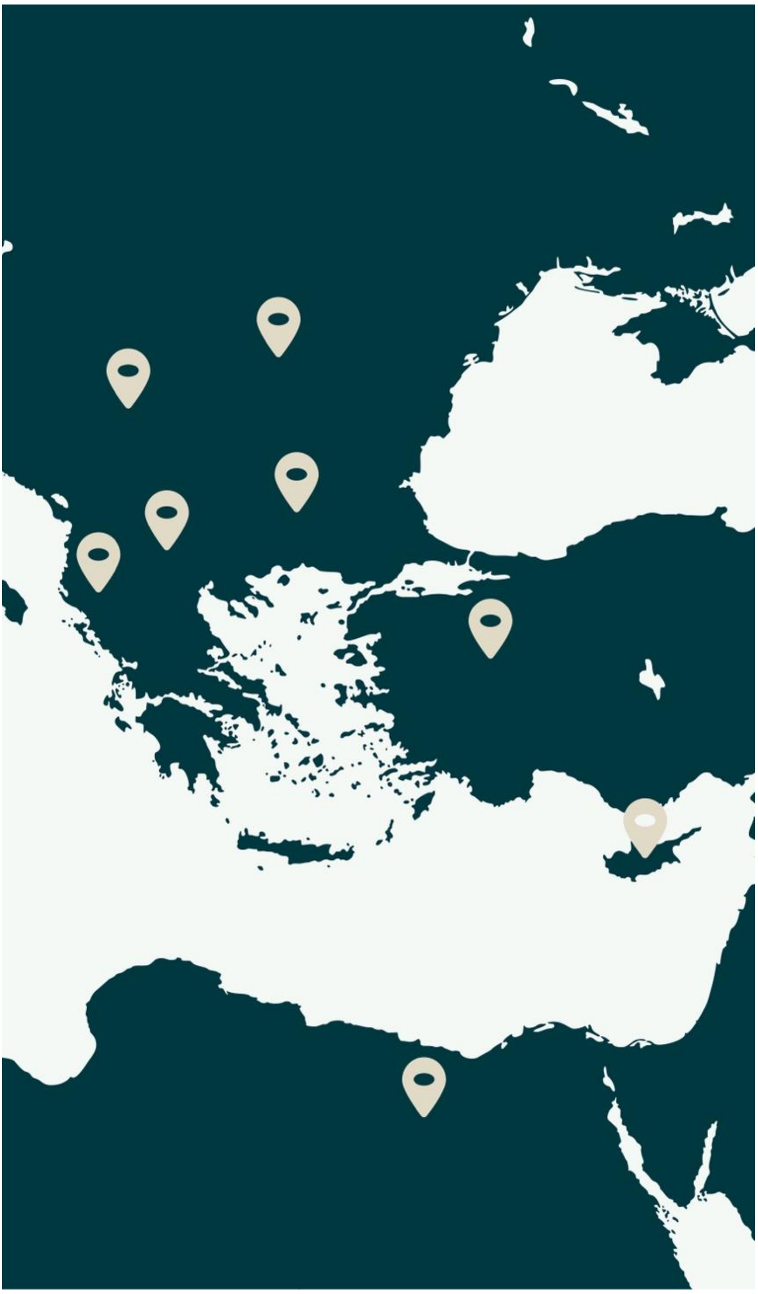
Bi-WEEKLY REPORT
Emerging Markets Analysis

1 –14 Oct 2024



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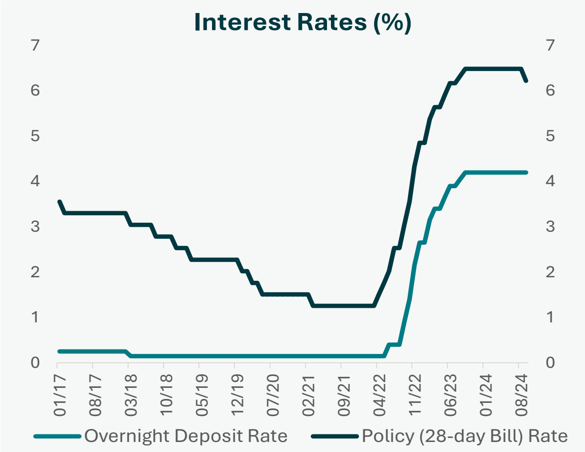
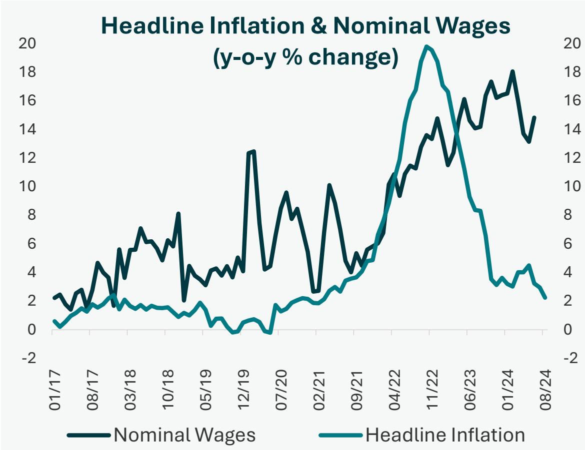
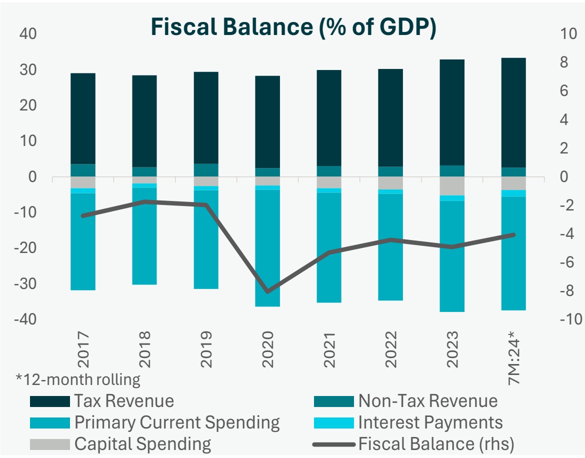
North Macedonia

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







	14 Oct.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	4.4	4.1	3.8	3.1
MKD/EUR	61.4	61.6	61.6	61.6
Sov. Spread (2028, bps)	303	300	285	260

	14 Oct.	1-W %	YTD %	2-Y %
MBI 100	8,743	0.6	42.9	58.0

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	4.5	2.2	1.0	2.3	3.3
Inflation (eop, %)	4.9	18.7	3.6	3.5	2.6
Cur. Acct. Bal. (% GDP)	-2.8	-6.1	0.7	-2.0	-2.5
Fiscal Bal. (% GDP)	-5.3	-4.4	-4.9	-4.5	-3.6

Sources: Reuters, NBRNM, MAKSTAT, Ministry of Finance & NBG estimates

Upside risks to inflation call for a cautious approach to easing by the NBRNM. The NBRNM initiated its easing cycle at end-September (with a delay compared with its peers), cutting its key 28-day bill rate by 25 bps, to 6.05%, while maintaining its overnight deposit facility rate -- which appears more relevant in the context of the system's large liquidity surplus -- unchanged, at 4.20%. Its decision came against a backdrop of easing inflationary pressures, as suggested by the headline measure having consolidated in the 2.0-4.0% range since end-2023, significantly down from its peak of c. 20.0% at end-2022, but still above its pre-pandemic average of c. 1.0%.

Despite lackluster GDP growth, we expect the NBRNM to remain cautious in the period ahead, in view of strong upside risks to inflation and the large liquidity surplus in the market. The former stem not only from potential repercussions on global commodity prices from ongoing geopolitical tensions, but also from strong nominal wage growth (up 11.3% y-o-y in H1:24 following a rise of 14.7% on average in FY:23), reflecting a loose incomes policy and its spillover to the private sector as well as structural issues in the labour market.

All said, we see the NBRNM's key rate at 4.5% by end-2025, with the bulk of the envisaged easing coming later next year. Indeed, assuming wage growth subsides gradually to a pace more consistent with (modest) productivity gains and given the planned streamlining of the public wage-setting process (see below), we expect nominal wage growth to moderate significantly next year, helping, among others, to anchor inflation expectations. Note that although the shallow domestic financial market provides the NBRNM with some monetary flexibility, it is crucial to avoid maintaining significant price differentials between the country and the euro area, given the need to safeguard the MKD's longstanding peg with the EUR. Importantly, at current levels (EUR 4.4bn), FX reserves cover more than 5 times the monetary base (M0) and 4½ months of GNFS imports, suggesting capacity to absorb any (temporarily) increased FX needs, without jeopardizing financial stability.

Fiscal consolidation is set to advance slowly in FY:24, before accelerating in FY:25. Despite the phasing-out of energy subsidies and although the past year's tax reforms (streamlining preferential treatments in personal, corporate and value-added tax) has started to bear fruit, the budget remains under pressure so far this year, mainly due to higher-than-expected spending on wages and pensions and increased interest payments. Considering this slippage, the new Government revised upwards its FY:24 budget deficit to a more realistic 4.9% of GDP (which is the same as the FY:23 outcome) from 3.4% previously. All said, the eventual budget outturn will largely depend on execution of the Corridor 8/10d highway project -- which currently appears to have slowed down -- but it is unlikely to be far away from the revised target.

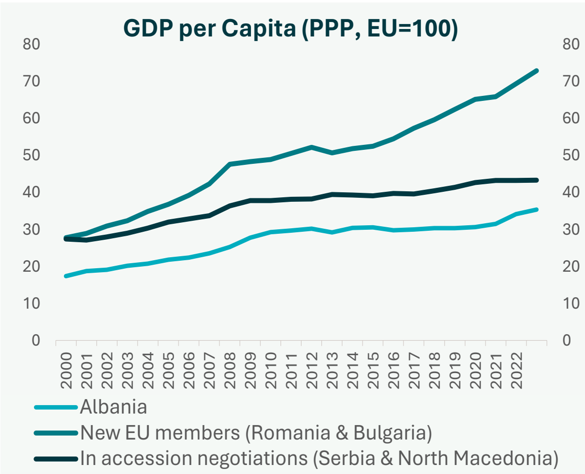
Substantial improvement in fiscal balances is expected to be seen only as of next year, with the budget deficit projected to decline to c. 3.5% of GDP. Stronger tax collection, following economic recovery, together with a favourable base effect from the elimination of arrears and the planned streamlining of the wage-setting process, should drive fiscal consolidation. Note that, as of 2025, growth in public sector wages will be anchored by growth in average wages in the economy and capped by nominal GDP growth.

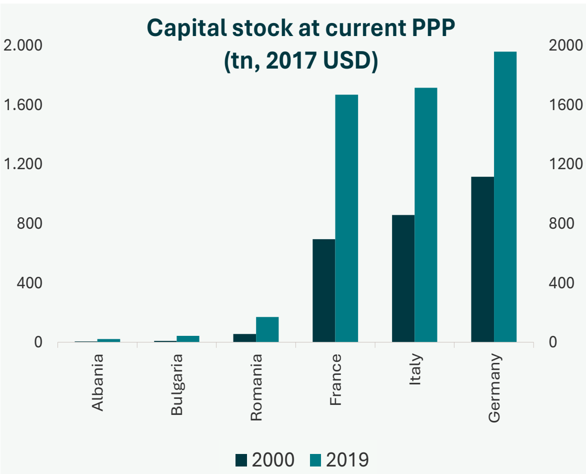
The budget deficit is projected to fall below the 3.0% of GDP threshold provided under the Organic Budget Law only in FY:26. Importantly, gross public debt should continue hovering around 55.0% of GDP (or slightly over 60.0%, when considering guaranteed debt) over the forecast horizon. High gross financing needs (c. 15.0% of GDP), due to Eurobond amortizations, remain, however, a vulnerability, with related risks, however, mitigated by a solid financing pipeline from IFIs.

Albania

BB- / B1 / NR (S&P / Moody's / Fitch)

Key Dates in Albania's Path towards EU Membership	
Oct. 2024	Opening of Accession Negotiations on "Cluster 1 – Fundamentals"
Jul. 2022	"Screening process" of the acquis begins
Jun. 2020	The European Commission (EC) presents its draft negotiating framework
Mar. 2020	European Council (EUCO) approves conditional launch of EU membership talks
Apr. 2018	EC recommends the opening of membership talks
Jun. 2014	EUCO grants Albania the status of candidate country for EU membership
June 2006	Signing of the SAA





	14 Oct.	3-M F	6-M F	12-M F
1-M TRIBOR (%)	3.3	3.3	3.3	3.3
ALL/EUR	98.6	99.0	99.4	99.8
Sov. Spread (2031, bps)	222	245	235	220

	14 Oct.	1-W %	YTD %	2-Y %
Stock Market	---	---	---	---

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	9.0	4.8	3.9	3.6	3.6
Inflation (eop, %)	3.7	7.4	4.0	2.1	3.2
Cur. Acct. Bal. (% GDP)	-7.7	-5.9	-1.2	-1.8	-2.3
Fiscal Bal. (% GDP)	-4.6	-3.7	-1.3	-2.0	-2.0

Sources: Reuters, Eurostat, EC, PWT & NBG estimates

The long-awaited opening of chapters of the EU *Acquis* is set to provide Albania an important policy anchor, strengthening authorities' reform drive and markets' assessment of the economy's prospects. In mid-October, the EU moved forward Albania's accession process by opening negotiations on "Cluster 1 - Fundamentals" that includes chapters on justice, public administration reform and fundamental rights.

The opening of negotiation chapters ends 2 years of stalemate on Albania's bid to join the EU bloc. Recall that the draft negotiating framework was submitted by the European Commission in mid-2020, with Albania having completed the "screening process" -- i.e. the first phase of negotiations that includes the analytical examination of the country's alignment to EU *Acquis* (aimed at assessing the state of preparations in certain areas and identify shortcomings that should guide the reform process) -- a year ago. Nonetheless, there had been no progress with accession negotiations as Albania's EU path was linked to that of North Macedonia, with the latter having in effect been blocked since mid-2022, due to Bulgaria's veto, following its neighbour's failure to endorse the constitutional changes recognizing existence of a Bulgarian minority in the country, as provided under the agreement they had reached in 2022.

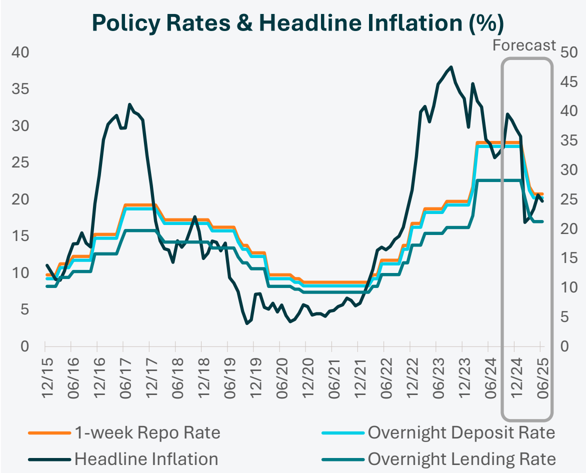
Beyond any geopolitical considerations, the EU's decision to push ahead with Albania's EU accession, separating its path from that of North Macedonia's, came on the back of domestic authorities': i) concrete implementation of a profound judicial reform, including an unprecedented re-evaluation (vetting) of judges and prosecutors (resulting in dismissals, resignations or mandate termination); and ii) headway with fighting corruption and organised crime through the establishment of specialised institutions, which have already a significant track record of investigations, prosecutions and convictions, including high-ranking officials.

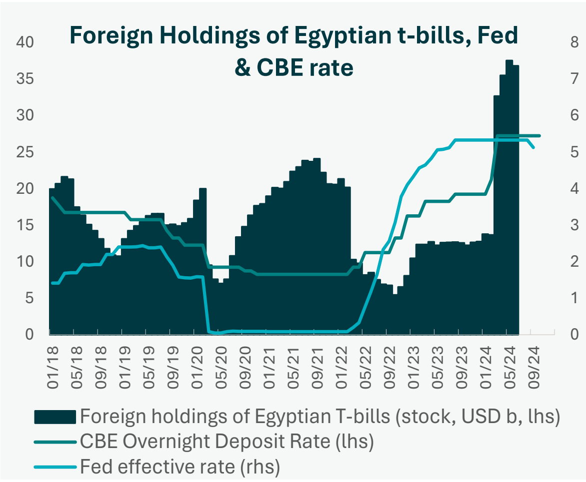
Based on past experience, completion of the negotiation process could take up to 6-7 years, during which Albania must implement a wide-range political and economic reforms to align with the EU *Acquis*. The ratification by all member states could take another 2 years, implying that Albania would not join the EU over the coming decade. In the meanwhile, the economy will continue to benefit from EU financial assistance under: i) the Instrument for Pre-Accession Assistance III (IPA III), amounting to c. EUR 880mn (equivalent to 3.7% of FY:24 GDP) in 2024-27; and ii) the Reform & Growth Facility for the Western Balkans, with total indicative allocations of EUR 0.4bn to Albania in 2024-27 (equivalent to 1.4% of its FY:24 GDP).

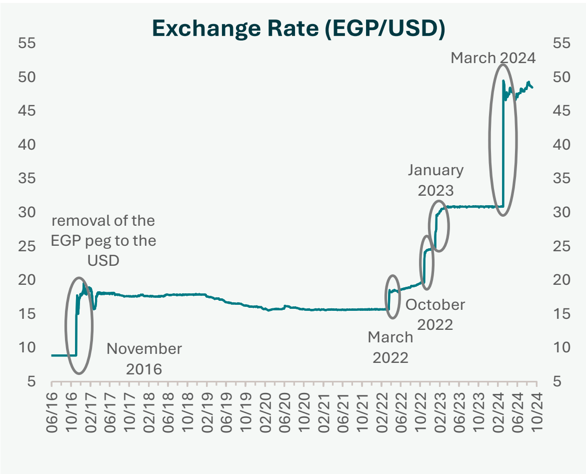
Progress with accession negotiations should help accelerate Albania's economic convergence with the EU -- the country's largest trading partner. Albania's GDP per capita (PPP) currently stands at 35.4% of the EU average -- the lowest among EU candidate countries -- up only 6.0 pps over the past decade. The slow pace of economic convergence with the EU is attributed to: i) shrinking labour supply (with the country's population having dropped by c. 14.0% in 2011-23), due to continued migration and an ageing population; ii) lagging capital stock, despite strong capital formation currently, with private investment hindered, among others, by entry and operation barriers (such as weak legal framework, large infrastructure gap, corruption, bureaucracy and widespread informality); and iii) relatively low productivity, reflecting, inter alia, the high share of employment in low technological intensity industries (mainly tourism, textiles and footwear, together accounting for 76% of GNFS exports) and the dominance of SMEs in economic activity (accounting for 78.4% of total value added against slightly over 50% in the EU), which are confronted with limited access to credit and lack of economies of scale, as well as poor firm capabilities (due to a low level of innovation, technology adaptation and sophistication). Importantly, progress with the EU-related reform agenda should help remedy these long-standing shortcomings, while increasing integration with the EU, eventually boosting Albania's potential GDP growth (estimated at 3.5%).

Egypt

B- / Caa1 / B- (S&P / Moody's / Fitch)







	14 Oct.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	27.3	27.3	20.3	16.3
EGP/USD	48.6	49.1	49.5	51.0
Sov. Spread (2029, bps)	496	480	460	410

	14 Oct.	1-W %	YTD %	2-Y %
HERMES 100	3,632	-4.9	21.5	226.5

	21/22	22/23	23/24E	24/25F	24/25F
Real GDP Growth (%)	6.7	3.8	2.4	3.8	4.3
Inflation (eop, %)	13.2	35.7	27.5	17.2	9.8
Cur. Acct. Bal. (% GDP)	-3.5	-1.2	-5.4	-4.9	-4.4
Fiscal Bal. (% GDP)	-6.2	-6.0	-3.6	-8.0	-6.2

Sources: Reuters, CBE & NBG estimates

With a view to ensure sustainability of disinflation after a dramatic currency devaluation and IMF-mandated regulatory price hikes, the CBE has yet to abandon its tightening bias, despite lackluster GDP growth. As expected, at its mid-October meeting, the CBE retained -- for a 7^{th} successive time -- its O/N deposit, 1-week repo, and O/N lending rates unchanged at historical highs of 27.25%, 27.75%, and 28.25%, respectively -- among the highest worldwide. Recall that the CBE had last raised rates by a sizeable 600 bps in March (bringing cumulative hikes to 1900 bps over the past 2½ years), to help ensure confidence in the EGP. The latter was allowed at the time to "float freely" (a key condition for sealing a new IMF loan agreement), losing a massive 38% of its value against the USD. Besides hiking rates and increasing liquidity absorption, the CBE has also scaled back its subsidized lending schemes and reduced the state's lending through its overdraft facility to below the statutory limit.

Despite the global monetary policy easing bias and lingering risks to the economic outlook, the CBE has yet to soften its stance, with a view to:

i) ensure post-EGP-devaluation moderation in inflation and help anchor inflation expectations, amid significant upside risks to disinflation outlook. Albeit off its post-EGP-devaluation peak of 38.0%, headline inflation has yet to fall to manageable levels, currently standing at c. 26.0%. Besides the impact of the weaker EGP, a loose incomes policy (including a 50% raise in the minimum public sector wage and significant pension increases) along with IMF-mandated hikes in regulated prices and subsidy cuts (including fuel and electricity hikes and a quadrupling in bread prices -- for the first time in decades) keep inflation at stubbornly high levels.

Despite the envisaged elimination of the adverse base effect from EGP depreciation, inflation is unlikely to return soon within CBE's target band (of 7±2%), in view of: i) further IMF-agreed energy price hikes (for both households and industries) until they reach their cost recovery levels by end-2025. Note, though, that the aforementioned cost recovery levels are subject to quite high uncertainty, given the ongoing escalation of the conflict in the Middle East, which has been already pushing global energy prices upwards; and ii) increasing shipping costs, due to trade disruptions in the Red Sea and the re-routing of shipping lines (note that Red Sea transit accounts for $^{1}/_{3}$ of Egyptian imports and ½ of exports).

ii) sustain the attractiveness of domestic debt and secure EGP stability. In the wake of the dramatic EGP depreciation in March, which helped ease uncertainty over the future path of the currency, foreign investors massively returned to the sovereign debt market (boosting their holdings of sovereign debt to a historical high of USD 36.8bn in June, 79.0% of CBE's FX reserves, up from USD 12.3bn in March), with a view to capitalize on the sizeable nominal interest rate differential between Egypt and its peers. These portfolio inflows, together with strengthening remittance inflows, have so far provided significant support to the currency, given release of strong (previously pent-up, due to the capital controls introduced) demand for FX. Note that the massive FX inflows related to the UAE's Ras El-Hekma development project have been fully sterilized by the CBE.

Looking ahead, with the benefits from EGP depreciation on Egypt's competitiveness unlikely to kick-in soon and given the repercussions from the conflict in Gaza (including a sizeable reduction in Suez Canal receipts and a squeeze in tourist inflows due to security concerns), it is clear that EGP stability -- at least in the short-term -- relies crucially on authorities' sustaining the attractiveness of the currency for carry trade through keeping interest rates higher than those of Egypt's peers.

The CBE is set to embark on a monetary easing cycle in Q1:25. FX stability and a sustained moderation in the annual inflation rate (to c. 15.0%) should allow the CBE to proceed with cumulative 700 bp policy rate cuts in H1:25, marking the first easing since 2020. Still, the real *ex-post* policy rate is set to remain above 4.0%, suggesting that economic adjustment would be far from over.

DETAILED MACROECONOMIC DATA

NORTH MACEDONIA	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	11,855	13,053	13,667	14,447	15,311
GDP per capita (EUR)	6,454	7,135	7,501	7,961	8,471
GDP growth (real, %)	4.5	2.2	1.0	2.3	3.3
Unemployment rate (%, aop)	15.4	14.4	13.1	12.6	12.3
Prices and Banking					
Inflation (%, eop)	4.9	18.7	3.6	3.5	2.6
Inflation (%, aop)	3.2	14.0	9.5	3.4	2.6
Loans to the Private Sector (% change, eop)	8.0	8.8	5.2		
Customer Deposits (% change, eop)	8.5	5.1	9.5		
Loans to the Private Sector (% of GDP)	52.5	51.9	52.1		
Retail Loans (% of GDP)	27.5	26.4	26.9		
Corporate Loans (% of GDP)	25.0	25.3	25.1		
Customer Deposits (% of GDP)	60.7	58.0	60.7		
Loans to Private Sector (% of Deposits)	86.5	89.5	85.9		
Foreign Currency Loans (% of Total Loans)	40.7	42.6	42.0		
External Accounts					
Merchandise exports (EUR million)	6,041	7,320	7,292	7,355	7,655
Merchandise imports (EUR million)	8,378	10,801	9,868	10,404	10,919
Trade balance (EUR million)	-2,337	-3,481	-2,576	-3,049	-3,264
Trade balance (% of GDP)	-19.7	-26.7	-18.9	-21.1	-21.3
Current account balance (EUR million)	-0,329	-0,797	-0,095	-0,294	-0,385
Current account balance (% of GDP)	-2.8	-6.1	0.7	-2.0	-2.5
Net FDI (EUR million)	0,388	0,654	0,523	0,471	0.499
Net FDI (% of GDP)	3.3	5.0	3.8	3.3	3.3
International reserves (EUR million)	3,643	3,863	4,538	4,838	5.088
International reserves (Months[a])	4.5	3.7	4.6	4.7	4.6
Public Finance					
Primary balance (% of GDP)	-4.1	-3.3	-3.4	-2.8	-1.7
Fiscal balance (% of GDP)	-5.3	-4.4	-4.9	-4.5	-3.6
Gross public debt [b] (% of GDP)	59.8	58.5	61.5	64.6	64.8
External Debt					
Gross external debt (EUR million)	9,577	10,856	11,453	12,352	12,708
Gross external debt (% of GDP)	80.8	83.2	83.8	83.5	83.0
External debt service (EUR million)	2,689	2,558	4,043	3,761	4,342
External debt service (% of reserves)	73.8	66.2	89.1	77.7	85.3
External debt service (% of exports)	34.5	26.5	40.7	36.9	40.6
Financial Markets					
28-d CB bill rate (%, eop)	1.3	4.8	6.3	5.8	4.6
28-d CB bill rate (%, aop)	1.3	2.5	5.8	6.2	5.2
1-Y T-bill rate [c] (%, eop)	0.7	3.5	4.3	3.5	3.0
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

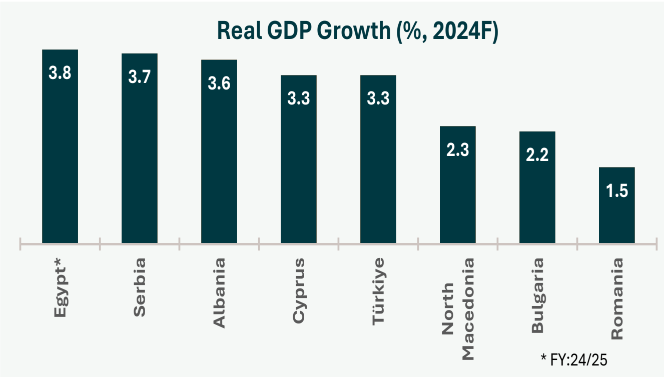
ALBANIA					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	15,185	18,020	21,329	24,096	25,205
GDP per capita (EUR)	5,401	6,487	7,717	8,736	9,156
GDP growth (real, %)	9.0	4.8	3.9	3.6	3.6
Unemployment rate (%, aop)	12.1	11.3	11.2	10.9	10.5
Prices and Banking					
Inflation (%, eop)	3.7	7.4	4.0	2.1	3.2
Inflation (%, aop)	2.0	6.7	4.8	2.2	2.7
Loans to the Private Sector (% change, eop)	8.5	7.1	5.0		
Customer Deposits (% change, eop)	9.1	4.4	2.4		
Loans to the Private Sector (% of GDP)	33.9	31.5	30.6		
Retail Loans (% of GDP)	12.6	12.3	12.4		
Corporate Loans (% of GDP)	21.3	19.3	18.2		
Customer Deposits (% of GDP)	62.8	56.9	53.9		
Loans to Private Sector (% of Deposits)	54.0	55.4	56.8		
Foreign Currency Loans (% of Total Loans)	47.6	48.2	43.3		
External Accounts					
Merchandise exports (EUR million)	1,265	1,933	1,836	1,809	1,827
Merchandise imports (EUR million)	5,094	6,201	6,376	6,982	7,505
Trade balance (EUR million)	-3,829	-4,269	-4,540	-5,173	-5,679
Trade balance (% of GDP)	-25.2	-23.7	-21.3	-21.5	-22.5
Current account balance (EUR million)	-1,166	-1,063	-0,264	-0,428	-0,572
Current account balance (% of GDP)	-7.7	-5.9	-1.2	-1.8	-2.3
Net FDI (EUR million)	0,990	1,190	1,256	1,287	1,323
Net FDI (% of GDP)	6.5	6.6	5.9	5.3	5.3
International reserves (EUR million)	4,972	4,952	5,847	5,966	6,487
International reserves (Months[a])	8.8	6.9	7.3	7.6	7.7
Public Finance					
Primary balance (% of GDP)	-2.7	-1.8	0.7	-0.1	-0.2
Fiscal balance (% of GDP)	-4.6	-3.7	-1.3	-2.0	-2.0
Gross public debt (% of GDP)	75.2	65.5	61.1	60.4	60.2
External Debt					
Gross external debt (EUR million)	9,755	9,766	10,075	10,375	10,775
Gross external debt (% of GDP)	64.2	54.2	47.2	43.1	42.8
External debt service (EUR million)	0,306	0,328	0,352	0,380	0,380
External debt service (% of reserves)	6.1	6.6	6.0	6.4	5.9
External debt service (% of exports)	4.9	3.5	3.9	4.3	4.2
Financial Markets					
Policy rate (1-week repo rate, %, eop)	0.5	2.8	3.3	3.0	3.0
Policy rate (1-week repo rate, %, aop)	0.5	1.5	3.0	3.1	3.0
1-Y T-bill rate [b] (%, eop)	1.6	5.5	3.8	4.7	4.5
Exchange rate: EUR (eop)	120.6	114.0	103.4	99.0	100.0
Exchange rate: EUR (aop)	122.2	118.7	108.4	101.2	102.5

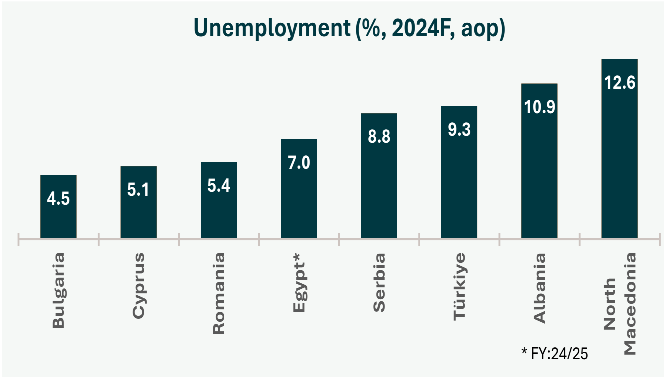
f: NBG forecasts; a: months of imports of GNFS; b: primary market

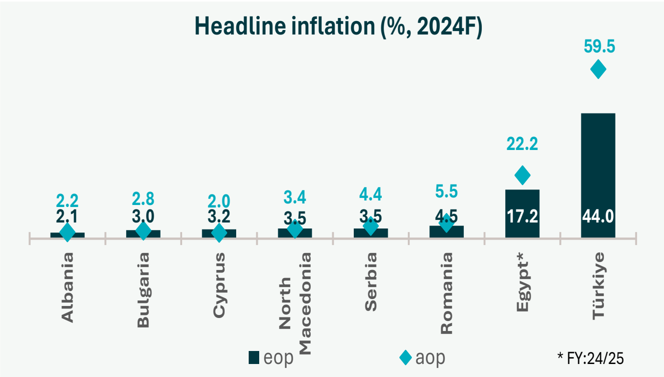
EGYPT	2020/21*	2021/22*	2022/23*	2023/24f*	2024/25f*
Real Sector					
Nominal GDP (USD million)	424,516	476,690	394,917	383,917	360,006
GDP per capita (USD)	4,158	4,601	3,754	3,562	3,275
GDP growth (real, %)	3.3	6.7	3.8	2.4	3.8
Unemployment rate (%, aop)	7.3	7.3	7.2	7.1	7.0
Prices and Banking					
Inflation (%, eop)	4.9	13.2	35.7	27.5	17.2
Inflation (%, aop)	4.5	8.4	24.1	33.6	22.2
Loans to the Private Sector (% change, eop)	21.2	23.6	25.4		
Customer Deposits (% change, eop)	19.2	24.7	24.4		
Loans to the Private Sector (% of GDP)	26.5	27.8	26.9		
Retail Loans (% of GDP)	8.4	8.9	8.3		
Corporate Loans (% of GDP)	18.0	18.9	18.8		
Customer Deposits (% of GDP)	70.8	75.0	72.5		
Loans to Private Sector (% of Deposits)	37.4	37.0	37.4		
Foreign Currency Loans (% of Total Loans)	12.7	11.3	15.7		
External Accounts					
Merchandise exports (USD million)	28,677	43,906	39,624	32,561	34,735
Merchandise imports (USD million)	70,736	87,302	70,784	72,135	74,526
Trade balance (USD million)	-42,060	-43,396	-31,160	-39,574	-39,791
Trade balance (% of GDP)	-9.9	-9.1	-7.9	-10.3	-11.1
Current account balance (USD million)	-18,436	-16,551	-4,710	-20,807	-17,664
Current account balance (% of GDP)	-4.3	-3.5	-1.2	-5.4	-4.9
Net FDI (USD million)	4,835	8,591	9,701	45,563	11,302
Net FDI (% of GDP)	1.1	1.8	2.5	11.9	3.1
International reserves (USD million)	40,584	33,376	34,807	46,384	48,884
International reserves (Months[a])	6.5	4.2	5.3	7.5	7.6
Public Finance					
Primary balance (% of GDP)	1.3	1.3	1.2	-0.1	-0.1
Fiscal balance (% of GDP)	-7.1	-6.2	-6.2	-7.5	-7.5
Gross public debt (% of GDP)	91.3	91.6	98.3	99.0	85.3
External Debt					
Gross external debt (USD million)	137,860	155,709	164,728	152,885	160,385
Gross external debt (% of GDP)	32.5	32.7	41.7	39.8	44.6
External debt service [b] (USD million)	15,400	24,500	24,700	33,700	58,600
External debt service [b] (% of reserves)	37.9	73.4	71.0	72.7	119.9
External debt service (% of exports[c])	37.5	38.1	36.7	58.5	97.1
Financial Markets					
Policy rate (O/N deposit rate, %, eop)	8.3	11.3	18.3	27.3	20.3
Policy rate (O/N deposit rate, %, aop)	8.5	8.9	15.3	22.0	24.8
3-M T-bill rate (%, eop)	13.2	15.4	23.0	27.5	20.0
Exchange rate: USD (eop)	15.66	18.76	30.85	47.98	50.00
Exchange rate: USD (aop)	15.70	16.45	25.72	36.21	48.99

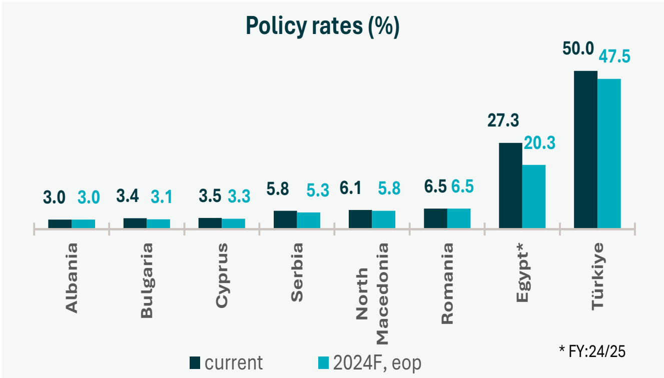
*: fiscal year starting in July and ending in June; f: NBG forecasts; a: months of imports of GNFS

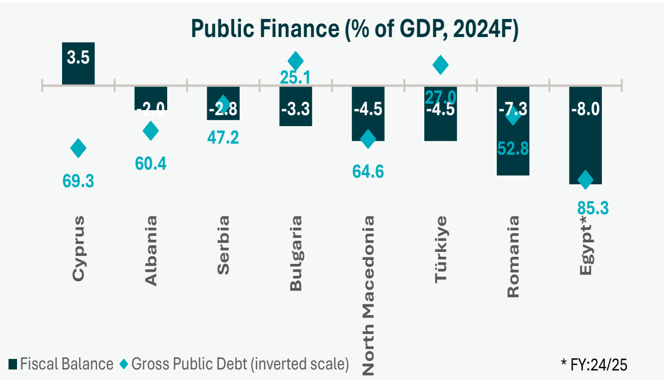
REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

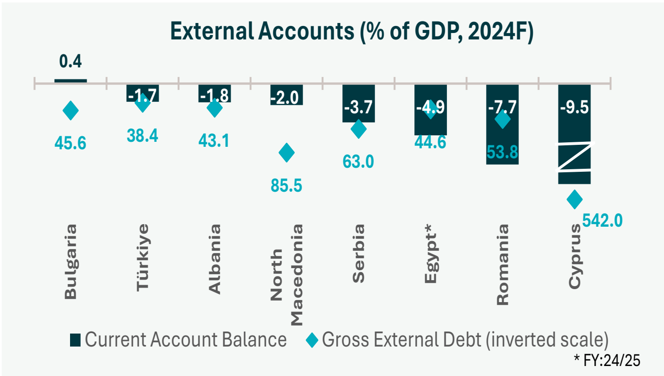


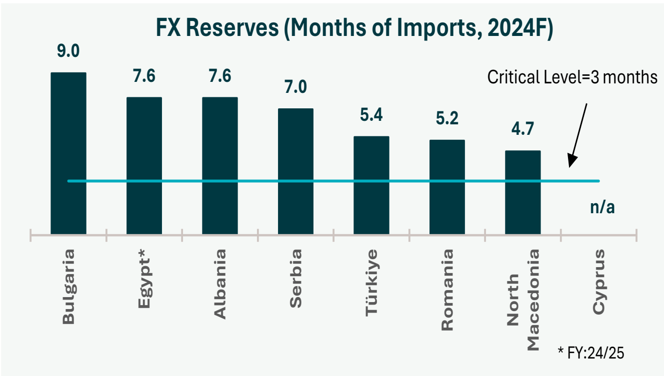






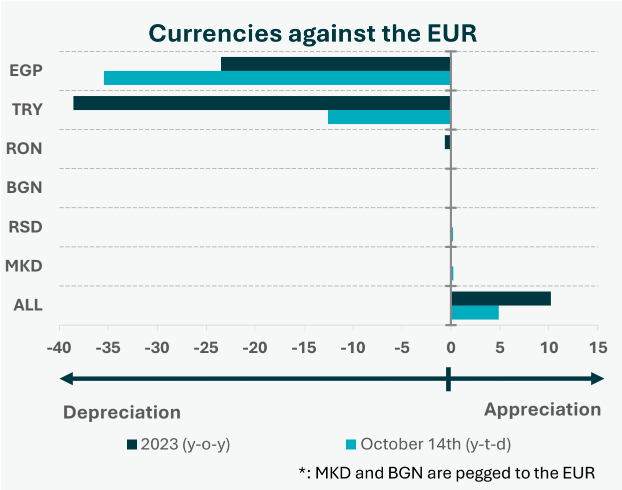




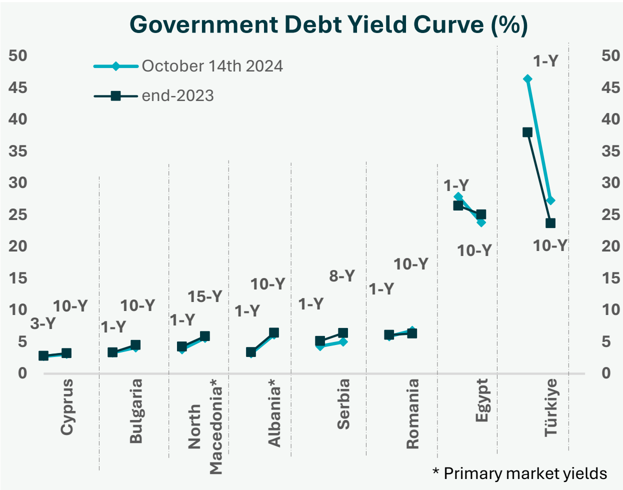


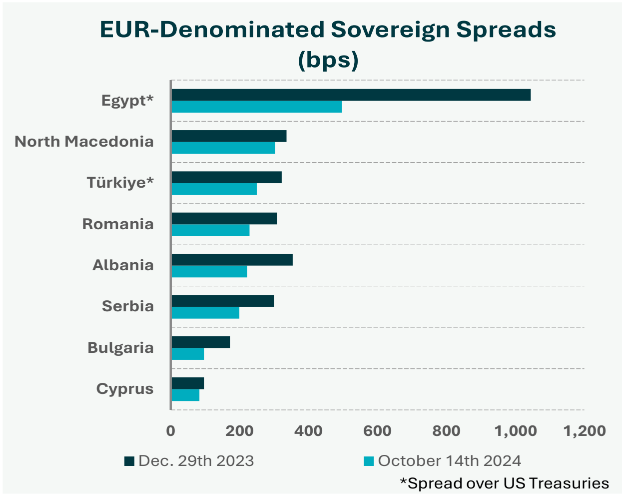
Sources: National Sources & NBG estimates

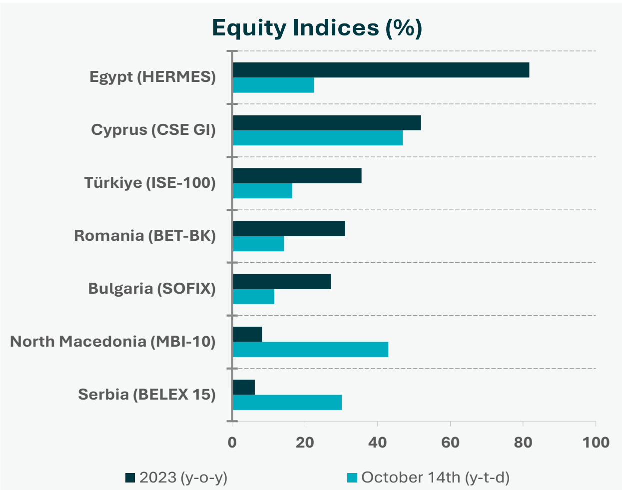
REGIONAL SNAPSHOT: FINANCIAL MARKETS

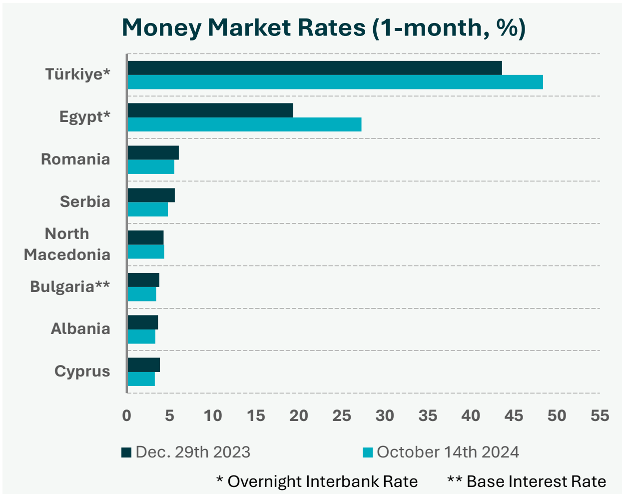


Spot
53.0
37.2
5.0
2.0
116.9
61.4
98.6









Sources: Reuters & NBG estimates

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