



## COUNTRIES IN FOCUS:

### Türkiye & Serbia

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Solid GDP growth in Q2:23, thanks to ultra-accommodative pre-election policies

The economy braces for a soft landing, as tightening financing conditions take hold

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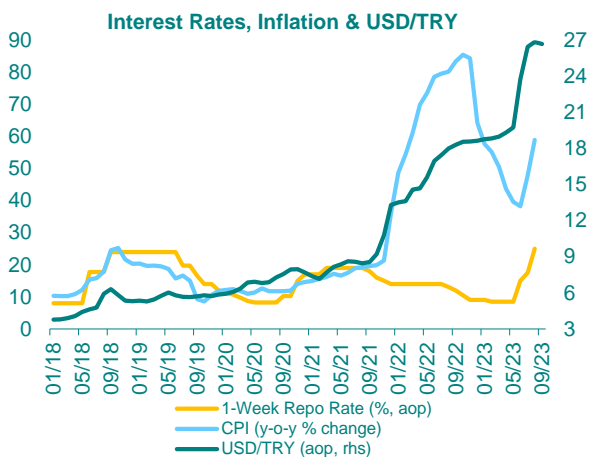
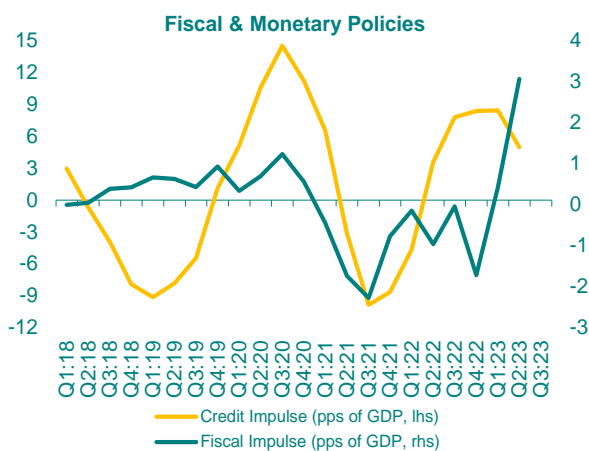
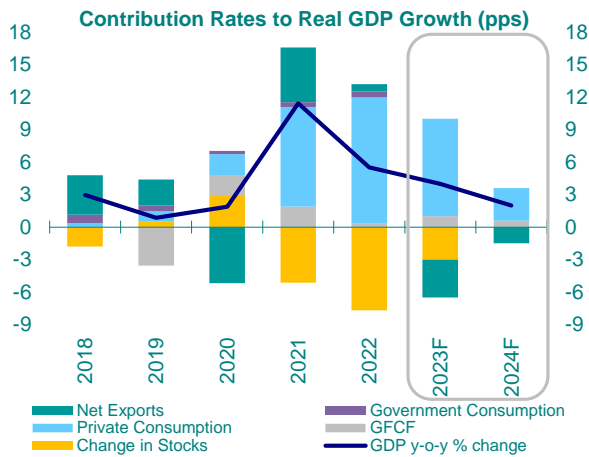
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# Türkiye

B / B3 / B (S&P/ Moody's / Fitch)



	4 Sep	3-M F	6-M F	12-M F
O/N TLREF (%)	26.4	32.0	32.0	30.0
TRY/USD	26.74	27.30	28.50	30.00
Sov. Spread (2027, bps)	339	340	325	300

	4 Sep	1-W %	YTD %	2-Y %
ISE 100	8,141	2.5	-47.8	454.3

	2020	2021	2022	2023F	2024F
Real GDP Growth (%)	1.9	11.4	5.5	4.0	2.0
Inflation (eop, %)	14.6	36.1	64.3	67.5	30.0
Cur. Acct. Bal. (% GDP)	-4.4	-0.9	-5.3	-4.4	-2.4
Fiscal Bal. (% GDP)	-3.4	-2.6	-0.9	-4.8	-3.8

Sources: Reuters, CBRT, BDDK, Ministry of Finance, Turkstat & NBG estimates

**Solid GDP growth in Q2:23, thanks to ultra-accommodative pre-election policies.** Uninterrupted fiscal expansion, driven by a loose incomes policy and post-earthquake spending, together with overly accommodative financing conditions, provided a strong boost to economic activity in Q2:23, with sequential GDP growth rebounding to 3.5% q-o-q s.a. from -0.1% in Q1:23, keeping the annual pace of economic expansion broadly flat at a solid 3.8%, despite unfavourable base effects. Unsurprisingly, amid record-high consumer confidence and improving labour market conditions, private consumption was the main driver, while net exports remained a large drag on overall growth, despite continuing strong recovery in tourism activity.

**The economy braces for a soft landing, as tightening financing conditions take hold.** Recall that in the wake of President Erdoğan's re-election in May, and in a bid to calm markets, which were expecting return to more conventional policies, the CBRT has embarked on a tightening cycle, involving a sharp reversal in interest rates and selective credit and quantitative tightening measures. Specifically, rates have gone up 1650 bps so far, to 25%, with the real *ex-post* policy rate remaining, however, in deep negative territory (c. -21.0%), suggesting that authorities still have a long way to go before Türkiye's imbalances get effectively unwind. Indeed, although the TRY's free-fall has been halted, the CBRT's net FX reserves still remain highly negative.

Looking ahead, the CBRT should continue hiking rates cautiously, while unwinding its (complex) macro-prudential regulations protecting the TRY. As a result, we see the policy rate at 30.0% by end-2023 and remaining at that level by late-2024, although we recognize that visibility remains in poor in the absence of forward guidance, especially given Erdoğan's track record of populist policy shifts. Worryingly, the political factor is expected to remain at play at least until the March '24 local elections

Against this backdrop, we expect GDP growth to slow down in the period ahead, led by (previously overperforming) private consumption. Indeed, with stubbornly high inflation continuing to erode households' purchasing power and consumer confidence deteriorating rapidly, private consumption cannot but lose steam, despite negative interest rates.

At the same time, investment activity, which has been stalled since late-2021, is unlikely to revive, due to tightening financing conditions and the impact of the weaker TRY on the NFC sector's balance sheets. Post-earthquake reconstruction activity should continue to provide some support in the short-term, nonetheless.

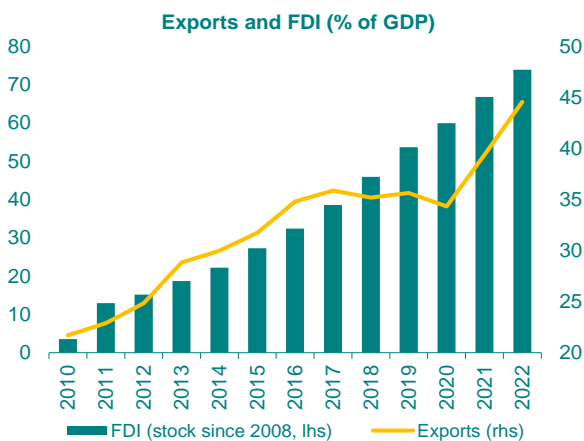
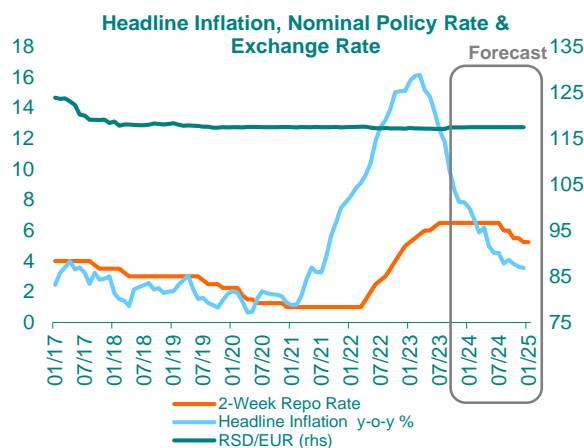
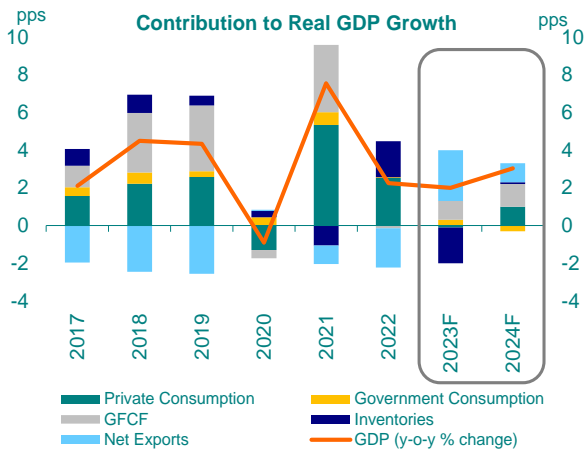
In fact, and despite weak global economic growth prospects, net exports' would likely emerge as a key growth driver, reflecting improving cost competitiveness, on the one hand, and softening domestic demand, on the other hand.

Note that support from fiscal policy is set to diminish gradually, as authorities hike taxes to fund the mounting budget deficit. Worryingly, however, the hikes in indirect taxes, together with the recent easing in incomes policy, would delay much-needed disinflation. Some modest fiscal consolidation is expected only in FY:24.

All said, we see GDP growth at a still robust 4.0% in FY:23, down from 5.5% in FY:22. Reflecting the lagged impact of monetary tightening (which should help, nonetheless, put inflation on a slow downward trend), GDP growth should ease to 2.0% in FY:24, but with a more balanced structure. The high indebtedness of the private sector (c. 185% of GDP, over 40% of which is FX-denominated) poses a significant downside risk to our forecast, in view of tightening financing conditions. Worryingly, financial distress in the non-banking sector could be transmitted to the banking sector, given the latter's tight liquidity position (with a loan-to-deposit ratio of 98%).

# Serbia

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



	4 Sep	3-M F	6-M F	12-M F
1-m BELIBOR (%)	5.6	5.8	5.8	5.4
RSD/EUR	117.1	117.5	117.5	117.5
Sov. Spread (2029, bps)	348	335	320	290

	4 Sep	1-W %	YTD %	2-Y %
BELEX-15	885	-1.0	7.3	9.5

	2020	2021	2022	2023F	2024F
Real GDP Growth (%)	-0.9	7.5	2.3	2.0	3.0
Inflation (eop, %)	1.3	7.9	15.1	7.8	3.5
Cur. Acct. Bal. (% GDP)	-4.1	-4.2	-6.9	-3.3	-3.7
Fiscal Bal. (% GDP)	-8.0	-4.1	-3.2	-2.8	-2.4

Sources: Reuters, NBS, OPBC & NBG estimates

**High inflation and tight financing conditions should keep the economy on a weak footing throughout 2023.** Inflation is set to remain elevated throughout the year, due, *inter alia*, to IMF-mandated tariff adjustments by state-owned energy enterprises, continuing to bite into (real) disposable income and thereby weighing on private consumption. Higher debt-servicing costs, on the back of rising interest rates, together with slowing credit expansion, should also take a toll. The accommodative incomes policy (see also below) and its spillover to the private sector should help partially offset these headwinds. Note that private consumption fell marginally on an annual basis in H1:23, for the first time since the pandemic.

Similarly, amid still high uncertainty, increased operating costs and tight financing conditions, fixed investment is unlikely to add much to overall growth in the period ahead. The continuation of several large projects in the field of transport and utility infrastructure suggests that the public sector should continue to play the lead role.

On a positive note, despite soft demand from the EU (absorbing 2/3rds of Serbia's exports) and the need to replenish non-energy inventories, which were drawn down over the past quarters, net exports should underpin GDP growth, as in H1:23, mainly thanks to reduced energy imports. The latter surged in FY:22, due to outages in domestic electricity production and higher oil & gas storage. Importantly, Serbia's increased export capacity & diversification, following past years' strong FDI inflows, suggests that net exports could emerge as critical pillar of GDP growth as soon as external conditions allow.

Policies are not envisaged to sustain GDP growth. Indeed, amid elevated inflation and still wide external imbalances, the NBS cannot but maintain its tightening bias (having already raised its key rate to 6.5% from a low of 1.0% a year ago). At the same time, the budget deficit is set to narrow slightly to 2.8% of GDP this year, with lower energy-related capital transfers more than offsetting the cost of the pre-election spending spree (involving hikes in public sector wages and pensions). Fiscal consolidation should continue next year, so to bring the budget into compliance with the new rules applying from 2025.

All said, following a substantial slowdown in FY:22 and H1:23, economic growth is set to remain subdued during the remainder of the year, bringing FY:23 growth to a projected 2.0%, with normalizing agricultural output, following last year's drought, and gradual recovering domestic energy production providing critical support. Assuming that inflation loosens its grip next year, we see GDP growth accelerating to 3.0%, slightly below its long-term potential. Importantly, the 2-year SBA with the IMF provides a safety net, in the event external financing conditions deteriorate abruptly.

**The political factor has come into the forefront.** In the wake of massive anti-Government protests over a series of mass shootings in May, President Vucic announced its intention to call snap Parliamentary elections -- the 3<sup>rd</sup> in 4 years --, without yet having set a date. Our baseline scenario assumes that the SNS-led ruling coalition, linked to President Vučić, would win the next election, albeit with a lower percentage of vote than in the previous election (c. 44%).

On the international front, notwithstanding the agreement between Serbia and Kosovo on an EU plan to normalize relations, uncertainty is unlikely to ease soon. In fact, the recent flare up in tensions in northern Kosovo over mayoral elections suggests that there is little prospect of a breakthrough in the dispute. In this context, we also expect limited progress in Serbia's accession talks with the EU, the relations with which remain strained, due, *inter alia*, to the former's neutral stance on the Russia-Ukraine conflict.

## DETAILED MACROECONOMIC DATA

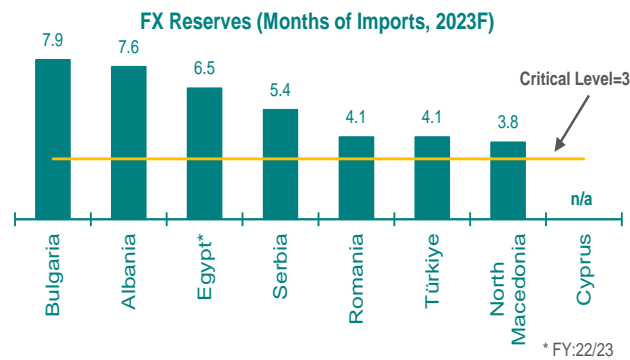
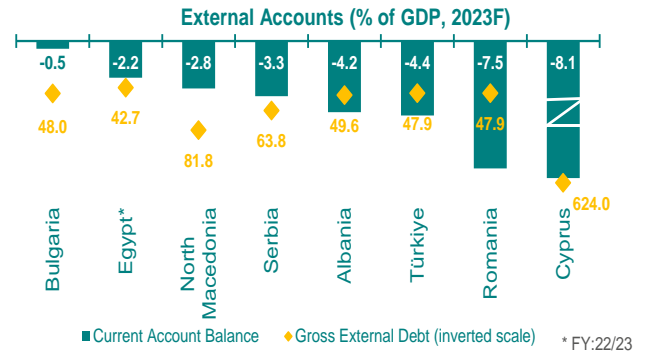
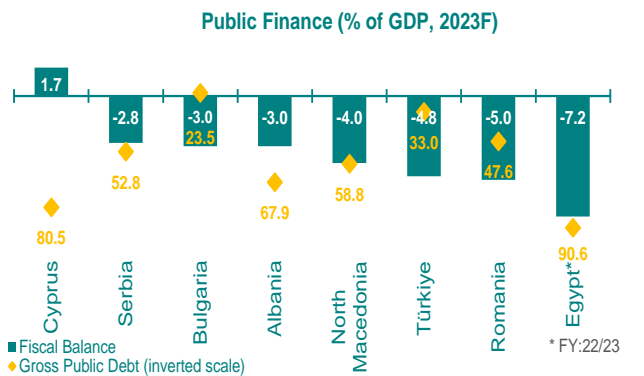
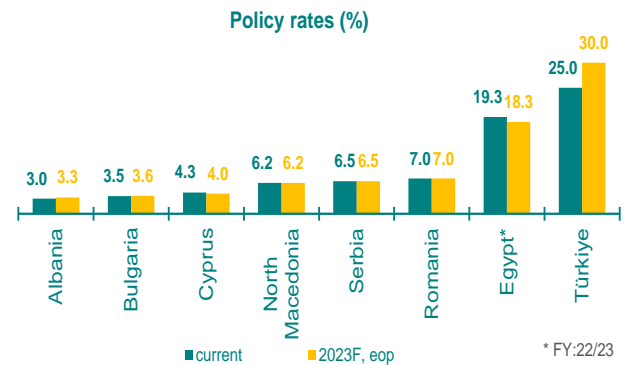
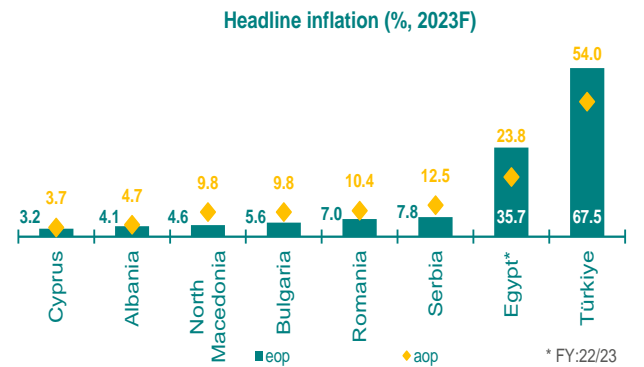
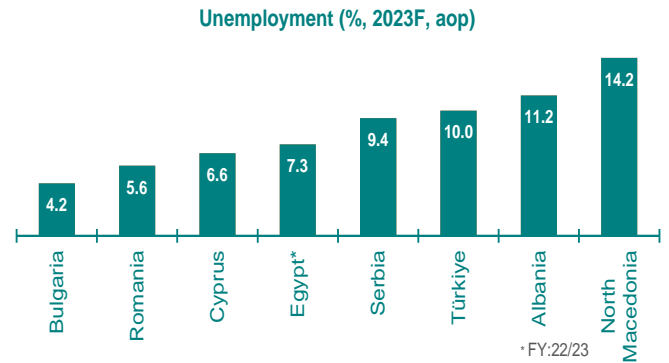
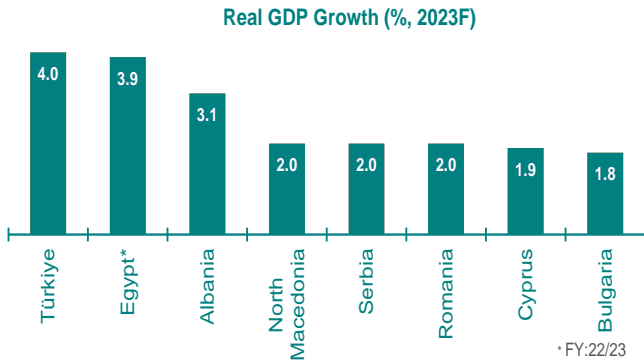
TÜRKİYE					
	2020	2021	2022	2023f	2024f
<b>Real Sector</b>					
Nominal GDP (USD million)	719,217	816,582	905,789	1,023,100	1,257,776
GDP per capita (USD)	8,602	9,643	10,572	11,804	14,350
GDP growth (real, %)	1.9	11.4	5.5	4.0	2.0
Unemployment rate (% aop)	13.2	12.0	10.5	10.0	10.0
<b>Prices and Banking</b>					
Inflation (% eop)	14.6	36.1	64.3	67.5	30.0
Inflation (% aop)	12.3	19.3	71.6	54.0	51.3
Loans to the Private Sector (% change, eop)	34.8	37.0	54.5		
Customer Deposits (% change, eop)	33.0	51.5	68.0		
Loans to the Private Sector (% of GDP)	70.8	67.6	50.4		
Retail Loans (% of GDP)	16.8	14.4	11.2		
Corporate Loans (% of GDP)	54.1	53.1	39.2		
Customer Deposits (% of GDP)	62.1	65.4	53.1		
Loans to Private Sector (% of Cust. Deposits)	114.1	103.2	94.9		
Foreign Currency Loans (% of Total Loans)	34.2	42.2	32.6		
<b>External Accounts</b>					
Merchandise exports (USD million)	168,378	224,686	252,416	263,020	284,566
Merchandise imports (USD million)	206,252	253,999	342,899	351,826	364,519
Trade balance (USD million)	-37,874	-29,313	-90,483	-88,806	-79,953
Trade balance (% of GDP)	-5.3	-3.6	-10.0	-8.7	-6.4
Current account balance (USD million)	-31,888	-7,232	-48,405	-44,940	-30,026
Current account balance (% of GDP)	-4.4	-0.9	-5.3	-4.4	-2.4
Net FDI (USD million)	4,456	6,874	8,412	9,253	10,641
Net FDI (% of GDP)	0.6	0.8	0.9	0.9	0.8
International reserves (USD million)	93,277	111,181	128,736	125,000	132,500
International reserves (Months <sup>a</sup> )	4.9	4.7	3.3	4.1	4.2
<b>Public Finance</b>					
Primary balance (% of GDP)	-0.8	-0.2	1.1	-2.1	-1.0
Fiscal balance (% of GDP)	-3.4	-2.6	-0.9	-4.8	-3.8
Gross public debt (% of GDP)	39.6	41.8	31.7	33.0	32.5
<b>External Debt</b>					
Gross external debt (USD million)	429,177	437,281	458,699	490,000	520,000
Gross external debt (% of GDP)	59.7	53.6	50.6	47.9	41.3
External debt service (USD million)	70,931	74,311	80,000	85,000	90,000
External debt service (% of reserves)	76.0	66.8	62.1	68.0	67.9
External debt service (% of exports)	37.5	27.6	25.4	25.9	25.3
<b>Financial Markets</b>					
Policy rate (Effective funding rate, % eop)	17.0	14.0	9.0	30.0	25.0
Policy rate (Effective funding rate, % aop)	10.5	17.6	12.6	18.2	29.4
10-Y T-bill rate (% eop)	12.5	23.1	9.9	19.0	17.0
Exchange rate: USD (eop)	7.43	13.32	18.69	28.00	31.00
Exchange rate: USD (aop)	7.02	8.89	16.57	23.50	29.50

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

SERBIA					
	2020	2021	2022	2023f	2024f
<b>Real Sector</b>					
Nominal GDP (EUR million)	46,841	53,363	60,404	69,352	74,891
GDP per capita (EUR)	6,789	7,808	8,901	10,281	11,146
GDP growth (real, %)	-0.9	7.5	2.3	2.0	3.0
Unemployment rate (% aop)	9.7	11.1	9.6	9.4	9.1
<b>Prices and Banking</b>					
Inflation (% eop)	1.3	7.9	15.1	7.8	3.5
Inflation (% aop)	1.6	4.1	11.9	12.5	4.9
Loans to the Private Sector (% change, eop)	12.2	10.1	6.9		
Customer Deposits (% change, eop)	17.4	13.3	6.9		
Loans to the Private Sector (% of GDP)	49.0	47.4	44.7		
Retail Loans (% of GDP)	22.6	21.9	20.6		
Corporate Loans (% of GDP)	26.4	25.4	24.2		
Customer Deposits (% of GDP)	52.3	52.1	49.2		
Loans to Private Sector (% of Deposits)	93.6	90.9	90.9		
Foreign Currency Loans (% of Total Loans)	62.1	61.1	64.1		
<b>External Accounts</b>					
Merchandise exports (EUR million)	16,079	21,018	26,913	28,863	31,481
Merchandise imports (EUR million)	21,280	27,038	36,266	37,692	40,213
Trade balance (EUR million)	-5,201	-6,020	-9,353	-7,830	-8,732
Trade balance (% of GDP)	-11.1	-11.3	-15.5	-11.3	-11.7
Current account balance (EUR million)	-1,929	-2,266	-4,139	-2,255	-2,763
Current account balance (% of GDP)	-4.1	-4.2	-6.9	-3.3	-3.7
Net FDI (EUR million)	2,938	3,657	4,306	4,952	5,199
Net FDI (% of GDP)	6.3	6.9	7.1	7.1	6.9
International reserves (EUR million)	13,492	16,455	19,416	21,612	23,049
International reserves (Months <sup>a</sup> )	6.1	5.9	5.2	5.4	5.4
<b>Public Finance</b>					
Primary balance (% of GDP)	-6.0	-2.4	-1.7	-1.2	-0.7
Fiscal balance (% of GDP)	-8.0	-4.1	-3.2	-2.8	-2.4
Central Government debt (% of GDP)	56.9	56.5	55.2	52.8	51.5
<b>External Debt</b>					
Gross external debt (EUR million)	30,787	36,488	41,885	44,247	45,234
Gross external debt (% of GDP)	65.7	68.4	69.3	63.8	60.4
External debt service (EUR million)	5,500	6,000	5,100	4,700	5,100
External debt service (% of reserves)	40.8	36.5	26.3	21.7	22.1
External debt service (% of exports)	24.7	20.8	13.4	11.0	11.1
<b>Financial Markets</b>					
Policy rate (2-w repo rate, % eop)	1.0	1.0	5.0	6.5	5.3
Policy rate (2-w repo rate, % aop)	1.5	1.0	2.6	6.1	6.1
10-Y T-bill rate (% eop)	3.1	4.1	7.3	6.2	5.9
Exchange rate: EUR (eop)	117.5	117.5	117.2	117.5	117.5
Exchange rate: EUR (aop)	117.5	117.5	117.4	117.4	117.5

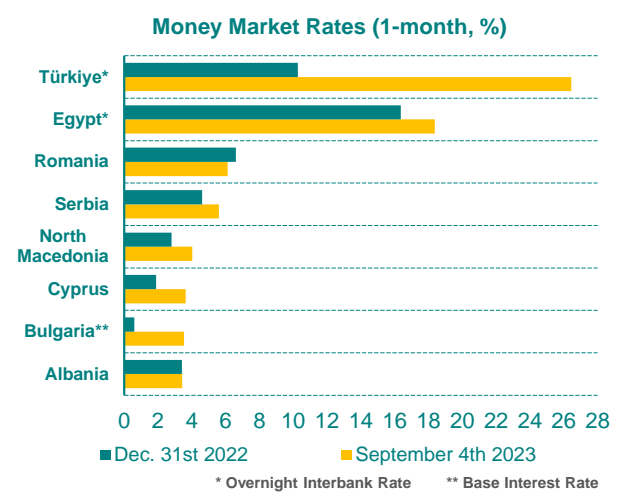
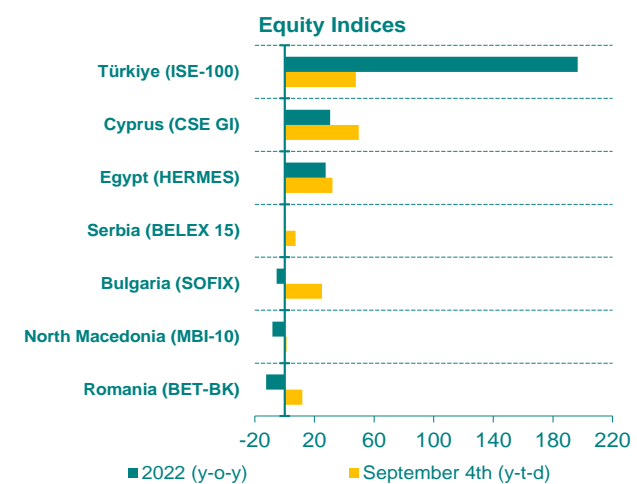
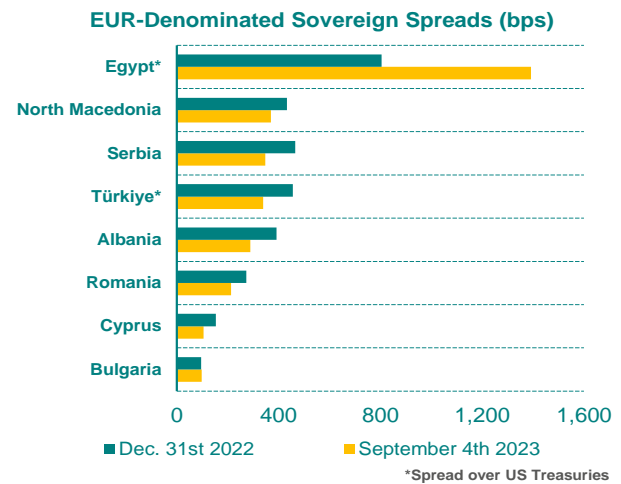
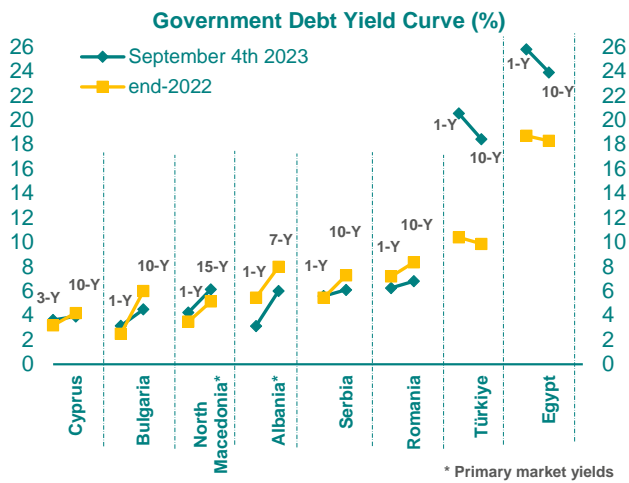
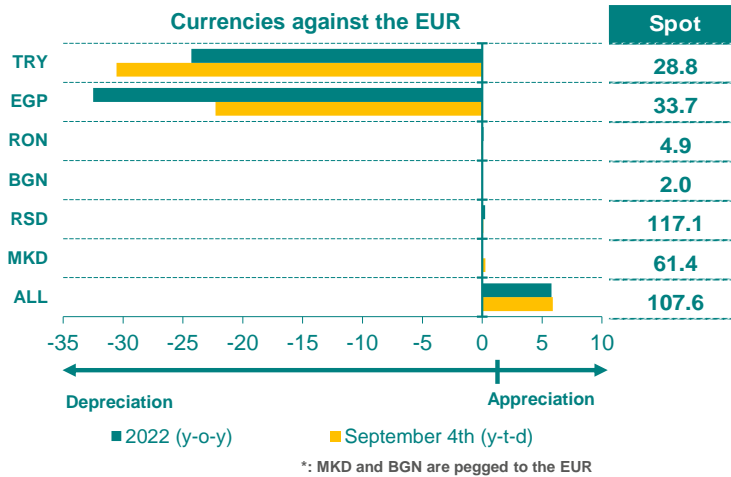
f: NBG forecasts; a: months of imports of GNFS

# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates

# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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