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Türkiye & Serbia

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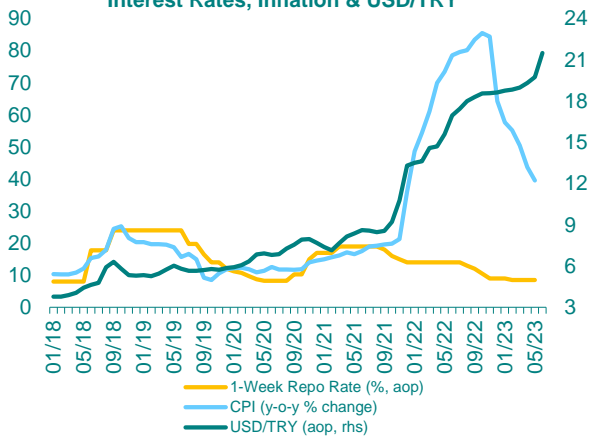
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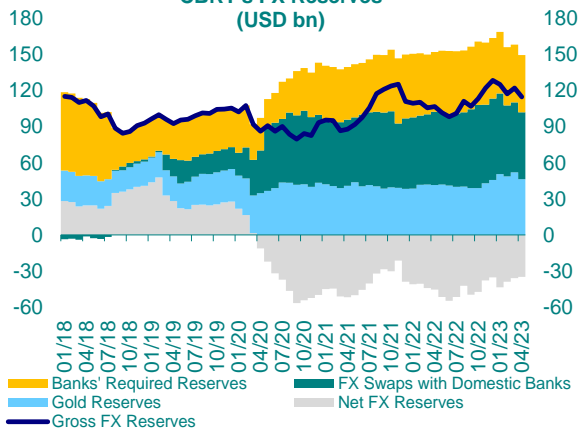
Türkiye

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

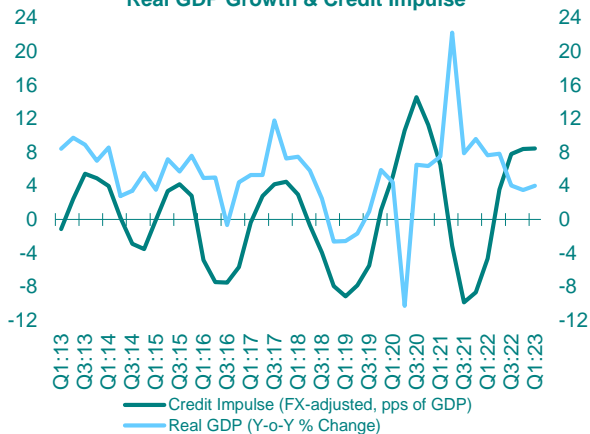
Interest Rates, Inflation & USD/TRY



CBRT's FX Reserves (USD bn)



Real GDP Growth & Credit Impulse



	5 June	3-M F	6-M F	12-M F
O/N TLREF (%)	10.0	15.0	18.0	25.0
TRY/USD	21.30	23.70	24.30	25.55
Sov. Spread (2027, bps)	452	425	380	300

	5 June	1-W %	YTD %	2-Y %
ISE 100	5,373	12.7	-2.5	274.9

	2020	2021	2022	2023F	2024F
Real GDP Growth (%)	2.0	11.4	5.6	3.5	3.6
Inflation (eop, %)	14.6	36.1	64.3	43.0	25.0
Cur. Acct. Bal. (% GDP)	-4.4	-0.9	-5.4	-4.6	-3.5
Fiscal Bal. (% GDP)	-3.4	-2.7	-0.9	-4.8	-3.8

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

President Erdoğan wins run-off vote, extending his rule into a 3rd decade. As expected, incumbent President R. T. Erdoğan, modern Türkiye's longest serving ruler, secured a new 5-year term in office, winning a runoff vote, with 52.2%. Recall that Erdoğan had garnered 49.5% of the vote in the 1st round, falling just short of an outright majority.

Although his popularity has suffered from a long-standing cost-of-living crisis, generated, inter alia, by a series of unorthodox policies adopted over the past 5 years, Erdoğan managed to renew his term, doling out generous economic handouts, while playing the cards of nationalism and religious zeal, and capitalizing on the successful repositioning of Türkiye's image on the global stage achieved under his term.

Erdoğan is set to maintain a firm grip on power, deepening political polarization. Given that the ruling alliance retained control of the Parliament after the May legislative election, the additional term should allow Erdoğan to consolidate further his authority within state institutions. Note that Türkiye's performance in the area of the rule of law has been problematic since 2017, when it switched to a highly-centralised Presidential system. However, in light of the ruling party's strong grip on media, domestic critics have been muted.

At the same time, although we recognize that cohesion between the divergent opposition bloc could ease, we deem that polarization -- particularly between Islamists and secularists -- is set to continue growing, threatening political stability, while tempting Erdoğan to maintain its populist policy bias, at least until the March '24 local elections.

Economic adjustment is on the cards; yet, we expect to be gradual and cautious. Despite structural external imbalances (largely stemming from Türkiye's complete reliance on imports to cover its energy needs), authorities have been pursuing an ultra-accommodative monetary policy over the past years that has trapped the economy into a vicious cycle of weakening TRY (down 35% against the USD between end-2021 and the May elections and 80% over the past 5 years) and high inflation (up 71.6% in FY:22 and c. 25.0% in FY:18-22), which was, however, accompanied by relatively strong GDP growth (up 4.5% in FY:18-22).

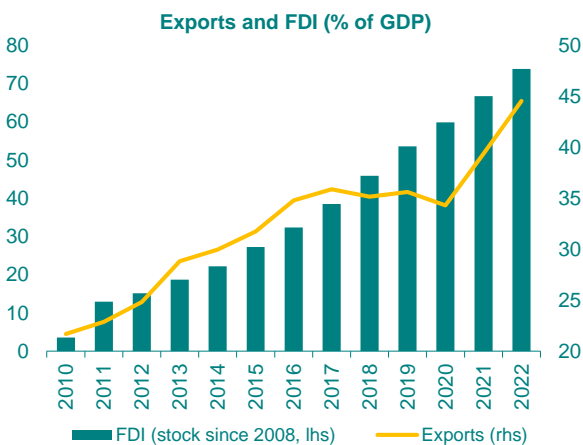
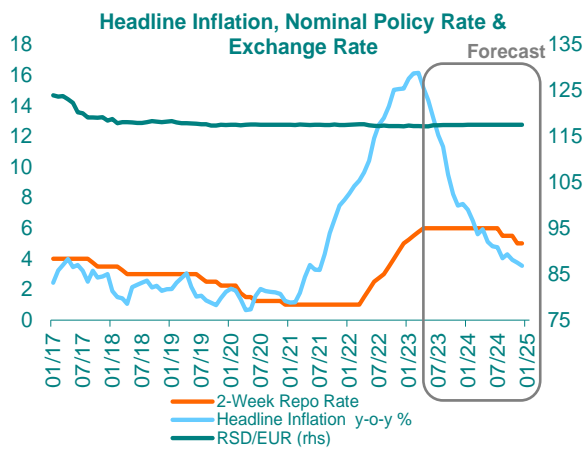
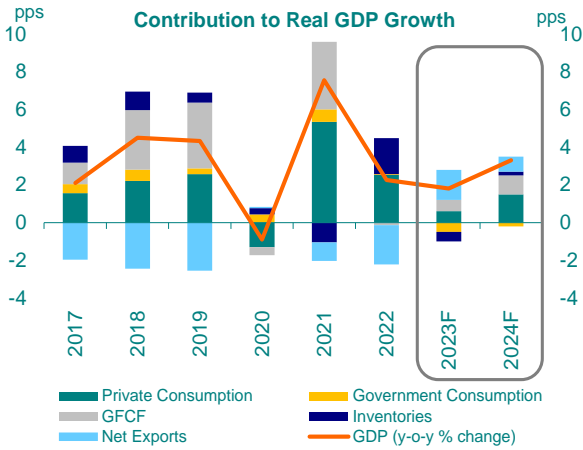
With Türkiye's (net) external buffers having long been depleted, the CBRT needs to synchronize with the global monetary cycle, reversing excess liquidity, to prevent the economy from snowballing into a full-fledged currency crisis and deep recession. Note that the size of the required adjustment is substantial, considering that the real *ex-post* policy rate currently stands at c. -22.5%, the lowest worldwide. Importantly, Türkiye's low gross public debt (c. 32.0% of GDP, well below that of its peers) provides the authorities with ample fiscal space to minimize the cost of unwinding the expansionary monetary policy.

The appointment of investor favourite M. Şimşek as Minister of Finance appears to be setting the stage for a return to policy orthodoxy. Nevertheless, we expect the transition to be gradual and cautious. In fact, we see some (modest) rate hikes over the next year, with authorities continuing to rely on non-market financing flows from Türkiye's partners -- which in the past included GCC states and Russia -- to close the external financing gap, while maintaining some "backdoor" capital controls and the FX-protected lira deposit scheme in place, at least in the short-term.

All said, with President Erdoğan's track record of interventionism casting doubt on the sustainability of a potential policy shift, we expect market volatility to remain elevated in the period ahead, with further TRY depreciation being in the pipeline, keeping inflation at double-digits and straining the economy. Note that, amid what is believed to be a scale-back in the CBRT's interventions in the FX market, the TRY hit a fresh low of 23.15 against the USD, losing an additional c. 15.0% of its value since the elections.

Serbia

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



	5 June	3-M F	6-M F	12-M F
1-m BELIBOR (%)	5.3	5.8	5.8	5.6
RSD/EUR	117.2	117.5	117.5	117.5
Sov. Spread (2029, bps)	419	370	340	280

	5 June	1-W %	YTD %	2-Y %
BELEX-15	904	-1.1	9.6	15.6

	2020	2021	2022	2023F	2024F
Real GDP Growth (%)	-0.9	7.5	2.3	1.8	3.3
Inflation (eop, %)	1.3	7.9	15.1	7.6	3.5
Cur. Acct. Bal. (% GDP)	-4.1	-4.2	-6.9	-5.3	-5.1
Fiscal Bal. (% GDP)	-8.0	-4.1	-3.1	-3.0	-2.2

Sources: Reuters, NBS, OPBC & NBG estimates

Under the pressure of high inflation and tightened financing conditions, the Serbian economy should remain on a weak footing throughout FY:23. 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, together with slowing credit expansion, should also take a toll. The accommodative incomes policy (including hikes of 12.5% and 20.0% in public sector wages and pensions, respectively) and its spillover to the private sector should help to partially offset these headwinds. Note that private consumption fell marginally on an annual basis in Q1:23 for the first time since the pandemic.

Amid still high uncertainty, increased operating costs and tight financing conditions, fixed investment is also unlikely to add much to overall growth in FY:23. 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 external demand from the EU (absorbing 2/3rds of Serbia's exports) and the need to replenish inventories, which were drawn down significantly over the past quarters, net exports should continue to underpin overall growth, as in Q1:23, reflecting reduced -- yet still higher than in previous years -- energy imports. Recall that the latter surged in FY:22, due to outages in domestic electricity production. Importantly, Serbia's increased export capacity & diversification, following past years' strong FDI inflows, suggests that net exports could emerge as critical pillar of economic growth as soon as external conditions allow.

Policies are not envisaged to sustain GDP growth this year. Indeed, amid elevated inflation and still wide external imbalances, the NBS cannot but maintain its tightening bias (having already raised its key rate to 6.0% in mid-2023 from a low of 1.0% a year ago). At the same time, fiscal consolidation is projected to continue at a modest pace, mainly driven by lower energy-related capital transfers, so to bring the budget into compliance with the new rules that will apply from 2025.

All said, after a substantial slowdown in FY:22, GDP growth should weaken further to 1.8% in FY:23, reflecting, *inter alia*, a weak statistical carry-over effect (of 0.3 pps against 2.2 pps in FY:22), which should offset the impact of: i) the drought-related normalization in agricultural output; and ii) the gradual recovery in domestic energy production. Assuming that inflation loosens its grip on the economy in FY:24 and external demand improves, we see GDP growth accelerating to 3.3%, 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. Despite the massive anti-Government protests over the recent mass shootings, our baseline scenario assumes that the SNS-led ruling coalition, linked to President Vučić, should remain in place until the next election (due in 2026). Note that Vucic stepped down from the helm of the SNS, announcing plans to create an umbrella political movement for the party and its allies.

On the international front, notwithstanding Serbia's and Kosovo's agreement on an EU plan to normalize relations, uncertainty is unlikely to ease soon. In fact, the recent flare up in tensions in northern Kosovo suggests that there is little prospect of a breakthrough in Serbia-Kosovo negotiations. 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
Real Sector					
Nominal GDP (USD million)	719,168	815,755	905,475	1,031,426	1,189,613
GDP per capita (USD)	8,601	9,633	10,568	11,900	13,572
GDP growth (real, %)	2.0	11.4	5.6	3.5	3.9
Unemployment rate (% aop)	13.2	12.0	10.5	10.5	10.0
Prices and Banking					
Inflation (% eop)	14.6	36.1	64.3	43.0	25.0
Inflation (% aop)	12.3	19.3	71.6	45.1	31.2
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	14.5	11.2		
Corporate Loans (% of GDP)	54.1	53.1	39.2		
Customer Deposits (% of GDP)	62.1	65.5	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		
External Accounts					
Merchandise exports (USD million)	168,378	224,686	252,416	259,537	280,207
Merchandise imports (USD million)	206,252	253,999	343,098	344,920	360,505
Trade balance (USD million)	-37,874	-29,313	-90,682	-85,383	-80,298
Trade balance (% of GDP)	-5.3	-3.6	-10.0	-8.3	-6.7
Current account balance (USD million)	-31,888	-7,232	-48,769	-47,723	-47,536
Current account balance (% of GDP)	-4.4	-0.9	-5.4	-4.6	-3.5
Net FDI (USD million)	4,456	6,874	8,052	8,857	10,186
Net FDI (% of GDP)	0.6	0.8	0.9	0.9	0.9
International reserves (USD million)	93,277	111,181	128,736	130,000	138,000
International reserves (Months ^a)	4.9	4.7	3.3	4.4	4.4
Public Finance					
Primary balance (% of GDP)	-0.8	-0.2	1.1	-2.1	-1.0
Fiscal balance (% of GDP)	-3.4	-2.7	-0.9	-4.8	-3.8
Gross public debt (% of GDP)	39.7	41.8	31.7	33.0	32.5
External Debt					
Gross external debt (USD million)	430,204	439,262	459,031	480,000	505,000
Gross external debt (% of GDP)	59.8	53.8	50.7	46.5	42.5
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	65.4	65.2
External debt service (% of exports)	37.5	27.6	25.4	26.2	25.7
Financial Markets					
Policy rate (Effective funding rate, % eop)	17.0	14.0	9.0	18.0	25.0
Policy rate (Effective funding rate, % aop)	10.5	17.6	12.6	12.3	24.0
10-Y T-bill rate (% eop)	12.5	23.1	9.9	16.0	16.0
Exchange rate: USD (eop)	7.43	13.32	18.69	24.50	27.00
Exchange rate: USD (aop)	7.02	8.89	16.57	21.85	25.75

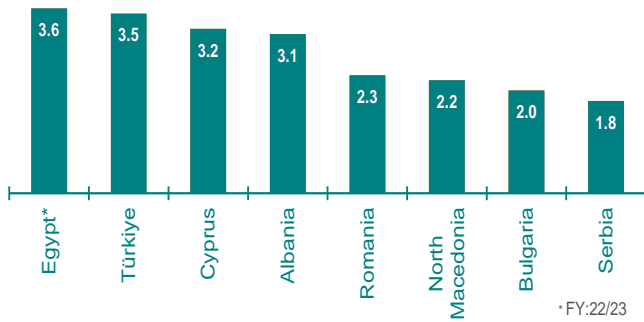
f: NBG forecasts; a: months of imports of GNFS

SERBIA					
	2020	2021	2022	2023f	2024f
Real Sector					
Nominal GDP (EUR million)	46,841	53,363	60,404	69,044	74,755
GDP per capita (EUR)	6,789	7,808	8,901	10,235	11,126
GDP growth (real, %)	-0.9	7.5	2.3	1.8	3.3
Unemployment rate (% aop)	9.7	11.1	9.4	9.3	9.0
Prices and Banking					
Inflation (% eop)	1.3	7.9	15.1	7.6	3.5
Inflation (% aop)	1.6	4.1	11.9	12.2	5.0
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	20.3		
Corporate Loans (% of GDP)	26.4	25.4	24.4		
Customer Deposits (% of GDP)	52.3	52.1	48.6		
Loans to Private Sector (% of Deposits)	93.6	90.9	92.1		
Foreign Currency Loans (% of Total Loans)	62.1	61.1	64.1		
External Accounts					
Merchandise exports (EUR million)	16,079	21,018	26,913	28,517	30,150
Merchandise imports (EUR million)	21,280	27,038	36,266	37,481	39,586
Trade balance (EUR million)	-5,201	-6,020	-9,353	-8,964	-9,436
Trade balance (% of GDP)	-11.1	-11.3	-15.5	-13.0	-12.6
Current account balance (EUR million)	-1,929	-2,266	-4,139	-3,644	-3,828
Current account balance (% of GDP)	-4.1	-4.2	-6.9	-5.3	-5.1
Net FDI (EUR million)	2,938	3,657	4,306	4,306	4,629
Net FDI (% of GDP)	6.3	6.9	7.1	6.2	6.2
International reserves (EUR million)	13,492	16,455	19,416	20,577	21,878
International reserves (Months ^a)	6.1	5.9	5.2	5.3	5.3
Public Finance					
Primary balance (% of GDP)	-6.0	-2.4	-1.6	-1.3	-0.5
Fiscal balance (% of GDP)	-8.0	-4.1	-3.1	-3.0	-2.2
Central Government debt (% of GDP)	56.9	56.5	55.2	52.5	51.5
External Debt					
Gross external debt (EUR million)	30,787	36,488	41,885	44,050	45,152
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	22.8	23.3
External debt service (% of exports)	24.7	20.8	13.4	11.7	12.0
Financial Markets					
Policy rate (2-w repo rate, % eop)	1.0	1.0	5.0	6.0	5.0
Policy rate (2-w repo rate, % aop)	1.5	1.0	2.6	5.9	5.7
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

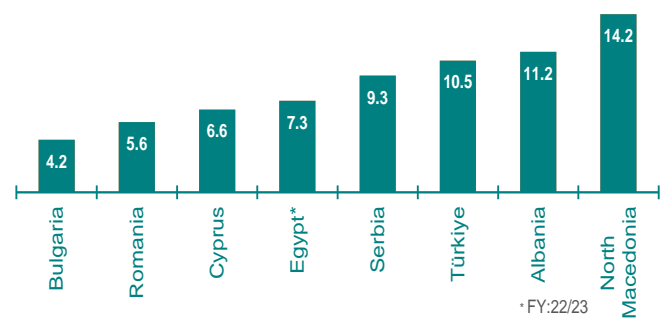
f: NBG forecasts; a: months of imports of GNFS

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

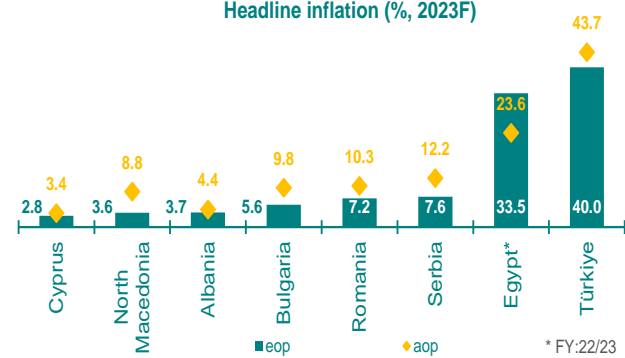
Real GDP Growth (% , 2023F)



Unemployment (% , 2023F, aop)



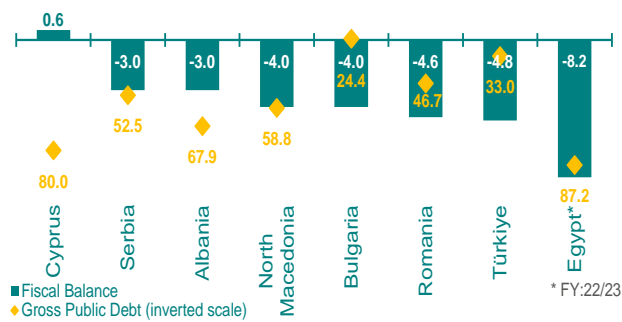
Headline inflation (% , 2023F)



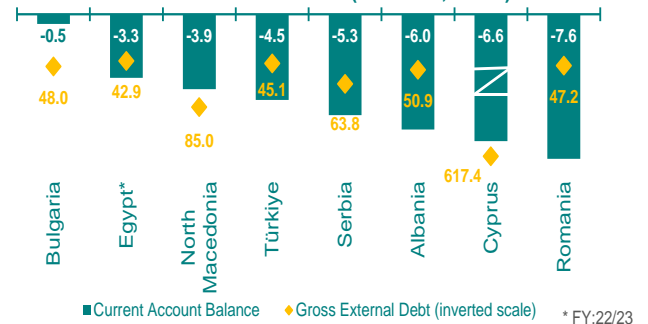
Policy rates (%)



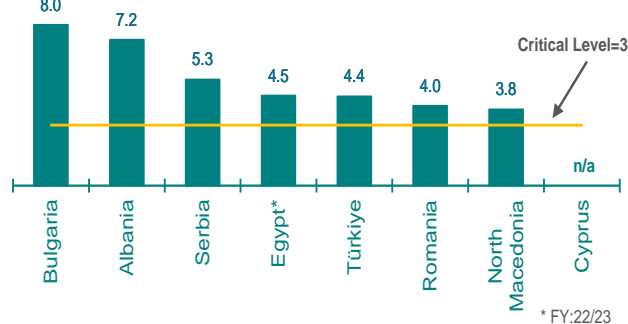
Public Finance (% of GDP, 2023F)



External Accounts (% of GDP, 2023F)

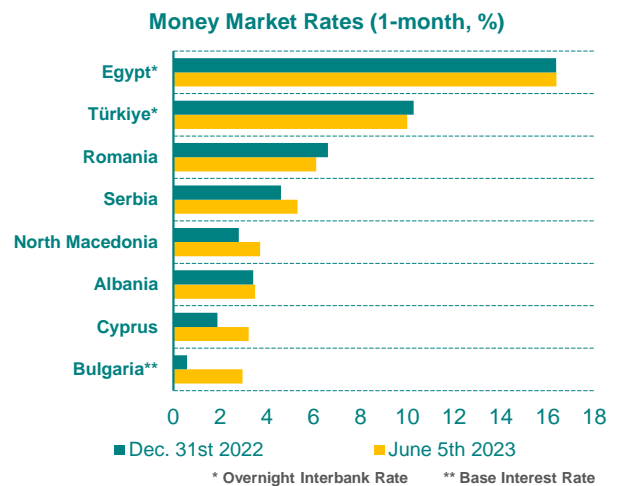
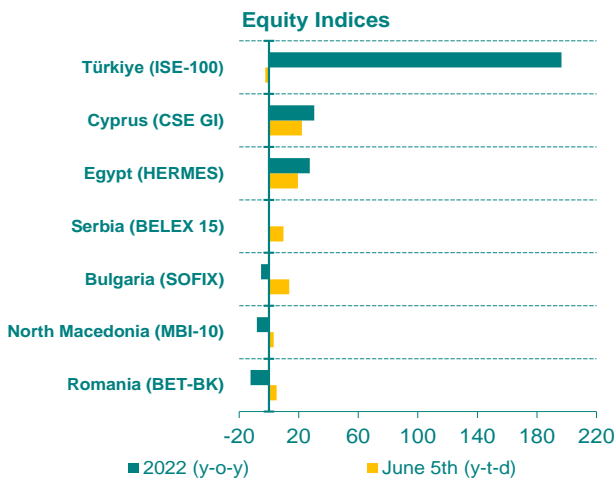
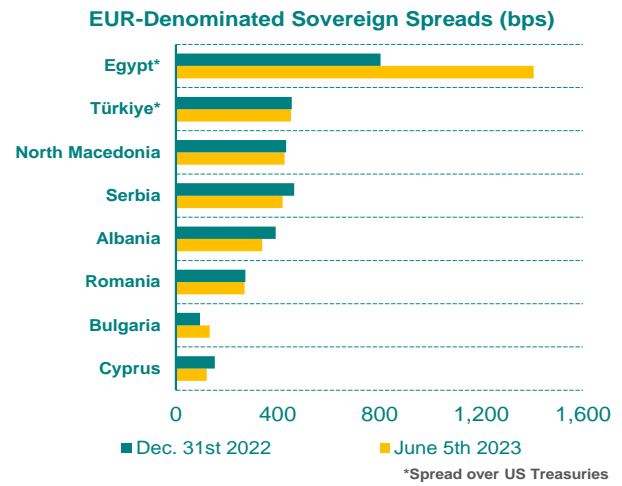
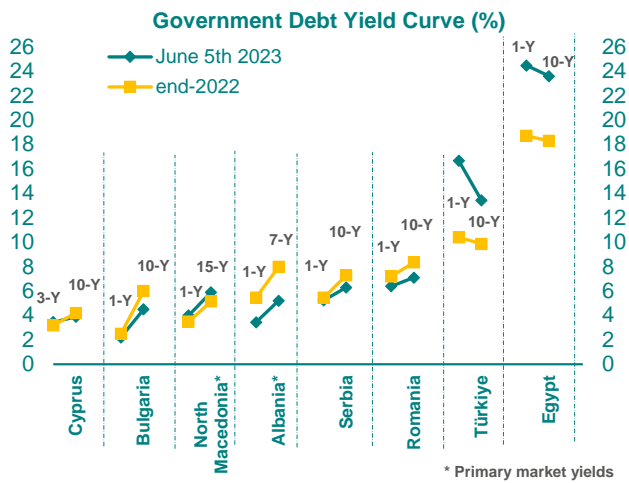
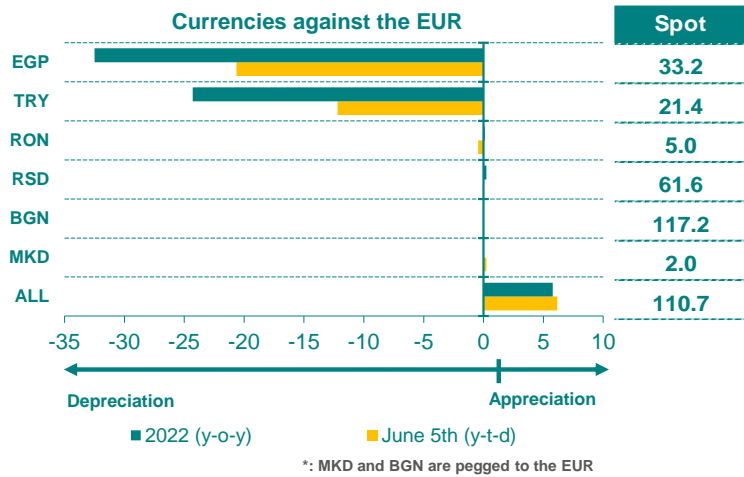


FX Reserves (Months of Imports, 2023F)



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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