NBG - Economic Analysis Division
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Emerging Markets Analysis

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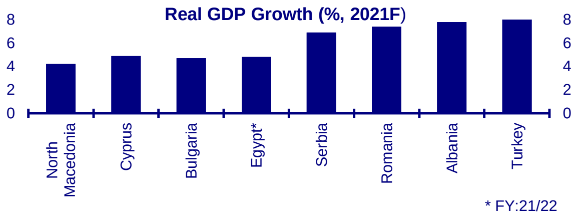
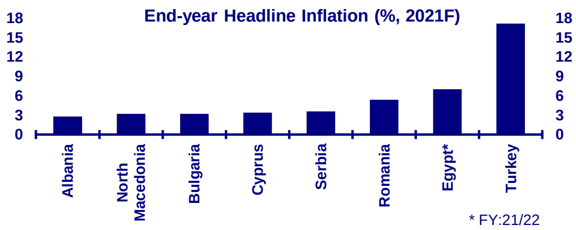
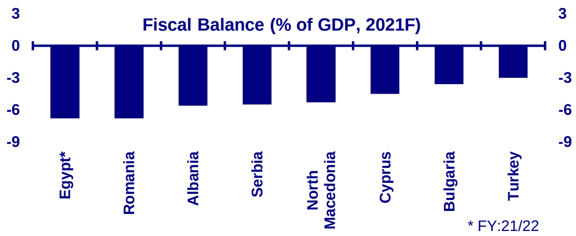
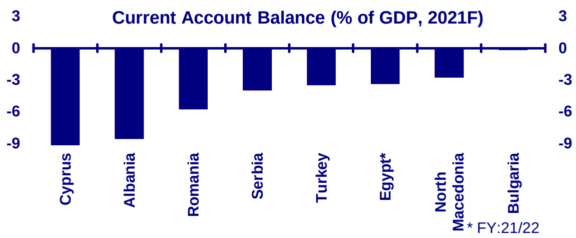








Sources: National authorities & NBG estimates

Economic Analysis Division

Emerging Markets Analysis

Bi-Weekly Report

24 August - 6 September 2021

GDP expanded by a massive 21.7% y-o-y in Q2:21, mainly due to a sizeable base effect from the plunge in economic activity at the onset of the pandemic last year

Fading COVID-19-related base effects, together with tighter monetary policy conditions, are set to weigh on economic growth during the remainder of the year

Higher global energy prices and reviving domestic demand have kept the current account deficit under pressure since the beginning of the year

Stronger tourism inflows during the remainder of the year should help close the current account gap

Albeit rebounding lately, tourism activity remains well below its pre-COVID-19 level

Strong positive base effects, together with reviving domestic demand and the solid recovery in the EU, boosted GDP growth in Q2:21 (to 13.7% y-o-y)

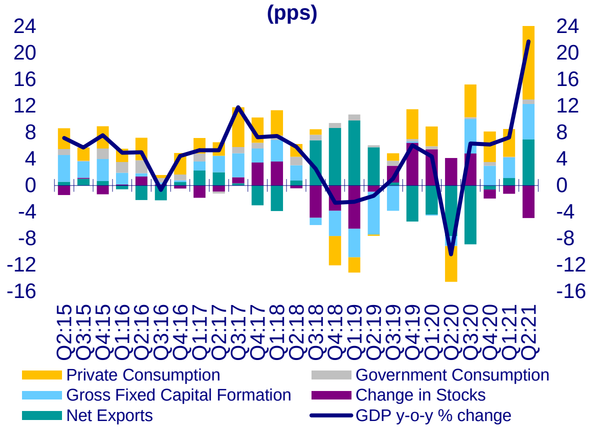
GDP growth is set to remain robust in H2:21, underpinned by a looser fiscal stance

Please see disclosures on page 5

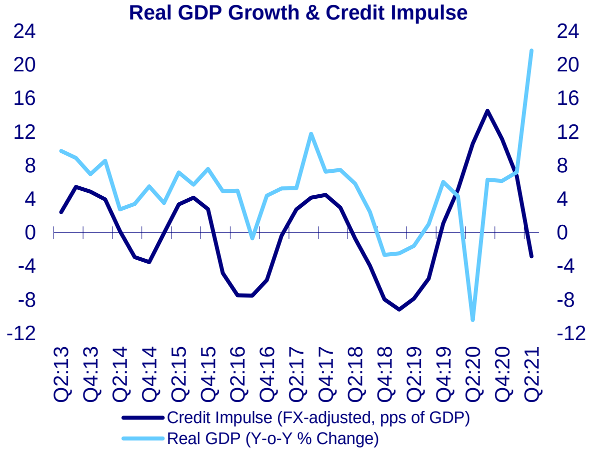
Turkey

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

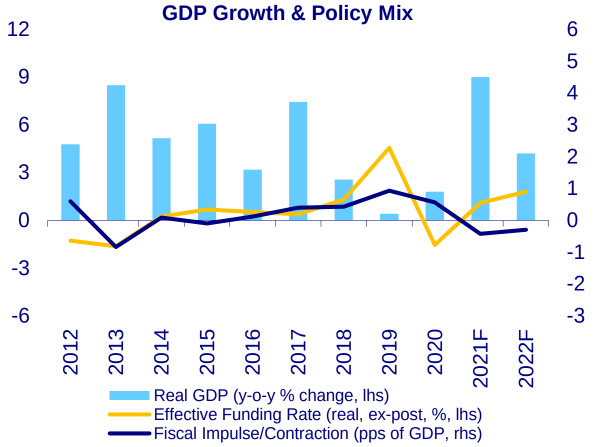
Contributions to Annual Real GDP Growth (pps)



Real GDP Growth & Credit Impulse



GDP Growth & Policy Mix



	6 Sep.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	19.9	19.0	17.5	14.5
TRY/USD	8.28	8.60	8.70	8.90
Sov. Spread (2025, bps)	418	400	375	300

	6 Sep.	1-W %	YTD %	2-Y %
ISE 100	1,475	1.1	-0.1	49.0

	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	-2.5
Fiscal Bal. (% GDP)	-1.9	-2.9	-3.4	-3.0	-2.7

Sources: Reuters, CBRT, Turkstat & NBG estimates

GDP expanded by a massive 21.7% y-o-y in Q2:21, mainly due to a sizeable base effect from the plunge in economic activity at the onset of the pandemic last year. As expected, the improvement was across the board, with private consumption (especially of services) recording the biggest gains (see chart). Fixed investment also picked in Q2:21, albeit at a modest pace, due not only to a relatively smaller base effect but also to still heightened uncertainty. Despite the rebound in domestic demand, net exports' contribution to overall growth also increased markedly in Q2:21, in line with a stronger external demand.

All said, GDP growth surged to 21.7% y-o-y in Q2:21 from an already robust 7.2% in Q1:21. Note, though, that, economic growth lost some momentum in Q2:21, with GDP rising by 0.9% q-o-q s.a. against 2.2% in Q1:21, mainly due to the temporary reinstatement of some COVID-19 containment measures in mid-Q2, due to surging COVID-19 infections. The tightening of monetary policy conditions did also take a toll. Recall that CBRT has tightened its ultra-accommodative stance aggressively in Q4:20-Q1:21 (including a 875 bp policy rate hike to 19%, among the highest worldwide). Nevertheless, we had to wait until Q2:21 to see a negative credit impulse.

Fading COVID-19-related base effects, together with tighter monetary policy conditions, are set to weigh on economic growth during the remainder of the year. Monetary policy uncertainty remains elevated since March, when President Erdogan replaced the Central Bank Governor, N. Agbal, with S. Kavcioglu, a vocal critic of high interest rates, raising fresh concerns over the future stance of the CBRT. Against this backdrop, the TRY has come under strong pressure (losing more than 10% of its value against the USD y-t-d following losses of c. 50% in 2018-20), contributing significantly, in turn, to a jump in inflation. Rising inflation figures (up 19.2% y-o-y in August) have so far deterred the CBRT from cutting rates. Nevertheless, FX volatility remains high over fears of a premature and frontloaded easing in monetary policy (note that the consensus expects a 100 bp rate cut in late year).

In this environment, private consumption should continue to drive economic growth, with its contribution, however, narrowing markedly, reflecting, *inter alia*, the adverse impact of high inflation on disposable income. The introduction (as of July) of macroprudential measures aiming at curbing retail loan growth should also take a toll. Worryingly, the expiration of the short-term employment schemes (including a lay-off ban), effective since the outbreak of COVID-19, could also weigh on the labour market, especially given the latter's structurally weak nature.

At the same time, fixed investment is set to continue to expand, albeit modestly, as corporate balance sheets would remain under stress, due to the impact of the weaker TRY (note that the non-financial sector's open FX position stands at a high of c. 30% of GDP).

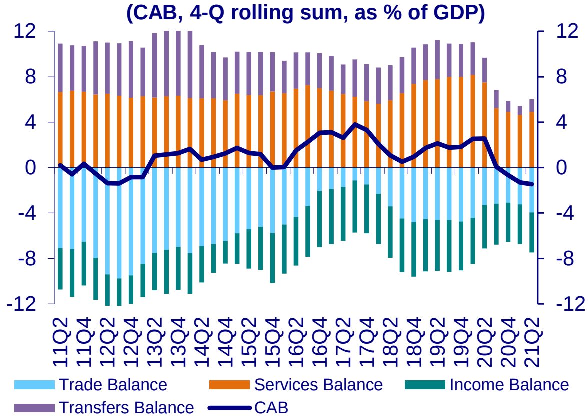
With domestic demand expanding at a slower pace, net exports should continue to sustain growth, reflecting: i) stronger external demand, on the back of the continuing global economic recovery; and ii) cost competitiveness gains. However, the large share of tourism, automotive and transportation industries in Turkey's exports means the latter are not expected to revert to their pre-crisis levels before 2022.

All said, with COVID-19-related base effects due to fade over the next quarters, we see GDP growth reaching 9.0% in FY:21 against 1.8% in FY:20. Assuming an appropriate monetary policy, and thus a declining risk premium, we expect GDP growth to normalise to 4.2% in FY:22, with net exports providing a critical boost. The uncertainty over the evolution of COVID-19, together with elevated geopolitical tensions and a less conducive political backdrop ahead of presidential and legislative elections, due by mid-2023, pose downside risks to this outlook.

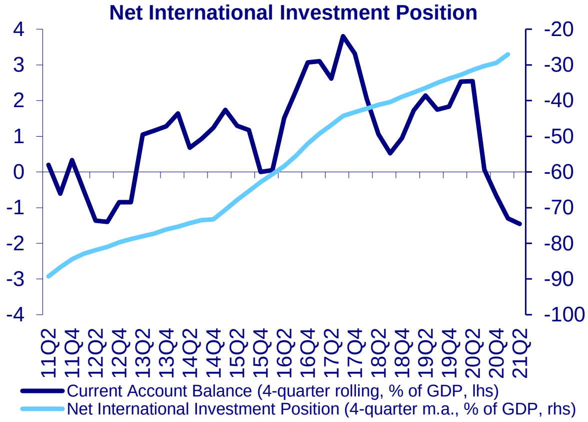
Bulgaria

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

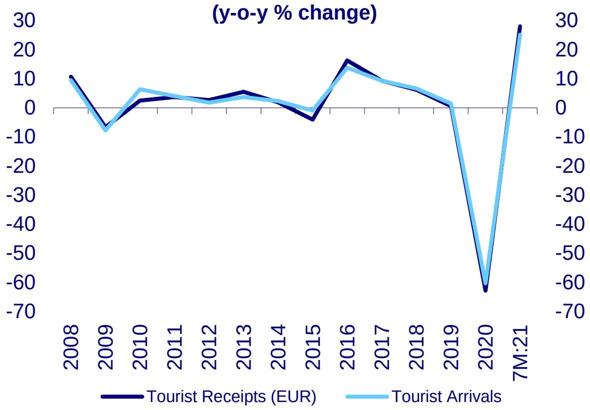
Current Account Balance (CAB, 4-Q rolling sum, as % of GDP)



Current Account Balance & Net International Investment Position



Tourist Receipts & Arrivals (y-o-y % change)



	6 Sep.	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 (2024, bps)	53	60	55	55

	6 Sep.	1-W %	YTD %	2-Y %
SOFIX	561	-2.1	25.3	-2.3

	2018	2019	2020	2021F	2022F
Real GDP Growth (%)	3.1	3.7	-4.2	4.7	4.2
Inflation (eop, %)	2.7	3.8	0.1	3.2	2.4
Cur. Acct. Bal. (% GDP)	0.9	1.8	-0.7	-0.2	0.5
Fiscal Bal. (% GDP)	0.1	-1.0	-3.0	-3.6	-2.1

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

Higher global energy prices and reviving domestic demand have kept the current account deficit (CAD) under pressure since the beginning of the year. In H1:21, the current account balance deteriorated by 0.8 pps y-o-y to a deficit of 0.2% of GDP, driven by surging imports. Indeed, against the backdrop of relatively soft COVID-19 containment measures, private consumption strengthened in H1:21, fuelled, *inter alia*, by the release of pent-up demand and improving confidence, inflating the non-energy trade deficit (by 0.3 pps of GDP y-o-y). At the same time, the energy trade deficit widened (by 0.6 pps of GDP y-o-y), in line with higher global oil prices (the Brent oil price was up 50% y-o-y in EUR terms in H1:21), adding further pressure on the CAD.

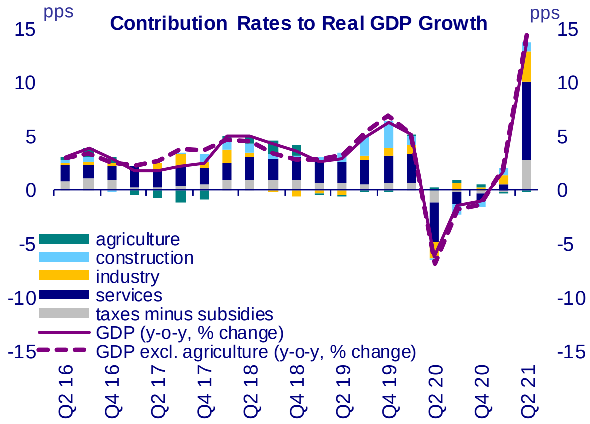
Stronger tourism inflows during the remainder of the year should help close the current account gap. Despite the recovery in the EU, Bulgaria's main trade partner, pressure on the trade deficit is unlikely to ease markedly in H2:21, as stronger domestic demand will feed into imports (with the latter accounting for 110% of exports). This deterioration should be more than offset, however, by a rebound in tourism receipts (see below), which account for 40% of services exports in normal times. The envisaged pick-up in remittance inflows, following their collapse in FY:20, should also help to this end. All said, we see the CAB narrowing to a deficit of 0.2% of GDP in FY:21 from 0.7% in FY:20, and swinging into a surplus of 0.5% of GDP in FY:22. This will help further support Bulgaria's strong external position (recall that, following strong net deleveraging over the past few years, the country's net international investment position gap has shrinked to -24% of GDP, much better than the SEE-4 average of -55%), ensuring the stability of the currency board. Importantly, the latter, together with the BGN's inclusion into the ERM-II (a precursor to the adoption of the EUR), provide solid policy anchors, alleviating concerns over the ongoing political crisis (note that Bulgaria is heading for a 3rd consecutive snap election later in the year).

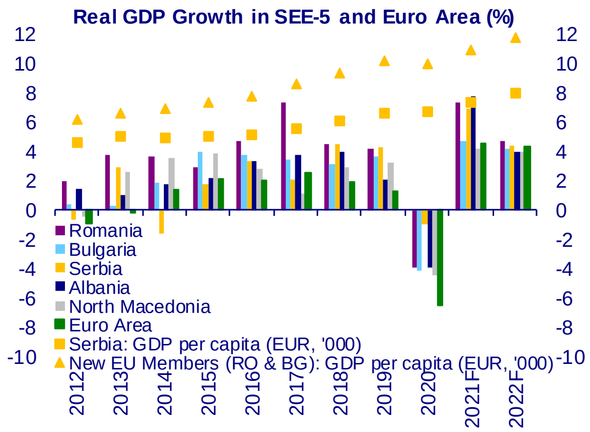
Albeit rebounding lately, tourism activity remains well below its pre-COVID-19 level. Following the launch of a massive vaccination campaign, both domestically as well as globally, tourist arrivals picked-up strongly in 4-7M:21 (up 104% y-o-y against a drop of 46% in Q1:21), reflecting the easing of travel and social distancing restrictions and a sharp improvement in tourist confidence. Still, the y-t-d performance is well below pre-COVID-19 standards, accounting for just 50% of tourist arrivals in 7M:19. This performance compares favourably, however, with that of Bulgaria's regional competitors, namely Greece (30%), Turkey (40%) and Croatia (30%), reflecting, *inter alia*, a better starting point (tourist arrivals in Bulgaria went down by a massive 60% in FY:20, albeit less so than in Greece, Turkey and Croatia -- down 78%, 69% and 68%, respectively). In terms of source countries, the recovery is largely driven by bordering Romania and Turkey as well as Ukraine. Tourism receipts have been growing at a similar pace to that of arrivals so far, suggesting broadly steady spending per tourist compared with pre-pandemic times.

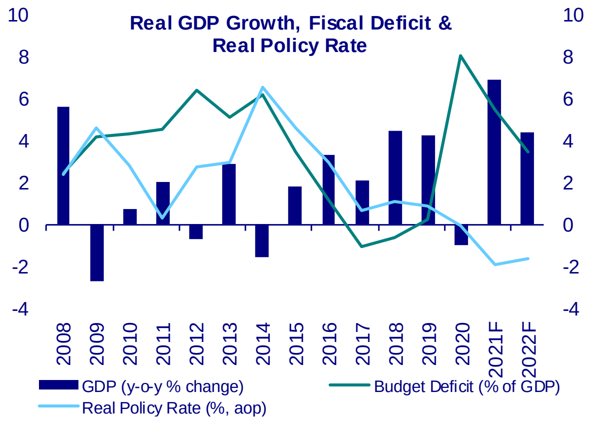
Looking ahead, we expect tourism activity to lose some momentum towards the end of the season, in view of a resurgence in infections and the reinstatement of some (mild) restrictive measures (effective as of early-September). All said, we see tourism arrivals growing by c. 50% in FY:21 compared to the previous year to slightly over 55% of their pre-pandemic level. A full recovery is unlikely before 2023, putting Bulgaria in a less favourable position compared with its more well-diversified peers as regards economic recovery from COVID-19, given the sector's high (direct and indirect) contribution to GDP (11% in FY:19). Importantly, however, the relatively high share of rural (versus urban) tourism and the modest share of tourism by air (versus other modes), together with the country's strong price competitiveness, could offer Bulgaria some advantage over its tourism competitors in the post-COVID-19 era.

Serbia

BB+ / Ba2 / BB+ (S&P / Moody's / Fitch)







	6 Sep.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	0.6	0.6	0.6	0.6
RSD/EUR	117.5	117.5	117.5	117.5
Sov. Spread (2029, bps)	183	176	170	155

	6 Sep.	1-W %	YTD %	2-Y %
BELEX-15	805	0.7	7.6	8.0

	2018	2019	2020	2021F	2022F
Real GDP Growth (%)	4.5	4.2	-1.0	6.9	4.4
Inflation (eop, %)	2.0	1.9	1.3	2.6	2.6
Cur. Acct. Bal. (% GDP)	-4.8	-6.9	-4.3	-4.0	-3.9
Fiscal Bal. (% GDP)	0.6	-0.2	-8.1	-5.5	-3.5

Sources: Reuters, OPBC & NBG estimates

Strong positive base effects, together with reviving domestic demand and the solid recovery in the EU, boosted GDP growth in Q2:21 (to 13.7% y-o-y). The gradual reopening of the economy, along with strong base effects from the COVID-induced halt in economic activity in Q2:20, caused GDP growth to skyrocket to 13.7% y-o-y in Q2:21 (up 1.3% q-o-q s.a., with sequential growth remaining in positive territory for a 4th consecutive quarter), pushing the economy c. 3.0% above its pre-pandemic level. The recovery was broadly based, with all sectors (excluding agriculture) posting double-digit growth.

Unsurprisingly, the services sector emerged as the main engine of economic expansion in Q2:21, reflecting, *inter alia*: i) the sharp improvement in consumer confidence, following the fast COVID-19 vaccine rollout (with the share of people fully vaccinated at 41% at end-August against 47% in Europe); ii) the resilient labour market, supported by the Government's emergency employment and wage subsidy schemes and a loose incomes policy (including hikes of 5.0% and 6.6% in public sector wages and the minimum wage, respectively, as well as a 5.9% rise in pensions); and iii) higher inflows of remittances.

Against the backdrop of recovering domestic demand on the one hand, and stronger external demand from the EU -- Serbia's main trade partner (absorbing ⅔ of the country's exports) -- on the other hand, the industrial sector also rebounded strongly in Q2:21, despite increasing production costs (in line with surging oil prices) and the continuing disruptions in global supply chains. The extension of state support to the industrial sector has also helped to this end. Note that the country's good product and geographical diversification of its exports has sustained Serbia's industrial production throughout the COVID-19 crisis.

GDP growth is set to remain robust in H2:21, underpinned by a looser fiscal stance. We expect the services sector to remain the main driver of economic recovery in H2:21, supported by the fast COVID-19 vaccine rollout and government's generous policies. At the same time, strong export growth, in line with the ongoing recovery in the EU, and improving investment confidence (supported by the continuing engagement with the IMF, through a new 30-month PCI approved in June, and Moody's upgrade of Serbia's rating in March) should sustain industrial production. The construction sector should also add to GDP growth, driven by higher public investment (according to the revised budget, up 45.8% y-o-y to 4.3% of GDP in H2:21) and a pick-up in residential construction projects (spurred by the NBS's measures facilitating housing loans, effective as of mid-2020).

Importantly, following a significant narrowing in the budget deficit in H1:21 (reflecting the economic recovery and base effects from the tax deferrals enacted in H1:20), a sizeable fiscal impulse is expected in H2:21 (with the budget deficit set to widen to 5.5% of GDP in FY:21 from a mere 0.6% in H1:21).

Moreover, monetary policy should remain accommodative, with the NBS set to keep its policy rate at historical lows (at just 1.0%), at least by year-end, while focusing on stimulating credit activity, by providing liquidity to banks and effectively subsidizing new corporate loans.

All said, with COVID-19-related base effects set to wane in H2:21, we see GDP growth at (a 17-year high of) 6.9% in FY:21 -- among the highest in SEE-5. Note that our projection was upwardly revised by 0.6 pps, in view of the stronger-than-initially-expected H1:21 performance. Nevertheless, the rapid spread of more infectious variants of COVID-19 pose significant downside risks to our forecast.

Following the strong rebound in FY:21 and the gradual withdrawal of the Government support schemes, the pace of economic expansion is set to moderate to a still solid 4.4% in FY:22 -- gradually converging to its long-term potential (of slightly over 3.0%).

TURKEY	2018	2019	2020	2021f	2022f
Real Sector					
Nominal GDP (USD million)	777,216	760,669	718,977	792,689	881,551
GDP per capita (EUR)	8,057	8,170	7,458	7,803	8,559
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	70.9		
Retail Loans (% of GDP)	13.8	13.9	16.8		
Corporate Loans (% of GDP)	49.9	47.6	54.1		
Customer Deposits (% of GDP)	50.8	54.6	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	168,407	186,125	195,581
Merchandise imports (USD million)	219,635	198,997	206,281	221,912	231,880
Trade balance (USD million)	-40,726	-16,751	-37,874	-35,788	-36,299
Trade balance (% of GDP)	-5.2	-2.2	-5.3	-4.5	-4.1
Current account balance (USD million)	-21,743	6,759	-37,315	-25,368	-21,890
Current account balance (% of GDP)	-2.8	0.9	-5.2	-3.2	-2.5
Net FDI (USD million)	9,235	6,323	4,589	5,277	6,333
Net FDI (% of GDP)	1.2	0.8	0.6	0.7	0.7
International reserves (USD million)	93,027	105,696	93,277	105,000	105,000
International reserves (Months[a])	4.5	5.6	4.9	5.1	4.9
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	51.9
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	76.2	81.0
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	18.0	12.5
Policy rate (Effective funding rate, %, aop)	17.7	20.7	10.5	18.5	15.3
1-Y T-bill rate (%, eop)	21.5	11.3	15.1	18.0	12.5
Exchange rate: USD (eop)	5.29	5.95	7.43	8.65	9.05
Exchange rate: USD (aop)	4.84	5.68	7.02	8.30	8.85

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

BULGARIA	2018	2019	2020e	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	56,111	61,239	60,642	64,952	69,440
GDP per capita (EUR)	8,016	8,810	8,773	9,454	10,168
GDP growth (real, %)	3.1	3.7	-4.2	4.7	4.2
Unemployment rate(ILO definition, %, aop)	5.2	4.2	5.1	5.4	5.0
Prices and Banking					
Inflation (%, eop)	2.7	3.8	0.1	3.2	2.4
Inflation (%, aop)	2.8	3.1	1.7	2.3	2.6
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	51.5		
Retail Loans (% of GDP)	19.1	19.5	21.2		
Corporate Loans (% of GDP)	30.6	29.3	30.4		
Customer Deposits (% of GDP)	65.8	66.8	74.3		
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	28,805	30,191
Merchandise imports (EUR million)	30,448	32,028	29,104	31,447	33,276
Trade balance (EUR million)	-2,706	-2,908	-1,872	-2,642	-3,086
Trade balance (% of GDP)	-4.8	-4.7	-3.1	-4.1	-4.4
Current account balance (EUR million)	0,532	1,121	-0,400	-0.135	0,338
Current account balance (% of GDP)	0.9	1.8	-0.7	-0.2	0.5
Net FDI (EUR million)	0,757	1,158	1,946	1,459	1,605
Net FDI (% of GDP)	1.3	1.9	3.2	2.2	2.3
International reserves (EUR million)	25,072	24,836	30,848	30,673	31,265
International reserves (Months[a])	8.5	8.0	11.1	10.2	9.8
Public Finance					
Primary balance (% of GDP)	0.8	-0.4	-2.5	-3.1	-1.6
Fiscal balance (% of GDP)	0.1	-1.0	-3.0	-3.6	-2.1
Gross public debt [b] (% of GDP)	22.3	20.2	25.0	27.2	27.7
External Debt					
Gross external debt (EUR million)	34,487	35,303	38,446	37,672	38,539
Gross external debt (% of GDP)	61.5	57.6	63.4	58.0	55.5
External debt service (EUR million)	7,415	6,957	7,041	7,000	8,200
External debt service (% of reserves)	29.6	28.0	22.8	22.8	26.2
External debt service (% of exports)	20.1	17.7	20.5	18.8	20.6
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	0.4	0.7
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

SERBIA					
	2018	**2019**	**2020**	**2021f**	**2022f**
Real Sector					
Nominal GDP (EUR million)	42,939	46,017	46,493	51,288	55,214
GDP per capita (EUR)	6,149	6,626	6,739	7,425	8,024
GDP growth (real, %)	4.5	4.2	-1.0	6.9	4.4
Unemployment rate (%, aop)	13.7	11.2	9.7	11.6	10.0
Prices and Banking					
Inflation (%, eop)	2.0	1.9	1.3	3.6	2.6
Inflation (%, aop)	2.0	1.9	1.6	3.0	3.1
Loans to the Private Sector (% change, eop)	9.9	8.9	12.2		
Customer Deposits (% change, eop)	14.9	7.8	17.4		
Loans to the Private Sector (% of GDP)	43.5	44.4	49.4		
Retail Loans (% of GDP)	20.1	20.5	22.8		
Corporate Loans (% of GDP)	23.4	23.8	26.6		
Customer Deposits (% of GDP)	44.9	45.3	52.7		
Loans to Private Sector (% of Deposits)	96.9	98.0	93.6		
Foreign Currency Loans (% of Total Loans)	67.0	66.9	62.7		
External Accounts					
Merchandise exports (EUR million)	15,106	16,415	16,032	17,349	18,312
Merchandise imports (EUR million)	20,191	22,038	21,257	22,978	24,244
Trade balance (EUR million)	-5,085	-5,623	-5,224	-5,629	-5,932
Trade balance (% of GDP)	-11.8	-12.2	-11.2	-11.0	-10.7
Current account balance (EUR million)	-2,076	-3,161	-1,981	-2,049	-2,172
Current account balance (% of GDP)	-4.8	-6.9	-4.3	-4.0	-3.9
Net FDI (EUR million)	3,157	3,551	2,902	3,338	3,671
Net FDI (% of GDP)	7.4	7.7	6.2	6.5	6.6
International reserves (EUR million)	11,262	13,379	13,492	15,281	16,630
International reserves (Months[a])	5.4	5.7	6.1	6.4	6.6
Public Finance					
Primary balance (% of GDP)	2.8	1.8	-6.1	-3.7	-1.7
Fiscal balance (% of GDP)	0.6	-0.2	-8.1	-5.5	-3.5
Central Government debt (% of GDP)	54.4	52.9	58.2	59.0	58.3
External Debt					
Gross external debt (EUR million)	26,662	28,254	30,813	33,338	34,896
Gross external debt (% of GDP)	62.1	61.4	66.3	65.0	63.2
External debt service (EUR million)	5,600	6,400	3,900	4,800	4,900
External debt service (% of reserves)	49.7	47.8	28.9	31.4	29.5
External debt service (% of exports)	26.4	27.4	17.6	19.8	19.2
Financial Markets					
Policy rate (2-w repo rate, %, eop)	3.0	2.3	1.0	1.0	1.3
Policy rate (2-w repo rate, %, aop)	3.1	2.7	1.5	1.0	1.1
5-Y T-bill rate [b] (%, eop)	n.a.	n.a.	2.6	2.2	2.5
Exchange rate: EUR (eop)	118.2	117.5	117.5	117.5	117.5
Exchange rate: EUR (aop)	118.1	117.7	117.5	117.5	117.5

f: NBG forecasts; a: months of imports of GNFS; b: primary market