavcioglu, announced that the central bank would shift its focus to (the relatively more benign, but still elevated) core inflation measure (up 17.0% y-o-y in September). In view of the earlier CBRT's guidance for positive real rates, the announcement was widely interpreted as an effort by the authorities to regain room for manoeuvre, given that headline inflation (up to a $2^{1}/_{4}$-high of 19.6% y-o-y in September) had exceeded the key policy rate. Note that the CBRT has been under growing political pressure to ease its stance, with Governor Kavcioglu being the 4^{th} to hold that office since 2019, after his predecessors were dismissed by President R. T. Erdogan over policy disagreement.

Still, the cut in the policy rate, which ends a tightening cycle that had begun a year ago (including a cumulative rate hike of 1075 bps), caught the markets by surprise both in terms of magnitude and timing, with the TRY falling to a new record low of 8.92 against the USD. As a result, the TRY's y-t-d losses against the USD widened further to 16%, on top of losses of c. 50% recorded over the previous 3 years, feeding further the FX-inflation spiral.

Worryingly, the weaker TRY, together with still resilient domestic demand and strong second round effects from the ongoing surge in global commodity prices, do not bode well for core disinflation. According to our baseline scenario, we expect core C inflation to end the year at 14.5% y-o-y and moderate slightly to a still very high 12.5% at end-2022. At the same, we see headline inflation reaching 17.2% y-o-y at end-2021 and easing to 11.4% at end-2022, well above the CBRT's target of 5.0%.

A premature and frontloaded easing in monetary policy could undermine market sentiment, putting at risk macroeconomic and financial stability against a backdrop of intensifying inflationary pressures globally. The main source of concern arises from Turkey's vulnerable external position. Although the current account deficit has embarked on a downward trend lately, in line, *inter alia*, with a declining credit impulse (see chart) and recovering tourist inflows, it still remains markedly high (at 4.0% of GDP on a 12-month rolling basis in July against 5.2% in FY:20, but still well away from the FY:19 surplus of 0.9%) when considering Turkey's weak external buffers. Indeed, adjusting for the CBRT's gold reserve (worth USD 40.6bn), its short-term borrowing (mainly in the form of swaps with domestic banks) and banks' required reserves, net FX reserves are highly negative (c. USD 32.2bn), leaving the economy susceptible to changes in market sentiment, in view of the country's high external debt rollover needs (with debt worth c. USD 170bn -- equivalent to 21.4% of GDP -- coming due over the next 12 months, mainly from the banking sector).

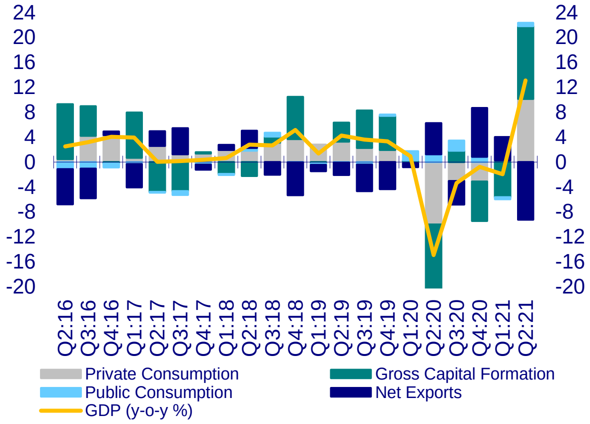
In addition to the country's high external financing needs, steadily mounting dollarization poses another threat to financial stability. Indeed, against the backdrop of surging inflation and weakening confidence in the TRY, FX deposits have been rising rapidly over the past years and now amount to a sizeable USD 186bn (equivalent to nearly 50.0% of total deposits or 23.5% of GDP).

Should policies spark a new credit boom, thus failing to curtail inflation and exacerbating external imbalances again, markets could sway away from covering Turkey's FX needs, prompting a fresh currency crisis. Worryingly, the imminent change in the Fed's stance could further complicate the picture. All said, we keep our macroeconomic forecasts on hold, for the time being, recognizing, however, that risks have been significantly skewed to the downside.

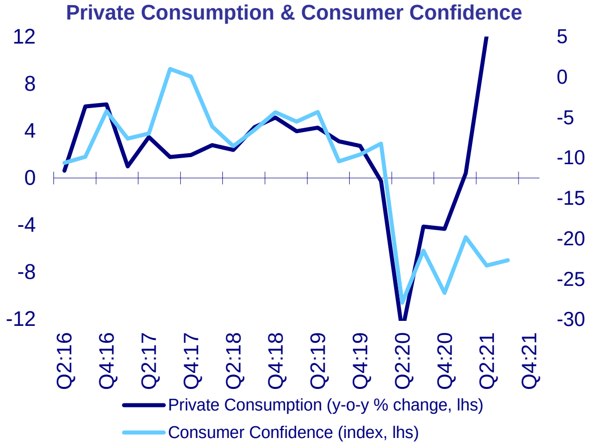
North Macedonia

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

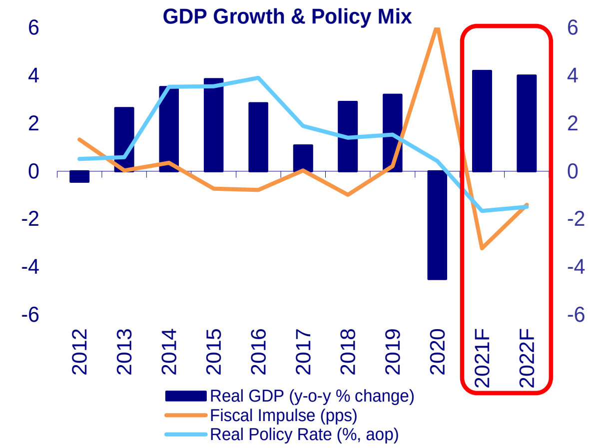
Contributions to Annual Real GDP Growth (pps)



Private Consumption & Consumer Confidence



GDP Growth & Policy Mix



	4 Oct.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.2	1.2	1.2	1.3
MKD/EUR	61.3	61.3	61.3	61.3
Sov. Spread (2025. bps)	194	200	190	175

	4 Oct.	1-W %	YTD %	2-Y %
MBI 100	5,665	-0.4	20.4	30.9

	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	3.5	2.2
Cur. Acct. Bal. (% GDP)	-0.1	-3.3	-3.5	-2.8	-2.7
Fiscal Bal. (% GDP)	-1.8	-2.0	-8.1	-5.3	-3.8

Sources: Reuters, Statistical Service, NBRNM, Ministry of Finance & NBG estimates

GDP growth surged in Q2:21 (to 13.1% y-o-y from -1.9% in Q1:21), due to a strong positive COVID-19 base effect. Easing restrictions and improving confidence, in the wake of the launch of a COVID-19 vaccination campaign, led to a massive rebound in domestic demand in Q2:21, in view of the sizeable positive base effect from the collapse in economic activity at the onset of the pandemic, in Q2:20. Gross capital formation (including stock rebuilding) emerged as the main growth driver followed by private consumption (see chart). Unsurprisingly, in view of the large import base (amounting to 55% of GDP as compared with 138% for exports) net exports deteriorated sharply at the same time, in line with stronger domestic demand.

Despite the phasing out of state support, economic recovery should continue at a firm pace in the period ahead, driven by domestic demand. A pick-up in COVID-19 infections prompted the authorities to enforce some (mild) containment measures, as of mid-August. Although we believe that strict lockdown measures are unlikely to be reinstated, we note that the country remains vulnerable to the evolution of the pandemic, given the slow vaccine rollout (with share of people fully vaccinated currently standing at 31% against an EU average of 61%).

In this environment, we expect GDP to continue growing at a solid pace in the period ahead, albeit less so than in Q2:21, due to fading COVID-19-related base effects. Domestic demand should remain the main driver, especially private consumption. Indeed, the significant potential for consumer confidence to improve (see chart), and consequently for pent-up demand to be released, together with the rebound in remittances, following their collapse in FY:20, bode well for further strengthening in private consumption. The structurally weak labour market (with unemployment currently standing at c. 16.0%, the highest in the region) poses, however, downside risks to this outlook. At the same time, GFC should also sustain GDP growth, albeit moderately, with the public sector giving a critical boost.

Despite the recovery in the EU, net exports are set to remain a drag on overall growth in the period ahead, reflecting the large import content of exports and recovering domestic demand. The ongoing disruptions in the automotive industry, due to the severe global shortage in computer chips, cloud further the outlook for exports (note that automotive related products account for c. 40% of the country's exports).

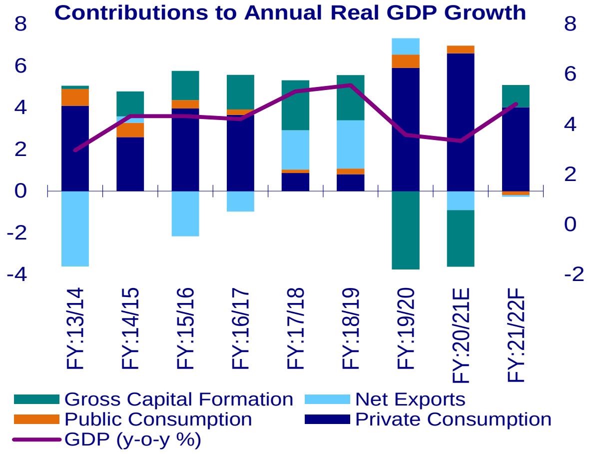
Against the backdrop of economic recovery, we expect the authorities to unwind gradually the COVID-19 support measures, putting fiscal balances on a consolidation path. As a result, we see the budget deficit moderating to 5.3% of GDP in FY:21 from 8.1% in FY:20, before narrowing further to 3.8% in FY:22, still above its pre-crisis level.

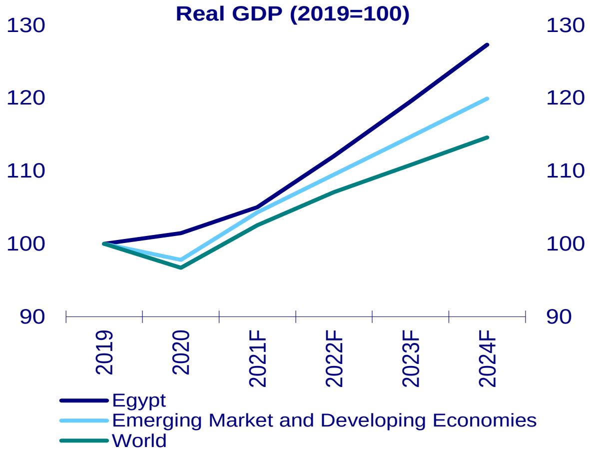
In contrast, monetary policy conditions are set to remain accommodative (note that the policy currently stands at a historical low of 1.25% or -2.3% in real *ex-post* terms). Indeed, in view of the country's strong FX reserve position and limited portfolio flows with the rest of the world, on the one hand, and the largely temporary nature of current -- still relatively modest by regional standards -- inflationary pressures, on the other hand, we expect the NBRNM to remain dovish for longer, despite the hawkish turn by several CEE central banks.

All said, we see GDP growth at 4.2% in FY:21, leaving the economy just short of its pre-pandemic level. For FY:22, we project GDP to expand by a still solid 4.0%, with the structure of domestic demand turning more balanced and net exports continuing to weigh on overall growth, albeit to a lesser extent than in FY:21, reflecting a normalization in global supply chains and cross border spillover effects from the NGEU Fund. Besides the uncertainty over the evolution of COVID-19, the delay in the opening of EU membership talks poses another downside risk.

Egypt

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





	4 Oct.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	8.3	8.3	8.3	8.3
EGP/USD	15.74	15.82	15.93	16.15
Sov. Spread (2025, bps)	449	430	410	370

	4 Oct.	1-W %	YTD %	2-Y %
EGX 30	10,427	-2.1	-3.9	-26.7

	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	7.0	6.8
Cur. Acct. Bal. (% GDP)	-3.6	-3.1	-4.0	-3.4	-2.9
Fiscal Bal. (% GDP)	-8.1	-8.0	-7.4	-6.8	-6.4

Sources: Reuters, CBE, IMF & NBG estimates

GDP growth maintained momentum in FY:20/21 (up 3.3%), underpinned by state support measures and public investment. Economic activity grew by a solid 3.3% in FY:20/21 (July 2020-June 2021), broadly unchanged from 3.6% in FY:19/20, with Egypt proving to be among the most resilient economies worldwide to the COVID-19 shock. Indeed, despite its heavy reliance on tourism and gas production, Egypt escaped recession largely due to: i) the uninterrupted activity in the heavily-weighted public sector (accounting for c. $^1/_3$ of GDP); and ii) the relatively mild restrictions imposed domestically, against the backdrop of a low registered COVID-19 infection rate.

Although a detailed breakdown is not available yet, we estimate that the deterioration in net exports in FY:20/21 was broadly offset by the pick-up in domestic demand. Indeed, private consumption is estimated to have strengthened in FY:20/21, thanks to: i) improved confidence, following the launch of a COVID-19 vaccination campaign (see below); ii) state-funded income and other support measures (including a 14% pension hike, financial aid to affected and vulnerable groups, tax reductions and low-interest consumer loans); iii) strong remittance inflows; and iv) a still resilient labour market (with the unemployment rate falling to 7.3% in FY:20/21 from 8.3% in FY:19/20 -- below its pre-COVID level). At the same time, gross capital formation is estimated to have declined further, albeit at a much slower pace compared with FY:19/20, supported by a surge in public investment (capital expenditure rose by 33% y-o-y in 11M:20/21), also involving a speeding-up of works in several multi-year infrastructure megaprojects. Unsurprisingly, against the backdrop of stronger domestic demand, and in view of the country's low export base, net exports are estimated to have turned into a drag on overall growth in FY:20/21 -- for the first time since FY:16/17.

Economic activity is set to gradually regain its pre-COVID growth momentum, reaching 4.8% in FY:21/22, with a significant rebalancing from consumption towards investment and exports. In fact, net exports should support the recovery in FY:21/22, reflecting: i) a revival in tourism (accounting for 10% of GDP in pre-COVID-19 times); ii) higher energy (oil and natural gas) production, on the back of stronger global demand; and iii) increased Suez Canal receipts, in line with the recovery in international trade. At the same time, with the return of private investment, gross capital formation is expected to rebound, with the public sector once again providing a critical boost (according to the FY:21/22 budget, capital expenditure is projected to increase by 27.5%).

On the other hand, following the unwinding of the emergency schemes enacted during the pandemic, private consumption should lose some of its previous momentum in FY:21/22. Nevertheless, it should remain the main growth engine, supported by improving confidence, falling unemployment rate, and further release of pent-up demand, amid record-high savings (up 10 pps since end-19 to 62.7% of GDP in June 2021). The loose incomes policy (including a 13% pension and a 20% minimum wage hike) should also help to this end.

Importantly, the impact of the gradual fiscal consolidation on GDP growth (the fiscal deficit is projected to narrow by 0.6 pps to a still high 6.8% of GDP in FY:21/22) should be cushioned by accommodative monetary policies. Indeed, the CBE is expected to keep its policy rate unchanged at a record low (of 8.25%), maintaining its focus on stimulating credit activity through, *inter alia*, its loan guarantee and subsidy schemes.

All said, we project GDP growth rebounding to 4.8% in FY:21/22, outperforming the vast majority of emerging markets and moving closer to its long-term potential (of c. 5.0%). Downside risks to our forecast arise from the slow vaccine uptake and a sudden change in global risk appetite, stemming, *inter alia*, from the envisaged monetary policy tightening in developed economies.

TURKEY					
	2018	2019	2020e	2021f	2022f
Real Sector					
Nominal GDP (USD million)	777,216	760,669	718,977	792,689	854,984
GDP per capita (EUR)	8,057	8,170	7,458	7,803	8,301
GDP growth (real, %)	2.8	0.9	1.8	9.0	4.2
Unemployment rate (%, aop)	11.0	13.7	13.2	12.4	11.5
Prices and Banking					
Inflation (%, eop)	20.3	11.8	14.6	17.2	11.4
Inflation (%, aop)	16.2	15.4	12.3	17.6	13.8
Loans to the Private Sector (% change, eop)	14.2	10.8	34.8		
Customer Deposits (% change, eop)	18.5	23.5	33.0		
Loans to the Private Sector (% of GDP)	63.7	61.4	70.8		
Retail Loans (% of GDP)	13.8	13.9	16.8		
Corporate Loans (% of GDP)	49.9	47.5	54.1		
Customer Deposits (% of GDP)	50.8	54.5	62.1		
Loans to Private Sector (% of Cust. Deposits)	125.4	112.6	114.1		
Foreign Currency Loans (% of Total Loans)	39.9	38.3	34.2		
External Accounts					
Merchandise exports (USD million)	178,909	182,246	168,401	186,118	195,574
Merchandise imports (USD million)	219,635	198,997	206,282	221,913	231,881
Trade balance (USD million)	-40,726	-16,751	-37,881	-35,795	-36,307
Trade balance (% of GDP)	-5.2	-2.2	-5.3	-4.5	-4.2
Current account balance (USD million)	-21,744	6,759	-37,303	-25,355	-21,874
Current account balance (% of GDP)	-2.8	0.9	-5.2	-3.2	-2.6
Net FDI (USD million)	9,235	6,323	4,584	5,272	6,326
Net FDI (% of GDP)	1.2	0.8	0.6	0.7	0.7
International reserves (USD million)	93,027	105,696	93,277	113,000	113,000
International reserves (Months[a])	4.5	5.6	4.9	5.5	5.3
Public Finance					
Primary balance (% of GDP)	0.0	-0.6	-0.8	-0.4	-0.3
Fiscal balance (% of GDP)	-1.9	-2.9	-3.4	-3.0	-2.7
Gross public debt (% of GDP)	30.2	32.7	39.8	39.3	39.5
External Debt					
Gross external debt (USD million)	443,443	435,147	450,056	445,000	457,500
Gross external debt (% of GDP)	57.1	57.2	62.6	56.1	53.5
External debt service (USD million)	82,913	85,286	70,786	80,000	85,000
External debt service (% of reserves)	89.1	80.7	75.9	70.8	75.2
External debt service (% of exports)	34.6	36.0	37.5	35.8	34.8
Financial Markets					
Policy rate (Effective funding rate, %, eop)	24.1	11.4	17.0	17.5	12.5
Policy rate (Effective funding rate, %, aop)	17.7	20.7	10.5	18.3	15.0
1-Y T-bill rate (%, eop)	21.5	11.3	15.1	17.5	12.5
Exchange rate: USD (eop)	5.29	5.95	7.43	8.85	9.40
Exchange rate: USD (aop)	4.84	5.68	7.02	8.30	9.13

f: NBG forecasts; a: months of imports of GNFS

NORTH MACEDONIA	2018	2019	2020e	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	10,759	11,221	10,789	11,578	12,391
GDP per capita (EUR)	5,180	5,405	5,197	5,577	5,969
GDP growth (real, %)	2.9	3.2	-4.5	4.2	4.0
Unemployment rate (%, aop)	20.7	17.3	16.4	16.2	16.0
Prices and Banking					
Inflation (%, eop)	0.9	0.5	2.2	3.5	2.2
Inflation (%, aop)	1.5	0.8	1.2	3.0	2.9
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 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	5,201	5,482
Merchandise imports (EUR million)	6,619	7,293	6,621	7,197	7,662
Trade balance (EUR million)	-1,736	-1,970	-1,809	-1,996	-2,140
Trade balance (% of GDP)	-16.1	-17.6	-16.8	-17.2	-17.3
Current account balance (EUR million)	-0,007	-0,372	-0,373	-0,327	-0,338
Current account balance (% of GDP)	-0.1	-3.3	-3.5	-2.8	-2.7
Net FDI (EUR million)	0,604	0,363	0,206	0,267	0,334
Net FDI (% of GDP)	5.6	3.2	1.9	2.3	2.7
International reserves (EUR million)	2,867	3,263	3,360	3,810	4,010
International reserves (Months[a])	4.4	4.6	5.3	5.5	5.4
Public Finance					
Primary balance (% of GDP)	-0.6	-0.8	-6.9	-4.1	-2.6
Fiscal balance (% of GDP)	-1.8	-2.0	-8.1	-5.3	-3.8
Gross public debt [b] (% of GDP)	48.4	49.0	59.7	62.8	63.6
External Debt					
Gross external debt (EUR million)	7,844	8,154	8,630	9,541	9,999
Gross external debt (% of GDP)	72.9	72.7	80.0	82.4	80.7
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	93.2	73.6
External debt service (% of exports)	34.5	35.5	52.7	52.3	41.0
Financial Markets					
28-d CB bill rate (%, eop)	2.8	2.3	1.5	1.3	1.5
28-d CB bill rate (%, aop)	2.9	2.3	1.6	1.3	1.4
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

EGYPT	2018/19*	2019/20*	2020/21e*	2021/22f*	2022/23f*
Real Sector					
Nominal GDP (USD million)	303,034	362,776	400,274	442,965	483,330
GDP per capita (USD)	3.064	3.596	3.890	4.221	4.515
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	7.0	6.8
Inflation (%, aop)	13.9	5.7	4.5	6.5	6.9
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	27,158	29,406	31,709
Merchandise imports (USD million)	66,529	62,841	65,399	70,067	75,001
Trade balance (USD million)	-38,034	-36,465	-38,241	-40,661	-43,292
Trade balance (% of GDP)	-12.6	-10.1	-9.6	-9.2	-9.0
Current account balance (USD million)	-10,894	-11,167	-16,060	-15,030	-13,863
Current account balance (% of GDP)	-3.6	-3.1	-4.0	-3.4	-2.9
Net FDI (USD million)	7,862	7,102	5,681	6,676	7,677
Net FDI (% of GDP)	2.6	2.0	1.4	1.5	1.6
International reserves (USD million)	44,481	38,202	40,584	45,468	47,468
International reserves (Months[a])	7.5	6.7	7.3	7.2	7.1
Public Finance					
Primary balance (% of GDP)	1.9	1.8	1.4	1.9	2.1
Fiscal balance (% of GDP)	-8.1	-8.0	-7.4	-6.8	-6.4
Gross public debt (% of GDP)	80.6	88.8	89.7	87.1	84.0
External Debt					
Gross external debt (USD million)	108,699	123,491	135,000	145,000	157.500
Gross external debt (% of GDP)	35.9	34.0	33.7	32.7	32.6
External debt service [b] (USD million)	13,500	13,700	14,500	15,000	16,000
External debt service [b] (% of reserves)	30.4	35.9	35.7	33.0	33.7
External debt service (% of exports[c])	27.2	31.1	36.9	34.2	33.0
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	12.5	12.5
Exchange rate: USD (eop)	16.65	16.11	15.66	16.00	16.00
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