



Economic Analysis Division Emerging Markets Analysis

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Emerging Markets Analysis

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BULGARIA 1

Elections deliver another hung Parliament, failing to end political uncertainty

Economic recovery lost steam in Q4:20, amid a second COVID-19 wave

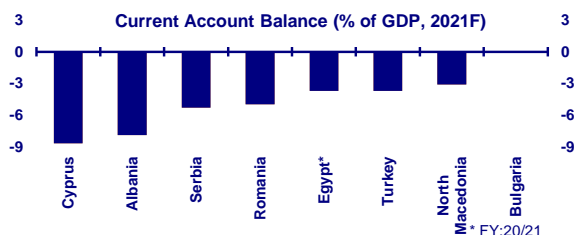
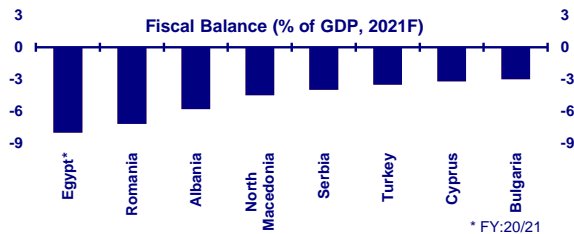
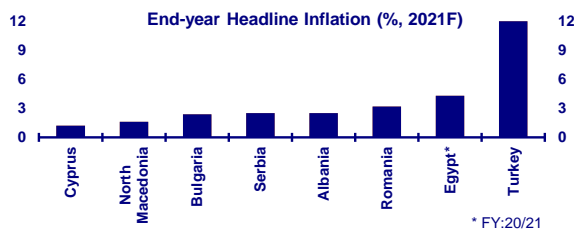
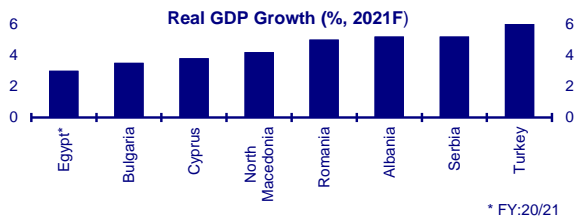
GDP is set to rebound in FY:21, helped by a procyclical fiscal stance and supportive base effects

NORTH MACEDONIA 2

Economic recovery maintained momentum in Q4:20 (GDP, down just 0.7% y-o-y against a drop of 3.3% in Q3:20), despite headwinds from a severe second COVID-19 wave

Economic activity is set to recoup the bulk of its COVID-19-induced losses by end-2021, but risks are tilted to the downside

APPENDIX: MACROECONOMIC & FINANCIAL INDICATORS 3



Sources: National authorities & NBG estimates



Bulgaria

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

Elections deliver another hung parliament, failing to end political uncertainty. Albeit suffering losses compared with the 2017 election, the ruling, centre-right GERB finished 1st for a 5th consecutive time, winning 25.8% of the vote, but falling short of an absolute majority. At the same time, its long-standing rival, the centre-left BSP, suffered a huge defeat, coming in 3rd, with just 14.8% of the vote. In fact, both parties appear to have lost significant ground to newcomer protest parties, which capitalized on growing public discontent over political corruption. Among them, the most popular turned out to be the populist ITN party, which finished 2nd, with 17.5% of the vote, followed by the right-wing Democratic Bulgaria (DB) alliance, with 9.4% of the vote, and the left-wing "Stand Up! Mafia Out!" (ISMV) party, with 4.7% of the vote. The Turkish-minority MRF party, the traditional kingmaker in Bulgarian politics, came in 4th, with 10.2% of the vote.

All said, with most parties of the highly fragmented opposition having ruled out any cooperation with the GERB, the formation of the next Government appears to be a complicated exercise. This means that we could see weeks of coalition talks, or even a fresh election. Worryingly, prolonged political uncertainty could affect policy implementation, undermining recovery efforts. Importantly, however, the anchor provided by the long-standing currency board arrangement and the inclusion of the BGN into the ERM II, a precursor to the adoption of the euro, limits the risk of a serious disruption in economic policies.

Economic recovery lost steam in Q4:20, amid a second COVID-19 wave. The reinstatement of some social-distancing measures at end-2020 and the concomitant deterioration in sentiment affected the pace of recovery in Q4:20, with GDP dropping 4.7% y-o-y (though up 2.2% q-o-q), a tad faster than in Q3:20 (up 4.3% q-o-q), when the economy re-opened from the first lockdown. A closer look at the breakdown revealed that stronger net exports broadly compensated for the renewed weakening in private consumption in Q4:20. With the Q4:20 outcome, full-year GDP contraction was contained to 4.2%, markedly better than the EU average (down 6.2%), reflecting: i) the overperformance of the manufacturing sector compared with the EU, due, *inter alia*, to the milder restrictions imposed; and ii) a resilient construction sector, as works on several infrastructure projects moved forward during the year.

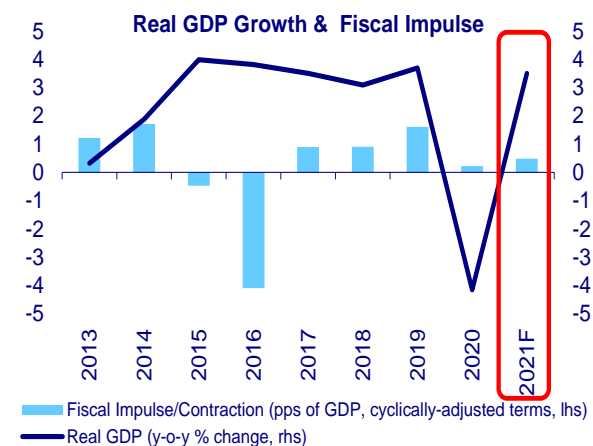
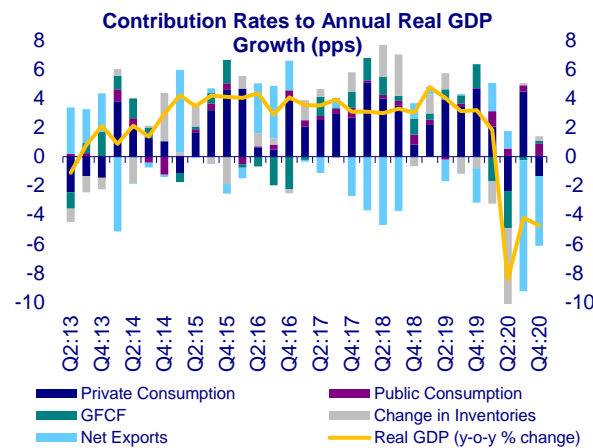
GDP is set to rebound in FY:21, helped by a procyclical fiscal stance and supportive base effects. In light of the very high COVID-19 infection rate and the lowest vaccination rate in the EU, economic activity should remain subdued in the short-term, despite the gradual re-opening of the economy. Assuming that the epidemiological situation improves by mid-Q2:21, we expect economic growth to gain momentum, driven by domestic demand, especially private consumption. The latter should benefit from the release of pent-up demand and an improvement in sentiment. Fixed investment is also set to rebound, driven by a Next Generation EU-backed surge in capital spending, especially towards the end of the year. In this context, a key challenge for the next Government would be to improve the capacity to absorb large amount of funds. Lastly, net exports should sustain overall growth this year, but modestly, in line with the recovery in the EU and a revival in tourism activity.

In contrast to most EU economies, which are set to witness a partial reversal in fiscal policy this year, Bulgaria will benefit from a somewhat procyclical stance (see chart). Key drivers include a looser incomes policy and the extension of some of the emergency schemes implemented in FY:20.

All said, we see GDP rebounding by a modest 3.5% in FY:21. Besides the risk of political stalemate and the uncertainty over the evolution of COVID-19, other downside risks include deeper-than-expected scarring effects, mainly through higher insolvencies and a weaker labour market.

Parliamentary Elections				
	2021		2017	
Party	% of Vote	Seats	% of Vote	Seats
GERB	25.7	75	32.7	95
ITN	17.4	51	---	---
BSP	14.8	43	27.2	80
MRF	10.3	30	9.0	26
DB	9.3	27	---	---
ISMV	4.6	14	---	---
IMRO	3.6	0	9.1*	27*
Volya	2.3	0	4.2	12
Others	12.0	0	13.3	0
Total	100	240	100	240

* In coalition with Ataka and the NFSB



	5 Apr.	3-M F	6-M F	12-M F
Base Interest Rate (%)	0.0	0.0	0.0	0.1
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2022, bps)	62	60	60	60

	5 Apr.	1-W %	YTD %	2-Y %
SOFIX	500	-0.1	11.7	-13.8

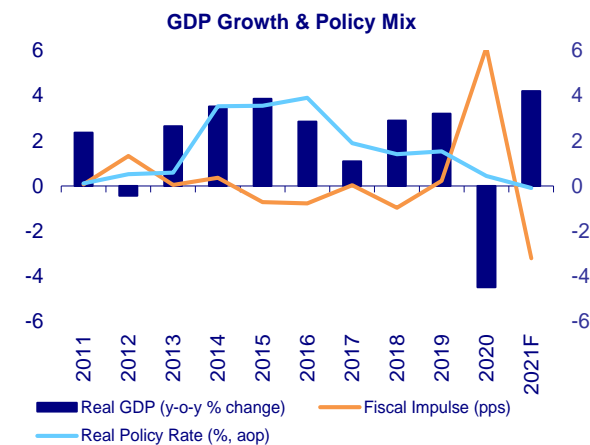
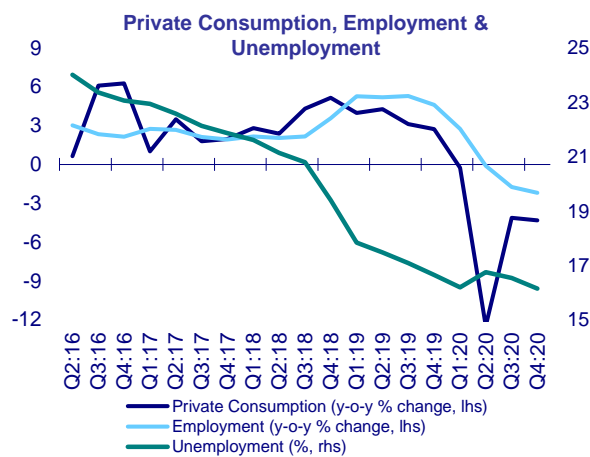
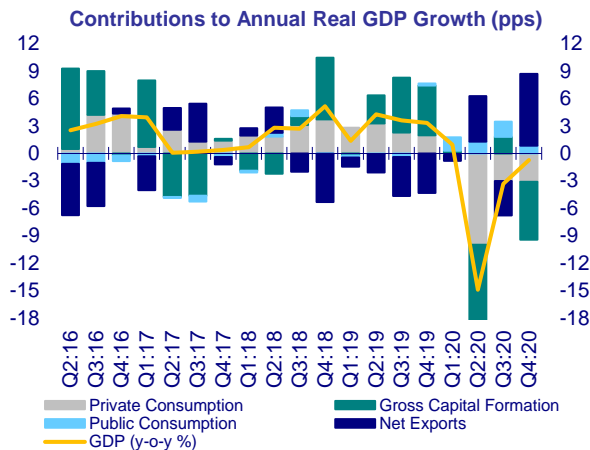
	2018	2019	2020E	2021F	2022F
Real GDP Growth (%)	3.1	3.7	-4.2	3.5	4.1
Inflation (eop, %)	2.7	3.8	0.1	2.4	2.5
Cur. Acct. Bal. (% GDP)	0.9	1.8	-0.7	0.0	0.8
Fiscal Bal. (% GDP)	0.1	-1.0	-3.0	-3.0	-1.2

Sources: Reuters, CEC, NSI, Ministry of Finance & NBG estimates



North Macedonia

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



Economic recovery maintained momentum in Q4:20 (GDP, down just 0.7% y-o-y against a drop of 3.3% in Q3:20), despite headwinds from a severe second COVID-19 wave. The main driver was net exports, which rebounded in Q4:20 (adding 7.9 pps to overall growth against a negative contribution of 3.8 pps in Q3:20). This improvement should be attributed to the restoration of global manufacturing supply chains, as well as stronger external demand, reflecting the need to restore inventories, which have been drawn down over the previous quarters. Note, however, that the pick-up in net exports was likely accompanied by a drop in domestic inventories, as suggested by the plunge in gross capital formation (GFC, shaving 6.3 pps off overall growth against a positive contribution of 1.8 pps in Q3:20). At the same time, private consumption remained under pressure (subtracting 3.0 pps from overall growth for a 2nd consecutive quarter), following the reinstatement of some social-distancing measures. All said, the Q4:20 outcome was above expectations and brought full-year GDP contraction to 4.5%, much better than the EU-average (down 6.2%). This outperformance was due, *inter alia*, to: i) the economy's modest reliance on high-contact intensive sectors; and ii) the less stringent restrictions imposed.

Economic activity is set to recoup the bulk of its COVID-19-induced losses by end-2021, but risks are tilted to the downside. Our baseline scenario assumes that some sort of social distancing measures will remain in place in H1:21 both domestically as well as internationally, pointing to a slow and uneven recovery during that period.

Thereafter, we expect economic recovery to gain momentum, driven by private consumption. Strong pent-up demand, amid historical high savings, should help to this end. Note, however, that the structurally weak labour market (unemployment stood at 16.4% in FY:20, the highest in the region, reflecting, *inter alia*, a large informal economy and skills mismatches) and the risk of a prolonged weakness in remittances (down 19% y-o-y in FY:20), which have traditionally been a key constituent of household income (accounting for 14% of GDP in FY:20 against 17% of GDP in FY:19) could act as a brake on private consumption. At the same time, GFC should strengthen, albeit modestly, amid still elevated uncertainty and weak corporate profitability. A significant contribution should come from the rebuilding of stocks, which have been depleted in FY:20.

Despite the envisaged recovery in the EU, net exports are unlikely to sustain economic growth in FY:21, reflecting the large import content of exports and recovering domestic demand (recall that imports account for c. 85% of GDP as compared with 65% for exports). The revival of the automotive industry in the EU (accounting for c. 40% of the country's exports) is key to the outlook.

Support from fiscal policy should diminish this year, following the partial unwinding of the measures implemented in FY:20. Indeed, we see the FY:21 budget deficit narrowing by 3.2 pps to 4.9% of GDP.

In contrast, monetary policy conditions are set to remain accommodative. Recall that the NBRNM has responded to the crisis with a 75 bp cut in its key rate (to 1.25% or c. -0.5% in real *ex-post* terms) and a series of liquidity-enhancing measures. In view of the benign inflation outlook and the NBRNM's strong FX reserve position, we expect interest rates to remain subdued throughout the year.

All said, we see GDP growth rebounding to 4.2% in FY:21, recouping the bulk of its FY:20 losses. However, risks to our forecast are clearly tilted to the downside. Indeed, the uncertainty over the evolution of the pandemic, together with the ongoing, very slow vaccine rollout, could undermine the recovery path. Moreover, a new delay in the opening of EU membership talks could reduce the authorities' commitment to structural reforms, weighing on investor confidence.

	22 Mar.	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)	230	220	210	195

	22 Mar.	1-W %	YTD %	2-Y %
MBI 100	4,909	1.3	4.3	34.9

	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	1.6	1.8
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, Statistical Office, Ministry of Finance, NBRNM & NBG estimates



BULGARIA					
	2018	2019	2020e	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	56,111	61,239	60,642	63,831	68,043
GDP per capita (EUR)	8,016	8,810	8,773	9,291	9,964
GDP growth (real, %)	3.1	3.7	-4.2	3.5	4.1
Unemployment rate(ILO definition, %, aop)	5.2	4.2	5.1	5.3	4.9
Prices and Banking					
Inflation (% eop)	2.7	3.8	0.1	2.4	2.5
Inflation (% aop)	2.8	3.1	1.7	1.7	2.4
Loans to the Private Sector (% change, eop)	7.5	7.4	4.5		
Customer Deposits (% change, eop)	7.4	10.7	10.2		
Loans to the Private Sector (% of GDP)	49.7	48.9	52.0		
Retail Loans (% of GDP)	19.1	19.5	21.3		
Corporate Loans (% of GDP)	30.6	29.3	30.7		
Customer Deposits (% of GDP)	65.8	66.8	74.9		
Loans to Private Sector (% of Deposits)	75.4	73.2	69.4		
Foreign Currency Loans (% of Total Loans)	34.4	32.4	31.1		
External Accounts					
Merchandise exports (EUR million)	27,742	29,119	27,232	28,864	30,262
Merchandise imports (EUR million)	30,448	32,028	29,104	31,281	33,089
Trade balance (EUR million)	-2,706	-2,908	-1,872	-2,417	-2,826
Trade balance (% of GDP)	-4.8	-4.7	-3.1	-3.8	-4.2
Current account balance (EUR million)	0,532	1,121	-0,400	0,027	0,532
Current account balance (% of GDP)	0.9	1.8	-0.7	0.0	0.8
Net FDI (EUR million)	0,757	1,158	1,946	1,167	1,284
Net FDI (% of GDP)	1.3	1.9	3.2	1.8	1.9
International reserves (EUR million)	25,072	24,836	30,848	32,293	33,859
International reserves (Months ^a)	8.5	8.0	11.1	10.8	10.6
Public Finance					
Primary balance (% of GDP)	0.8	-0.4	-2.5	-2.5	-0.7
Fiscal balance (% of GDP)	0.1	-1.0	-3.0	-3.0	-1.2
Gross public debt ^b (% of GDP)	22.3	20.2	25.2	26.2	26.0
External Debt					
Gross external debt (EUR million)	34,487	35,303	38,446	39,192	39,465
Gross external debt (% of GDP)	61.5	57.6	63.4	61.4	58.0
External debt service (EUR million)	7,415	6,597	7,041	7,000	8,200
External debt service (% of reserves)	29.6	28.0	22.8	21.7	24.2
External debt service (% of exports)	20.1	17.7	20.5	18.7	20.5
Financial Markets					
Base Interest Rate (% eop)	0.0	0.0	0.0	0.0	0.0
Base Interest Rate (% aop)	0.0	0.0	0.0	0.0	0.0
10-Y Bond Yield (% eop)	0.9	0.4	0.4	0.2	0.5
Exchange rate: EUR (eop)	1.956	1.956	1.956	1.956	1.956
Exchange rate: EUR (aop)	1.956	1.956	1.956	1.956	1.956

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



NORTH MACEDONIA					
	2018	2019	2020e	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	10,759	11,221	10,789	11,444	12,139
GDP per capita (EUR)	5,180	5,397	5,189	5,504	5,839
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	1.6	1.8
Inflation (% aop)	1.5	0.8	1.2	1.8	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	-16.8	-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	61.3	61.0
External Debt					
Gross external debt (EUR million)	7,844	8,154	8,630	9,040	9,202
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



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