



COUNTRIES IN FOCUS:

Bulgaria & North Macedonia

BULGARIA 1

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Emerging Markets Analysis

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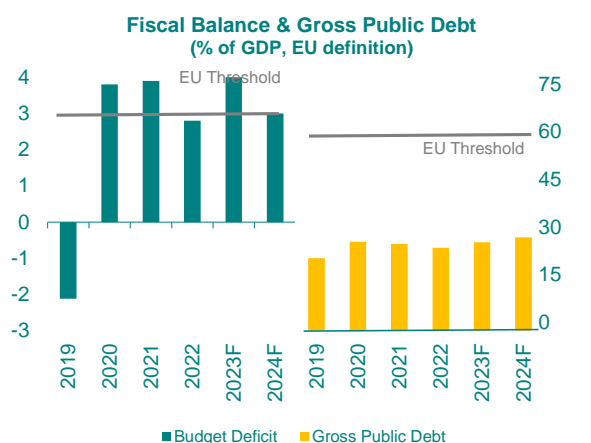
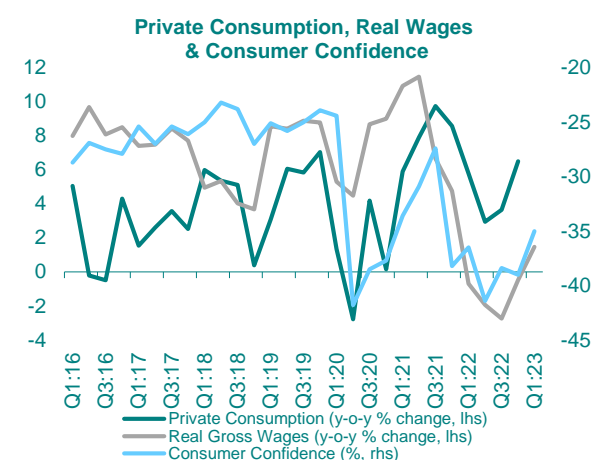
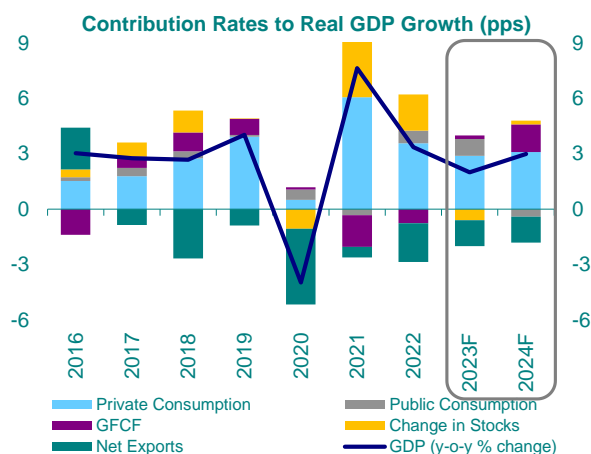
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Bulgaria

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



	19 June	3-M F	6-M F	12-M F
Base Interest Rate (%)	3.0	3.2	3.4	3.2
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2027, bps)	104	110	105	95

	19 June	1-W %	YTD %	2-Y %
SOFIX	685	0.1	14.0	24.2

	2020	2021	2022	2023F	2024F
Real GDP Growth (%)	-4.0	7.6	3.4	2.0	3.0
Inflation (eop, %)	0.1	7.8	16.9	5.3	3.2
Cur. Acct. Bal. (% GDP)	0.0	-1.9	-0.7	-0.5	0.0
Fiscal Bal. (% GDP)	-2.9	-2.8	-0.8	-3.8	-3.0

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

Political opponents form coalition Government to end 2 years of political instability. Nearly 2 months after the April election, the 5th held over the past 2 years, the Parliament voted in a coalition Government, backed by Bulgaria's largest political forces, namely the GERB and the "We Continue the Change" (PP) parties. The two parties and former bitter opponents had earlier stroke a deal on a 18-month rotational Government.

Recall that political that the country has been in limbo since the 2020 anti-graft protests, governed by caretaker cabinets for much of the past 2 years. In the latest election, the GEBR (and its small UDF partner) came first, with 26.5% of the vote (securing 69 seats in the 120-seat Parliament), with the liberal anti-corruption PP party (together with its ally, the DB alliance) falling slightly behind with 24.9% (64 seats).

Under the agreement, the PP-DB's PM designate, N. Denkov, will lead the government for the first 9 months and will be replaced by M. Gabriel, former European Commissioner, of the GERB.

The prospect of a functioning – albeit for a limited time -- Government bodes well for the economy. Recall that the long-standing political uncertainty has affected policy implementation, leading to delays in delivering critical reforms related to the country's RRF plan and adopting necessary legislation for euro adoption (eventually forcing authorities to defer the target date for joining the euro area by 1 year to January '25).

Strong fiscal support, together with a still tight labour market and resilient exports, should help prevent a hard landing for the economy in FY:23. Stubbornly high core inflation means that the headline inflation is set to remain elevated throughout the year, despite the benign outlook for global energy prices, suppressing households' purchasing power. This impact, together with rising debt-servicing costs, cannot but weigh on private consumption over the next quarters. Importantly, however, tight labour market conditions (on the back of persistent labour shortages, with real ex-post wage growth having returned into positive territory as of Q1:23) and improving sentiment should help largely offset these headwinds.

Worryingly, against the backdrop of tightening conditions and in view of the delays in the implementation of the country's RRF plan, investment is unlikely to provide much support to economic growth this year, A (mostly EU-funded) rebound in investment is expected only next year. However, Bulgaria's historical low EU funds absorption rate, raises challenges in this regard.

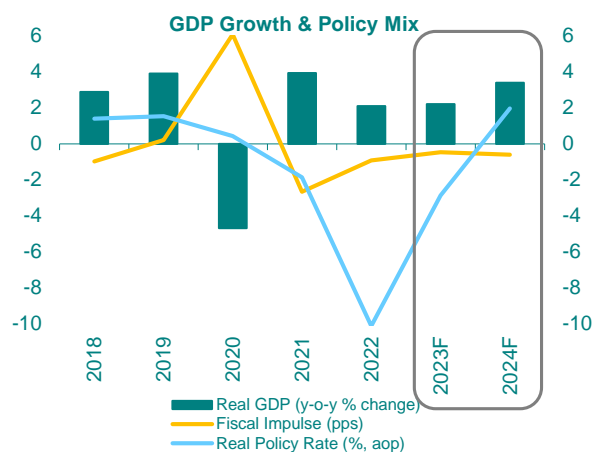
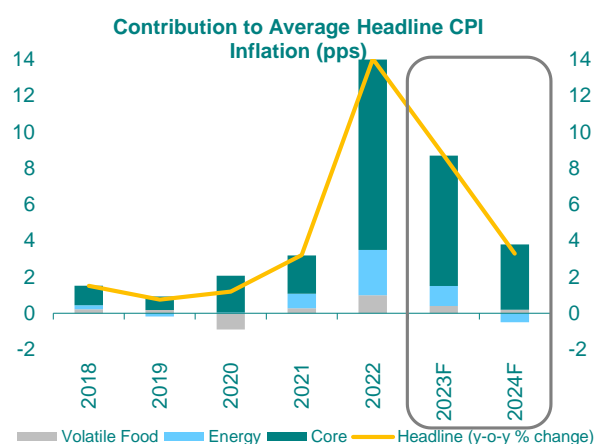
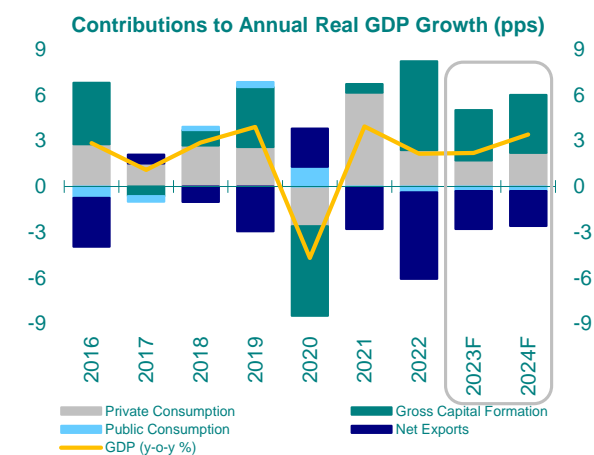
At the same time, net exports cannot but remain a drag on overall growth, in view of sluggish growth in the EU, Bulgaria's main trade partner. The planned maintenances in the steel and nuclear power industries should also (temporarily) take a toll. Note, though, that Bulgaria's exports performance should be less affected than its peers', thanks to a relatively smaller deterioration in its terms-of-trade (reflecting the large weight of raw and low-added value products in total exports as well as the impact of the generous energy subsidy scheme to businesses) and (still) increased -- in terms of volumes -- (coal-based) electricity exports.

In view of the ample fiscal space available (see chart), fiscal policy should lend strong support to economic growth in FY:23, driven by looser incomes and social policies. A partial reversal of fiscal stimulus is projected in FY:24.

All said, we see GDP growth easing to 2.0% in FY:23 from 3.4% in FY:22 (with the latter supported by a carry-over effect of 2.4 pps), overperforming compared with the EU average (up c. 1.0%). Assuming that inflation loosens its grip on the economy in FY:24, we see GDP growth accelerating to 3.0%, broadly in line with its long-term potential.

North Macedonia

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



Despite headwinds from high inflation, rising interest rates and weak external demand, GDP growth should hold up, at 2.2% in FY:23, broadly unchanged from FY:22, underpinned by solid investment growth. Gross fixed capital formation should emerge as the key growth driver over the forecast horizon, with public investment holding the lead role. Indeed, the budget sees capital spending rising by an (ambitious) 70% this year, with the Corridor 8/10d highway, the country's flagship infrastructure project, the construction of which was initiated in early-2023, accounting for a significant part of the increase (assuming an even distribution over time, the project should add c. 0.3 pps to overall annual GDP growth over the next 5 years). Private investment (including from FDI, which has proven resilient so far) should also contribute to overall growth, albeit modestly, amid tight financing conditions and still elevated uncertainty.

On the other hand, with inflation due to remain elevated for most part of the year (at 8.7% on average against 14.0% in FY:22, well above the past decade's average of c. 1.0%), due to lagged spillovers from the global commodity price shock, continuing to bite into households' disposable income, private consumption is unlikely to gain much steam in the short-term, despite improving economic sentiment and a resilient labour market (with the steady decline in the unemployment rate masking, however, the shrinking labour force). Importantly, the hike in the minimum wage (up 12.6% in March, traditionally impacting the entire wage distribution) should provide a cushion against elevated inflation, compensating for the withdrawal of fiscal support to employers.

At the same time, In view of sluggish growth in the EU (especially in Germany, which absorbs c. 50% of the country's total exports) and strong gross capital formation (due, *inter alia*, to the need to replenish inventories, which have been depleted, amid disruptions in global supply chains), net exports are projected to remain a drag on overall growth in the period ahead, yet much smaller compared with the previous year, when the jump in energy imports, on the back of reduced domestic production, resulted in net exports shaving a larger-than-usual chunk off overall GDP growth.

Policies are not expected to sustain economic growth in FY:23. On the one hand, we see fiscal consolidation continuing (albeit at a slow pace) this year, with the phasing-out of stimulus measures freeing the necessary space to increase investments. On the other hand, amid high inflation and still elevated external imbalances, the NBRNM cannot but maintain its tightening bias (having already raised its key rate to 6.0% in mid-2023 from 4.75% at end-2022 and 1.25% at end-2021). Some easing in financing conditions is expected only as of next year, when inflation is expected to return to more normal levels.

All said, following a relatively strong start to the year, we see GDP growth at 2.2% in FY:23, broadly unchanged compared with FY:22. By year-end, the output loss relative to its pre-pandemic growth path would amount to slightly less than 10.0%, double that of regional economies, reflecting, *inter alia*, the higher share of energy and food in domestic household spending, the economy's low energy efficiency. Stronger external demand and a recovery in private consumption should boost GDP growth to 3.4% in FY:24, with the output gap still projected to remain slightly negative. Should delays in the execution of the Government's ambitious investment programme arise, economic growth could come in lower than projected. Importantly, the country's 2-year Precautionary & Liquidity Line agreement with the IMF should curtail downside risks related to external financing.

Worryingly, political noise is set to remain elevated in the period ahead, mainly surrounding the controversial deal settling the country's long-standing dispute with Bulgaria, which eventually, however, enabled the launch of accession talks with the EU. Against, this backdrop, and with the opposition pressing for early elections, further delays in the EU accession progress may be forthcoming.

	19 June	3-M F	6-M F	12-M F
1-m SKIBOR (%)	3.7	4.1	4.3	4.0
MKD/EUR	61.6	61.6	61.6	61.6
Sov. Spread (2028, bps)	399	400	385	360

	19 June	1-W %	YTD %	2-Y %
MBI 100	5,712	-1.7	1.1	7.8

	2020	2021	2022	2023F	2024F
Real GDP Growth (%)	-4.7	3.9	2.1	2.2	3.4
Inflation (eop, %)	2.2	4.9	18.7	3.3	2.9
Cur. Acct. Bal. (% GDP)	-2.9	-3.1	-6.0	-3.7	-3.6
Fiscal Bal. (% GDP)	-8.0	-5.4	-4.5	-4.0	-3.4

Sources: Reuters, NBRNM, MAKSTAT & NBG estimates

DETAILED MACROECONOMIC DATA

BULGARIA					
	2020	2021	2022	2023f	2024f
Real Sector					
Nominal GDP (EUR million)	61,638	71,076	84,559	94,531	100,969
GDP per capita (EUR)	8,911	10,393	12,439	13,990	15,032
GDP growth (real, %)	-4.0	7.6	3.4	2.0	3.0
Unemployment rate(ILO definition, %, aop)	6.1	5.3	4.3	4.2	4.1
Prices and Banking					
Inflation (% eop)	0.1	7.8	16.9	5.3	3.2
Inflation (% aop)	1.7	3.3	15.2	9.6	3.7
Loans to the Private Sector (% change, eop)	4.5	8.3	12.2		
Customer Deposits (% change, eop)	10.2	9.0	14.4		
Loans to the Private Sector (% of GDP)	50.7	47.6	44.9		
Retail Loans (% of GDP)	20.8	20.5	19.8		
Corporate Loans (% of GDP)	29.9	27.1	25.1		
Customer Deposits (% of GDP)	73.1	69.1	66.4		
Loans to Private Sector (% of Deposits)	69.4	68.9	67.6		
Foreign Currency Loans (% of Total Loans)	31.1	28.7	25.7		
External Accounts					
Merchandise exports (EUR million)	27,272	34,405	45,926	48,970	51,615
Merchandise imports (EUR million)	29,213	37,291	50,815	54,322	56,948
Trade balance (EUR million)	-1,941	-2,887	-4,889	-5,352	-5,333
Trade balance (% of GDP)	-3.1	-4.1	-5.8	-5.7	-5.3
Current account balance (EUR million)	0,024	-1,316	-0,578	-0,488	-0,049
Current account balance (% of GDP)	0.0	-1.9	-0.7	-0.5	0.0
Net FDI (EUR million)	2,759	1,303	2,010	2,010	2,160
Net FDI (% of GDP)	4.5	1.8	2.4	2.1	2.1
International reserves (EUR million)	30,848	34,597	38,424	40,696	42,906
International reserves (Months ^a)	11.1	9.8	8.0	8.0	8.0
Public Finance					
Primary balance (% of GDP)	-2.4	-2.4	-0.4	-3.3	-2.5
Fiscal balance (% of GDP)	-2.9	-2.8	-0.8	-3.8	-3.0
Gross public debt ^b (% of GDP)	24.5	23.9	22.9	24.4	25.8
External Debt					
Gross external debt (EUR million)	38,991	41,214	44,431	45,375	45,941
Gross external debt (% of GDP)	63.3	58.0	52.5	48.0	45.5
External debt service (EUR million)	7,041	7,000	8,200	7,100	7,250
External debt service (% of reserves)	22.8	20.2	21.3	17.4	16.9
External debt service (% of exports)	20.4	16.1	14.2	11.5	11.1
Financial Markets					
Base Interest Rate (% eop)	0.0	0.0	1.3	3.4	2.9
Base Interest Rate (% aop)	0.0	0.0	0.2	2.8	3.2
10-Y Bond Yield (% eop)	0.4	0.7	6.0	4.1	3.8
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

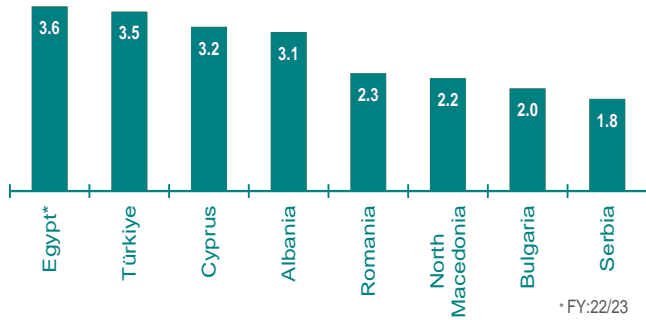
f: NBG forecasts; a: months of imports of GNFS; b: ESA 2010

NORTH MACEDONIA					
	2020	2021	2022	2023f	2024f
Real Sector					
Nominal GDP (EUR million)	10,874	11,708	12,917	14,345	15,323
GDP per capita (EUR)	5,889	6,374	7,061	7,873	8,443
GDP growth (real, %)	-4.7	3.9	2.1	2.2	3.4
Unemployment rate (% aop)	16.4	15.4	14.4	14.2	13.8
Prices and Banking					
Inflation (% eop)	2.2	4.9	18.7	3.3	2.9
Inflation (% aop)	1.2	3.2	14.0	8.7	3.3
Loans to the Private Sector (% change, eop)	4.7	8.0	9.3		
Customer Deposits (% change, eop)	6.2	8.5	5.1		
Loans to the Private Sector (% of GDP)	53.0	53.2	52.7		
Retail Loans (% of GDP)	27.8	27.8	27.1		
Corporate Loans (% of GDP)	25.2	25.3	25.6		
Customer Deposits (% of GDP)	61.0	61.5	58.6		
Loans to Private Sector (% of Deposits)	86.8	86.5	89.9		
Foreign Currency Loans (% of Total Loans)	41.6	40.7	42.5		
External Accounts					
Merchandise exports (EUR million)	4,820	6,000	7,346	7,770	8,232
Merchandise imports (EUR million)	6,623	8,371	10,799	11,127	11,771
Trade balance (EUR million)	-1,804	-2,370	-3,453	-3,357	-3,539
Trade balance (% of GDP)	-16.6	-20.2	-26.7	-23.4	-23.1
Current account balance (EUR million)	-0,318	-0,366	-0,772	-0,529	-0,550
Current account balance (% of GDP)	-2.9	-3.1	-6.0	-3.7	-3.6
Net FDI (EUR million)	0,155	0,388	0,670	0,637	0,669
Net FDI (% of GDP)	1.4	3.3	5.2	4.4	4.4
International reserves (EUR million)	3,360	3,643	3,863	4,063	4,413
International reserves (Months ^a)	5.3	4.5	3.7	3.8	3.8
Public Finance					
Primary balance (% of GDP)	-6.8	-4.1	-3.3	-2.8	-2.1
Fiscal balance (% of GDP)	-8.0	-5.4	-4.5	-4.0	-3.4
Gross public debt ^b (% of GDP)	59.3	60.5	57.6	58.8	59.4
External Debt					
Gross external debt (EUR million)	8,536	9,577	10,075	10,568	11,134
Gross external debt (% of GDP)	78.5	81.8	78.0	73.7	72.7
External debt service (EUR million)	3,023	2,574	2,621	3,393	3,136
External debt service (% of reserves)	90.0	70.7	67.9	83.5	72.7
External debt service (% of exports)	48.3	33.2	27.1	32.9	28.6
Financial Markets					
28-d CB bill rate (% eop)	1.5	1.3	4.8	6.0	5.0
28-d CB bill rate (% aop)	1.6	1.3	2.5	5.7	5.4
1-Y T-bill rate ^c (% eop)	0.4	0.7	3.5	4.3	3.7
Exchange rate: EUR (eop)	61.6	61.6	61.6	61.6	61.6
Exchange rate: EUR (aop)	61.5	61.5	61.5	61.6	61.6

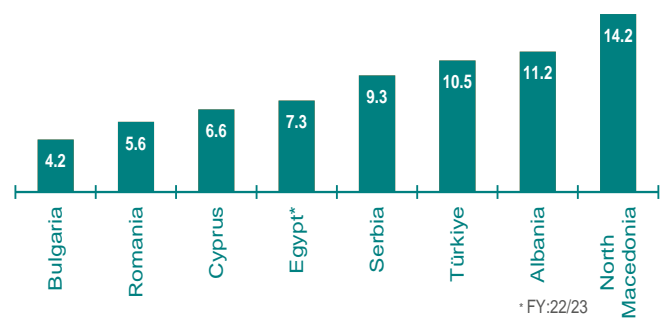
f: NBG forecasts; a: months of imports of GNFS; b: incl. guaranteed debt; c: primary market

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

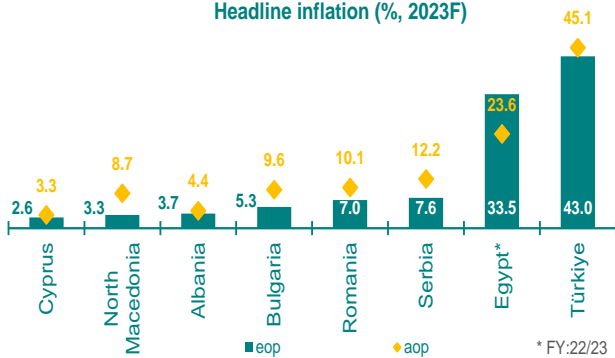
Real GDP Growth (% , 2023F)



Unemployment (% , 2023F, aop)



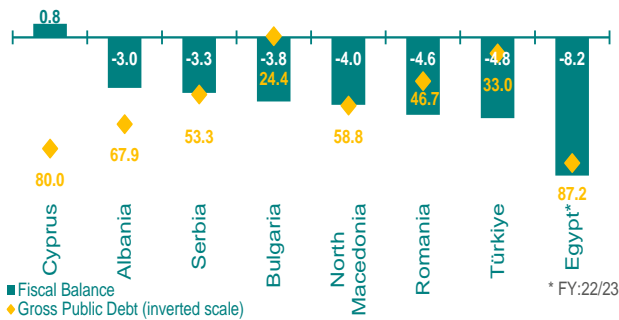
Headline inflation (% , 2023F)



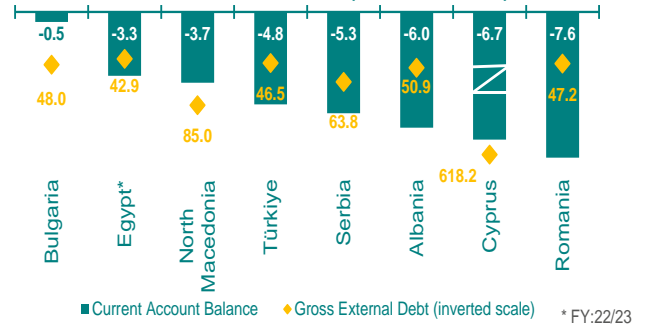
Policy rates (%)



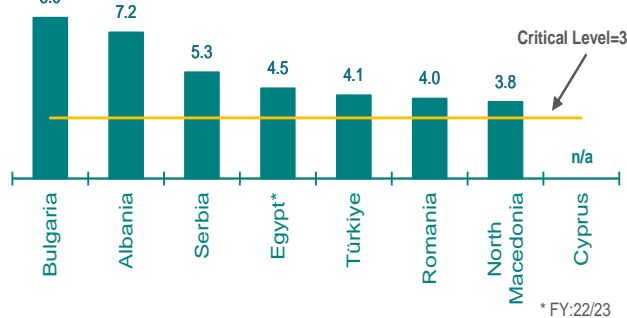
Public Finance (% of GDP, 2023F)



External Accounts (% of GDP, 2023F)

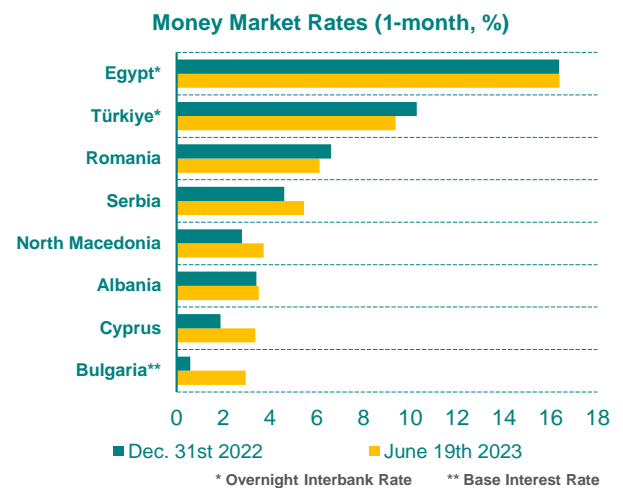
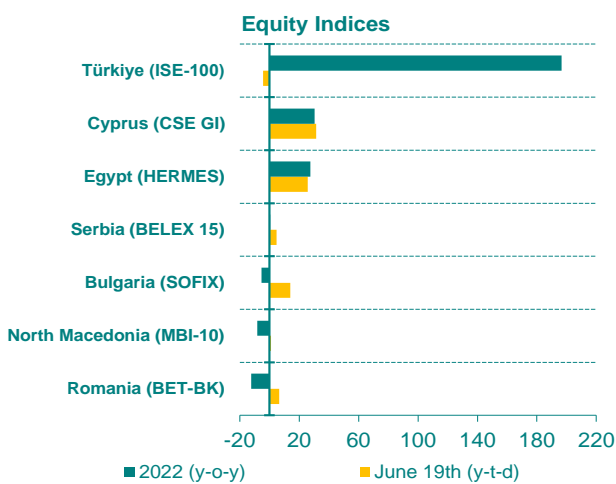
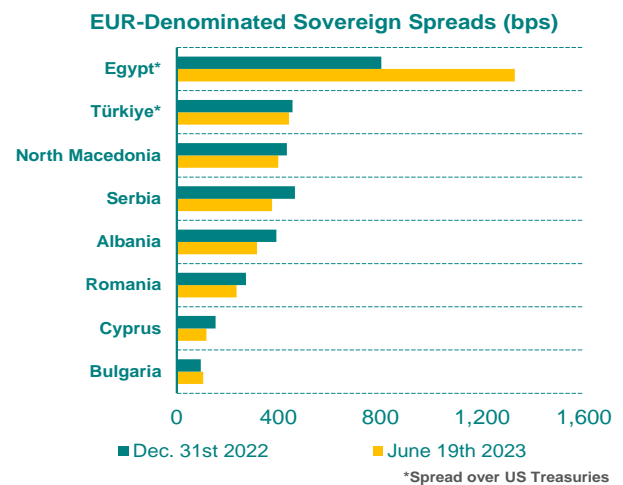
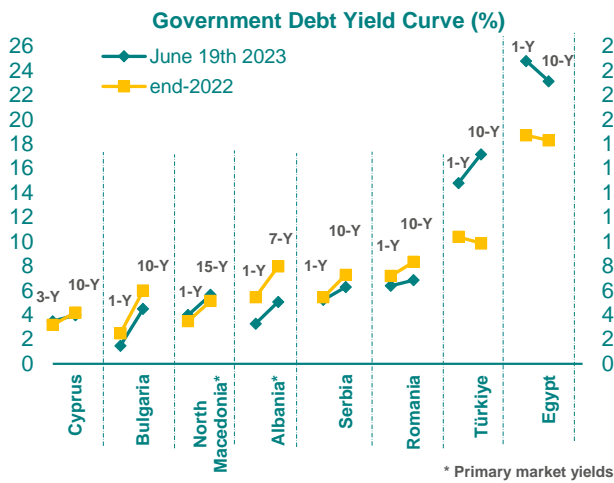
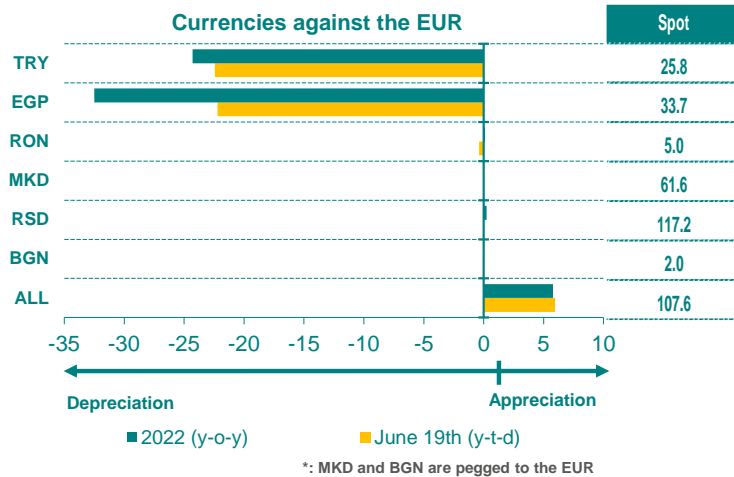


FX Reserves (Months of Imports, 2023F)



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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