

# Quarterly Chartbook Q2:2024

Türkiye, Cyprus, Egypt, Romania, Bulgaria, Serbia, North Macedonia, Albania

*“SEE economies are set to experience solid growth amid crosswinds”*



**NATIONAL BANK  
OF GREECE**



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## Republic of Türkiye



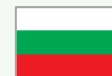
Population (2023, mn): 86.3  
 GDP (2023, EUR, bn): 1,021.8  
 GDP per Capita (2023, EUR): 11,845  
 Government type: Parliamentary Republic  
 Chief of state: Recep Tayyip ERDOGAN  
 Head of Government: Recep Tayyip ERDOGAN  
 Minister of Finance: Mehmet SIMSEK  
 Central Bank Governor: Fatih KARAHAN



## Romania



Population (2023, mn): 19.0  
 GDP (2023, EUR, bn): 324.8  
 GDP per Capita (2023, EUR): 17,066  
 Government type: Semi Presidential Republic  
 Chief of state: Klaus Werner IOHANNIS  
 Head of Government: Marcel CIOLACU  
 Minister of Finance: Marcel-Ioan BOLOȘ  
 Central Bank Governor: Mugur ISĂRESCU



## Republic of Bulgaria



Population (2023, mn): 6.8  
 GDP (2023, EUR, bn): 93.9  
 GDP per Capita (2022, EUR): 13,904  
 Government type: Parliamentary Republic  
 Chief of state: Rumen RADEV  
 Head of Government: Dimitar GLAVCHEV (caretaker)  
 Minister of Finance: Lyudmila PETKOVA  
 Central Bank Governor: Dimitar RADEV



## Republic of Serbia



Population (2023, mn): 6.7  
 GDP (2023, EUR, bn): 69.6  
 GDP per Capita (2023, EUR): 10,312  
 Government type: Parliamentary Republic  
 Chief of state: Aleksandar VUCIC  
 Head of Government: Milos VUCEVIC  
 Minister of Finance: Sinisa MALI  
 Central Bank Governor: Jorgovanka TABAKOVIC



## Republic of North Macedonia



Population (2023, mn): 1.8  
 GDP (2023, EUR, bn): 13.7  
 GDP per Capita (2023, EUR): 7,501  
 Government type: Parliamentary Republic  
 Chief of state: Gordana SILJANOVSKA-DAVKOVA  
 Head of Government: Hristijan MICKOSKI  
 Minister of Finance: Gordana DIMITRIESKA-KOCHOSKA  
 Central Bank Governor: Anita ANGELOVSKA-BEZHOSKA



## Republic of Albania



Population (2023, mn): 2.8  
 GDP (2023, EUR, bn): 21.3  
 GDP per Capita (2023, EUR): 7,717  
 Government type: Parliamentary Republic  
 Chief of state: Bajram BEGAI  
 Head of Government: Edi RAMA  
 Minister of Finance: Ervin METE  
 Central Bank Governor: Gent SEJKO



## Republic of Cyprus



Population (2023, mn): 0.9  
 GDP (2023, EUR, bn): 29.8  
 GDP per Capita (2023, EUR): 32,151  
 Government type: Presidential Republic  
 Chief of state: Nikos CHRISTODOULIDIS  
 Head of Government: Nikos CHRISTODOULIDIS  
 Minister of Finance: Makis KERAVNOS  
 Central Bank Governor: Christodoulos PATSALIDES



## Arab Republic of Egypt



Population (2023, mn): 105.7  
 GDP (2023, EUR, bn): 389.9  
 GDP per Capita (2023, EUR): 3,697  
 Government type: Presidential Republic  
 Chief of state: Abdel Fattah Saeed EL-SISI  
 Head of Government: Mostafa MADBOULY  
 Minister of Finance: Mohamed MAAIT  
 Central Bank Governor: Hassan ABDALLA

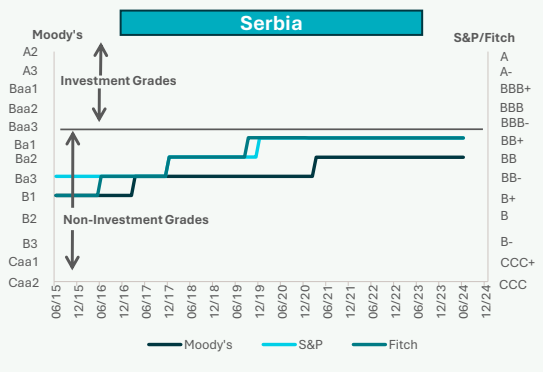
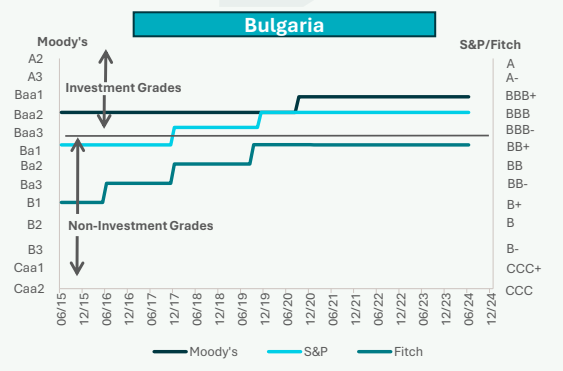
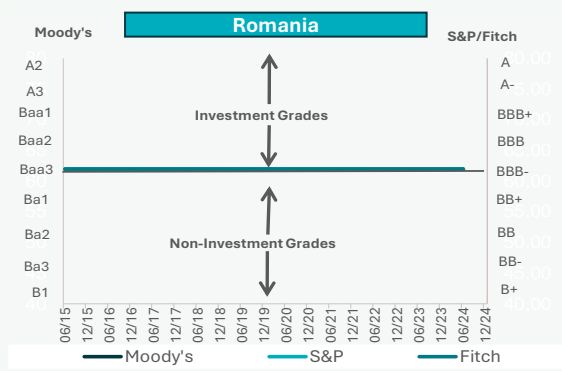
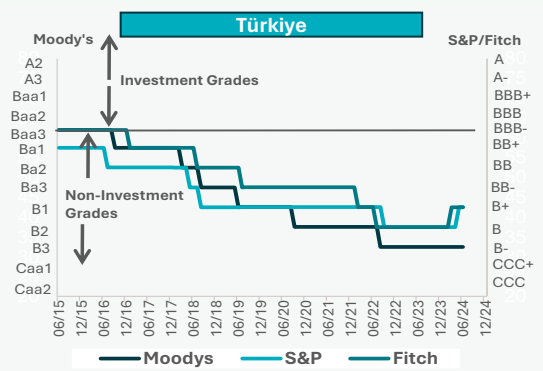
# Date of next elections

- In **Bulgaria**, GERB's failure to cobble together a Government brings the country closer to yet another election. GERB had finished first in the June snap election, the 6<sup>th</sup> held since April 2021, but fell short of an absolute majority. As a result, political uncertainty is set to persist, weighing further on economic growth. Indeed, besides the delays in EU funds' absorption observed since 2021, there has been also a significant weakening in business confidence, at the same time. Importantly, however, the risk of serious policy slippage appears to be limited, given the anchors provided by the long-standing currency board arrangement and the inclusion of the BGN into the ERM II, a precursor to the adoption of the euro
- A new Government, headed by H. Mickoski, President of the nationalist, right-wing VMRO-DPMNE, which scored a landslide victory in the May election (with 43.3% of the vote) was installed in **North Macedonia**. Besides the VMRO-DPMNE, the ruling coalition also comprises the ethnic-Albanian VREDI/VLEN alliance and the left-wing nationalist ZNAM, controlling a total of 78 seats in the 120-seat Parliament. Worryingly, unlocking the country's path to the EU bloc would be a complicated exercise for the new Government. Recall that, in a bid to unlock EU membership talks, North Macedonia reached a compromise deal with Bulgaria in mid-2022, according to which, the latter should endorse constitutional changes, providing, among others, for the recognition of a Bulgarian minority in the country, with the former lifting, in exchange, its veto blocking North Macedonia's EU accession path. Although the VMRO-DPMNE officially supports EU integration, its hard-line stance against the required constitutional amendments lays a stumbling block on North Macedonia's way to the EU. At the same time, failure to meet the obligations resulting from the 2018 Prespa agreement with Greece, providing for the change of the country's official name, could further complicate North Macedonia's path to the EU
- In **Romania**, the ruling National Coalition for Romania, comprising the centre-left PSD and the centre-right PNL, is in strong position ahead of December Parliamentary election, following landslide victory in the June election for the European Parliament. Although frictions between the two partners are likely to emerge ahead of the election, we expect them to eventually stick together (regardless of their yet-to-be-reached decision to run on separate lists or not), ensuring political stability. The UDMR could -- once again -- lend them a helping hand, if needed. As regards the September Presidential election, the PSD and the PNL will most likely nominate different candidates. Note that incumbent President, K. Iohannis, who is linked to the PNL, is not eligible for a new term

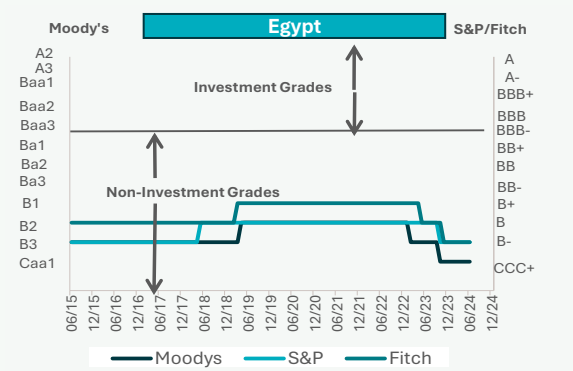
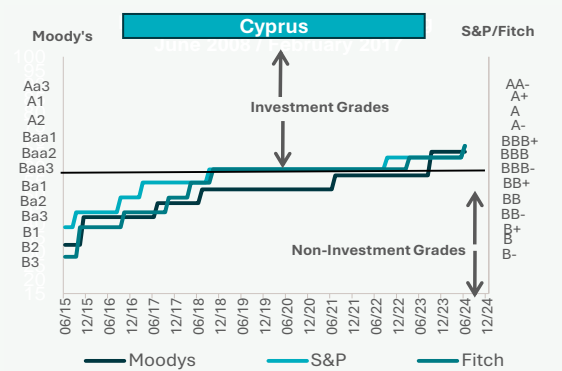
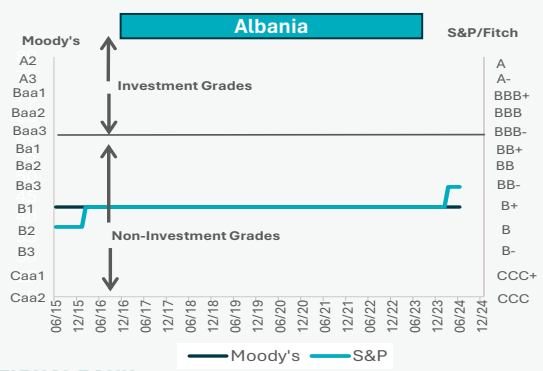
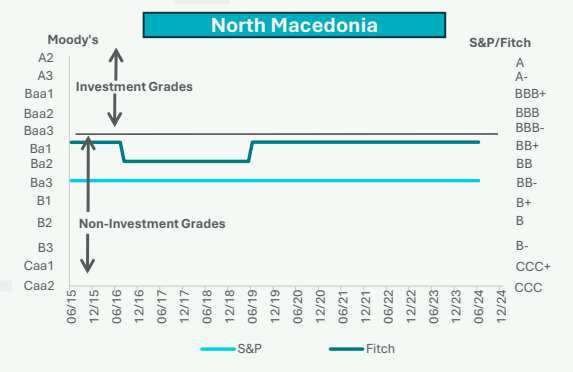
Date of Next Elections								
	Türkiye	Romania	Bulgaria	Serbia	North Macedonia	Albania	Cyprus	Egypt
Legislative	May 2028	December 2024	July 2025	By Dec 2027	June 2028	April 2025	May 2026	Oct.- Nov. 2025
Presidential	May 2028	September 2024	November 2025	April 2027	May 2029	June 2027	February 2028	December 2029
Local	March 2029	June 2028	October 2023	By Dec 2027	October 2025	May 2027	June 2029	Unknown *

# Foreign currency credit rating

- S&P's upgraded **Cyprus**' credit rating by 1 notch to "BBB+", with positive outlook, citing the progress made in recent years to address fiscal imbalances
- Türkiye**'s credit rating was upgraded by 1 notch by S&P's and Fitch to "B+", with positive outlook, following authorities' return to more orthodox economic policies
- Improving government balance sheet and solid economic growth prospects led S&P's to upgrade **Albania**'s credit rating by 1 notch to "BB-", with stable outlook
- The expansion of the IMF programme prompted Fitch and S&P's to revise **Egypt**'s outlook to positive, while both maintaining the economy's credit rating at "B-"

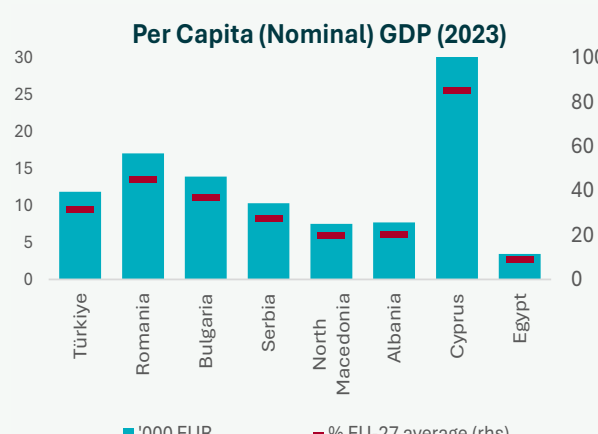
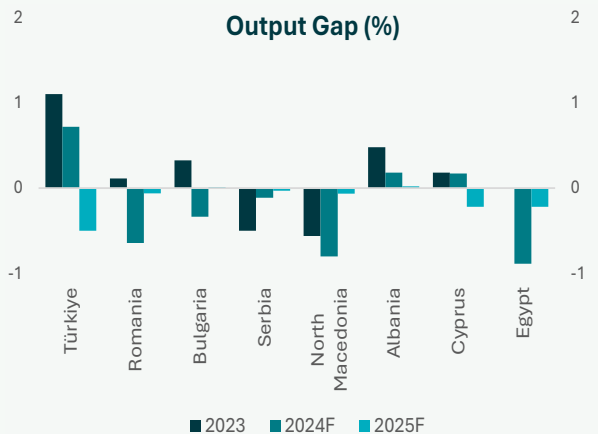
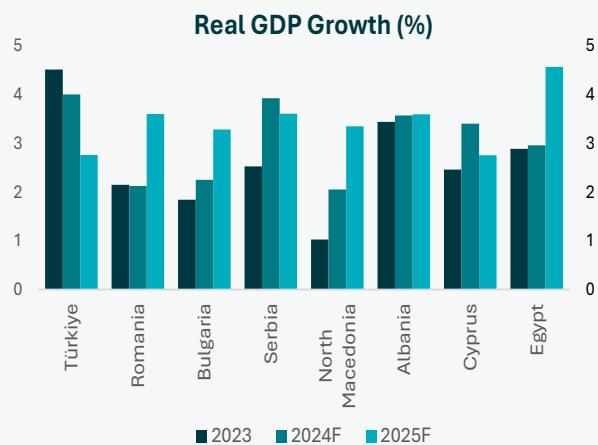


Long-Term Foreign Debt Currency Ratings, June 2024				
Investment Grades	S&P	Moody's	Fitch	
			Moody's	Fitch
A+				
A				
A-				
BBB+	Cyprus	Bulgaria	Cyprus	
BBB	Bulgaria	Cyprus	Bulgaria	
BBB-	Romania	Romania	Romania	
BB+	Serbia		North Macedonia	Serbia
BB		Serbia		
BB-	North Macedonia			
B+	Türkiye	Albania	Türkiye	
B				
B-	Egypt	Türkiye	Egypt	
CCC+		Egypt		



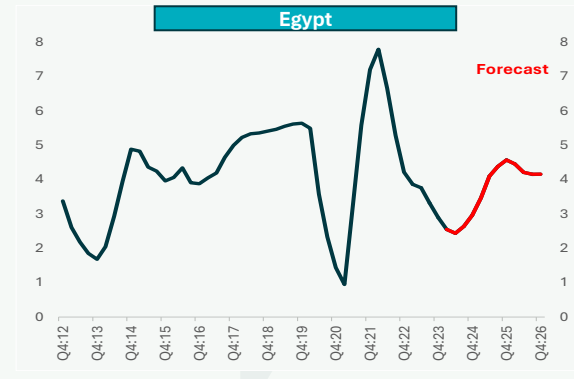
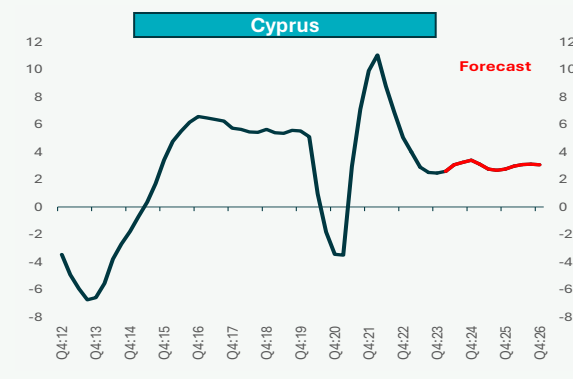
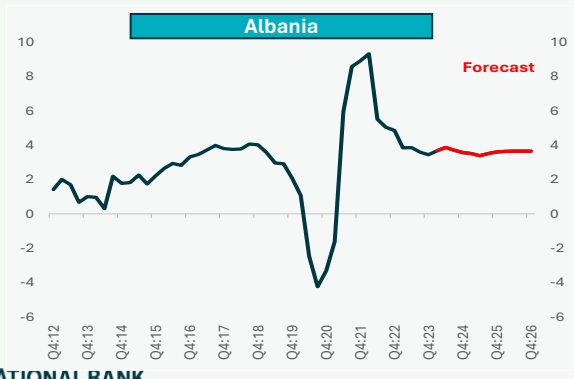
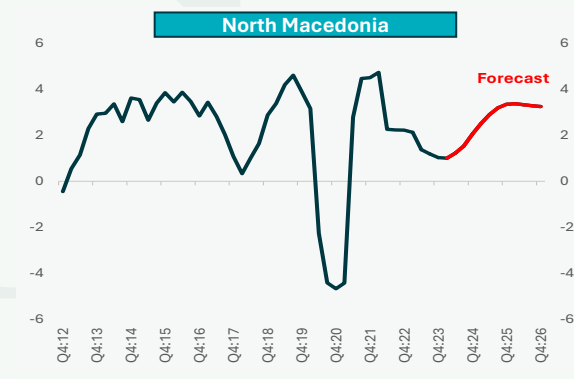
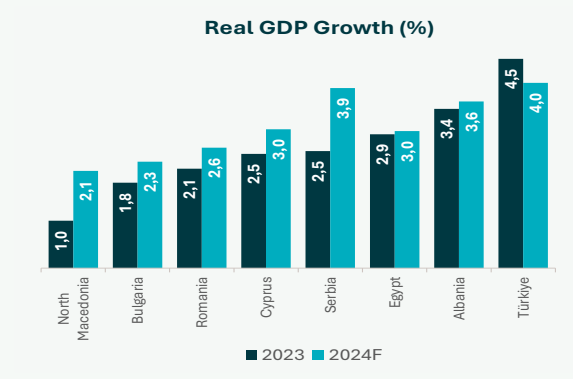
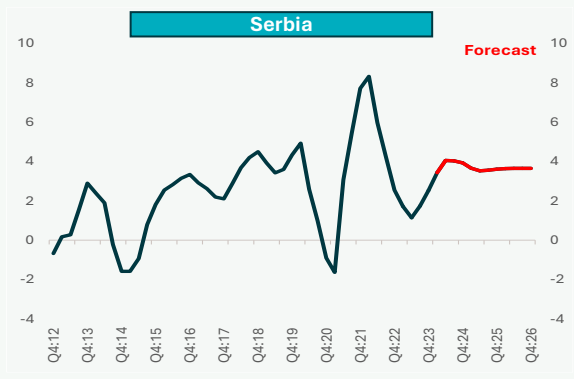
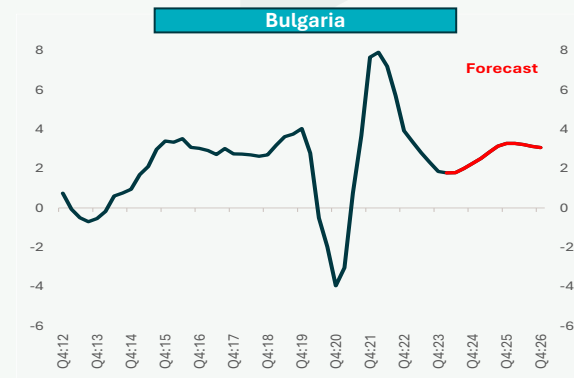
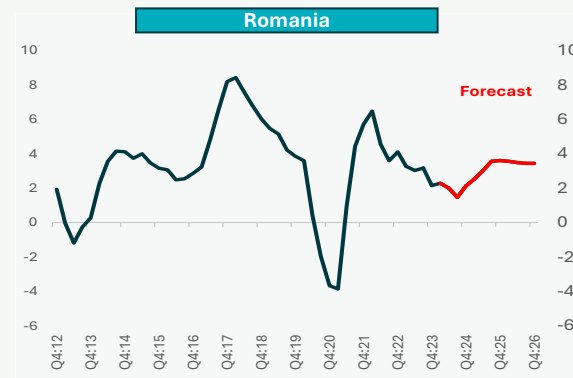
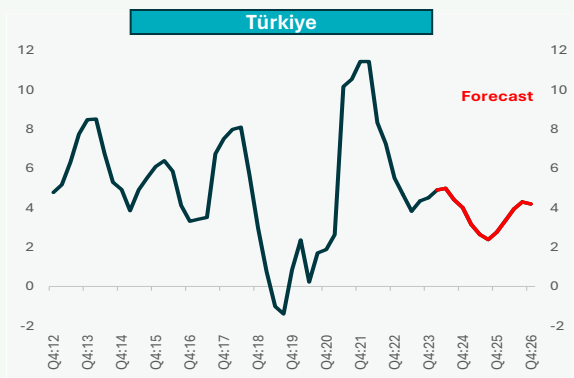
# Real GDP growth, potential real GDP growth, output gap and per capita (nominal) GDP

- Economic growth moderated in 2023**, mainly on the back of **restrictive financing conditions** and still **high -- yet gradually declining -- inflation**. Services (especially tourism)-oriented economies (such as Cyprus, Albania) performed better than manufacturing-oriented ones. Still, all the economies under review continued to **outperform the EU average** (up by a mere 0.4%). **Robust growth in private consumption**, on the back of tight labour market conditions and a loose incomes policy, was the key engine of economic expansion
- Against the backdrop of easing inflationary pressures**, which would allow central banks to proceed with **cautious monetary policy easing**, and **improving sentiment**, **GDP growth is set to firm in 2024** in all the economies under review (barring Türkiye, which heads for a soft landing), -- remaining, however, below its long-term potential -- despite **sluggish growth in the EU**, the region's main trade partner. Private consumption, the economies' major growth driver, should continue to grow at above-average rates, underpinned by **strong real ex-post wage growth**. Public investment should provide a critical contribution to overall growth, especially in EU countries, which will continue to benefit from sizeable EU financing
- Risks to our forecasts are tilted to the downside**, mainly reflecting potential repercussions from **ongoing geopolitical tensions**. Stickier-than-assumed inflation and, thus a tighter-for-longer monetary policy, could also lead to a lower-than-projected GDP growth path



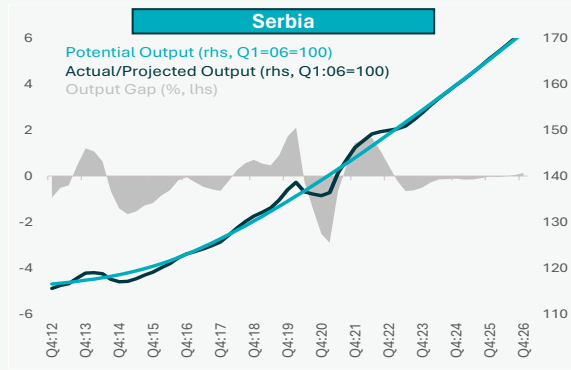
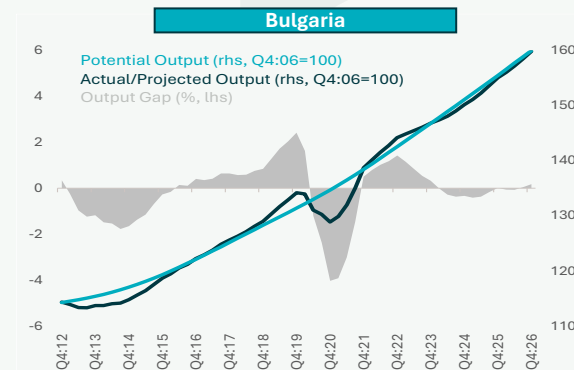
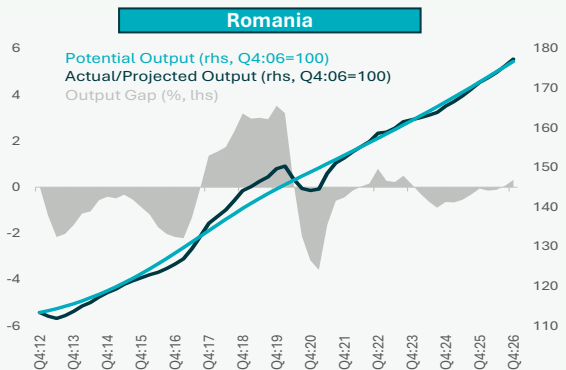
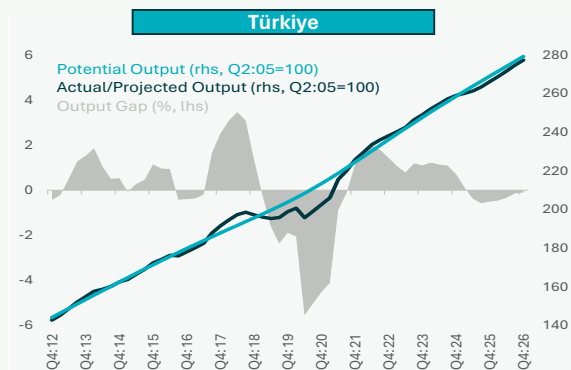
# Real GDP (4-quarter rolling, y-o-y % change)

GDP growth has slowed down markedly (most likely having also **bottomed out**) in most of the economies under review, mainly reflecting the impact of **past monetary policy tightening**

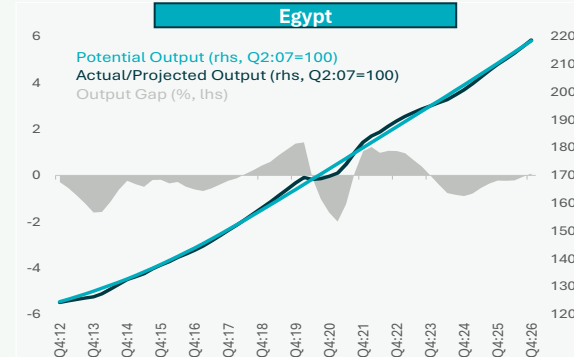
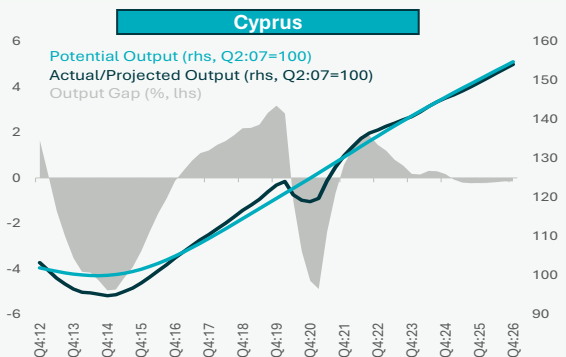
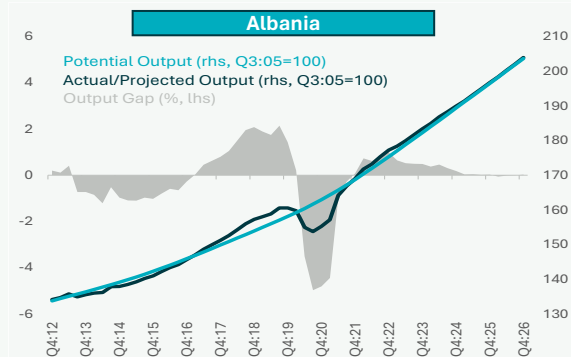
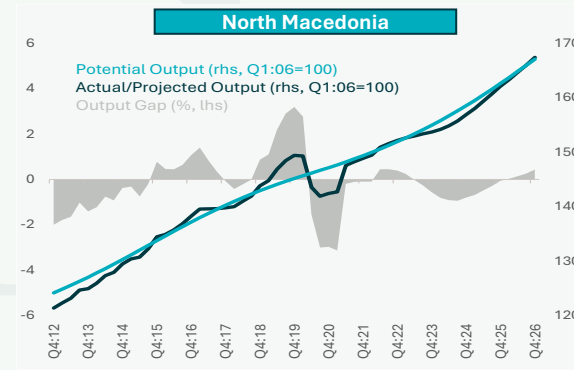
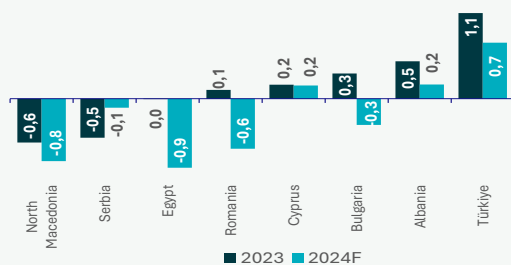


# Output gap (4-quarter rolling)

- The pandemic and the subsequent energy crisis and aggressive monetary policy tightening have settled the economies on a lower growth path
- Under our baseline scenario, all the economies under review should see their output gap getting closed by end-2025



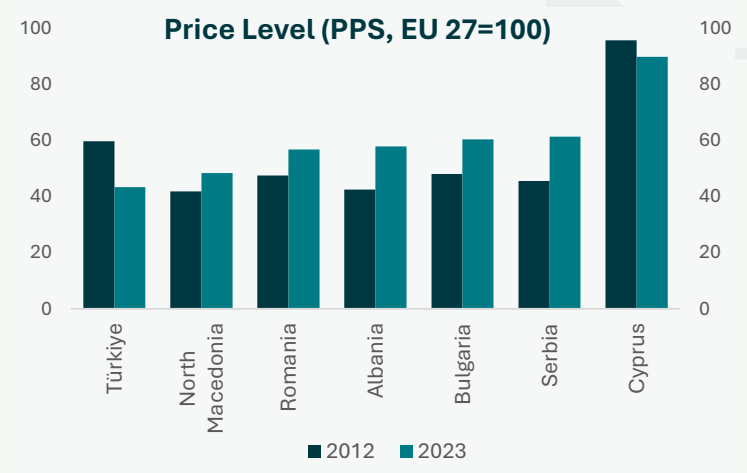
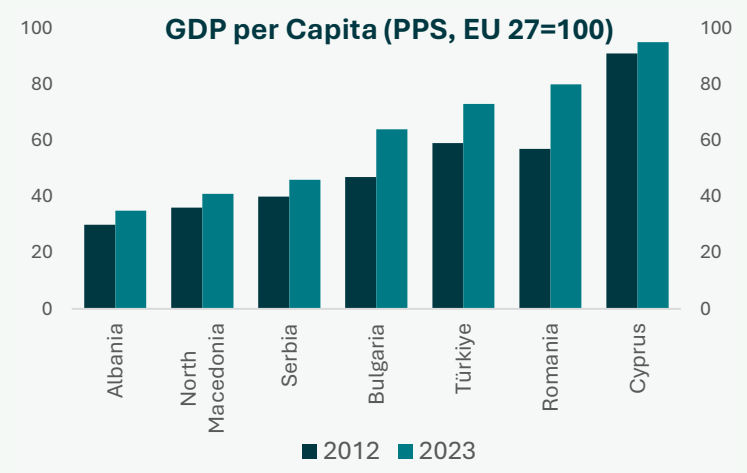
### Output Gap (% of Potential Output)





# Convergence with the EU

- **Cyprus** is close to EU average standards both in terms of GDP per Capita and Prices.
- **Romania** and, to a somewhat lesser extent, **Bulgaria** have been converging at a fast pace with the EU in real terms, highlighting the benefits of EU membership
- Despite the unorthodox policy mix pursued by authorities, the pace of **Türkiye**'s real convergence with the EU has been quite fast
- Convergence with the EU has been sluggish for EU candidate countries (**Albania, North Macedonia** and **Serbia**), reflecting persistent under-investment, due, among others, to entry and operation barriers in place (such as corruption, bureaucracy, and informality) low employment (on the back, *inter alia*, of high emigration) and relatively weak total factor productivity growth. With potential growth of around 3% it would **take more than 30 years** to align the countries' per-capita GDP with that of the EU's



# Official financial support (IMF)

- Following a massive EGP depreciation in March, **Egypt** expanded its (already-existing) IMF programme, securing an additional USD 5bn in financing (USD 8bn in total). The new deal was complemented by funding packages worth USD 8.1bn and USD 6.0bn from the EU and the World Bank, respectively. Besides FX liberalisation, other key components of the IMF programme include fiscal consolidation and reduction of the state's footprint on the economy. Recall that authorities' reluctance to allow the EGP to depreciate had prompted the IMF to put financing on hold earlier

IMF & EU Financial Support (EUR bn)														
		Türkiye	Romania	Bulgaria	Serbia	North Macedonia		Albania		Cyprus	Egypt			
Period		---	---	---	2022-2024 <sup>a</sup>	2020 <sup>b</sup>	2022-2024 <sup>c</sup>	2014-2017 <sup>d</sup>	2020 <sup>b</sup>	2013-2016 <sup>e</sup>	2016-2019	2020 <sup>b</sup>	2020-2021 <sup>a</sup>	2022-2026 <sup>g</sup>
Programme	IMF	---	---	---	2.4	0.2	0.5	0.4	0.2	1.1	11.9 <sup>f</sup>	2.8 <sup>f</sup>	5.2 <sup>f</sup>	8.0 <sup>f</sup>
	EU	---	---	---	---	---	---	---	---	9.0	---	---	---	---
Drawn so far	IMF	---	---	---	1.2	0.2	0.1	0.4	0.2	1.0	11.9 <sup>f</sup>	2.8 <sup>f</sup>	5.2 <sup>f</sup>	1.2 <sup>f</sup>
	EU	---	---	---	---	---	---	---	---	6.3	---	---	---	---
Repaid	IMF	---	---	---	---	0.1	---	0.3 since 2019	0.1 since 2023	1.1	3.8 <sup>f</sup>	1.3 <sup>f</sup>	0.9 <sup>f</sup>	---
	EU	---	---	---	---	---	---	---	---	---	---	---	---	---
Next Repayments	IMF	---	---	---	---	0.1 in H2:24	Starting in 2026	---	---	---	1.8 <sup>f</sup> in H2:24	0.7 <sup>f</sup> in H2:24	1.7 <sup>f</sup> in H2:24	---
	EU	---	---	---	---	---	---	---	---	Starting in 2025	---	---	---	---

<sup>a</sup> Stand-By Arrangement (SBA)

<sup>b</sup> Rapid Financing Instrument

<sup>c</sup> Precautionary and Liquidity Line (PLL)

<sup>d</sup> under Post-Programme Monitoring since 2018

<sup>e</sup> under Post-Programme Monitoring since 2016

<sup>f</sup> bn USD

<sup>g</sup> Extended Fund Facility (EFF), extended by USD 5bn in 2024

- Full absorption of the funds available under the **EU Recovery & Resilience Facility (RRF)** should provide a significant impetus to economic recovery in **Romania, Bulgaria and Cyprus**
- Reflecting prolonged political uncertainty, **Bulgaria** has been facing delays in absorbing EU funds
- **Serbia, North Macedonia, Albania** and **Türkiye** benefit not only from EU pre-accession assistance but also from cross-border spillover effects from the RRF
- EU pre-accession assistance has been complemented with the **Reform and Growth Plan for the Western Balkans** which envisages a total of EUR 6bn in financing (of which EUR 2bn as non-repayable support) in the period of 2024-2027

EU Members			
Next Generation EU Fund (2021-23) & Multiannual Financial Framework (2021-27) (EUR bn)			
	Romania	Bulgaria	Cyprus
Recovery and Resilience Facility*	28.5	5.7	1.2
o/w Grants	13.6	5.7	1.0
Loans	14.9	---	0.2
Other**	3.4	0.4	0.2
Multiannual Financial Framework***	55.4	18.6	1.5

\* For the loan component of the Fund, the allocations will depend on the demand of Member States. As a rule, Member States can request a loan worth up to 6.8% of its 2019 GNI.

\*\*Includes amounts under React-EU, Just Transition Fund, European Agricultural Fund for Rural Development.

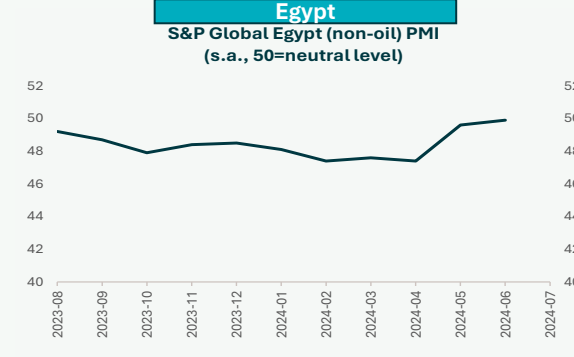
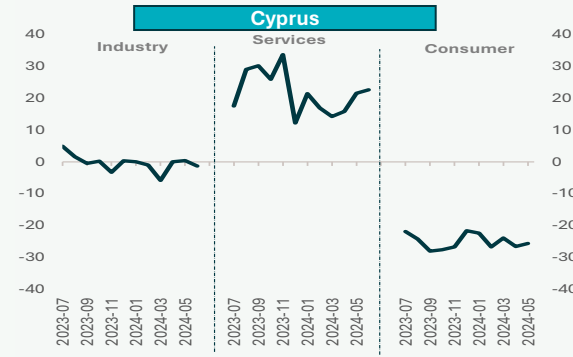
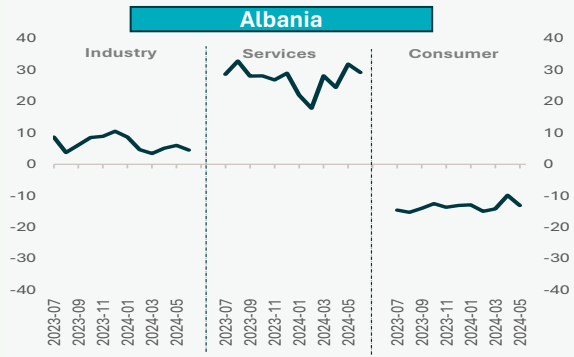
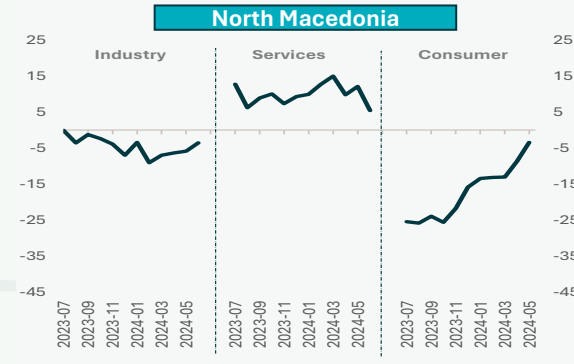
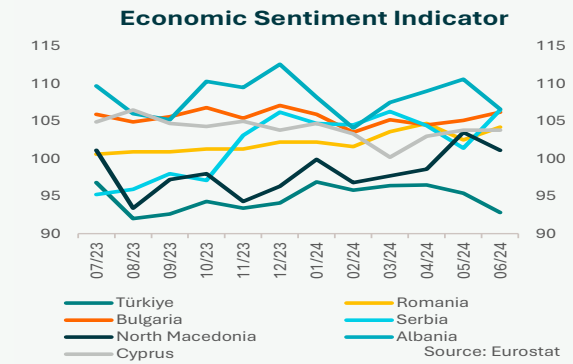
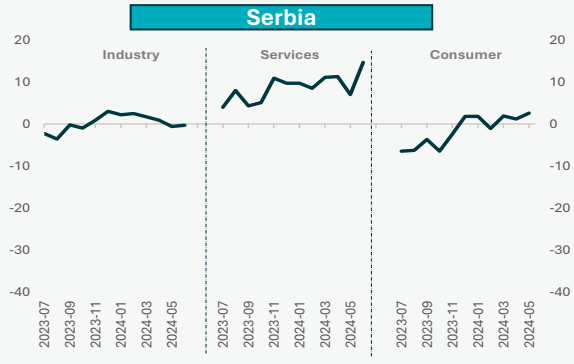
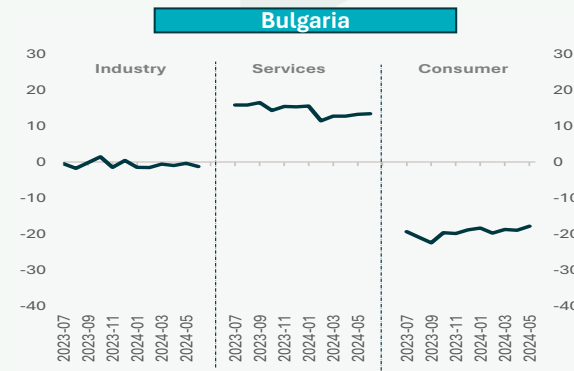
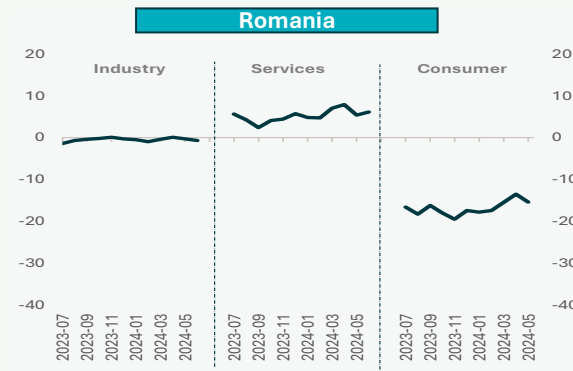
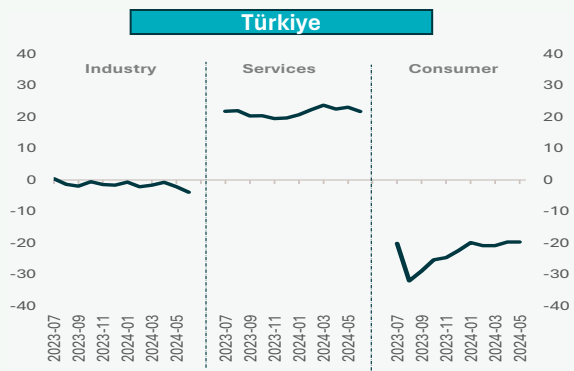
\*\*\* Includes Cohesion Policy allocations and payments under the European Agricultural Fund for Rural Development, the European Agricultural Guarantee Fund and the Just Transition Fund.

EU Candidate Countries			
Instrument for Pre-Accession Assistance (IPA III, 2021-27)* (EUR bn)			
Türkiye	Serbia	North Macedonia	Albania
4.7	2.0	0.8	0.8
Reform and Growth Facility for the Western Balkans (2024-27, EUR bn)*			
---	2.2	0.9	0.9

\* Indicative allocations, NBG calculations

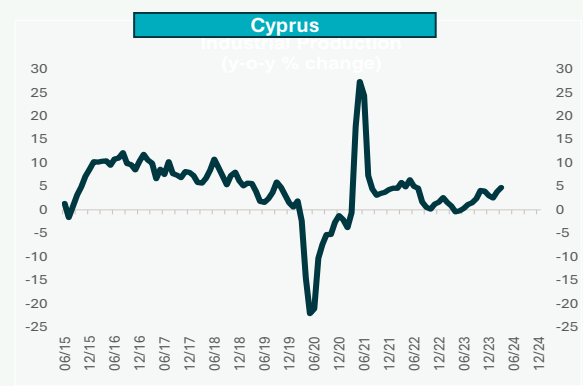
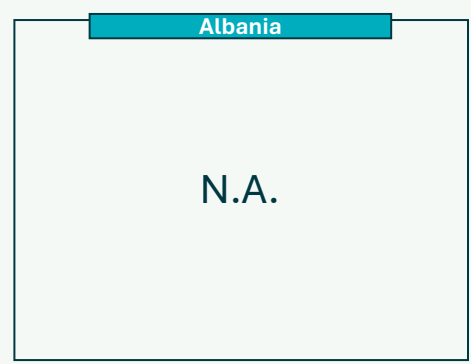
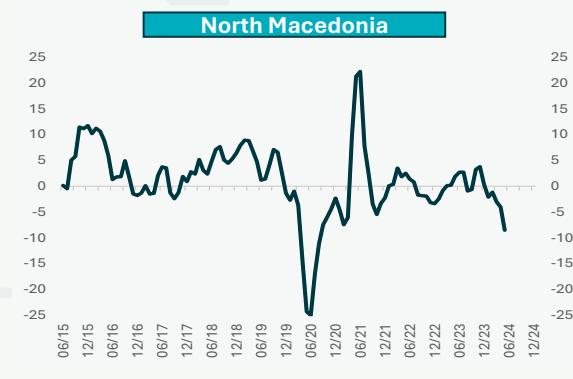
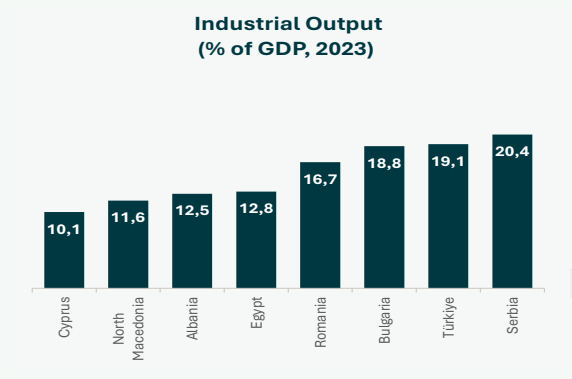
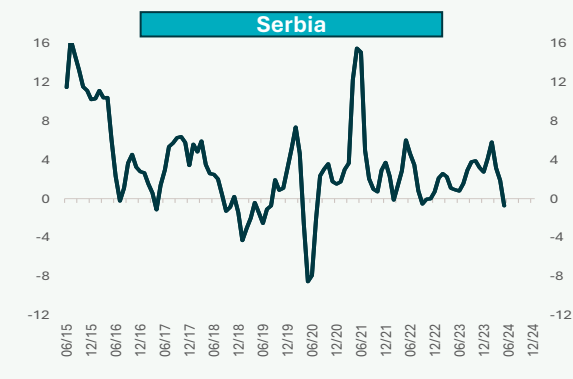
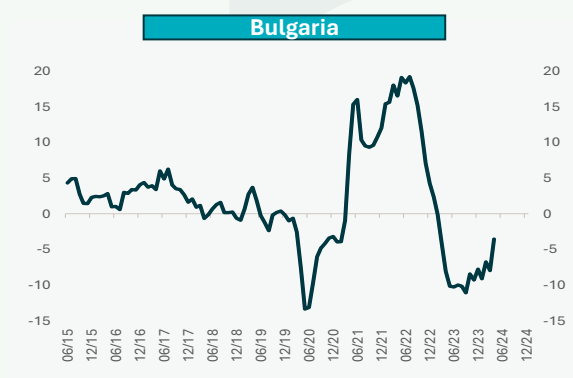
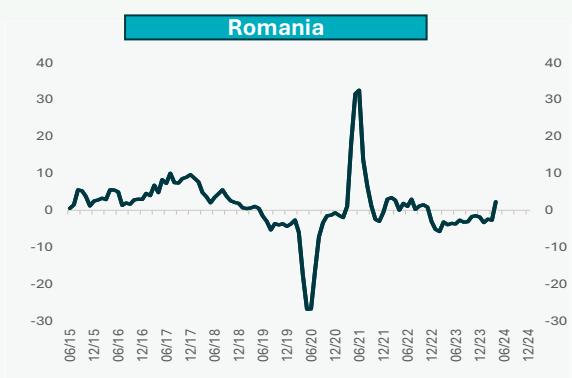
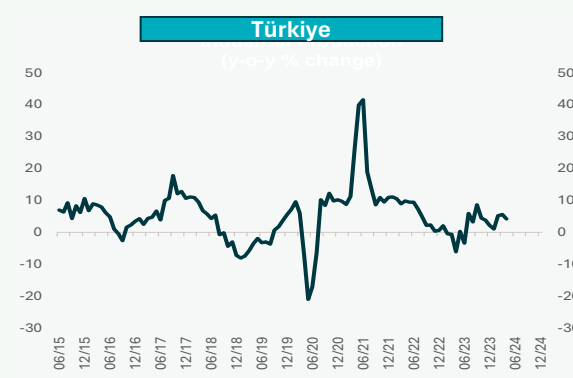
# Economic Sentiment Indicator (difference between the % of respondents giving positive and negative replies, s.a.)

■ In contrast to (slowly) improving consumer sentiment, business sentiment, especially in industry, remains weak, suggesting no imminent rebound in output

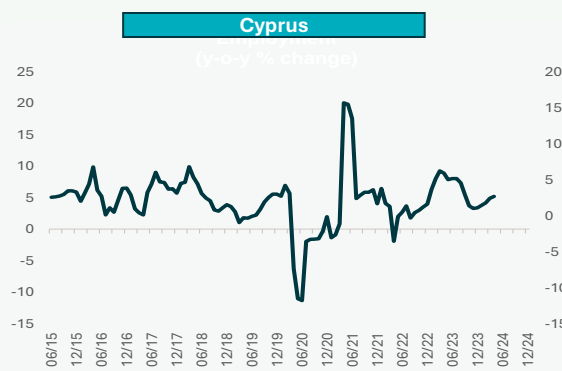
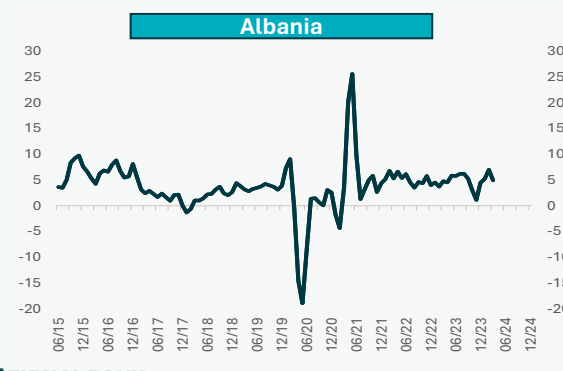
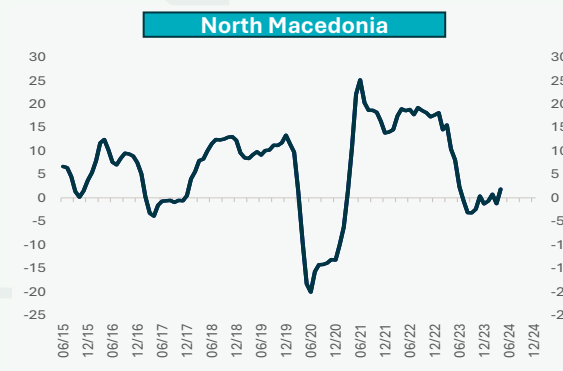
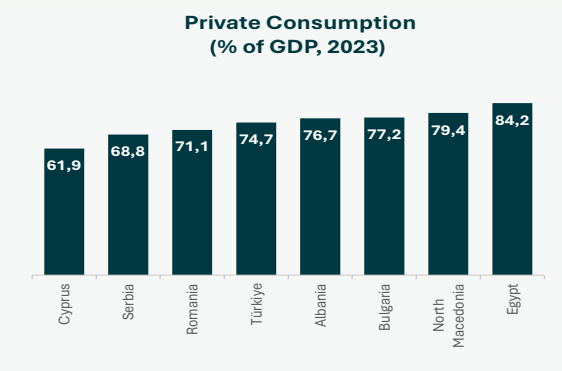
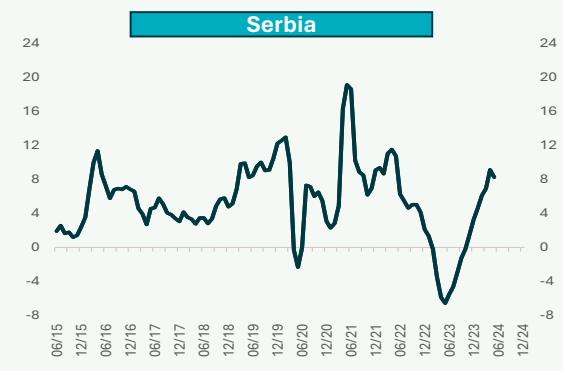
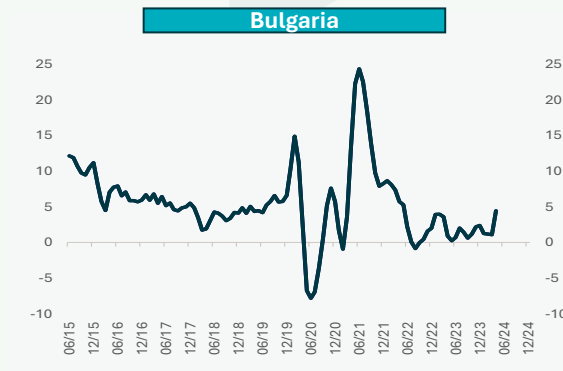
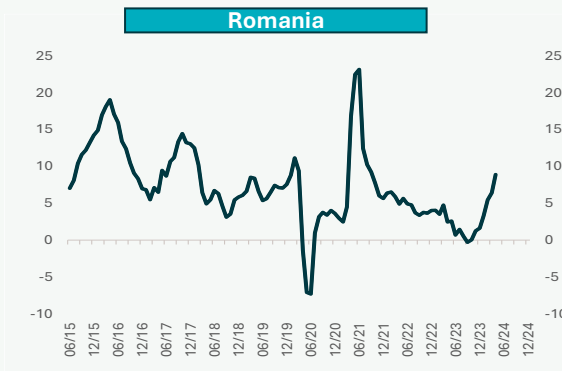
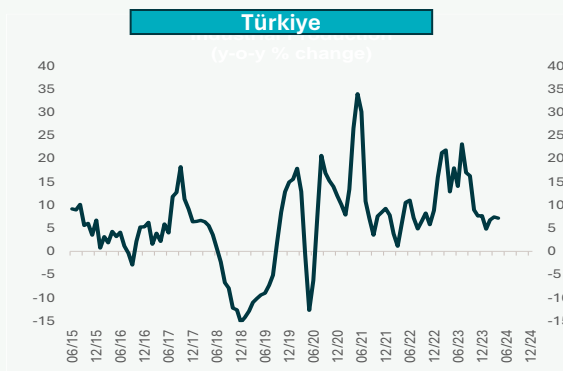


# Industrial production (3-month rolling, y-o-y % change)

- Amid **sluggish economic growth in the EU**, the region's main trade partner, the **industrial sector has yet to witness tangible signs of recovery**, despite healthy domestic demand. We estimate that energy-intensive industries have been dragging the sector's performance
- The levy of higher EU tariffs on Chinese EVs could provide a boost to automotive industry production, a significant part of which is outsourced to industries located in the countries under review (especially Romania, Serbia, North Macedonia and Bulgaria)

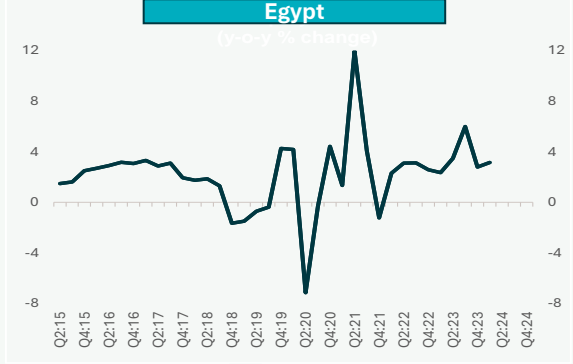
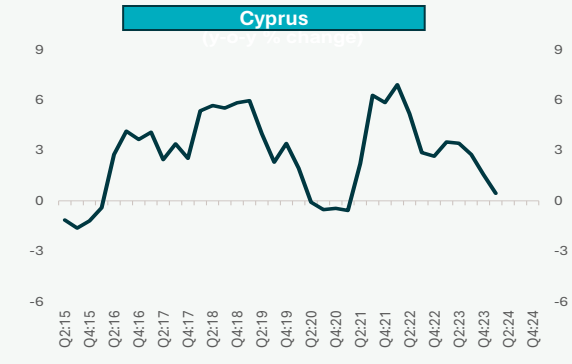
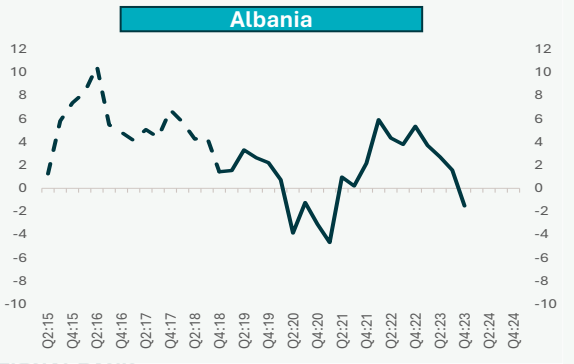
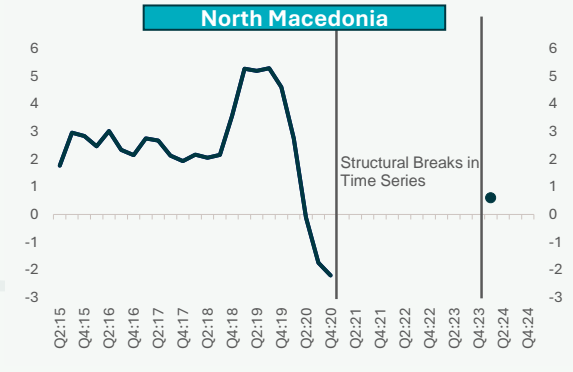
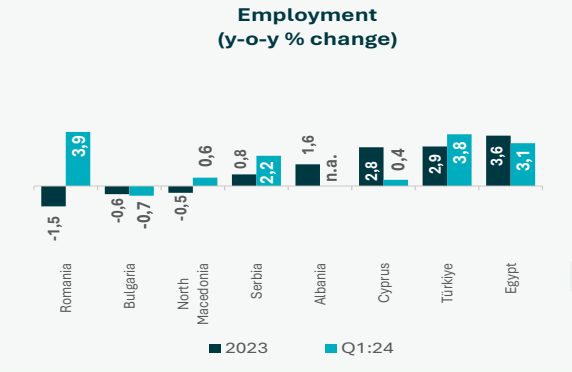
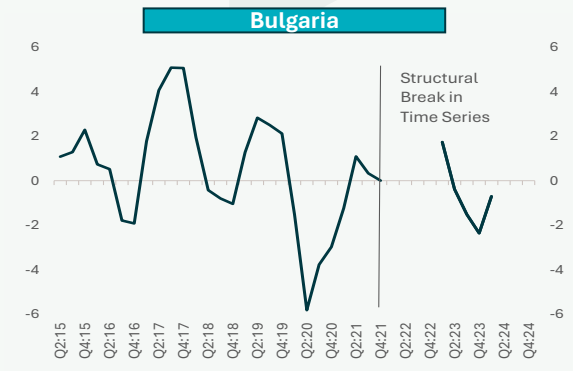
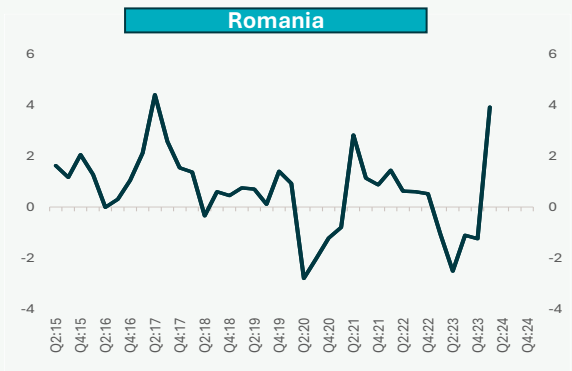
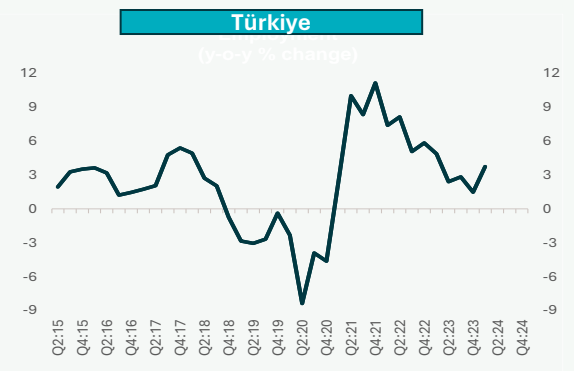


Easing inflationary pressures and gradually improving consumer confidence have been driving a pick-up in growth in retail sales in most of the economies under review



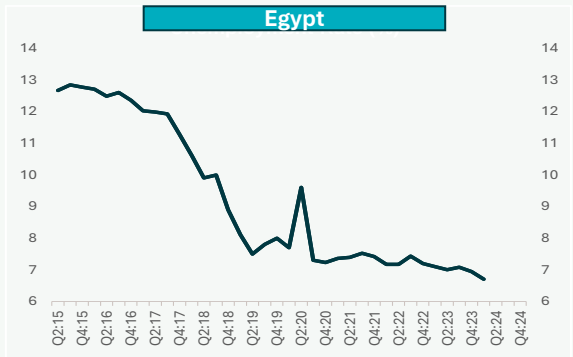
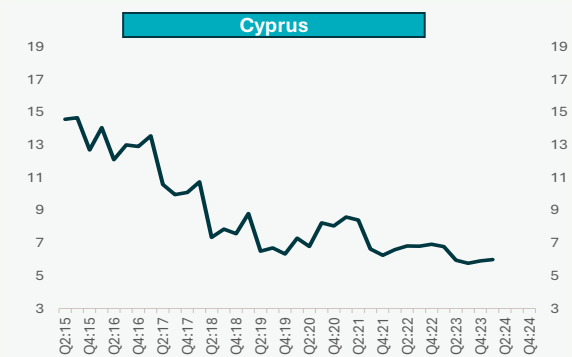
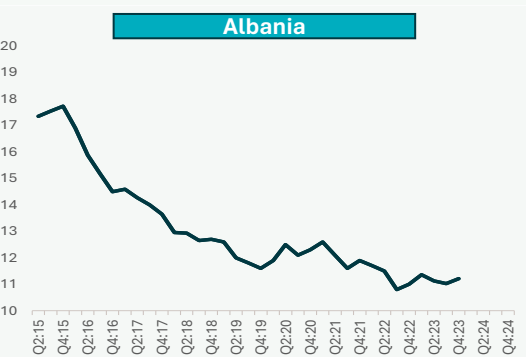
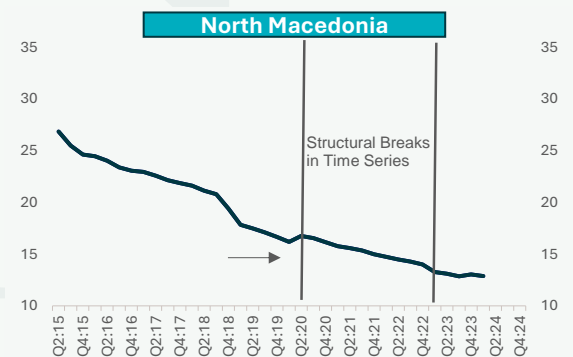
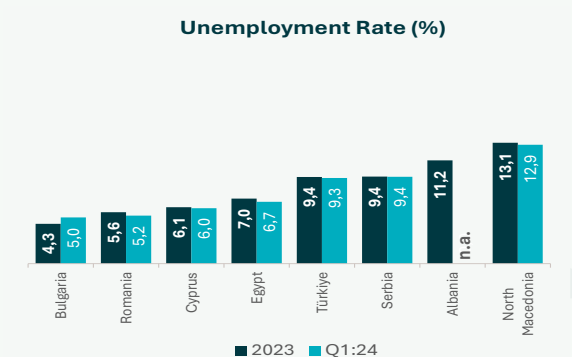
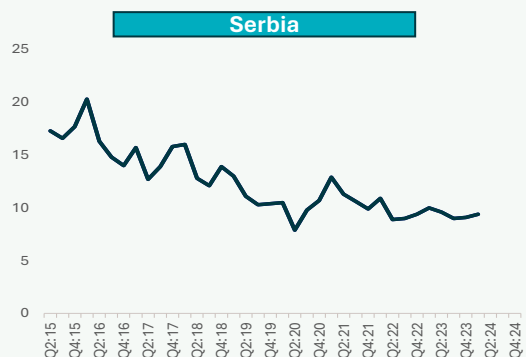
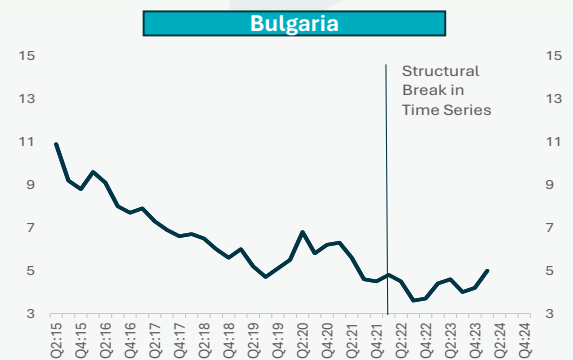
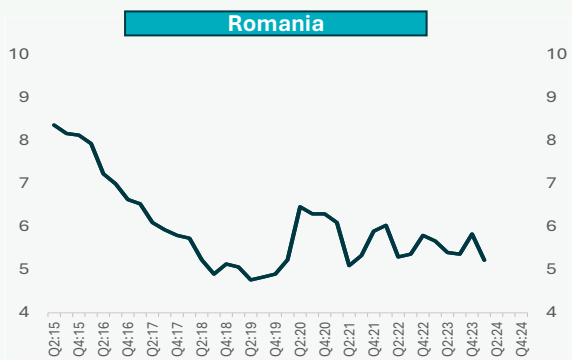
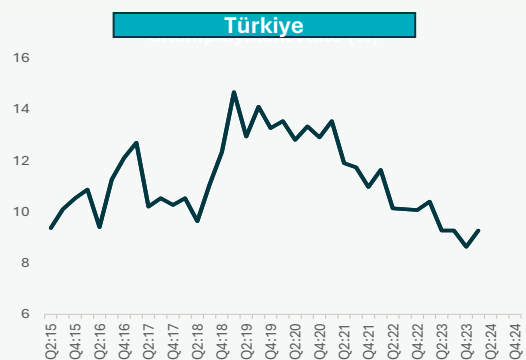
# Employment growth (y-o-y % change)

Following strong expansion over the past 2 years, **employment growth has been slowing down** (or even turned negative) in most of the economies under review. We estimate that employment growth is mostly concentrated in the services sector. Given that employers are under-utilising their workforce -- especially in the industrial sector -- we expect **further cooling-off** in the period ahead, with overall labour market conditions remaining **tight**, nonetheless, reflecting, *inter alia*, adverse demographics and persistent labour shortages in some sectors (due to skills mismatches etc)



# Unemployment rate (%)

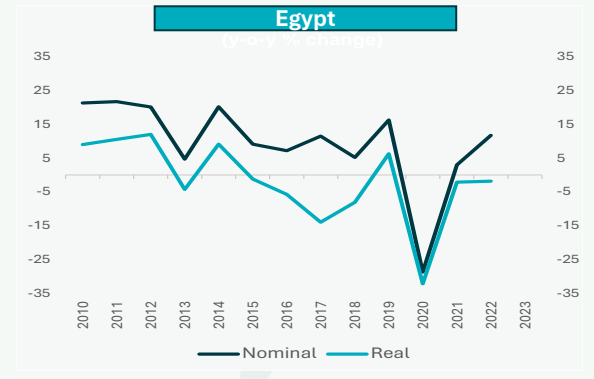
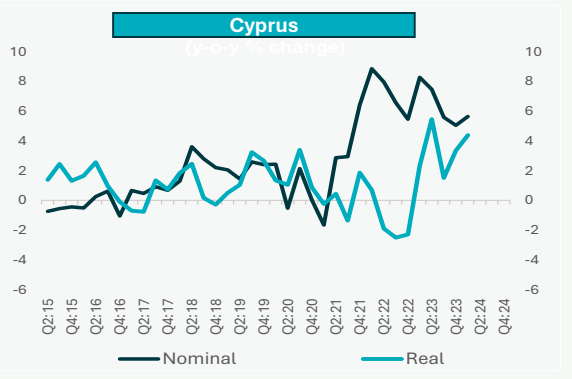
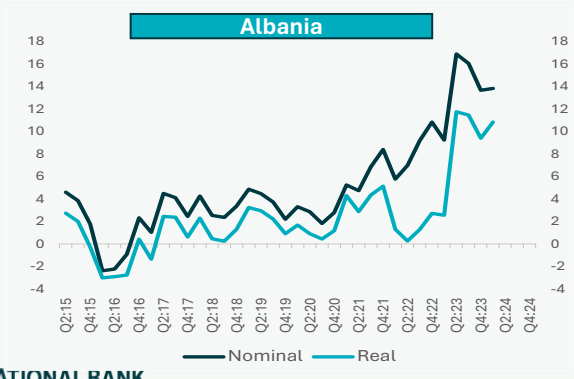
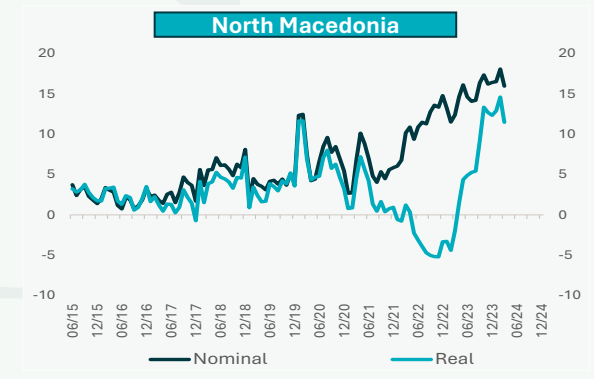
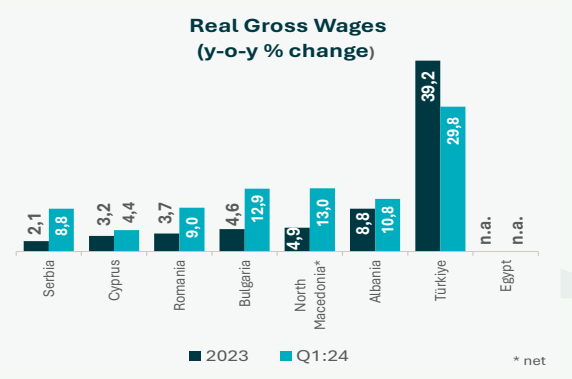
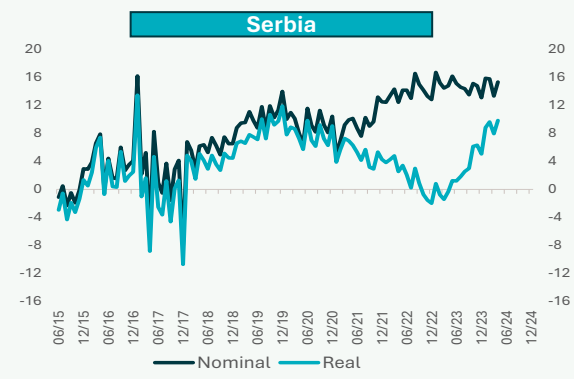
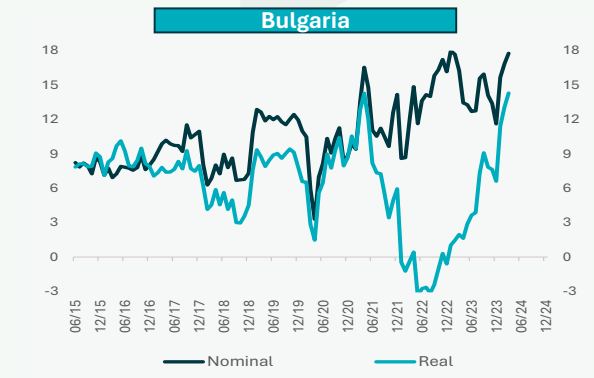
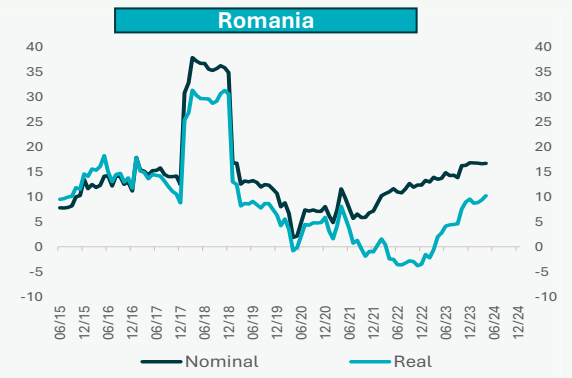
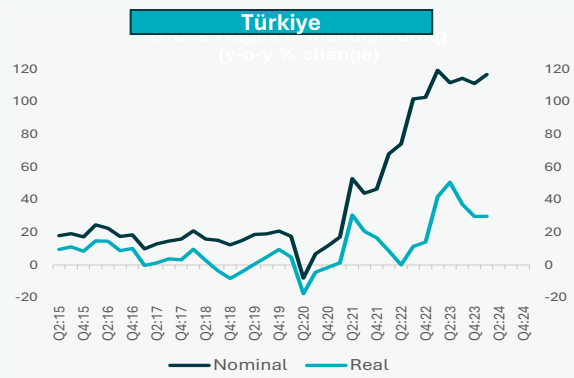
- The **unemployment rate appears to have bottomed out** in most of the economies under review. In some cases, the current levels are even below those observed prior to the GFC. Given already high participation rates, further improvement, if any, should be slow
- The very high levels of unemployment in **North Macedonia** and **Albania** and, to a lesser extent **Serbia**, largely reflect the large share of domestic grey economy
- Aging and emigration** should continue posing significant challenges in the period ahead for the labour markets under review (barring those of Türkiye and Egypt)





# Nominal and real wages (y-o-y % change)

Strong nominal wage growth comes on back of **backward-looking wage setting behaviour**, **tight labour market conditions** as well as a **loose incomes policy** and its spillover to the private sector. Real ex-post wage growth is currently at **double-digits** in most countries under the review, underpinning private consumption, which suffered from purchasing power losses in the past 2 years. Nominal wage growth should **moderate** in the period, in line with easing inflation and falling vacancies, remaining, nonetheless, above historical levels

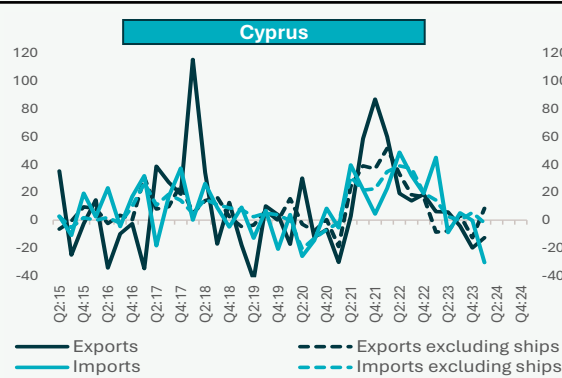
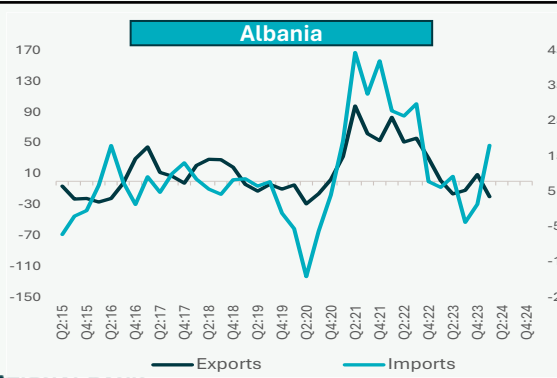
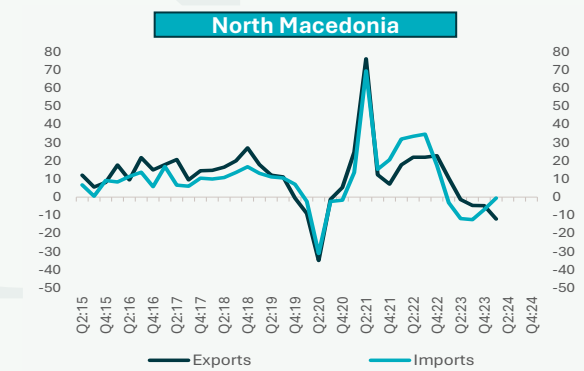
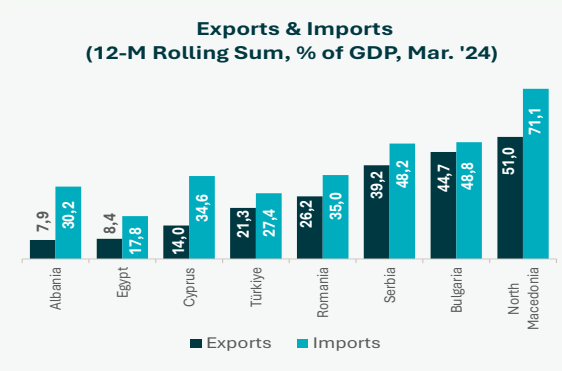
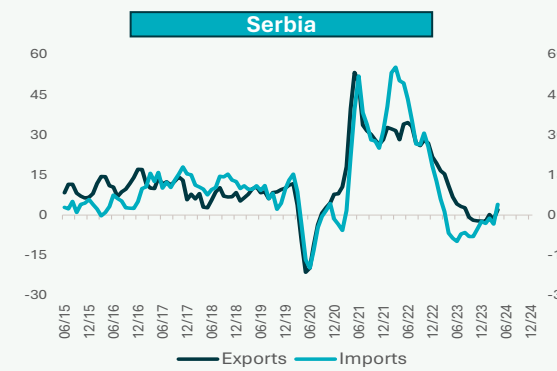
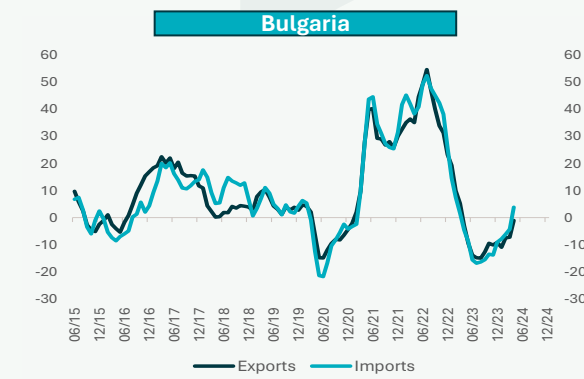
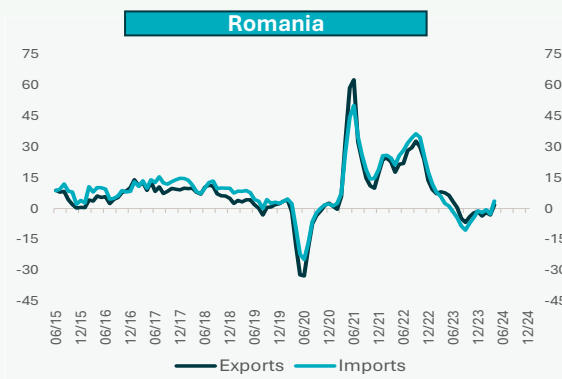
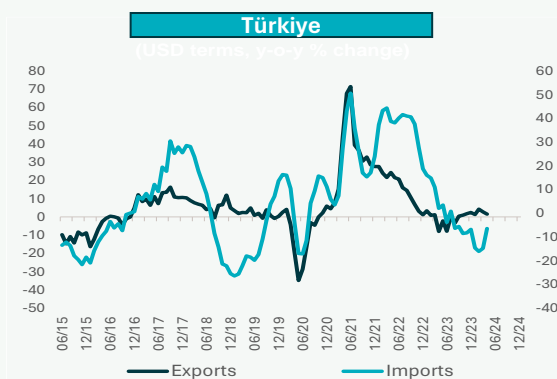


- **North Macedonia** and **Albania** remain the most competitive countries in terms of labour costs in Southeastern Europe
- **Bulgaria** and **North Macedonia** have the most favourable personal and corporate income tax rates



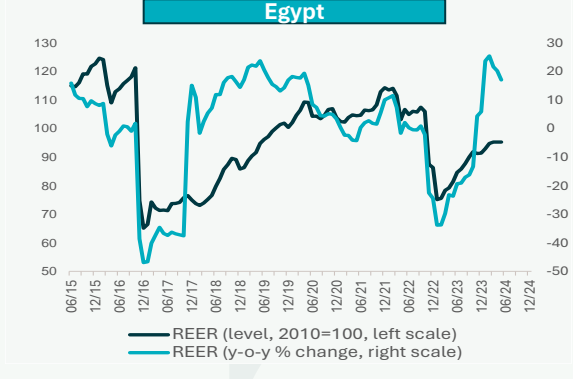
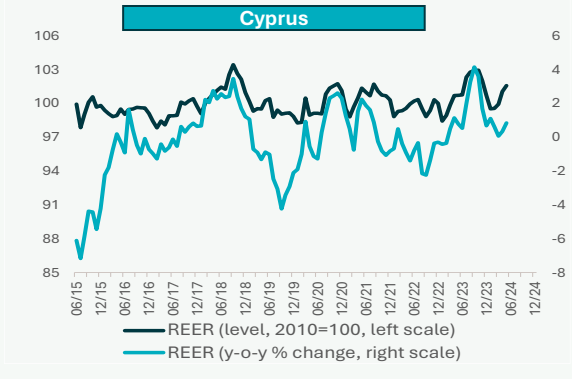
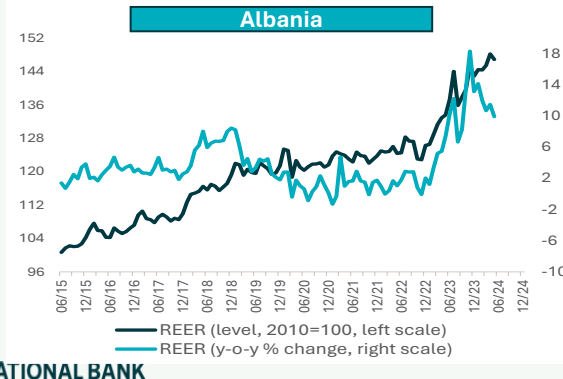
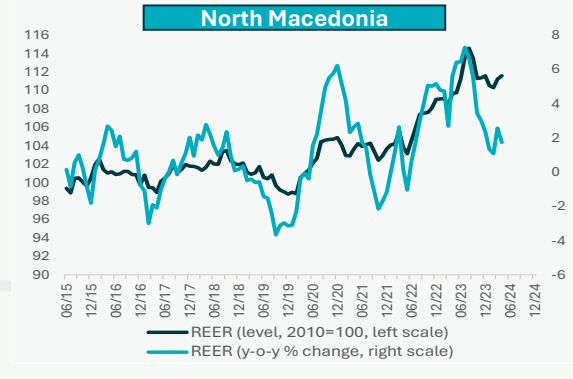
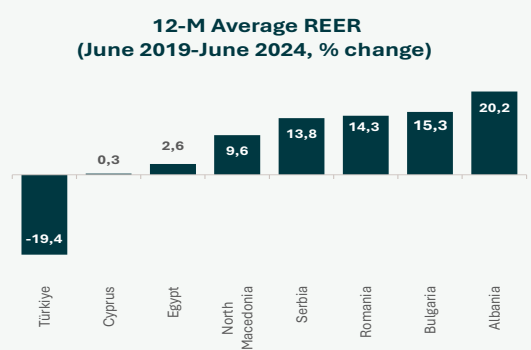
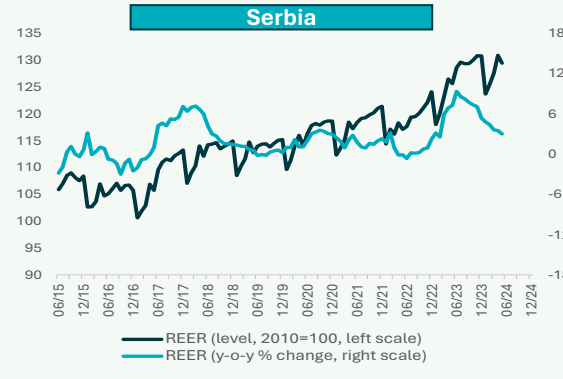
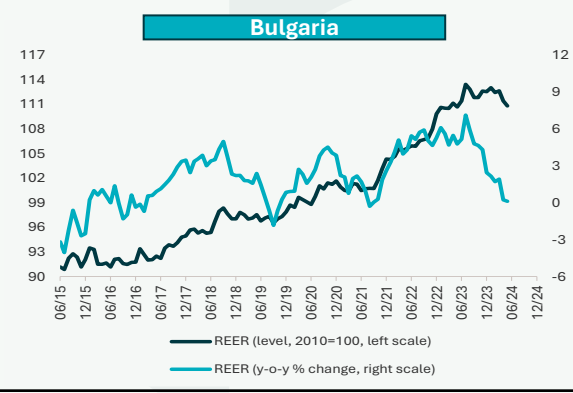
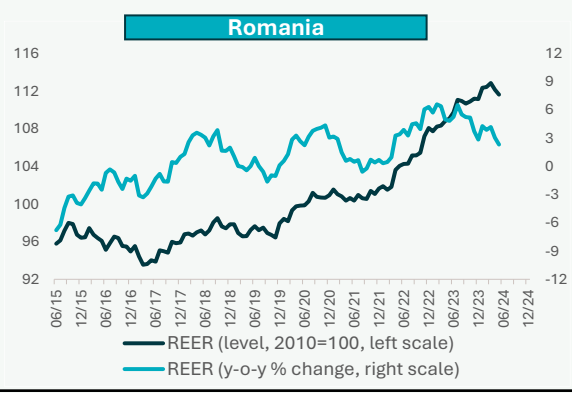
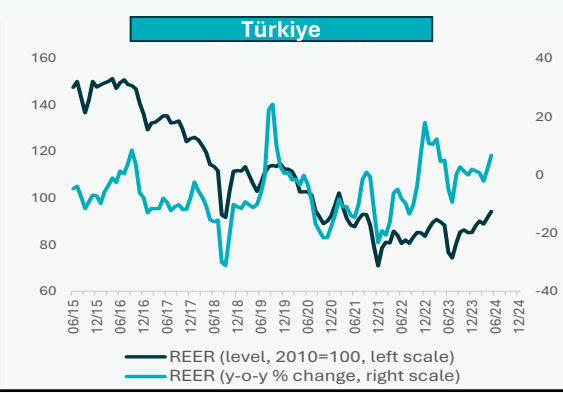
Tax Rates (% , 2023)		
	Personal Income	Corporate Income
Türkiye	15.0 - 40.0	25.0-30.0
Romania	10.0	16.0
Bulgaria	10.0	10.0
Serbia	10.0 – 20.0	15.0
North Macedonia	10.0	10.0
Albania	13.0 - 23.0	5.0 - 15.0
Cyprus	20.0 - 35.0	12.5
Egypt	10.0 – 27.5	22.5
Greece	9.0 - 44.0	22.0

■ Growth in external trade has even turned negative in many of the economies under review, following correction in global commodity prices



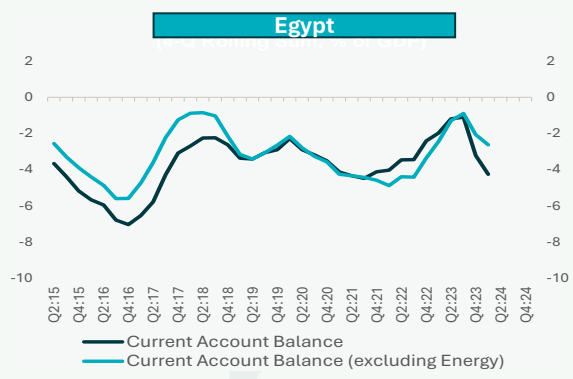
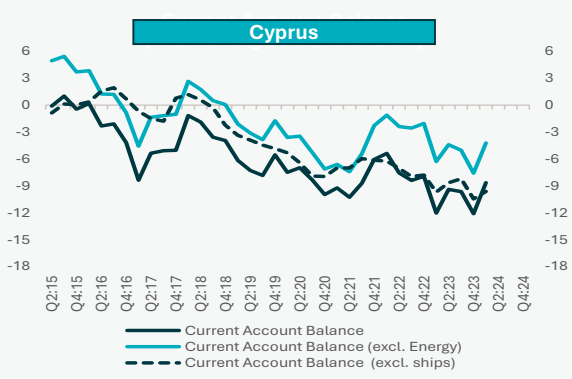
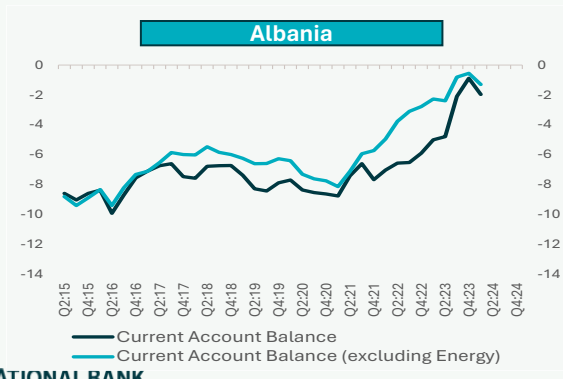
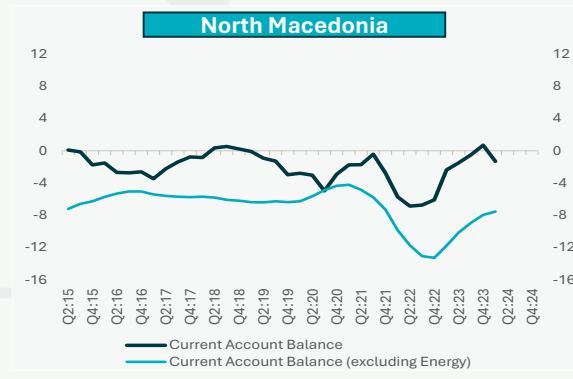
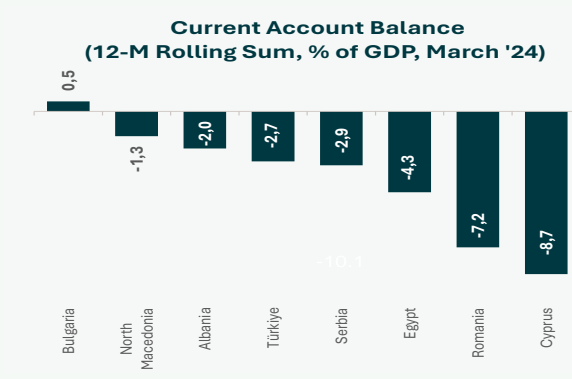
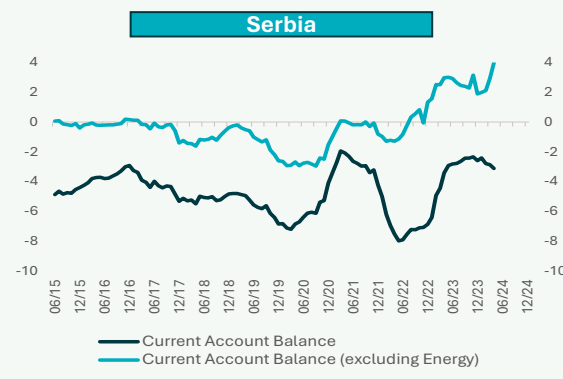
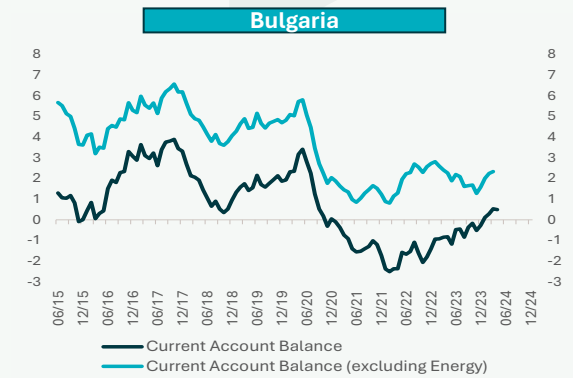
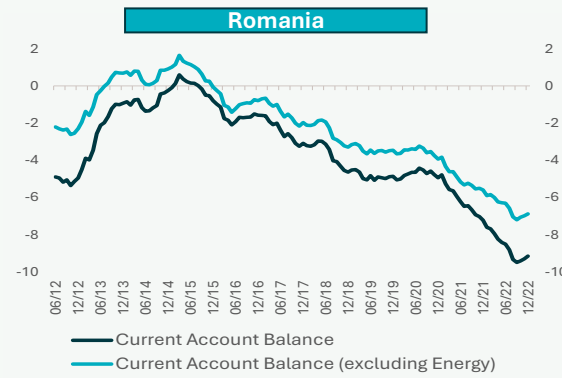
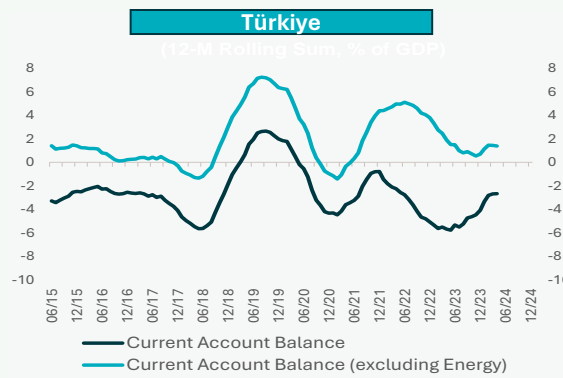
# CPI-based real effective exchange rate

- Skyrocketing inflation has eroded significantly the gains in external price competitiveness from the massive depreciation of the **Turkish Lira** in nominal terms
- **Albania** has experienced a strong appreciation of its currency in real terms over the past 5 years, which appears to have hit the economy's manufacturing sector
- The recent sharp depreciation of the **Egyptian Pound** just corrected the losses in external price competitiveness implied by stubbornly high inflation



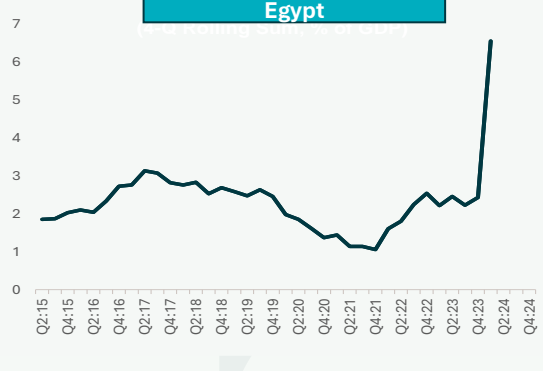
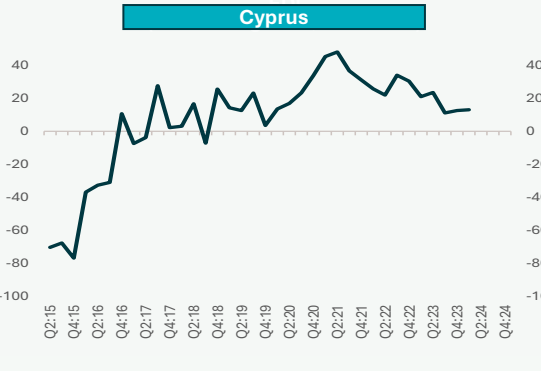
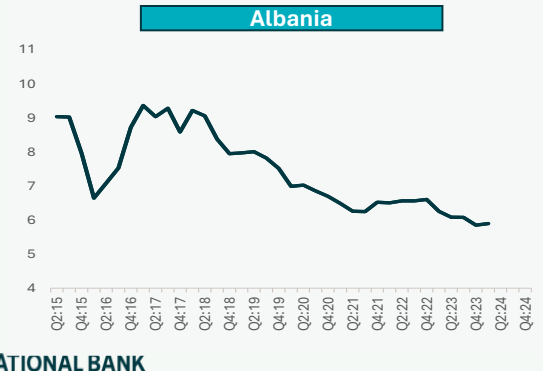
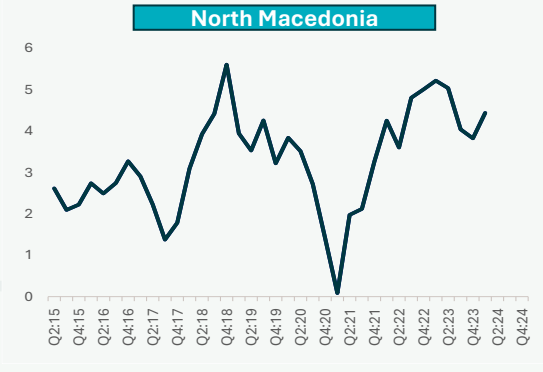
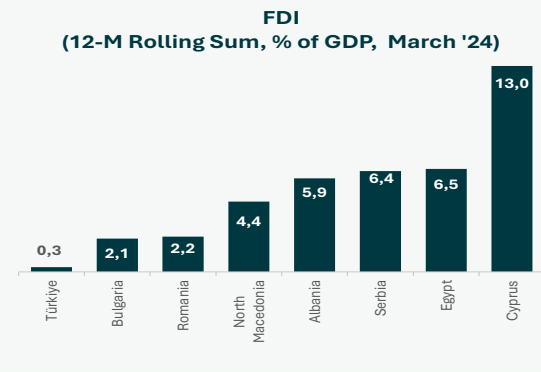
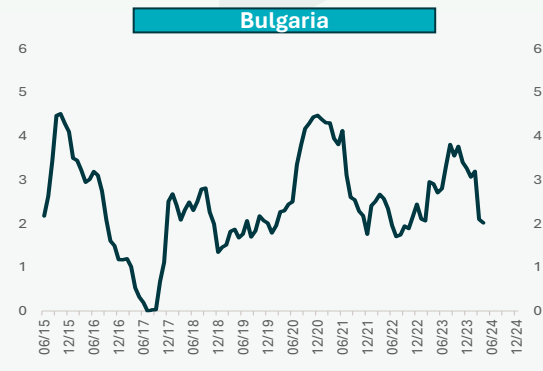
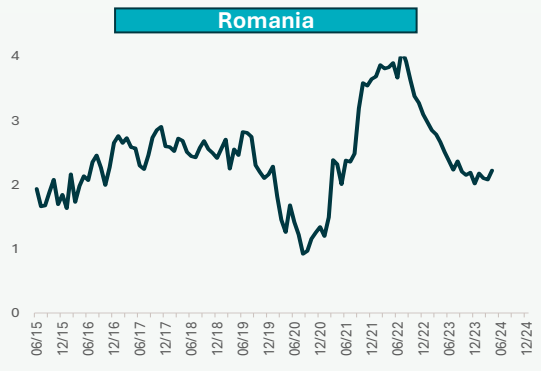
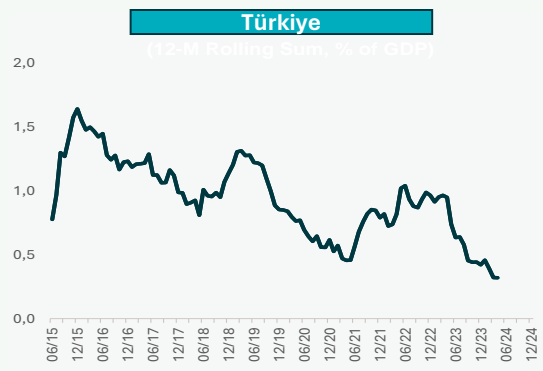
# Current account balance (12-month rolling, % of GDP)

- Lower global commodity prices and the impact of past monetary tightening on domestic demand have been driving a correction in external imbalances in most of the economies under review
- In **Albania**, the sharp narrowing the current account deficit is largely attributed to the overperformance of the tourism sector. In **Egypt**, the lifting of import restrictions boosted the trade deficit, despite the massive depreciation of the EGP



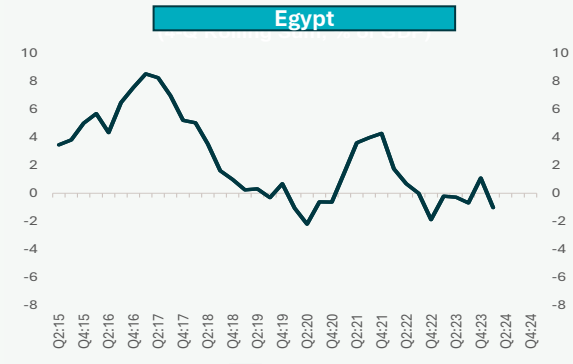
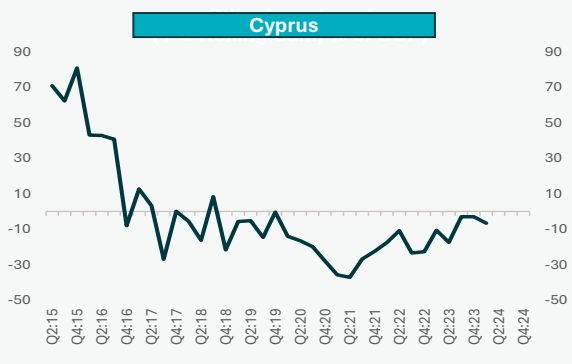
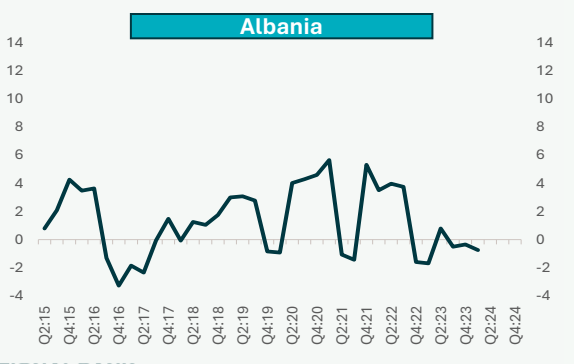
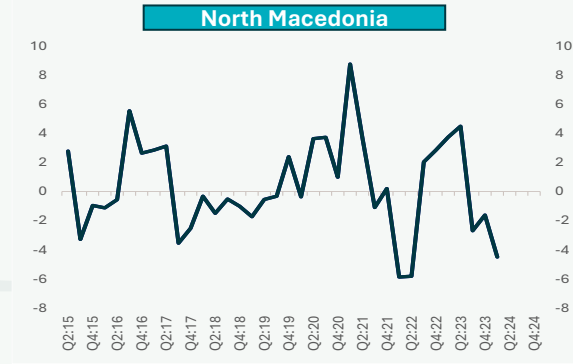
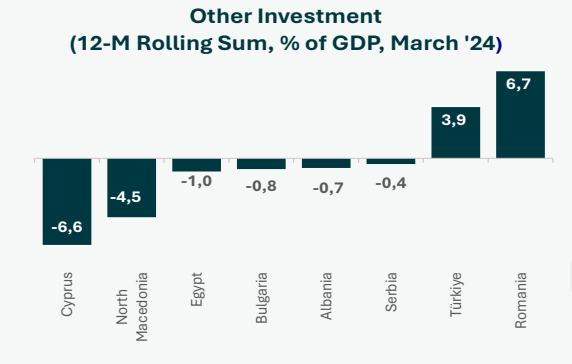
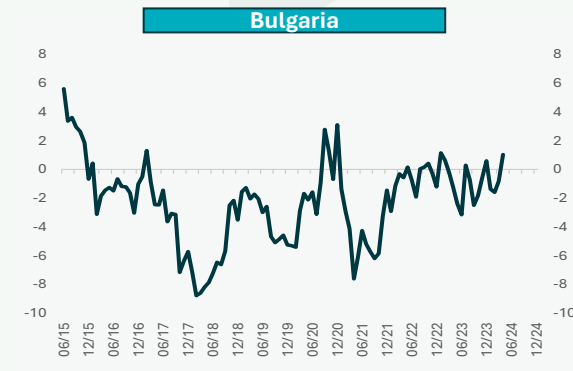
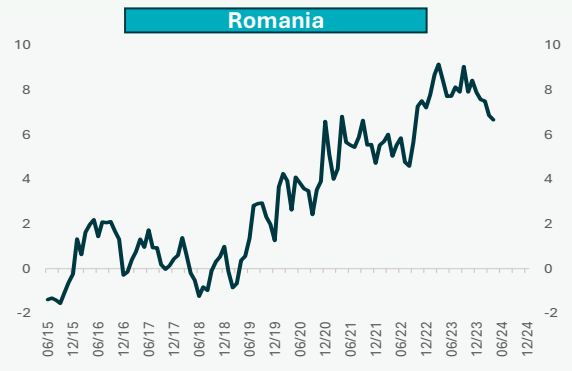
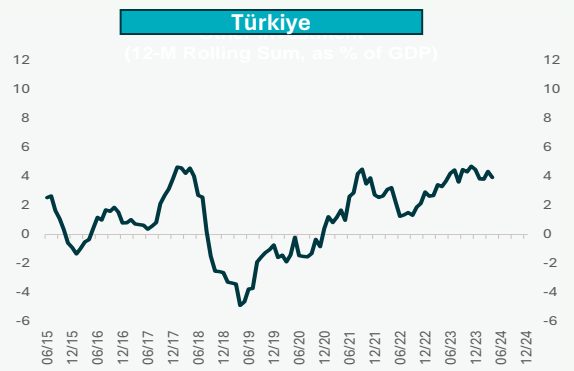
# Net foreign direct investment (12-month rolling, % of GDP)

- FDI inflows have been **weakening** in most of the economies under review on elevated uncertainty and tight financing conditions
- Albania** and **Serbia** continue to enjoy the strongest FDI inflow in the region
- Nearshoring trend** should continue to support FDI activity in the period ahead, with intercompany lending projected to remain the dominant form, nonetheless



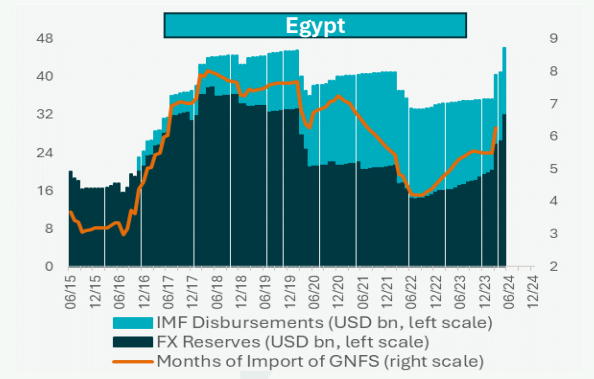
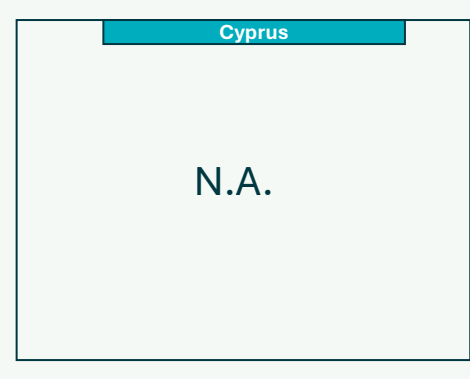
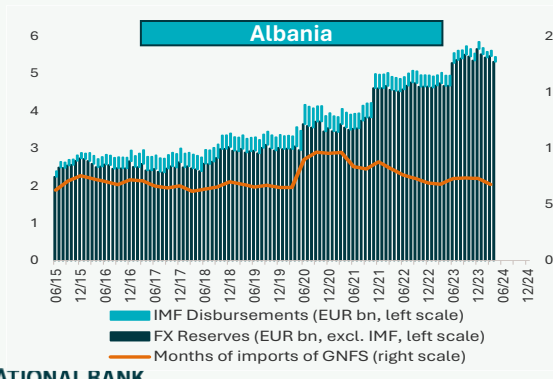
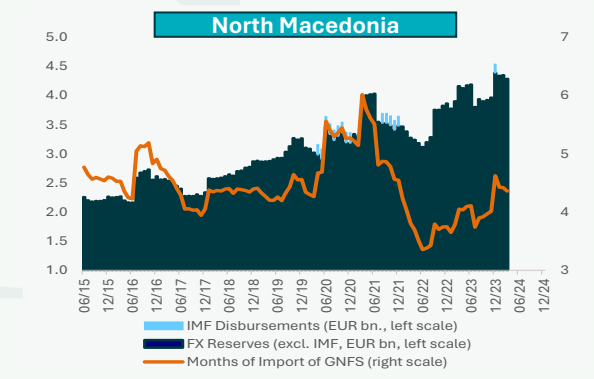
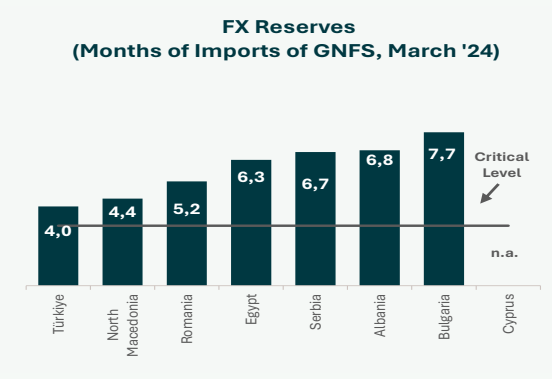
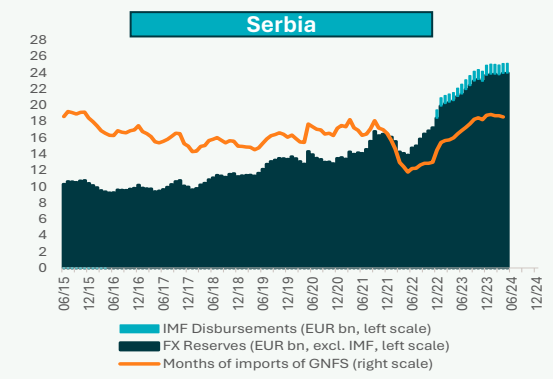
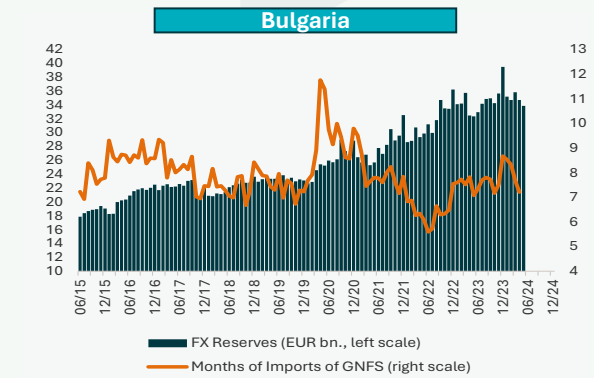
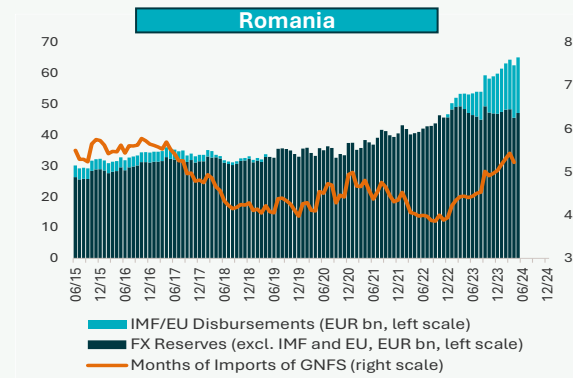
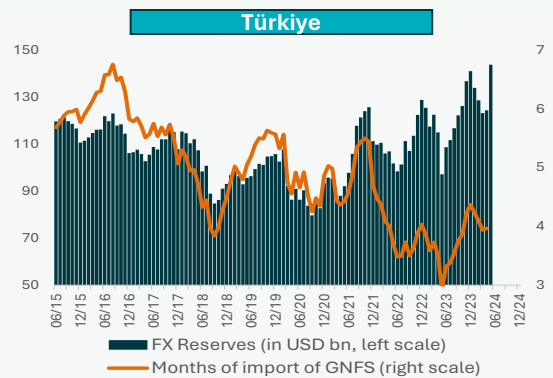
# Other net capital flows, excluding IMF funding and net errors and omissions (12-month rolling, % of GDP)

- Against the backdrop of **tight global financing conditions**, other investment flow has been slowing down
- Romania, Bulgaria and Cyprus** will continue to benefit from increased flow of funds under **the EU Recovery & Resilience Facility**



# Foreign exchange reserves

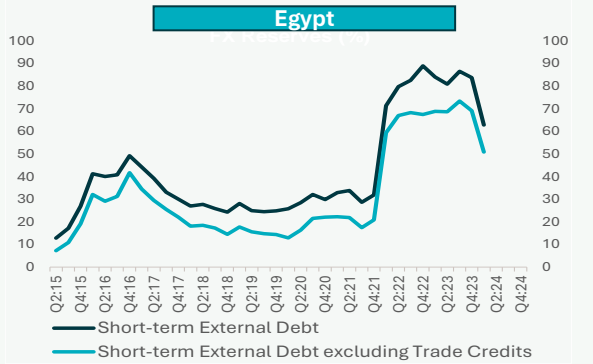
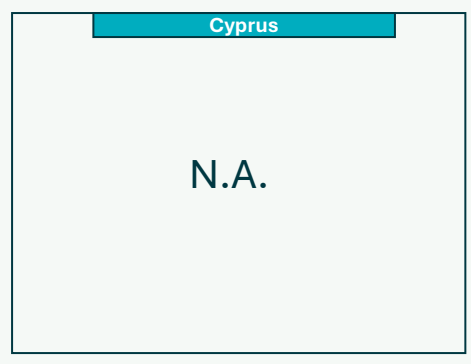
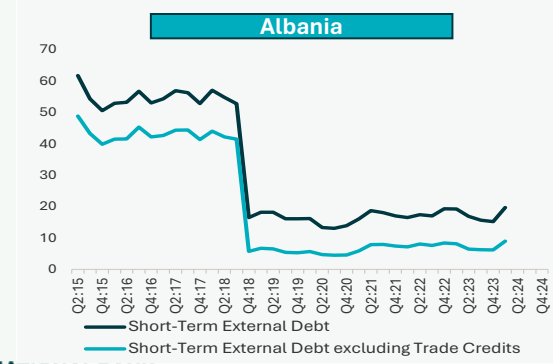
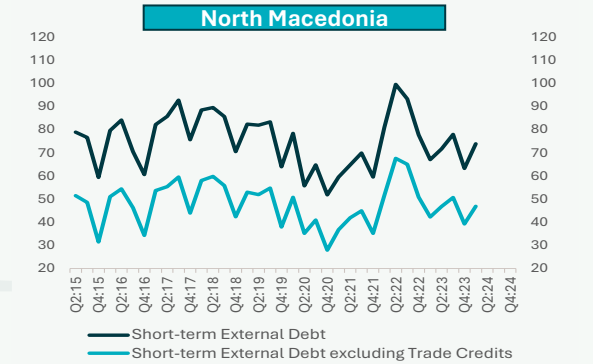
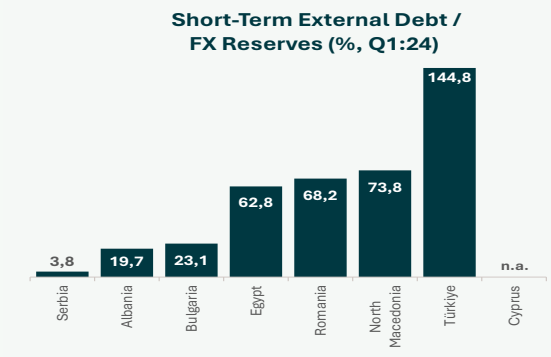
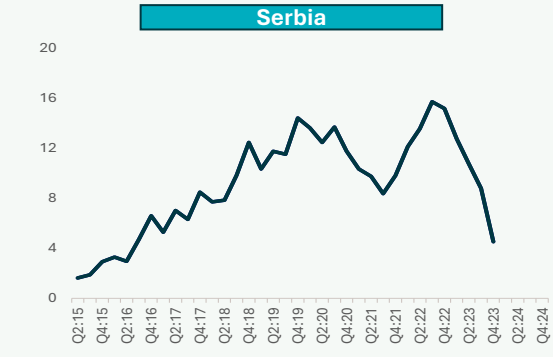
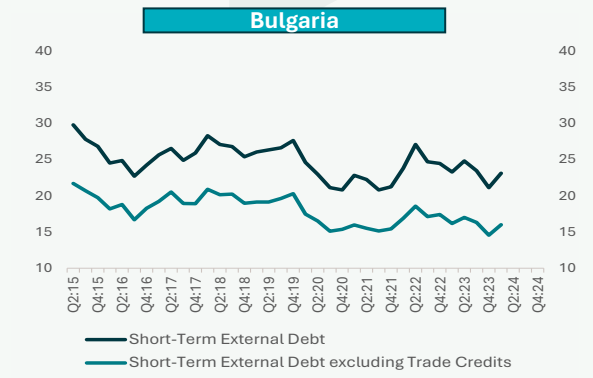
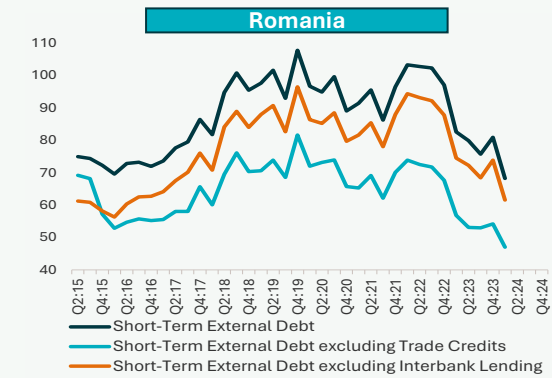
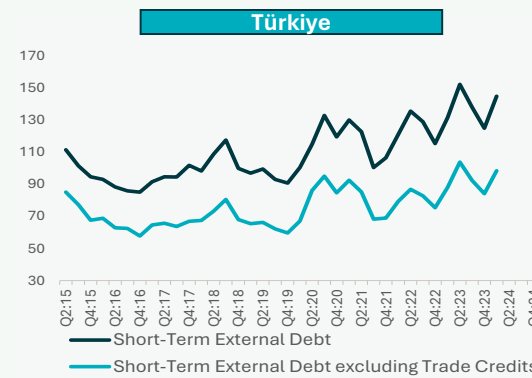
- FX reserves stand at **adequate** levels in all countries under review, having significantly strengthened over the past year
- The picture is, however, misleading in the case of **Türkiye**, where net FX reserves have yet to exit negative territory, despite their fast improvement, following past year's policy reversal
- A sizeable FDI has bolstered **Egypt's** FX reserves. Further improvement is in the pipeline, following FX liberalization and inflow of funding from IFIs





# Short-term external debt-to-Foreign exchange reserves ratio (%)

Short-term external debt is comfortably covered by FX reserves in all countries under review, except for Türkiye



# Balance of payments (12-month rolling, % of GDP)

- External imbalances are set to **widen modestly** in most of the economies under review, in line with **firming domestic demand**. A notable exception is Türkiye, where economic adjustment is underway
- Tourism-reliant economies should continue to benefit from (another) **strong tourism season**. The only exception is Cyprus, which will struggle to substitute losses from reduced inflows of tourists from Israel (the islands 2<sup>nd</sup> source country, accounting for c. 11.0% of total arrivals in FY:23), amid ongoing tensions in Middle East. Nevertheless, reduced income outflows (profit repatriation) should help narrow the current account deficit
- In all the economies under review (barring that of Romania), the current account deficit is set to remain **below** the empirical critical threshold of c. 5.0% of GDP
- Despite relatively tight external financing conditions, most countries under review should **plug their external financing gap** next year without drawing on FX reserves

Türkiye	Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
Current account balance	-5.1	-4.1	-2.3	-2.1
Net FDI	1.0	0.4	0.2	0.2
Other net capital inflows *	2.9	4.5	1.8	1.6

Bulgaria	Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
Current account balance	-1.4	-0.3	0.3	0.5
Net FDI	2.4	3.3	3.2	3.1
Other net capital inflows *	3.4	0.5	-1.5	-1.4

North Macedonia	Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
Current account balance	-6.1	0.7	-2.0	-2.2
Net FDI	5.0	3.8	3.3	3.3
Other net capital inflows *	10.3	8.2	6.2	5.5

Cyprus	Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
Current account balance	-7.9	-12.1	-9.5	-8.5
Net FDI**	30.4	12.6	14.9	16.3
Other net capital inflows *	-22.7	-3.0	-5.4	-7.8

\*\* Gross in/out-flows related to financial SPEs are sizeable and volatile

\*: excluding IMF and ESM funding and net errors and omissions, #: Fiscal year ending on June 30<sup>th</sup>

Romania	Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
Current account balance	-9.2	-7.0	-6.6	-6.2
Net FDI	3.1	2.0	1.9	1.9
Other net capital inflows *	8.5	9.1	5.2	4.9

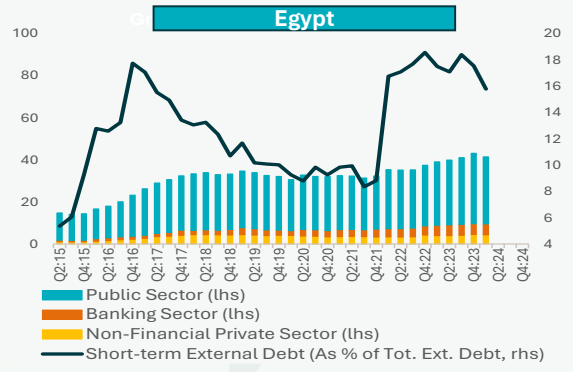
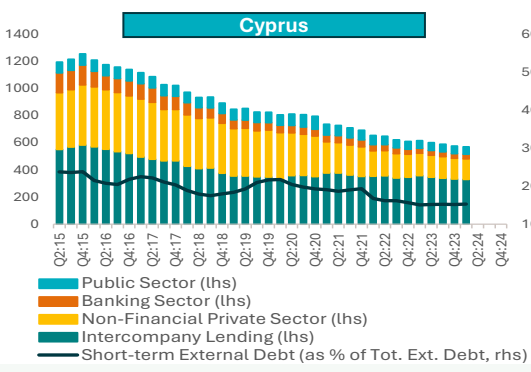
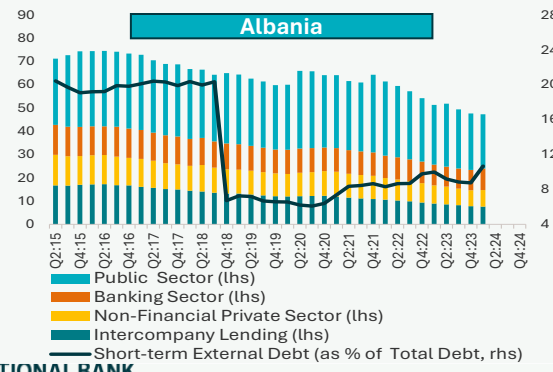
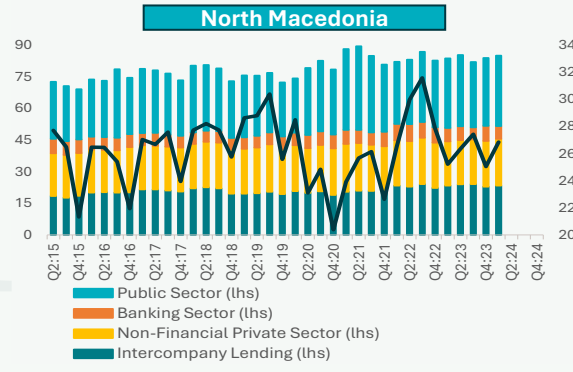
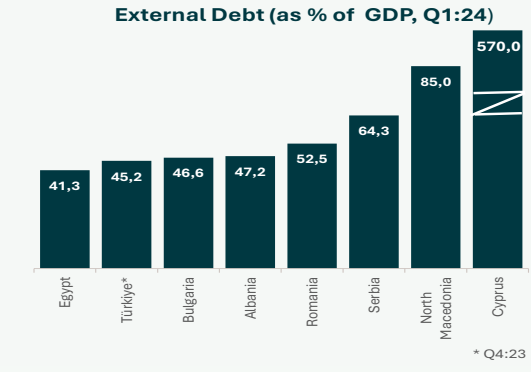
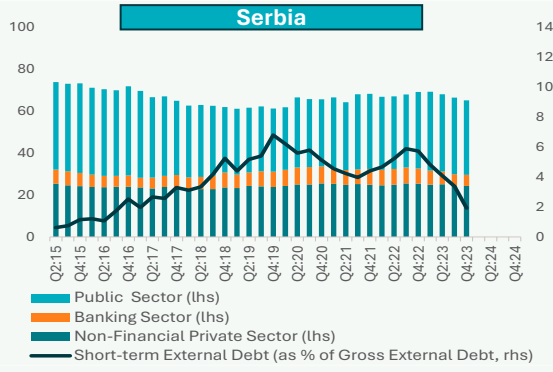
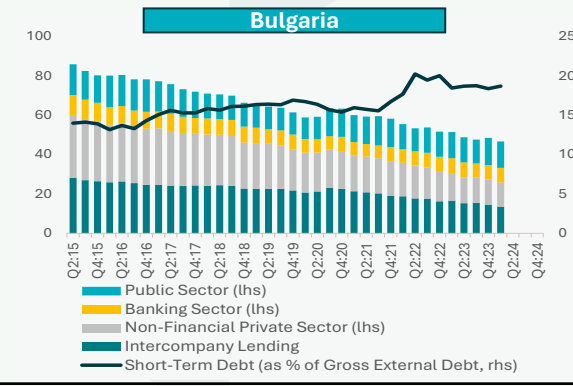
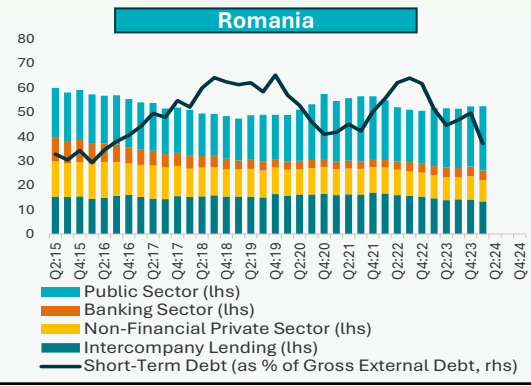
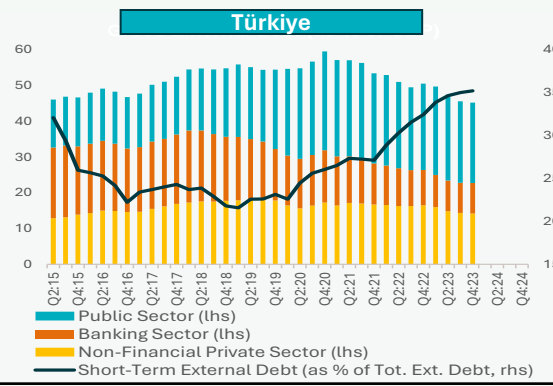
Serbia	Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
Current account balance	-6.9	-2.6	-3.4	-3.5
Net FDI	7.2	6.1	6.0	5.9
Other net capital inflows *	3.0	3.3	-0.3	-1.3

Albania	Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
Current account balance	-5.9	-0.9	-1.4	-1.9
Net FDI	6.6	5.8	5.4	5.2
Other net capital inflows *	-1.6	-0.3	0.2	0.2

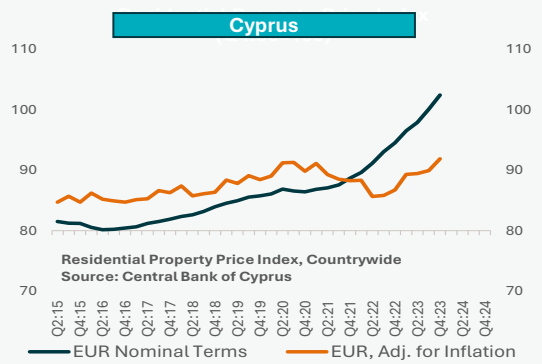
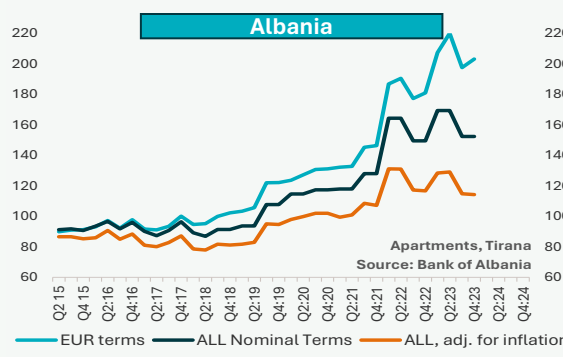
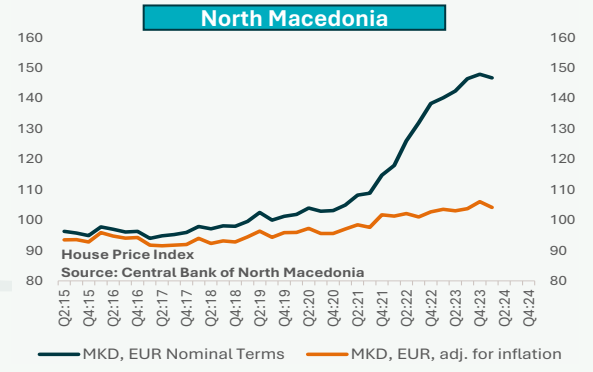
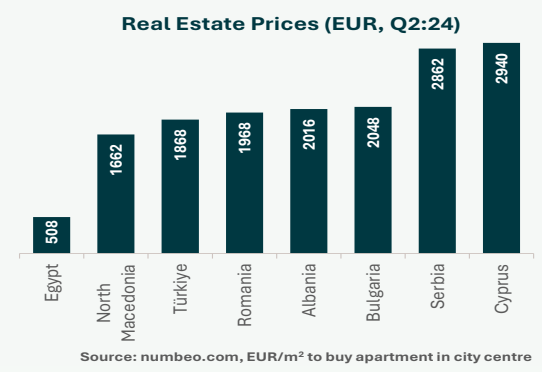
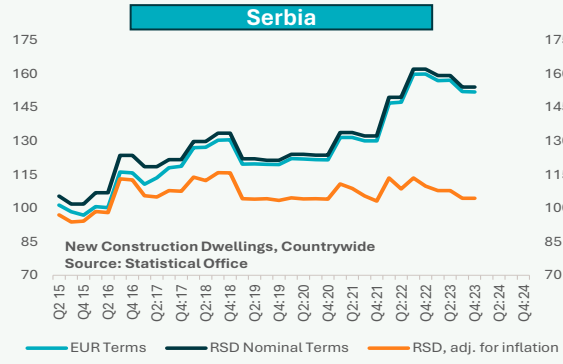
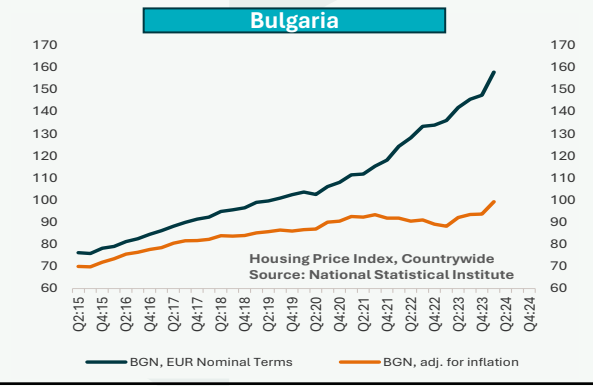
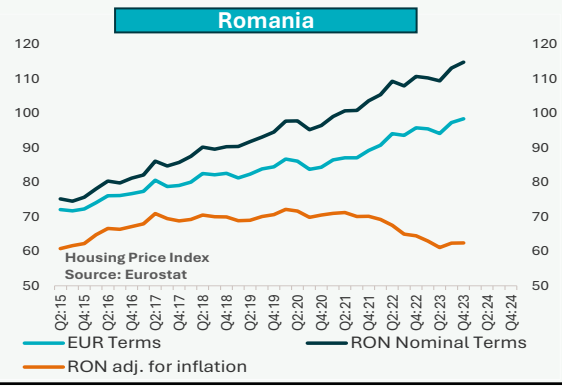
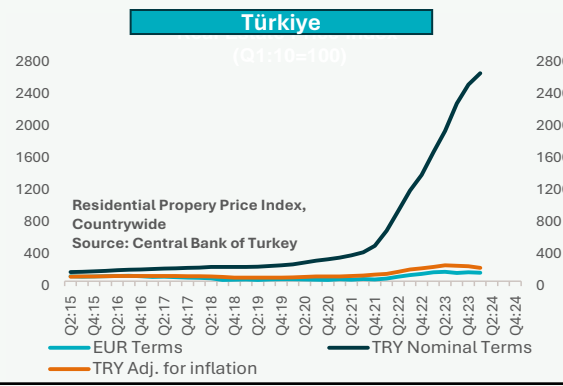
Egypt <sup>#</sup>	Jun. 22	Jun. 23	Jun. 24E	Jun. 25F
Current account balance	-3.5	-1.2	-3.0	-3.1
Net FDI	2.5	2.3	7.0	4.9
Other net capital inflows *	0.4	0.3	0.4	2.7

# External debt (% of GDP)

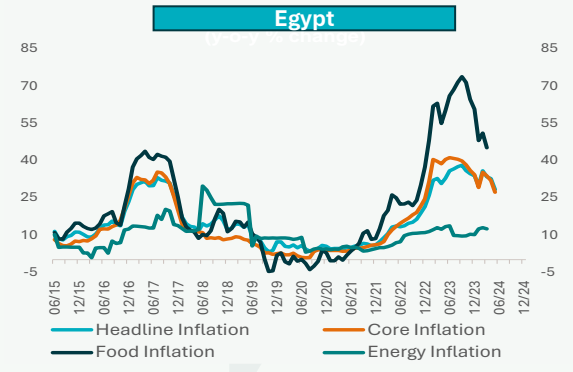
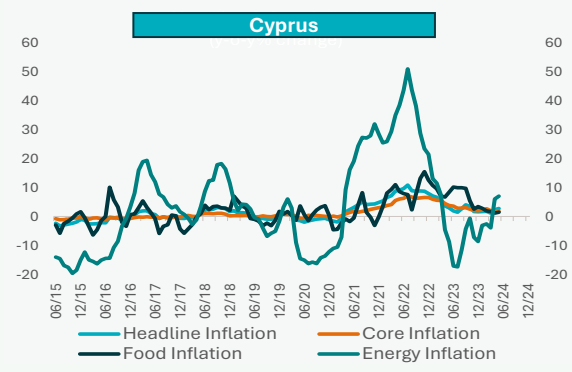
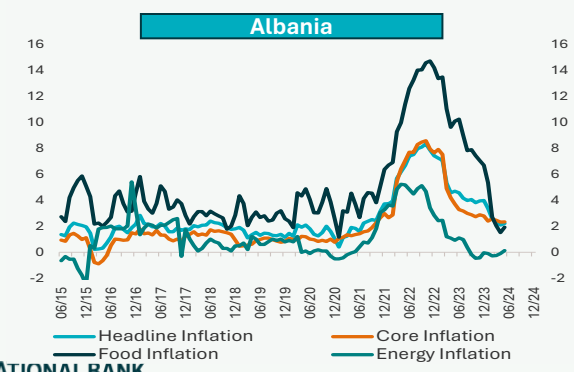
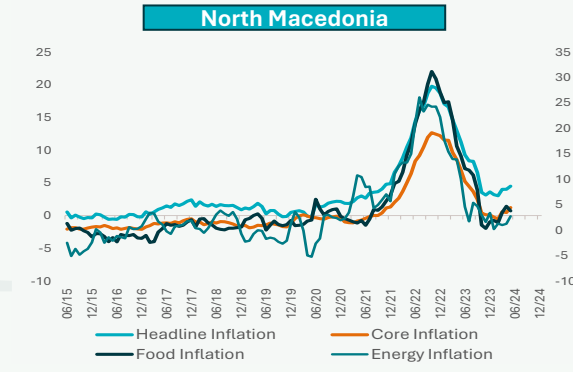
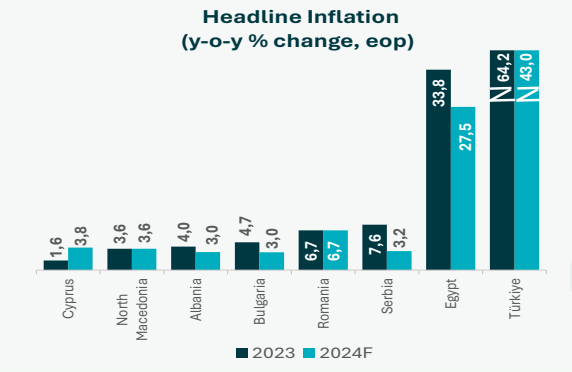
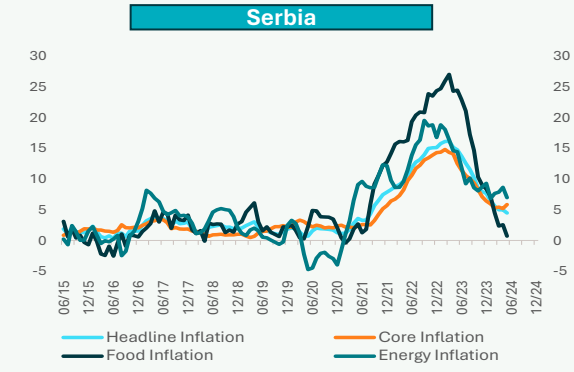
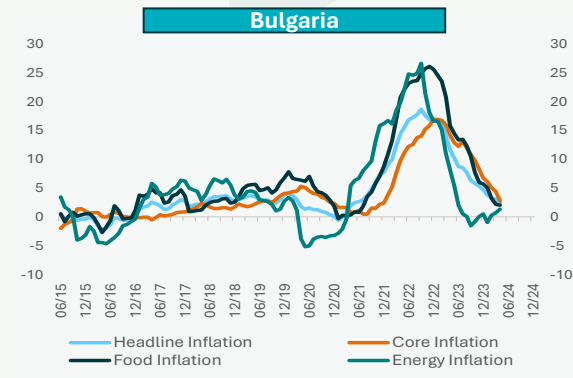
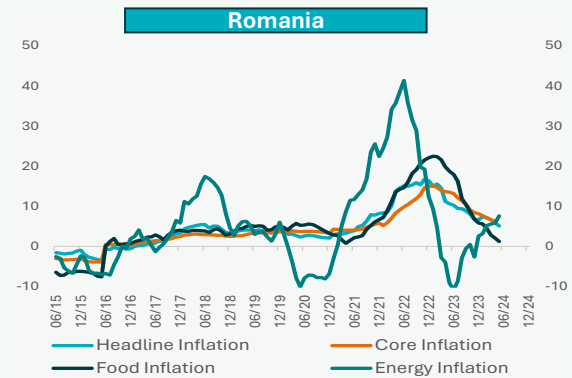
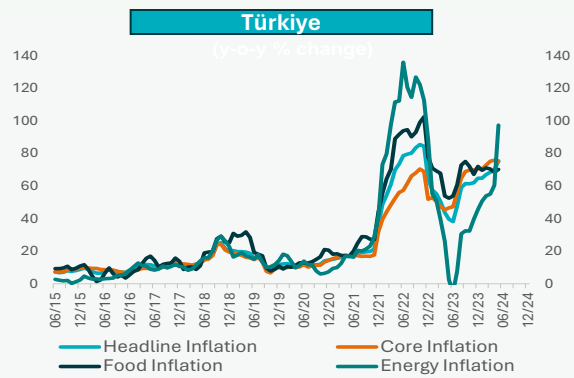
- Modest current account deficits, together with the impact of relatively high inflation (denominator effect), should keep the external debt-to-GDP ratio on a **downward trend** in the period ahead in most of the countries under review
- Albeit easing, the **cost of debt accumulation** would remain relatively high



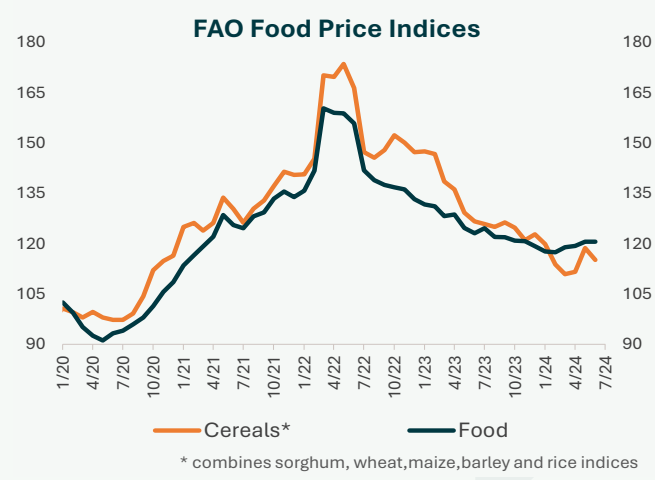
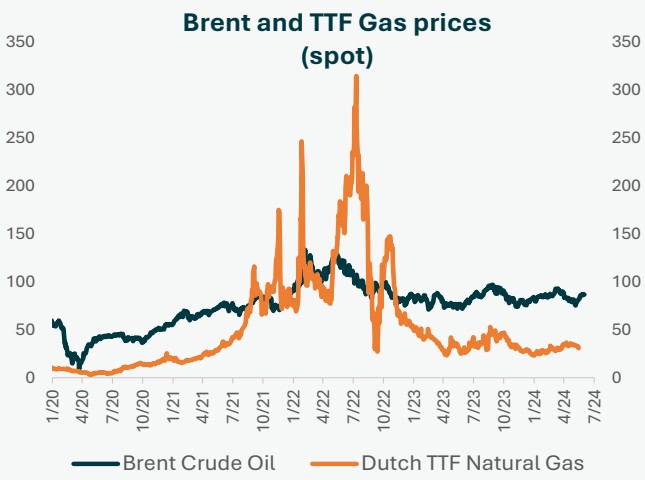
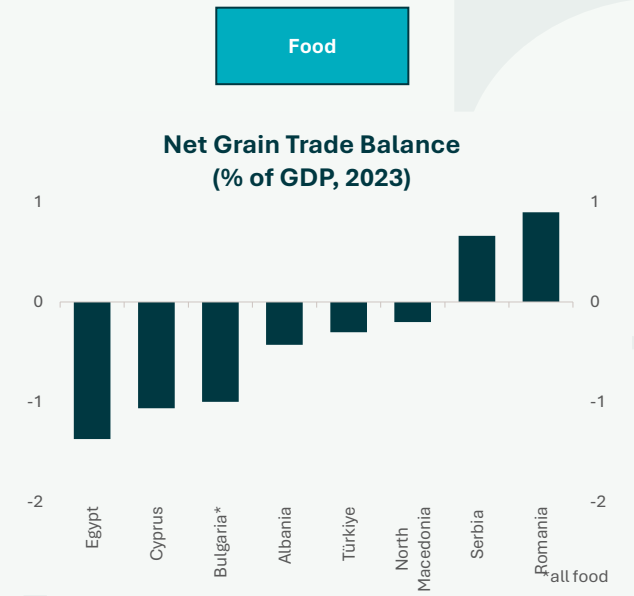
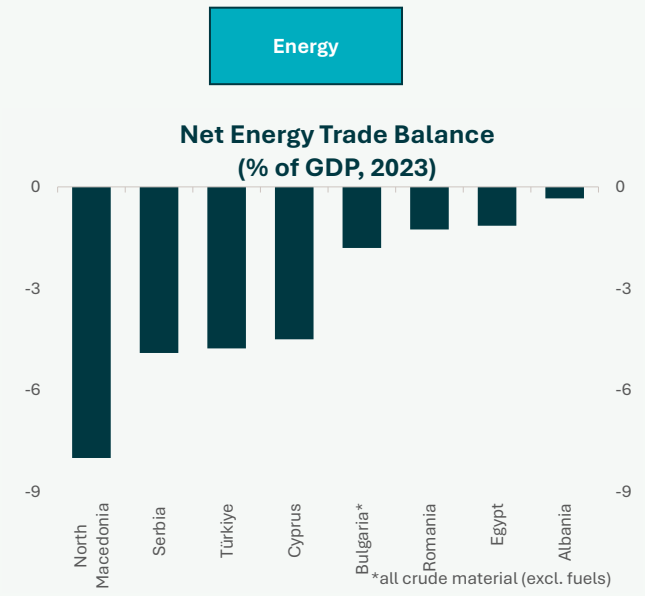
Some further **cooling-off in real terms** is expected in the real estate markets under review, reflecting still elevated -- yet gradually decreasing -- interest rates and easing construction cost inflation



- Following further (but slow) improvement over the past months, reflecting tight financing conditions and unwinding of adverse supply shocks, **disinflation is set to lose steam** in the period ahead, reflecting negative base effects from the unwinding of the measures adopted earlier and strong wage growth
- Headline inflation is **unlikely to return to pre-pandemic levels** before the end of the 2-year forecast horizon

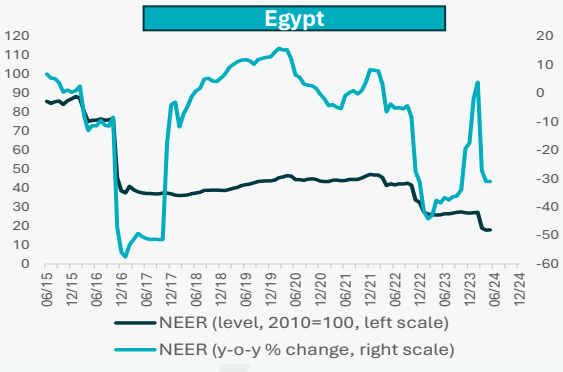
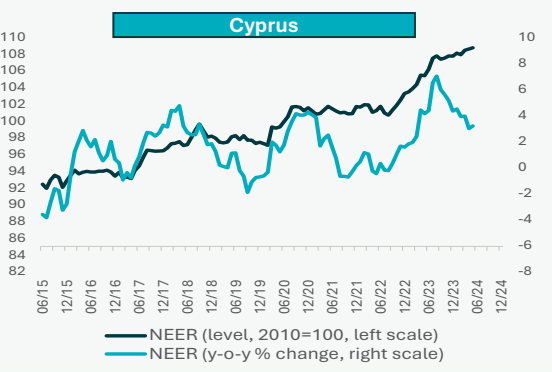
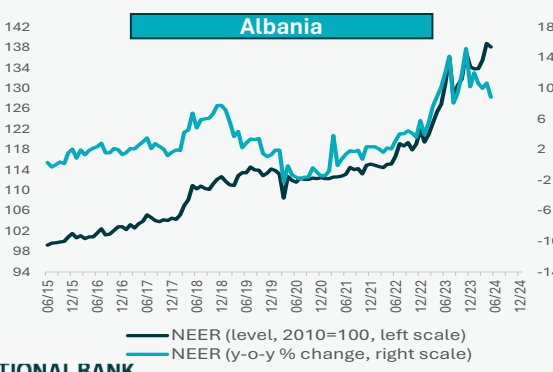
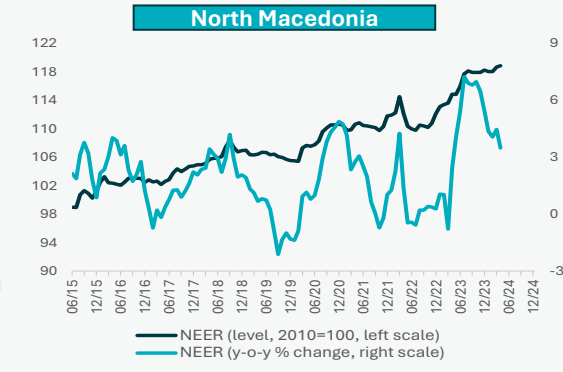
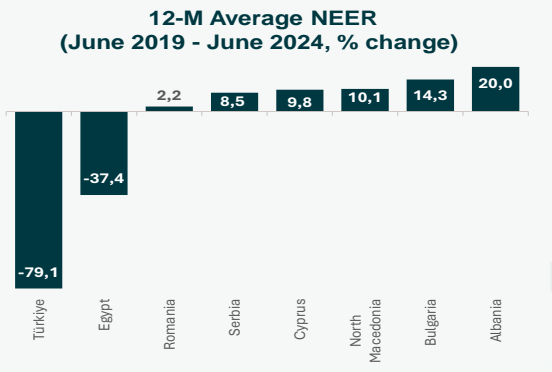
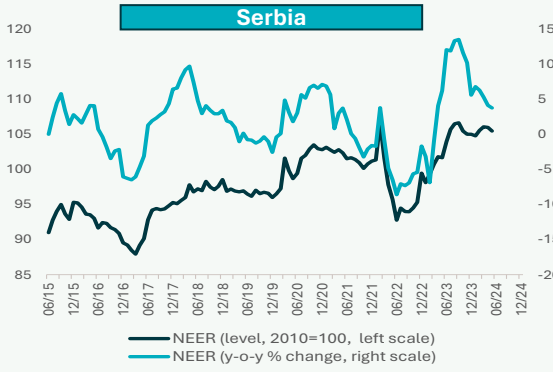
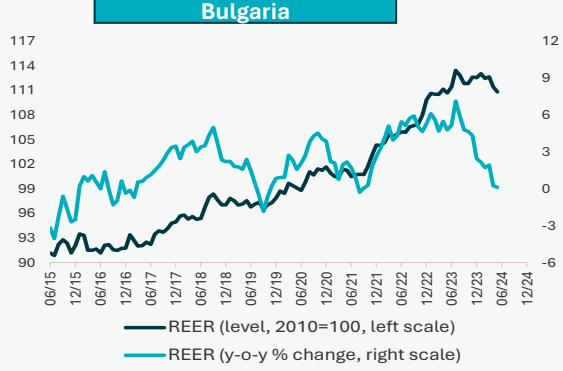
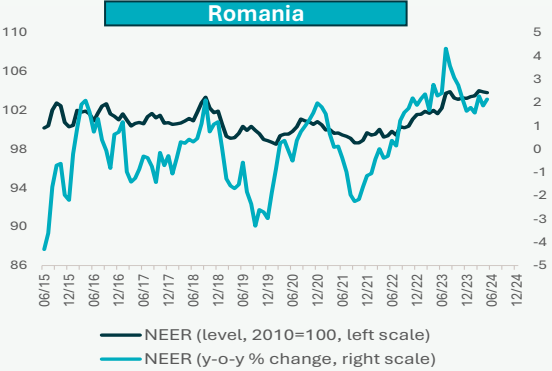
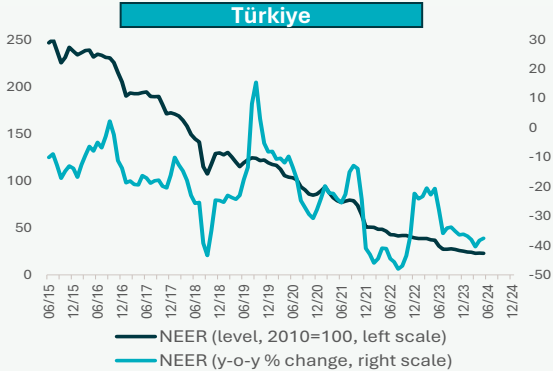


• Given the relatively benign outlook for energy and food prices, **core inflation** should continue to **exceed** the headline measure in the period ahead

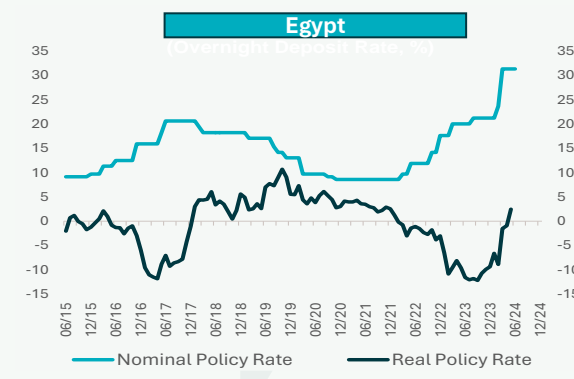
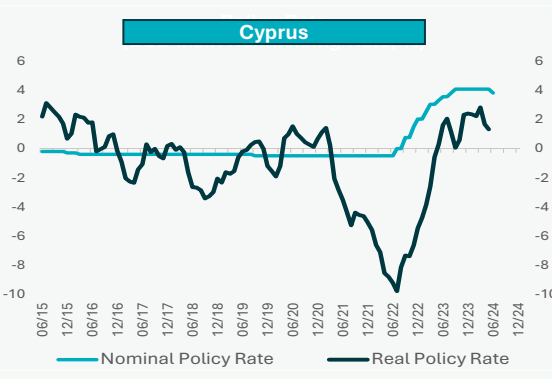
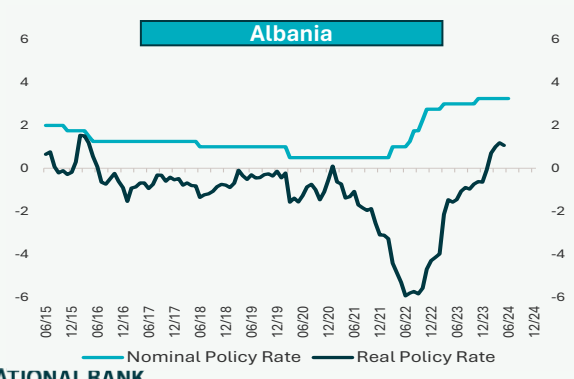
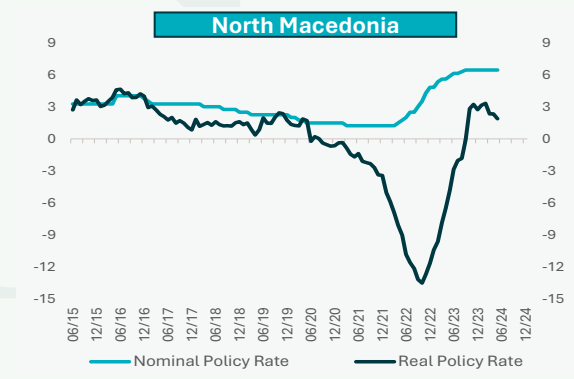
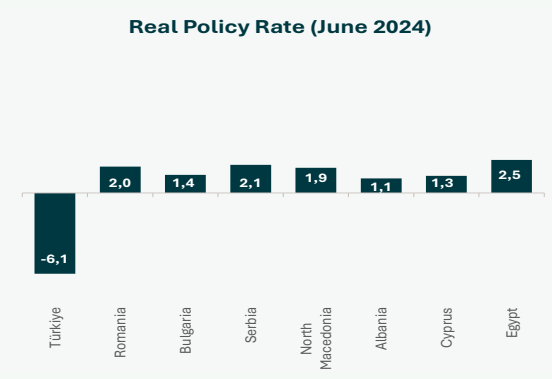
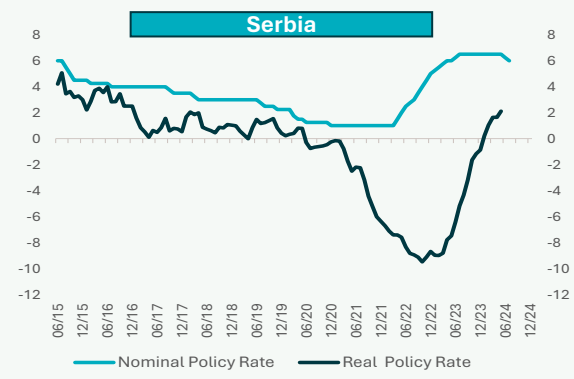
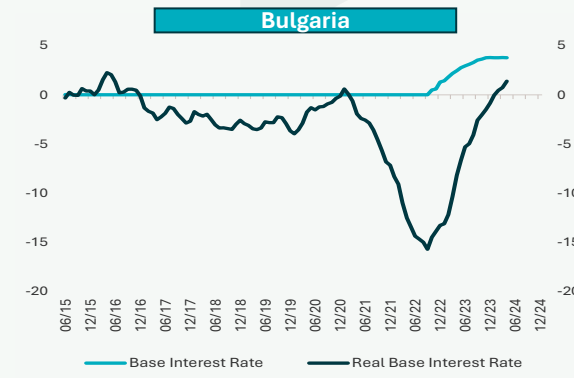
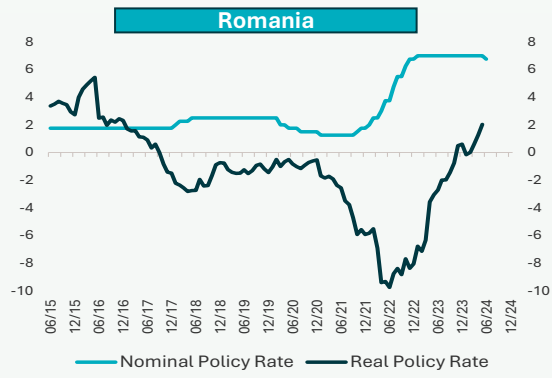
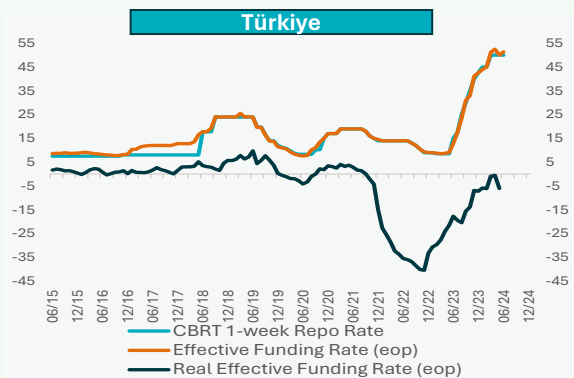


# Nominal effective exchange rate

Against the backdrop of wide external imbalances and inconsistent policies, the **Turkish Lira** and the **Egyptian Pound** depreciated significantly in nominal terms over the past 5 years. Following recent policy turnaround and ongoing economic adjustment in both countries, FX depreciation pressures have subsided markedly, nonetheless



- The central banks of Serbia, Albania and Romania have already **followed the ECB in cutting rates**. Monetary policy easing should be done **cautiously**, given upside risks to inflation, reflecting potential repercussions from ongoing geopolitical tensions and/or a wage-price spiral
- The need to rebuild investors' confidence in the domestic currencies of **Türkiye** and **Egypt** (both of which have suffered huge losses over the past years) should prompt their central banks to remain tight for longer





# Reserve requirement ratios

- In a bid to absorb excess liquidity in the market, the central banks of **Türkiye**, **Bulgaria** and **Serbia** have raised their reserve requirement ratios on LC-denominated liabilities
- The central banks of **Türkiye** and **North Macedonia** have also raised their reserve requirement rates on FX-denominated liabilities to stem dollar/euroization

## Türkiye

Reserve Requirement Ratios (%)			
	Dec. 2022	Dec. 2023	Jun. 2024
LC Liabilities	3.0-8.0	0.0-25.0	0.0-25.0
FC Liabilities	5.0-26.0	5.0-29.0	5.0-29.0

## Romania

Reserve Requirement Ratios (%)			
	Dec. 2022	Dec. 2023	Jun. 2024
LC Liabilities	8.0	8.0	8.0
FC Liabilities	5.0	5.0	5.0

## Bulgaria

Reserve Requirement Ratios (%)			
	Dec. 2022	Dec. 2023	Jun. 2024
LC Liabilities	10.0	12.0	12.0
FC Liabilities	5.0	10.0	10.0

## Serbia

Reserve Requirement Ratios (%)			
	Dec. 2022	Dec. 2023	Jun. 2024
LC Liabilities	0.0-5.0	0.0-7.0	0.0-7.0
FC Liabilities	13.0-20.0	13.0-23.0	13.0-23.0

## North Macedonia

Reserve Requirement Ratios (%)			
	Dec. 2022	Dec. 2023	Jun. 2024
LC Liabilities	5.0	5.0	5.0
FC Liabilities	18.0	21.0	21.0

## Albania

Reserve Requirement Ratios (%)			
	Dec. 2022	Dec. 2023	Jun. 2024
LC Liabilities	5.0-7.5	5.0-7.5	5.0-7.5
FC Liabilities	12.5-20.0	12.5-20.0	12.5-20.0

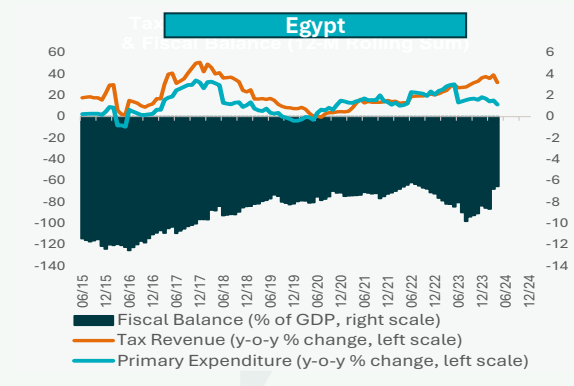
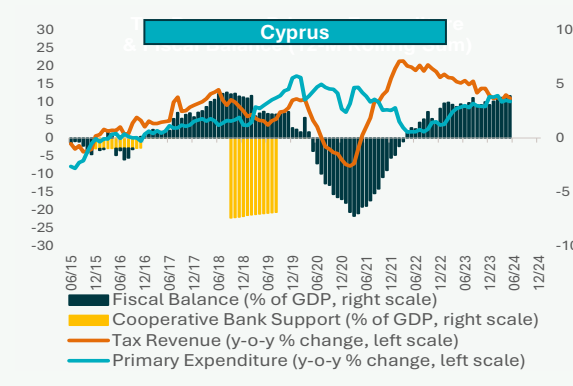
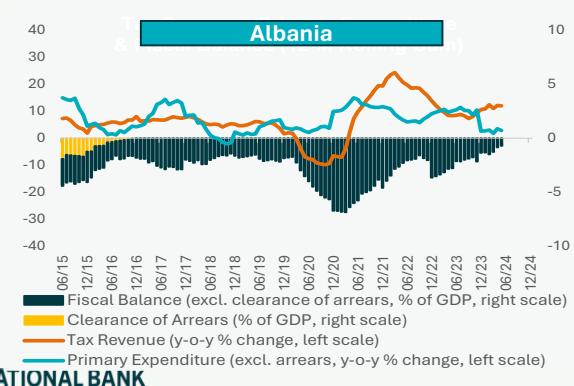
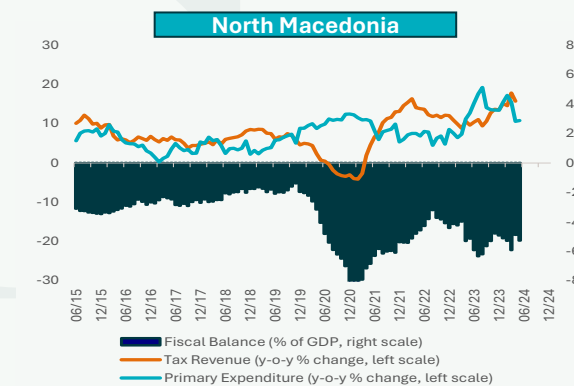
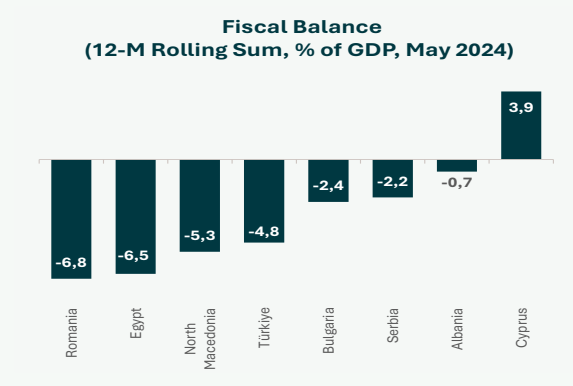
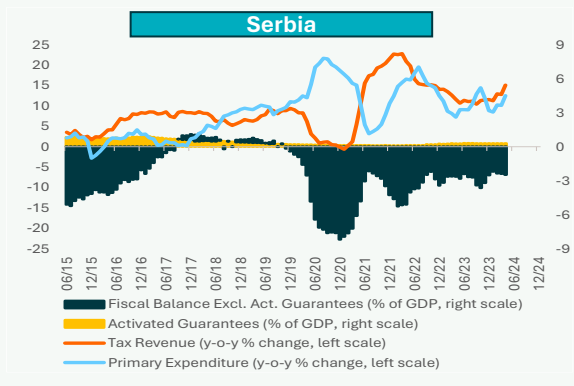
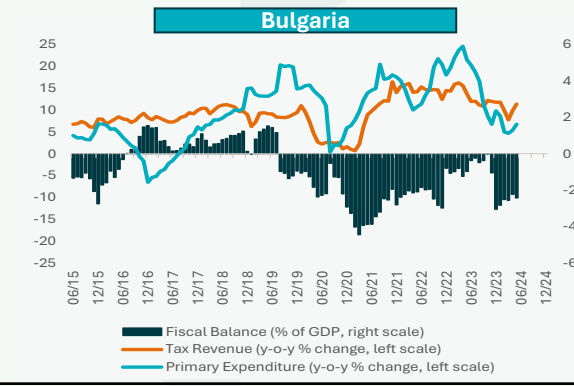
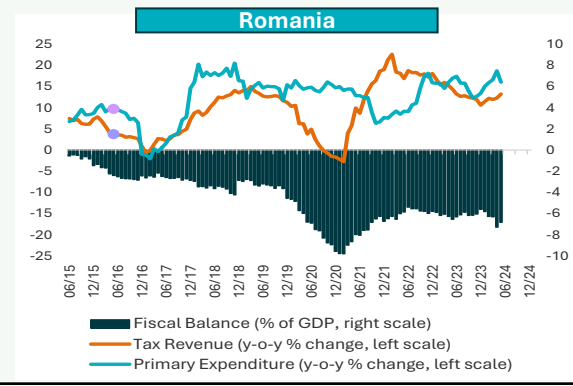
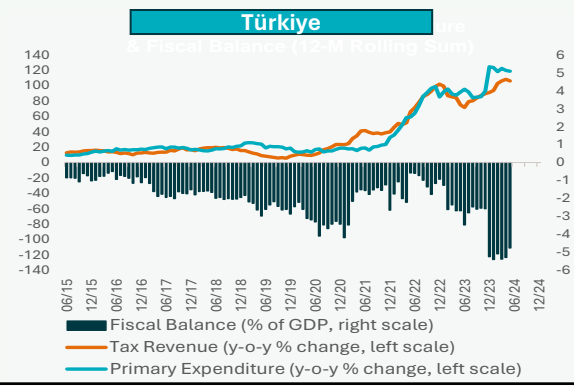
## Cyprus

Reserve Requirement Ratios (%)			
	Dec. 2022	Dec. 2023	Jun. 2024
LC Liabilities	1.0	1.0	1.0
FC Liabilities	1.0	1.0	1.0

## Egypt

Reserve Requirement Ratios (%)			
	Dec. 2022	Dec. 2023	Jun. 2024
LC Liabilities	18.0	18.0	18.0
FC Liabilities	---	---	---

Slowing tax revenue growth, in line with moderating economic activity, on the one hand, and increased discretionary spending (to fund schemes cushioning the impact of high inflation and hikes in public sector wages and pensions) and higher interest payments have been the main drivers behind the slowdown in fiscal consolidation



# Fiscal performance (12-month rolling, % of GDP)

- **Fiscal consolidation should resume** in the period ahead, albeit at a slow pace, following unwinding of support schemes
- Among EU member and candidate countries, **Romania** is the only economy with a budget deficit well above the critical threshold of 3.0% of GDP. Worryingly, its budget deficit is unlikely to fall below the 3.0% of GDP mark earlier than 2028
- Amid solid economic growth prospects, and with a view to reduce further the public debt stock, **Cyprus** should continue to post large fiscal surpluses
- High public debt servicing costs (absorbing c. 40% of budget revenue) make further progress with **Egypt's** fiscal consolidation difficult, given ongoing economic adjustment

## Türkiye

Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
-0.9	-5.2	-5.2	-3.6

## Romania

Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
-5.8	-5.6	-5.6	-5.0

## Bulgaria

Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
-0.8	-3.1	-3.2	-2.6

## Serbia

Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
-3.2	-2.2	-2.0	-1.5

## North Macedonia

Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
-4.4	-4.9	-4.2	-3.5

## Albania

Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
-3.7	-1.3	-2.0	-2.0

## Cyprus

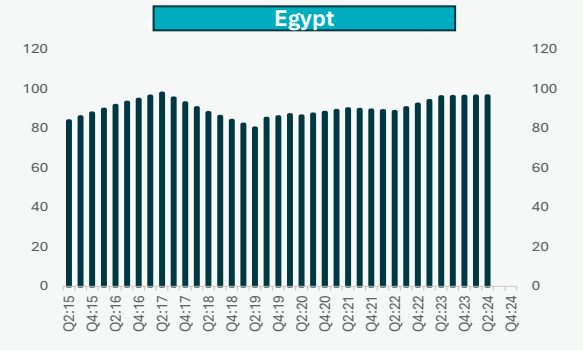
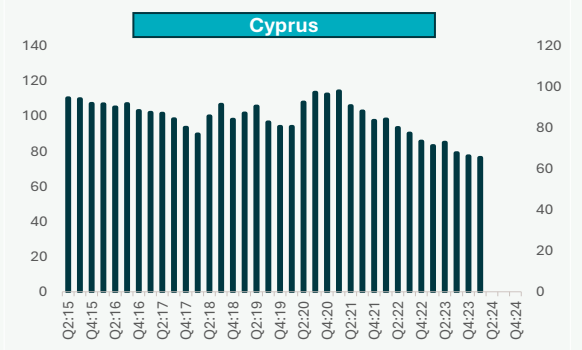
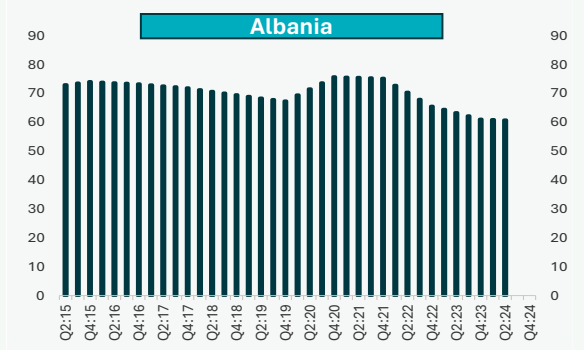
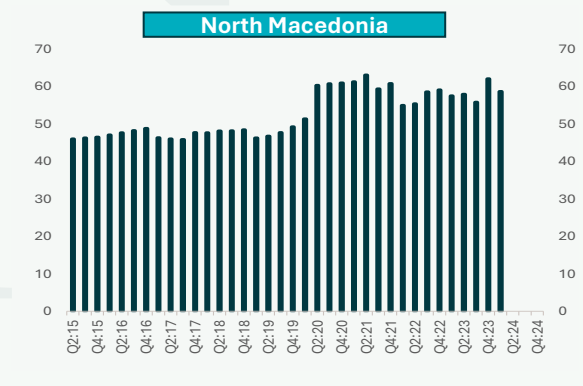
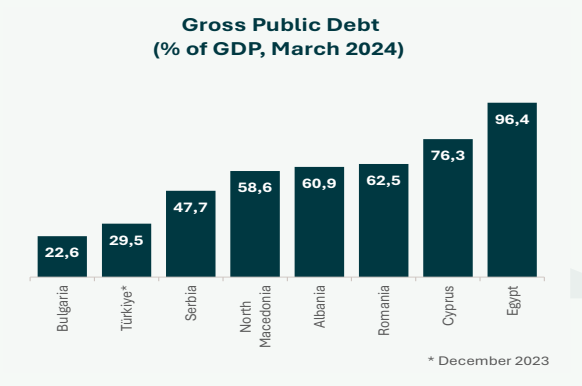
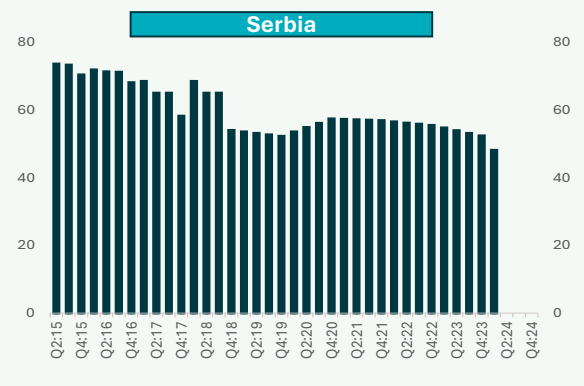
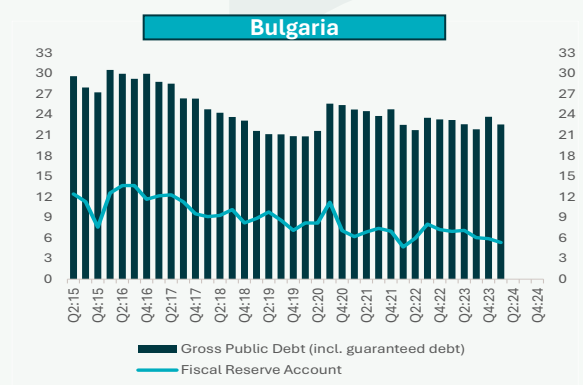
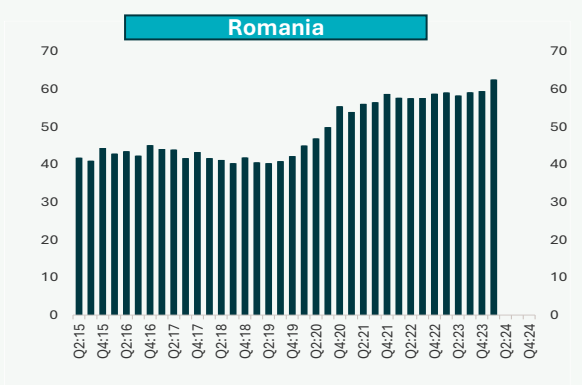
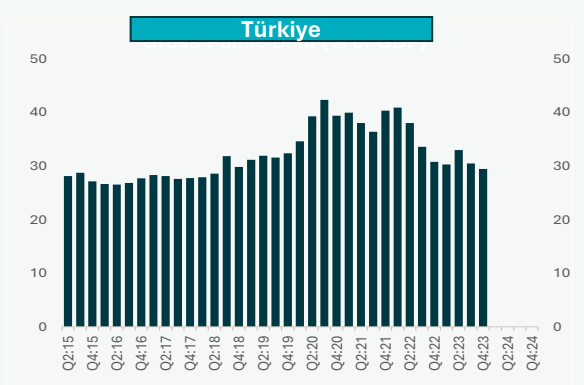
Dec. 22	Dec. 23	Dec. 24F	Dec. 25F
2.4	3.1	2.6	2.4

## Egypt\*

Jun. 22	Jun. 23	Jun. 24E	Jun. 25F
-6.2	-6.0	-6.0	-8.0

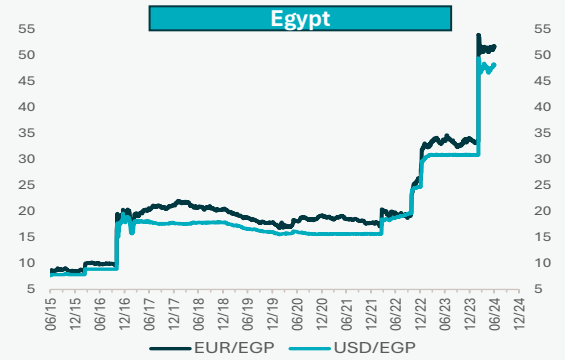
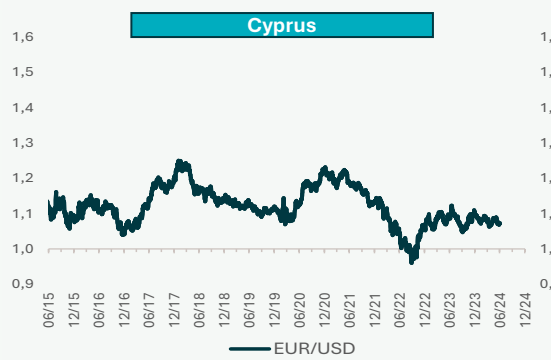
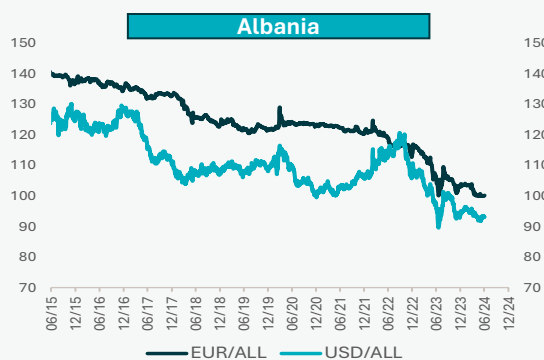
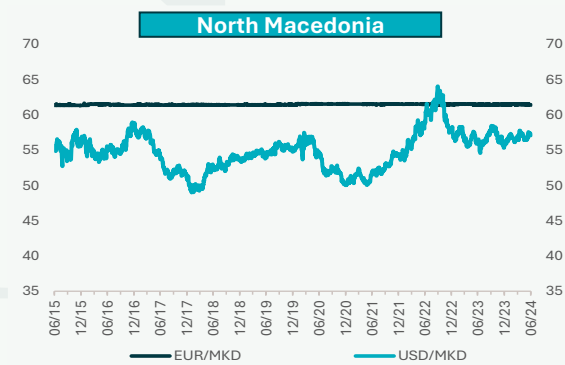
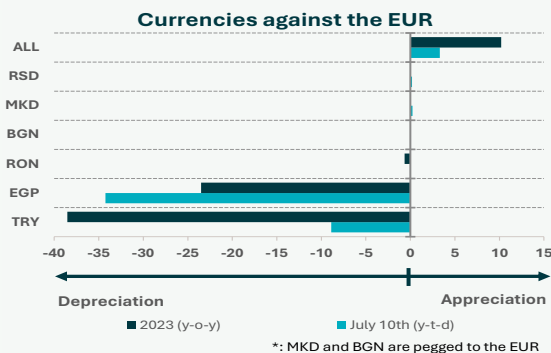
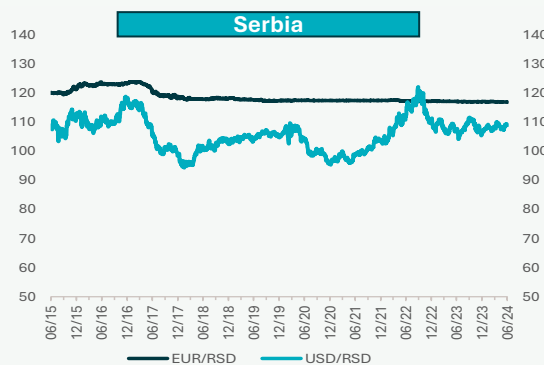
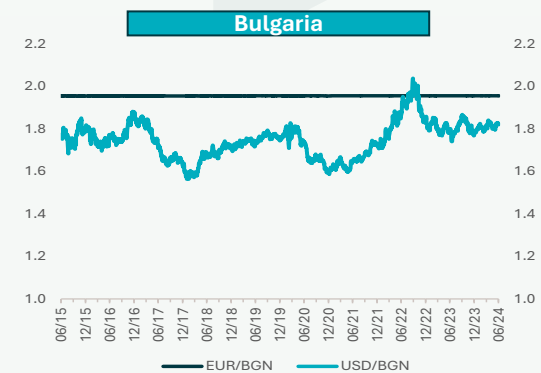
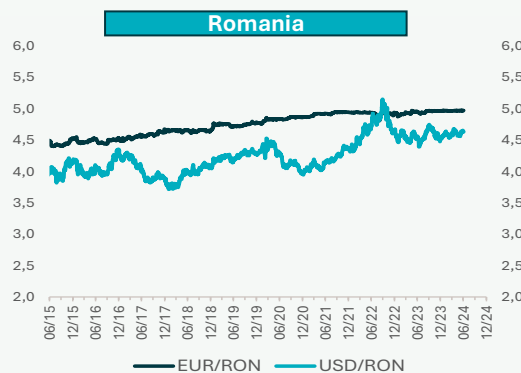
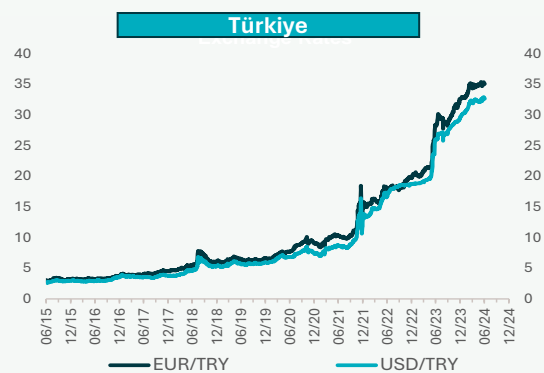
\*: Fiscal year ending on June 30<sup>th</sup>.

- Against the backdrop of large budget deficits, gross public debt should keep **rising**, albeit at a slow pace, due to strong (yet gradually easing) nominal GDP growth (denominator effect). The only notable exceptions are **Cyprus** and **Albania**, whose public debt ratios have embarked on a sustainable downward trend

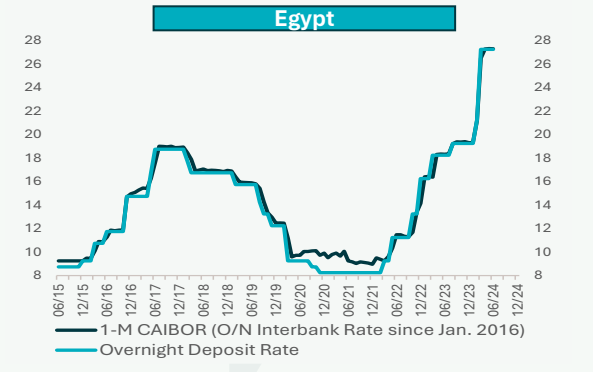
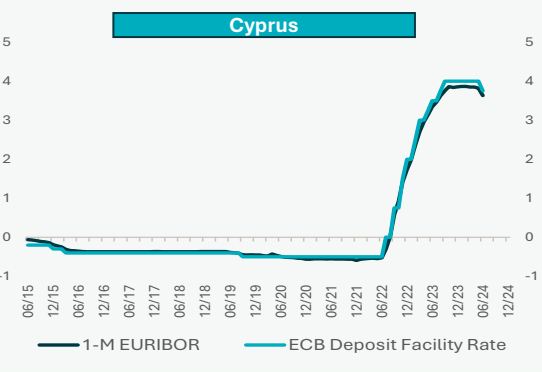
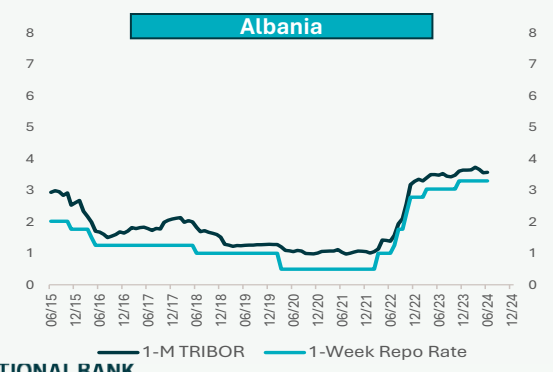
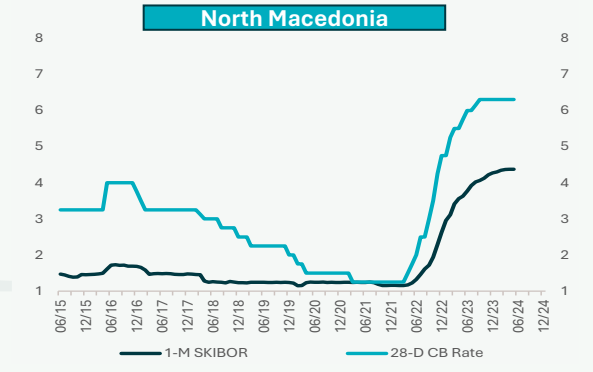
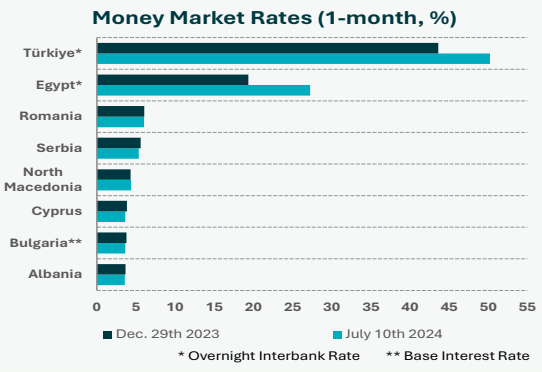
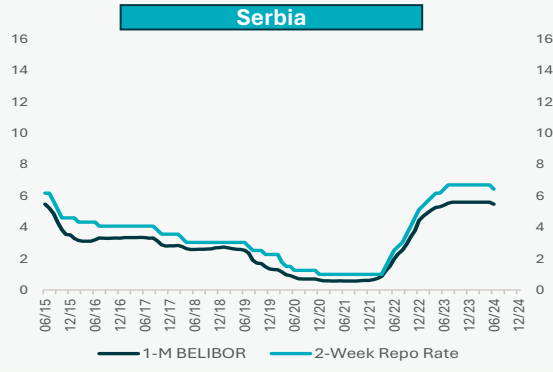
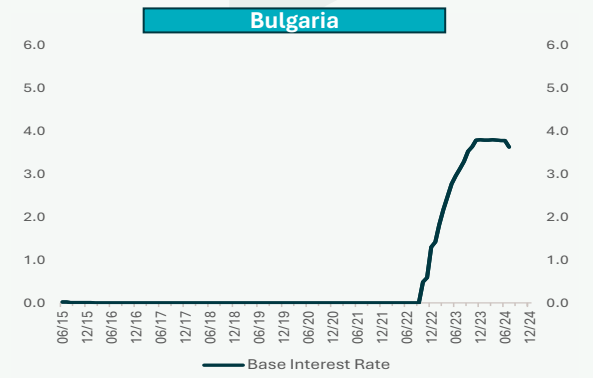
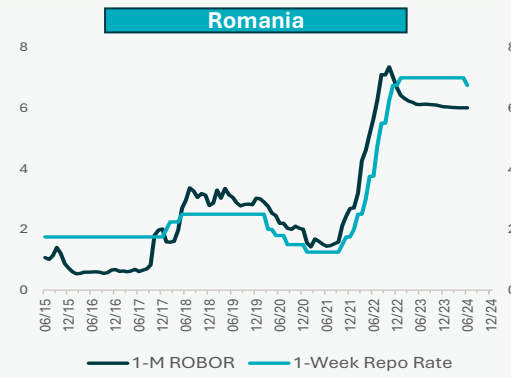
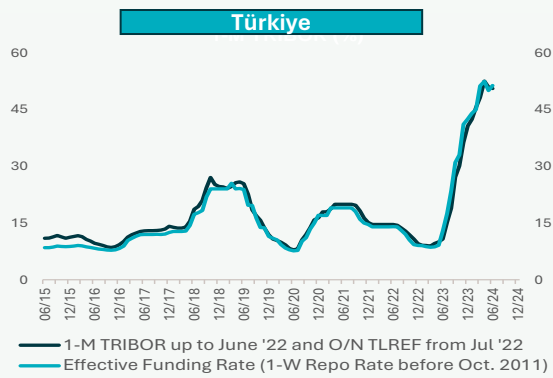


# Exchange rates

- Depreciation pressures on the **Turkish lira** started to ease in the wake of the turnaround in monetary policy in June, eventually reversing following completion of the election cycle in March (with latter perceived to be significantly reducing political noise)
- Albanian Lek** remains on an appreciation trend, on solid FDI inflows, increased remittances, strong tourism activity and a positive nominal interest rate differential
- Following its sizeable depreciation in March, the **Egyptian Pound** appears to be (slowly) winning back investors' confidence

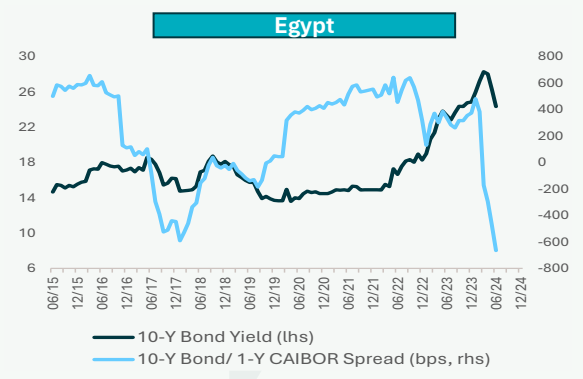
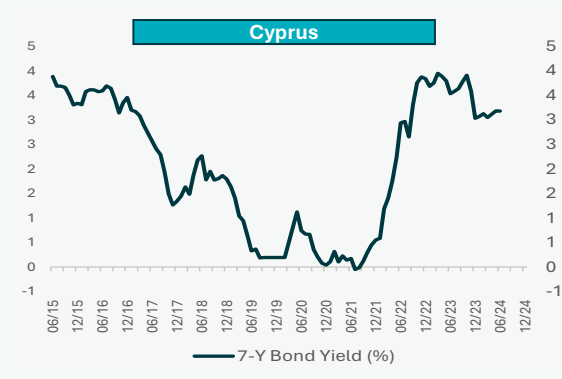
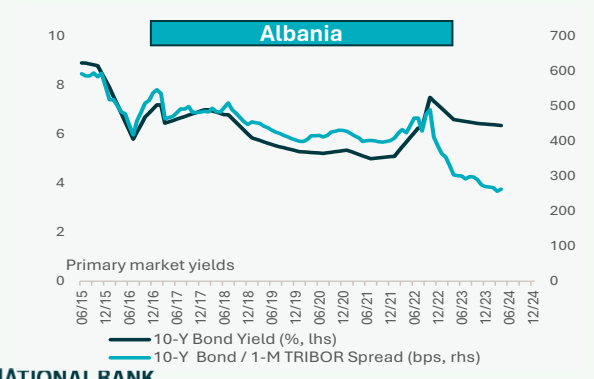
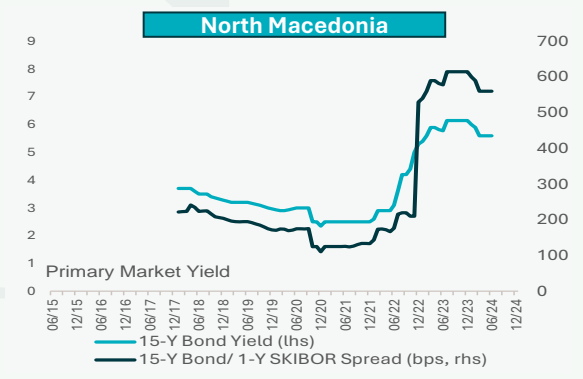
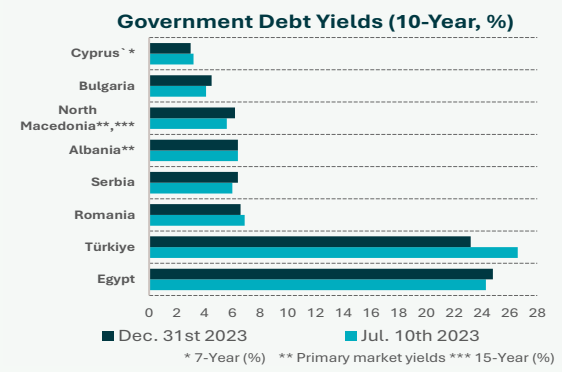
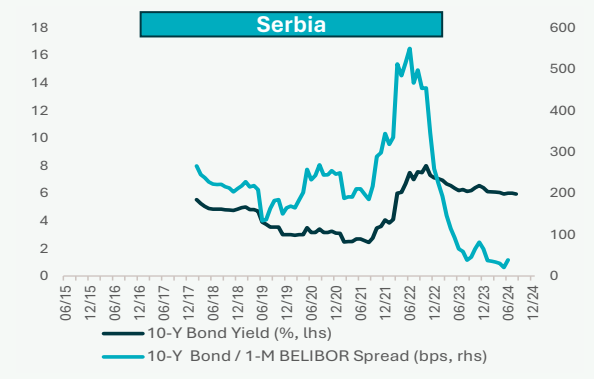
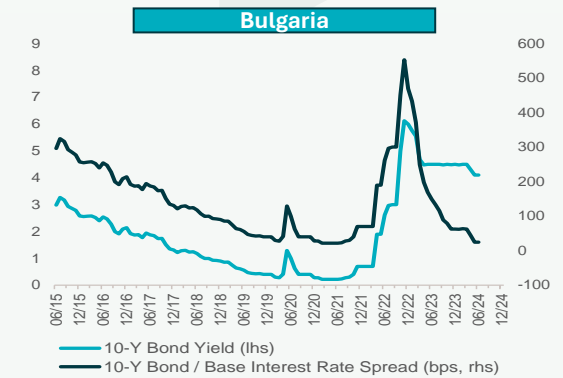
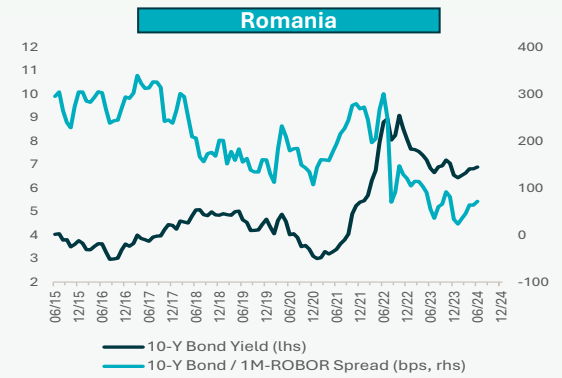
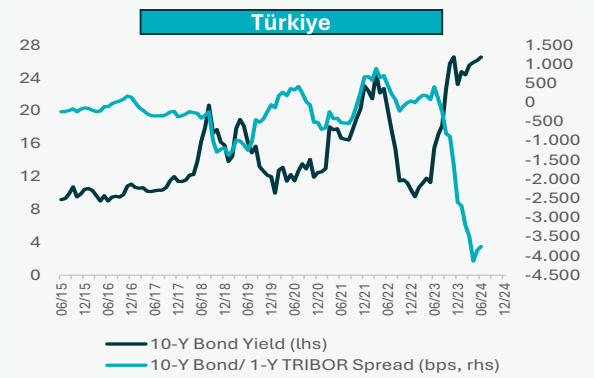


Money market rates should start **easing off their peaks** to reflect upcoming initiation of central banks' easing cycle

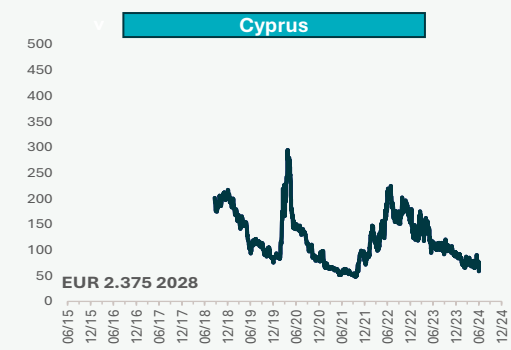
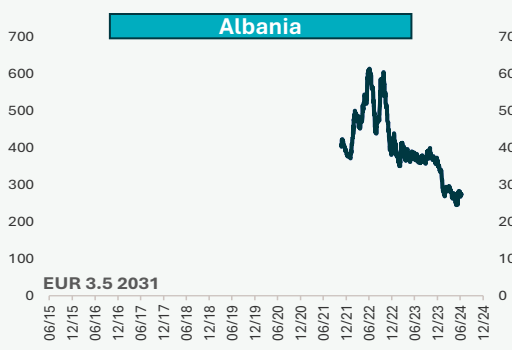
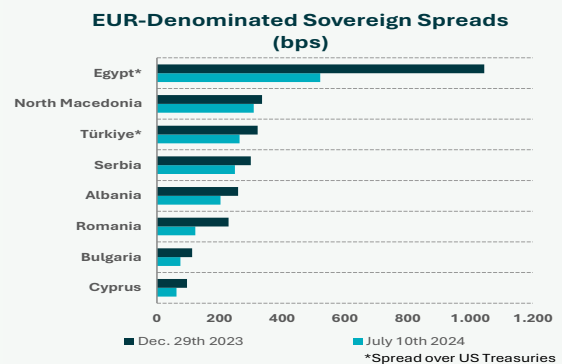
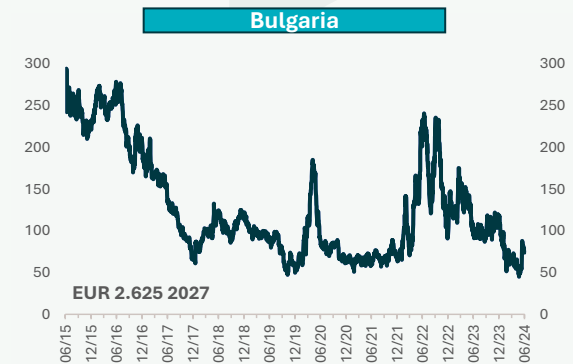
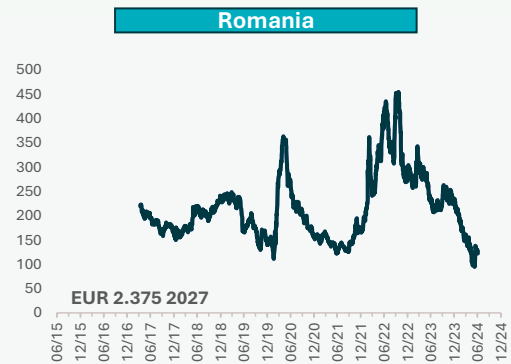
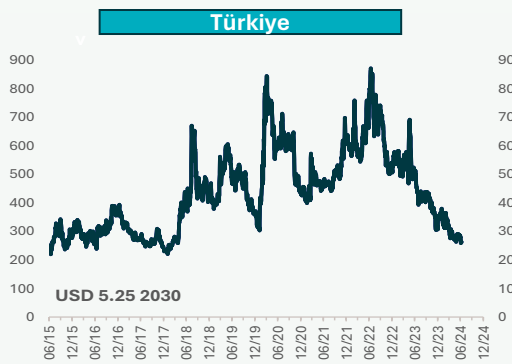


# Government Debt Yields (%)

- Government debt yields have been heading **lower** in most of the economies under review, in line moderating inflation and the prospect of lower interest rates. At the same time, the respective yield curves have become **less steep**
- Reflecting ongoing adjustment, the yield curves of **Türkiye** and **Egypt** remain inverted

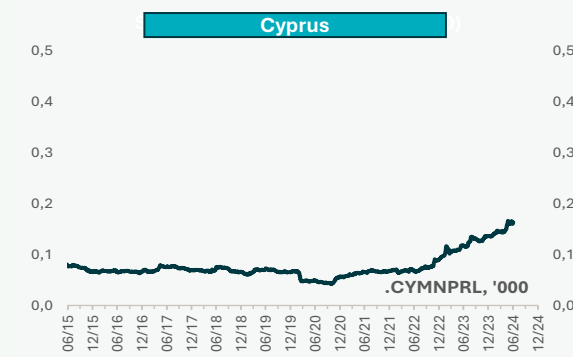
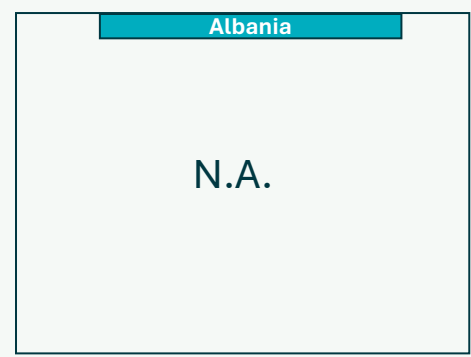
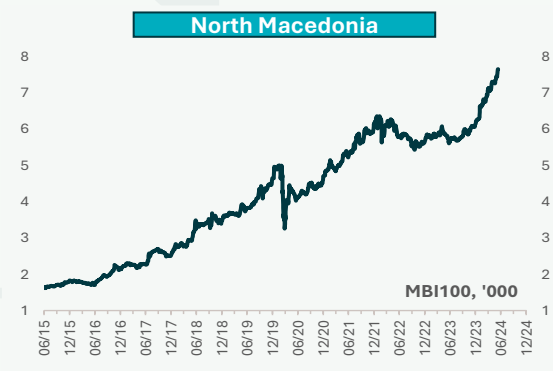
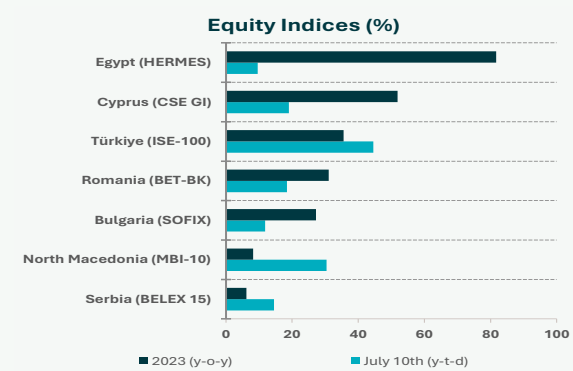
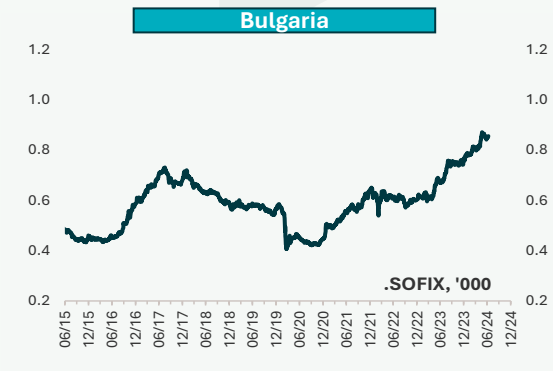
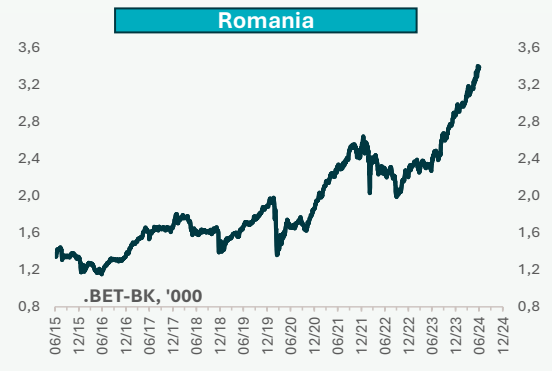
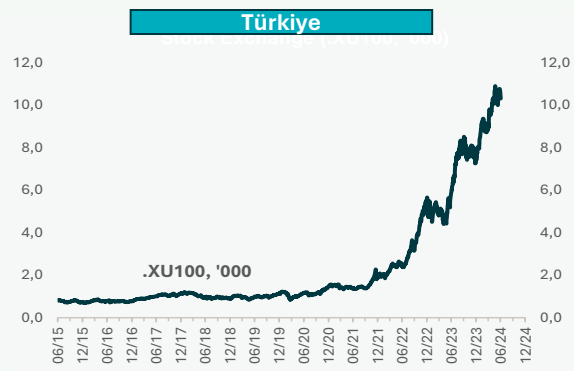


Against the backdrop of easing uncertainty and the prospect of narrowing interest rate differentials, sovereign spreads have **eased** significantly



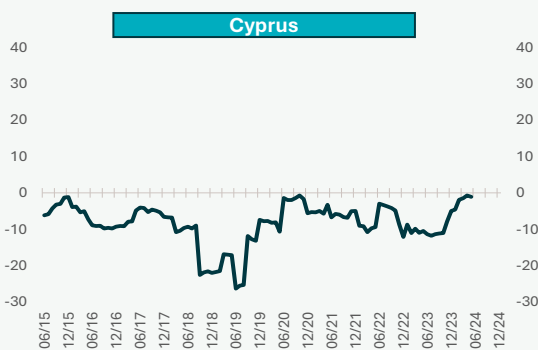
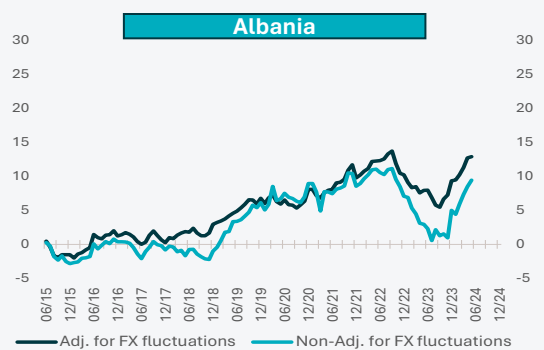
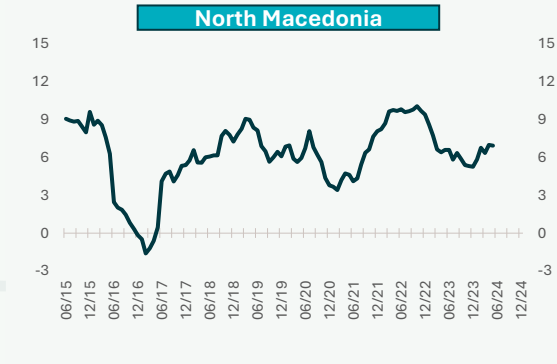
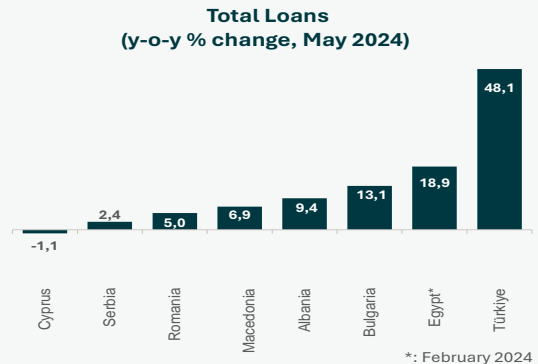
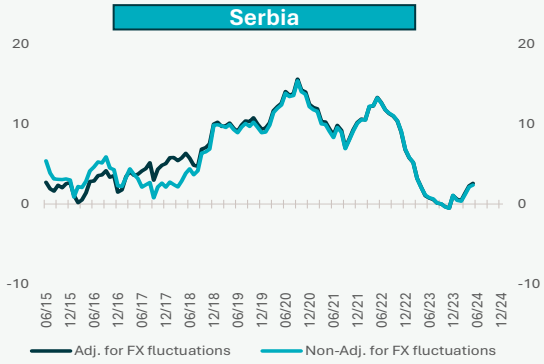
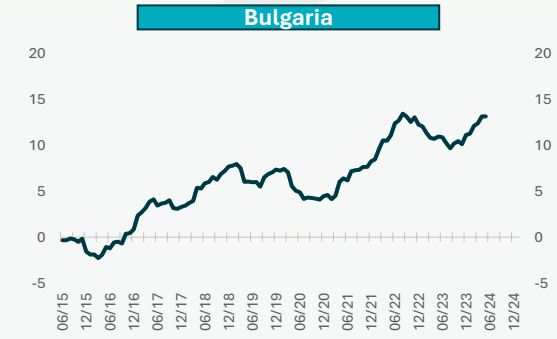
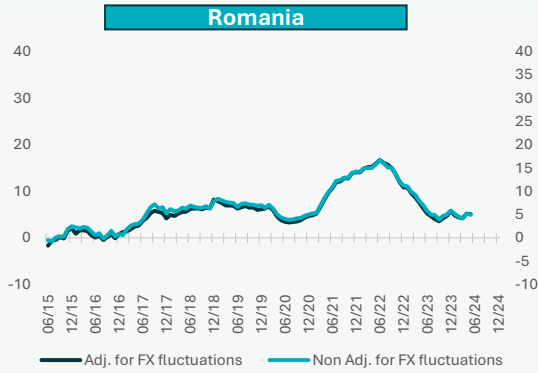
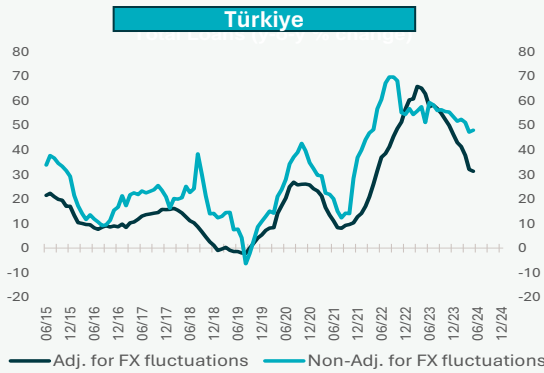


With valuations below historical averages, stock markets have experienced a broad-based rally since mid-2023, driven by the prospect of falling interest rates, amid healthy economic growth rates

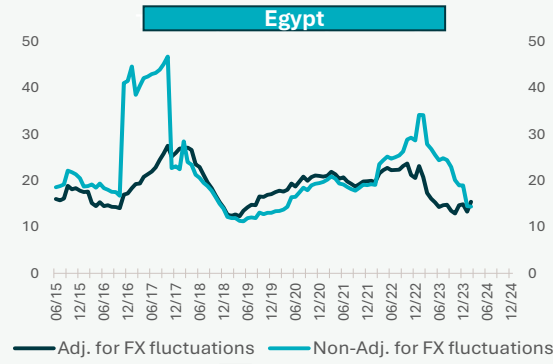
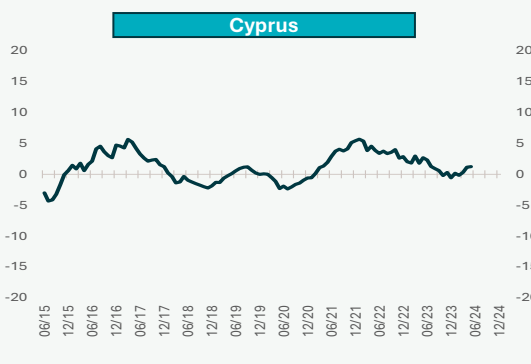
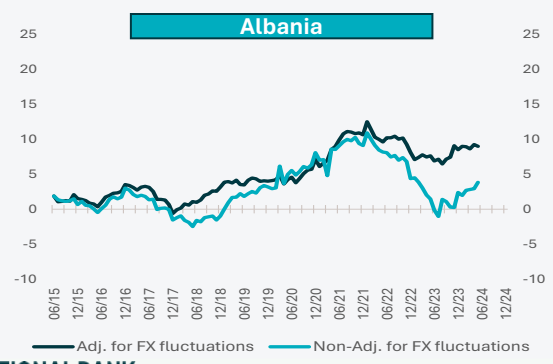
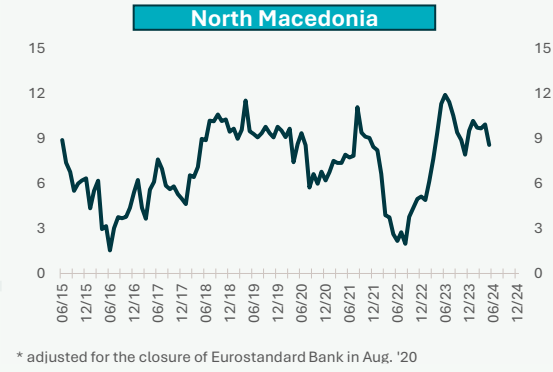
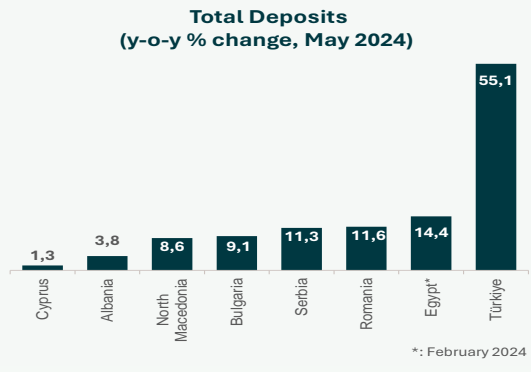
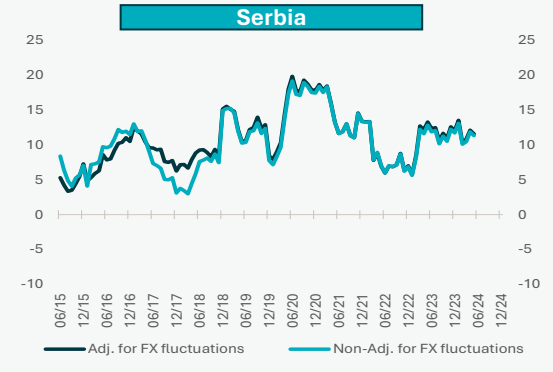
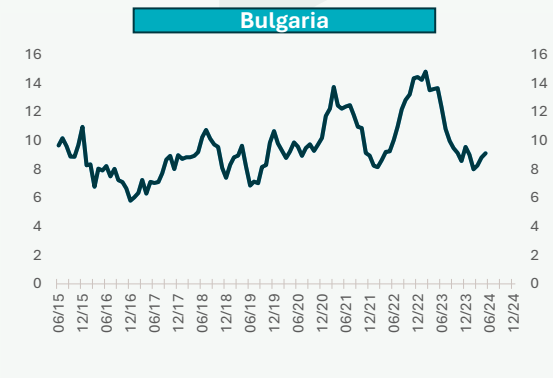
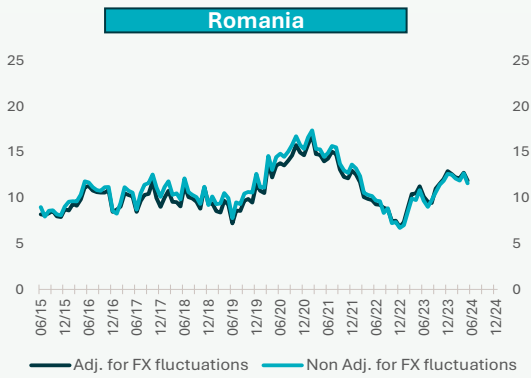
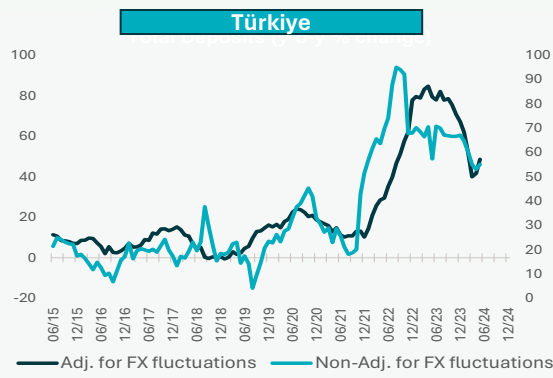


# Total loans (y-o-y % change)

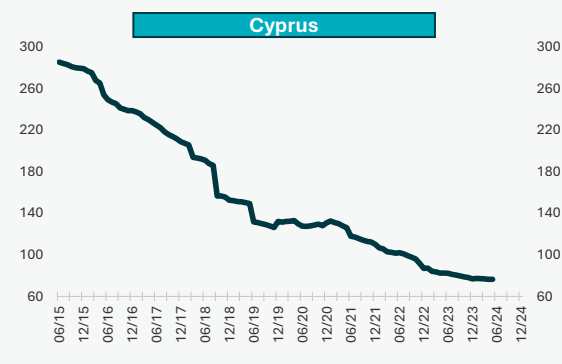
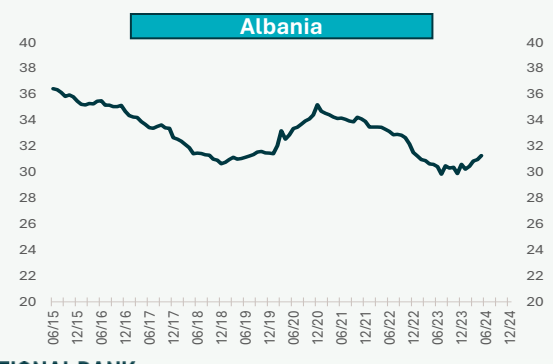
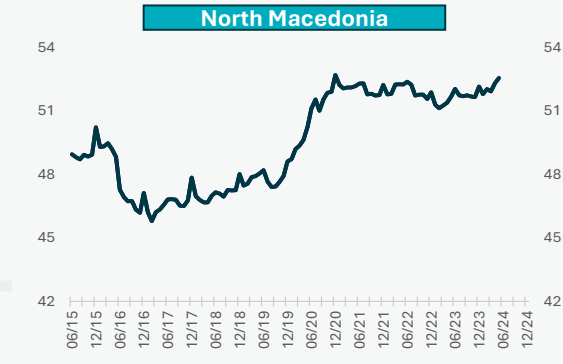
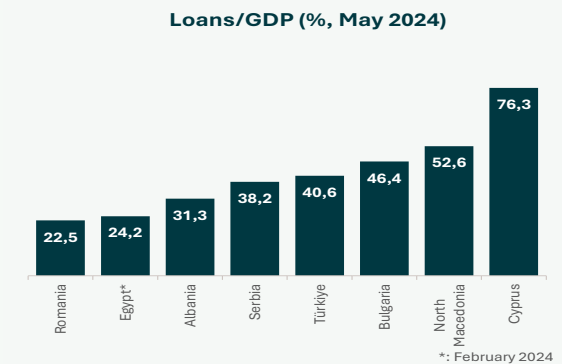
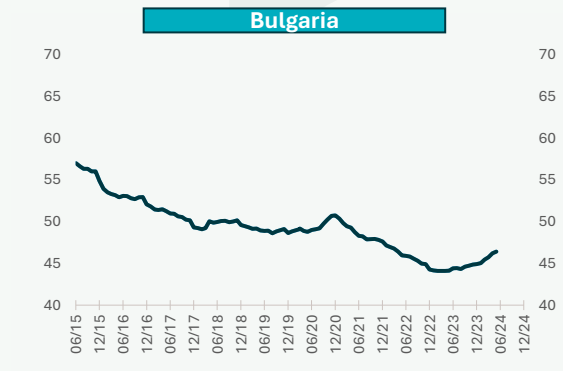
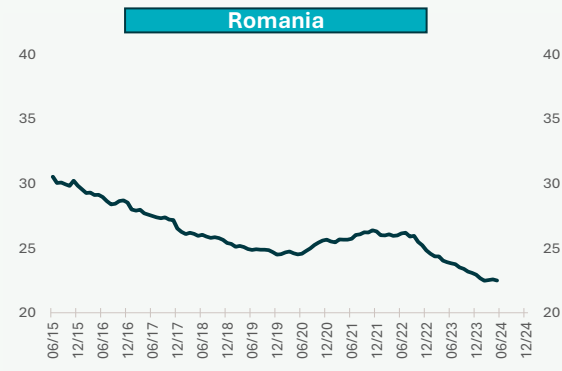
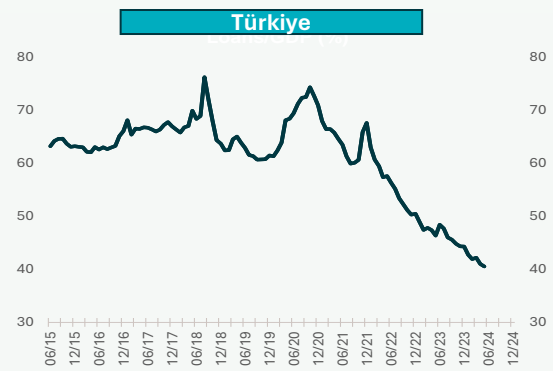
- Signs of revival in credit activity are already evident in most of the countries under review
- Declining interest rates and easing lending standards bode well for further improvement



Deposit growth is firming gradually, following easing of cost-of-living crisis, healthy economic growth and rising real (ex-post) deposit interest rates

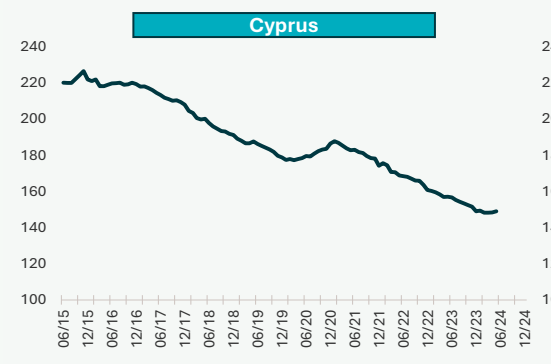
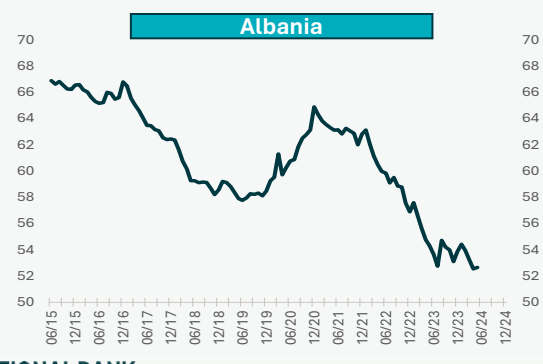
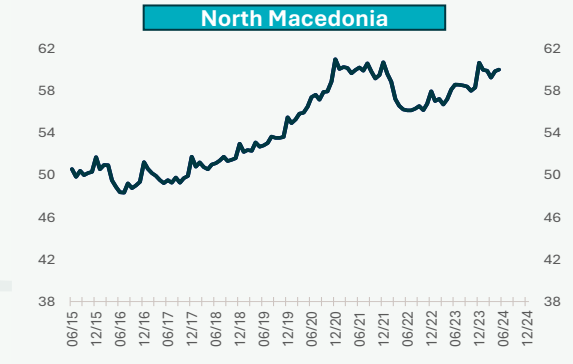
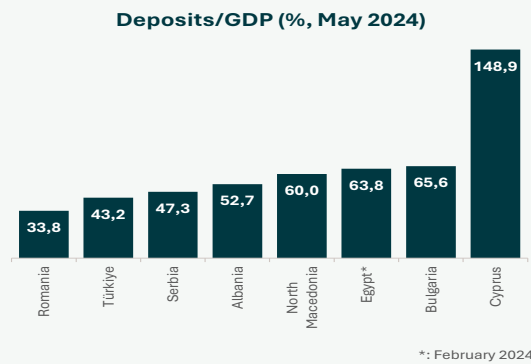
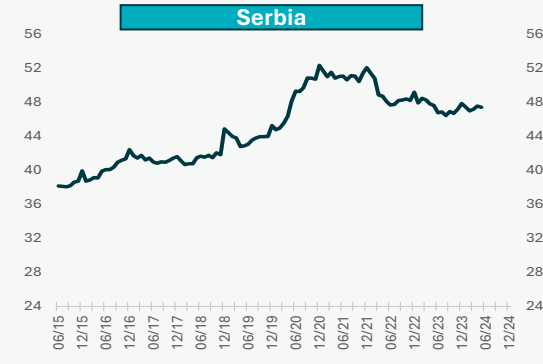
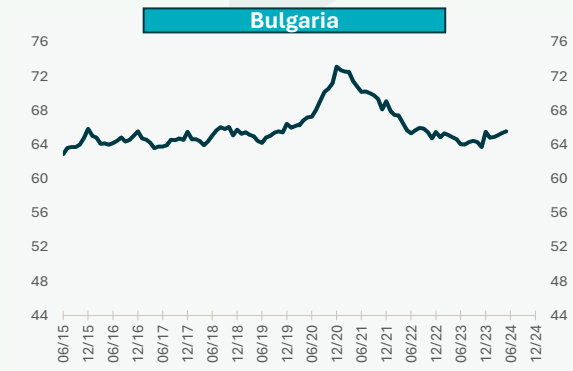
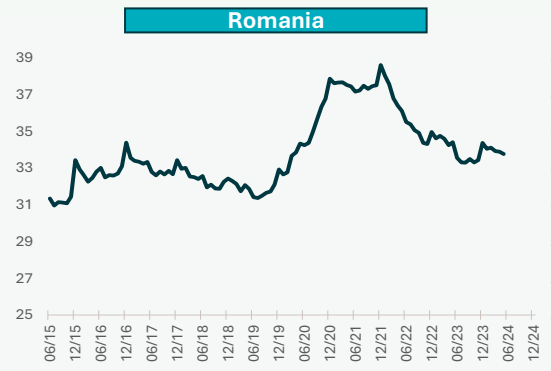
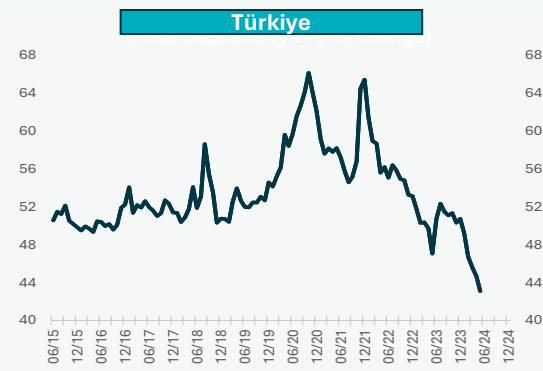


All economies under review, except Cyprus, are still underpenetrated in terms of lending, with no advance since prior to the pandemic

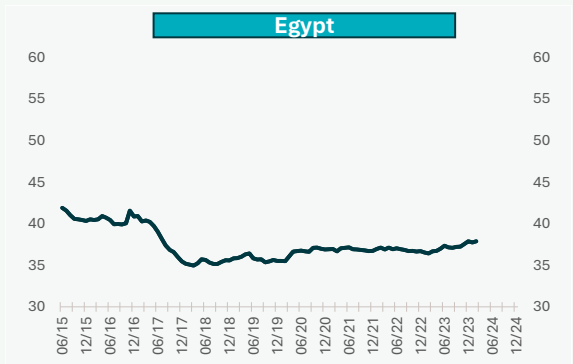
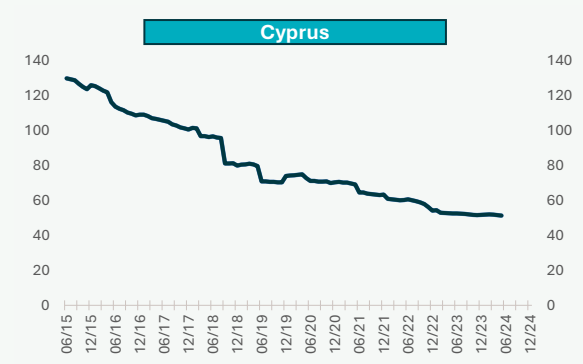
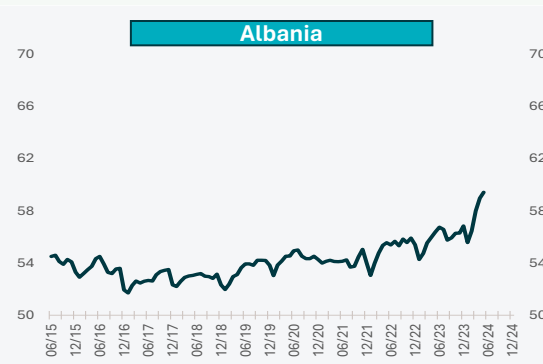
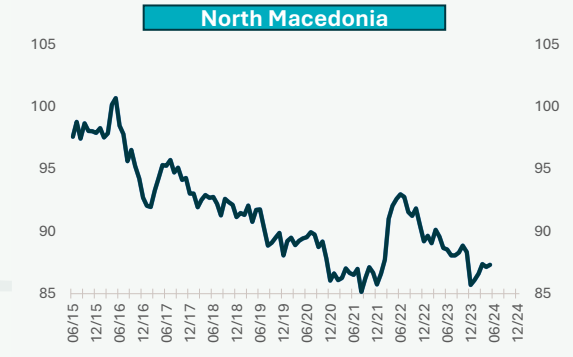
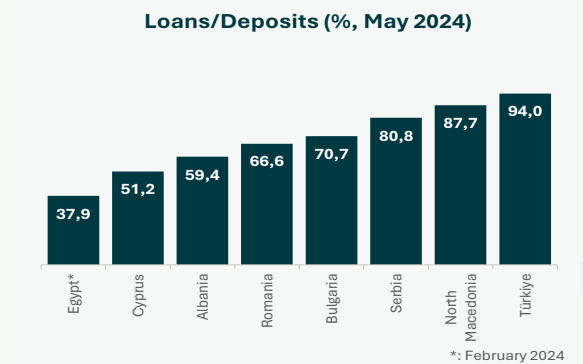
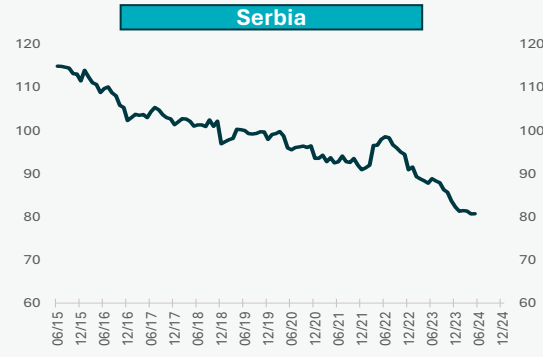
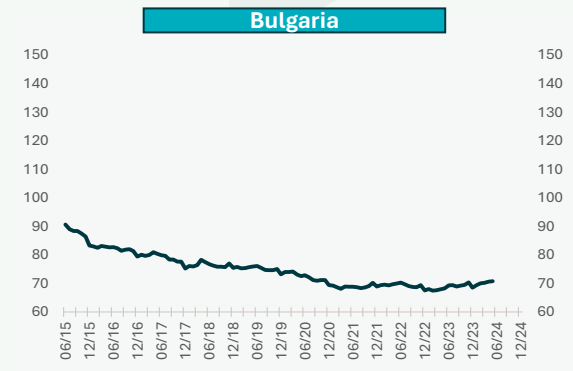
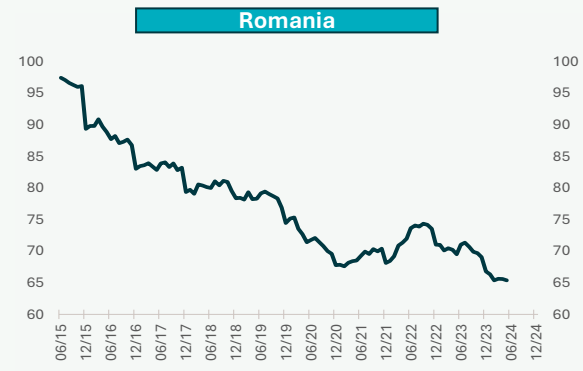
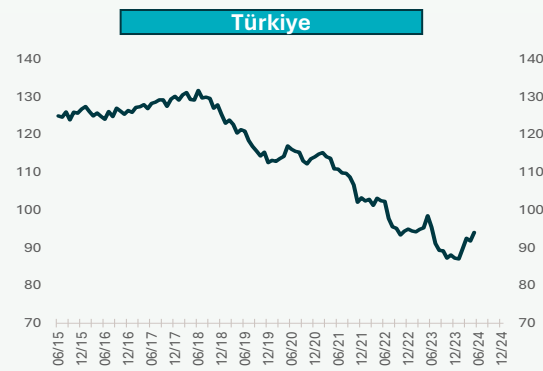


# Total deposits-to-GDP ratio (%)

- Amid still elevated inflation, the deposit-to-GDP ratio remained on a **downward trend** in most of the economies under review
- Pandemic-related excess savings have yet to be fully depleted in **Romania, Serbia and North Macedonia**

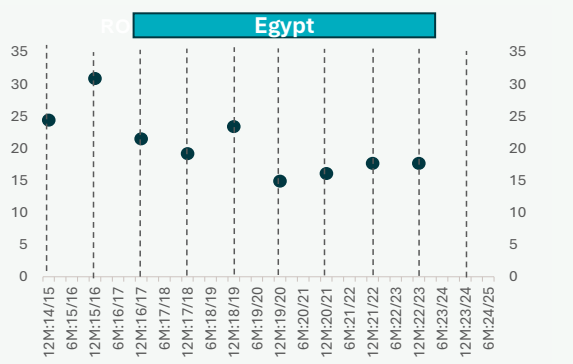
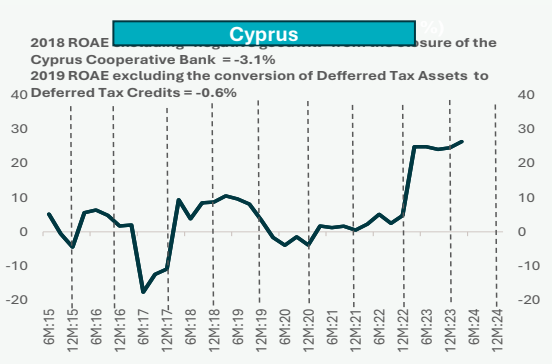
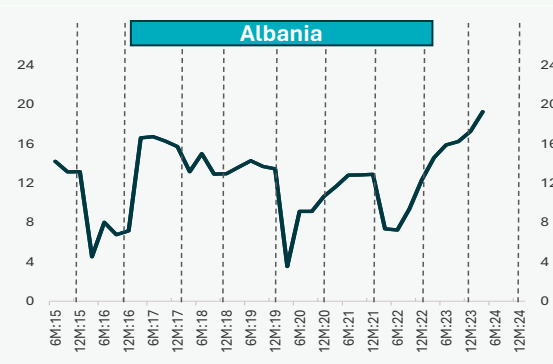
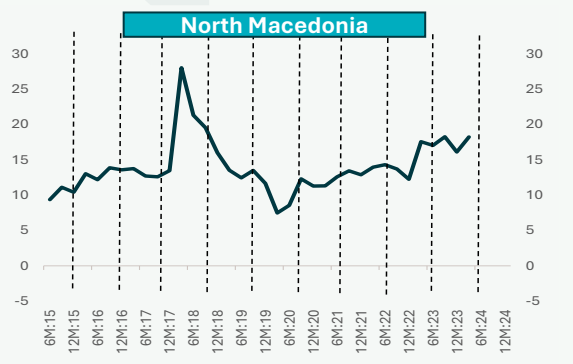
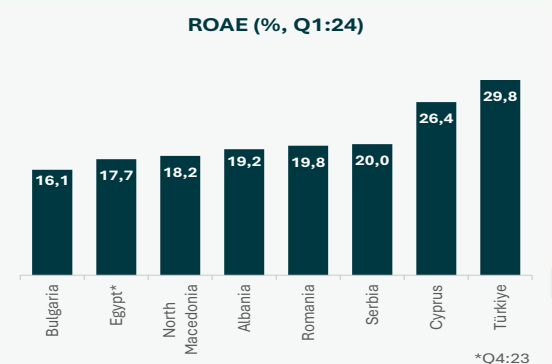
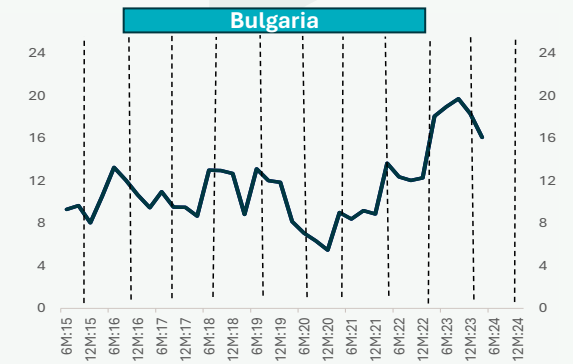
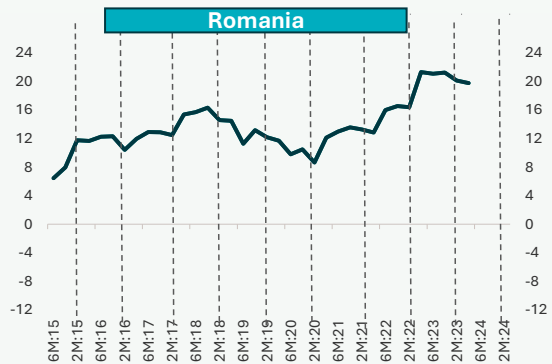
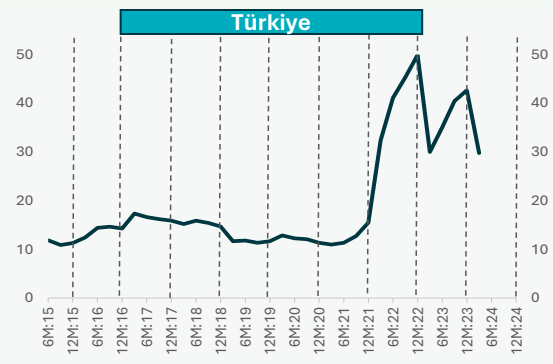


▪ All banking systems under review enjoy a **loan-to-deposit ratio below the 100% threshold**

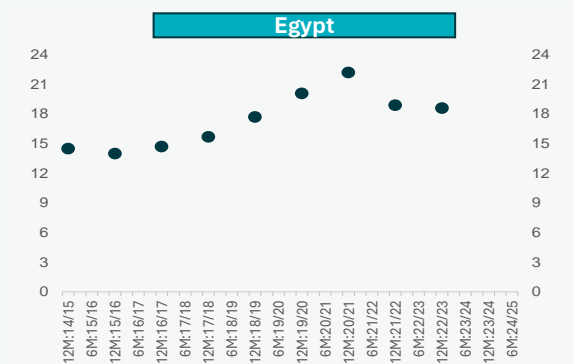
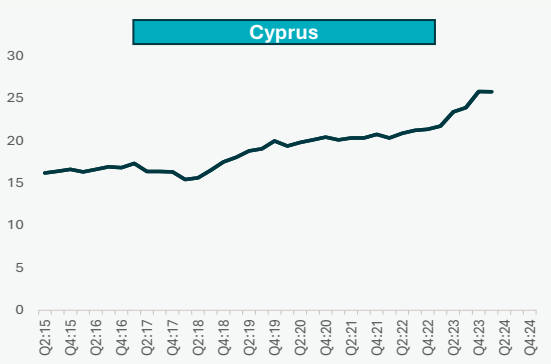
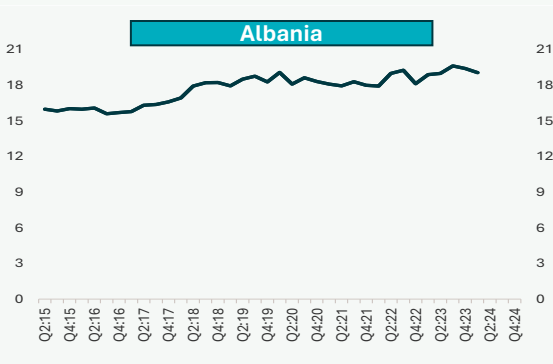
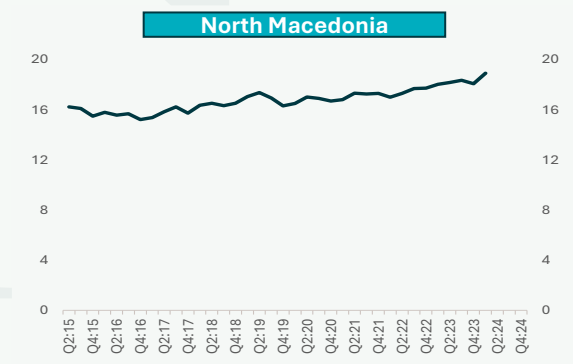
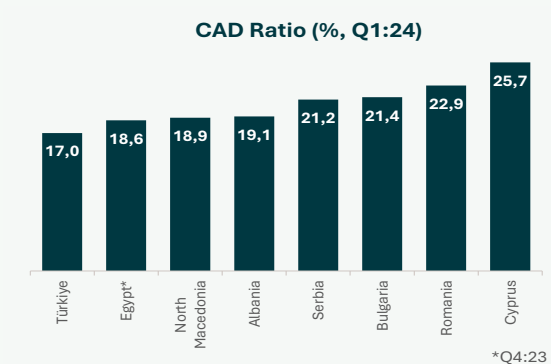
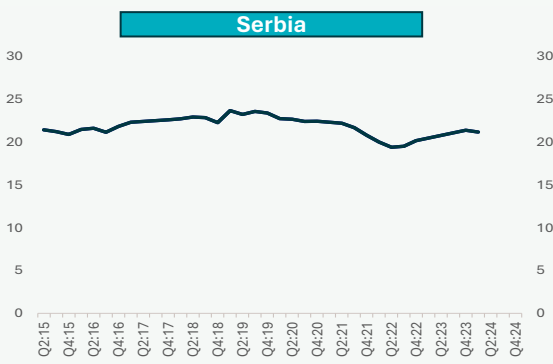
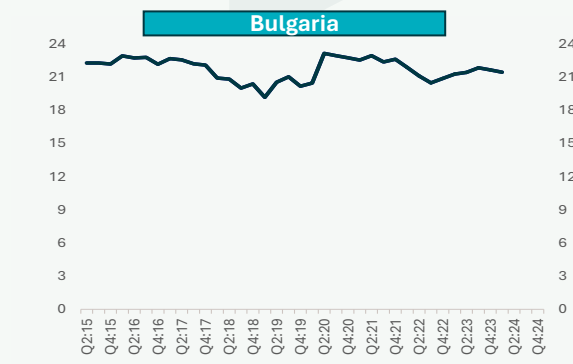
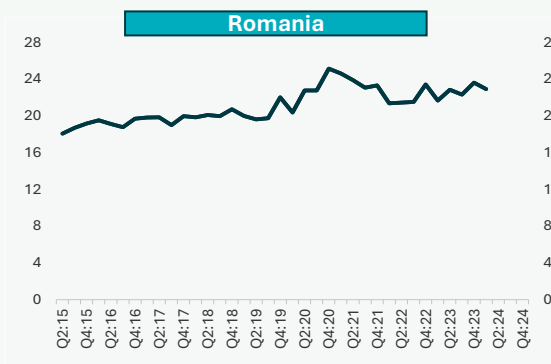
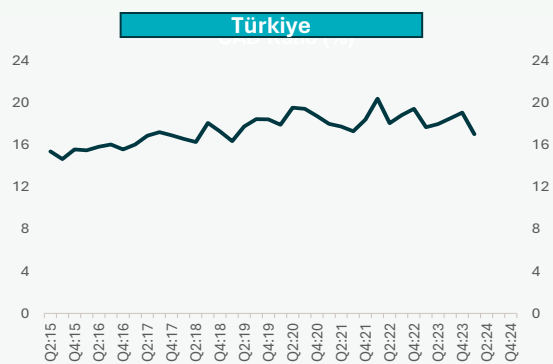


# Return-to-average equity ratio (% , cumulative and annualised)

Against the backdrop of the most aggressive interest rate hiking cycle in recent history and yet positive GDP growth, bank profitability has risen to **record-high levels**, driven by the **rebound in net interest income**



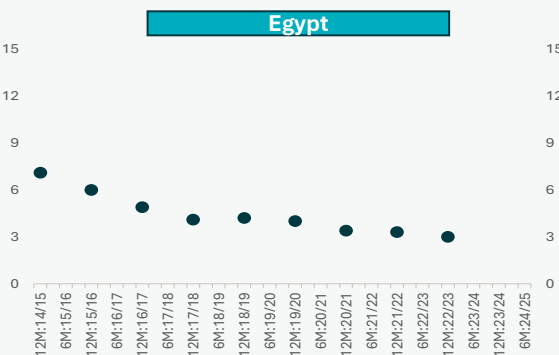
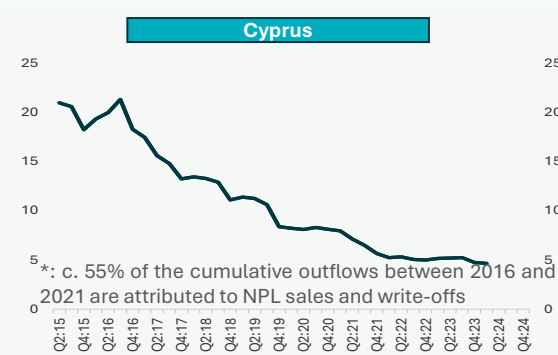
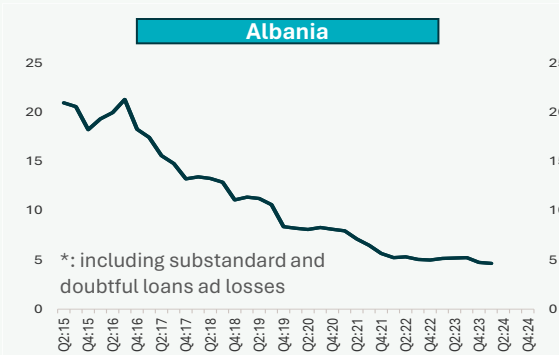
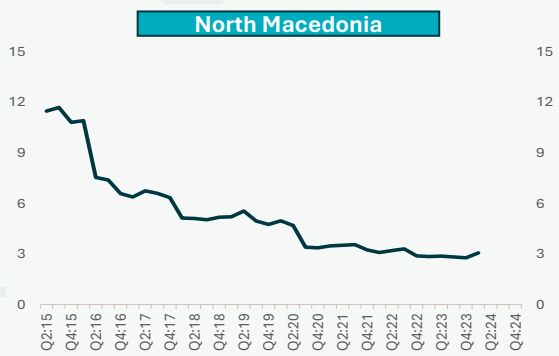
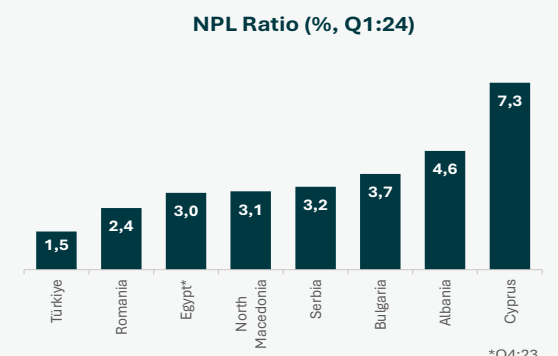
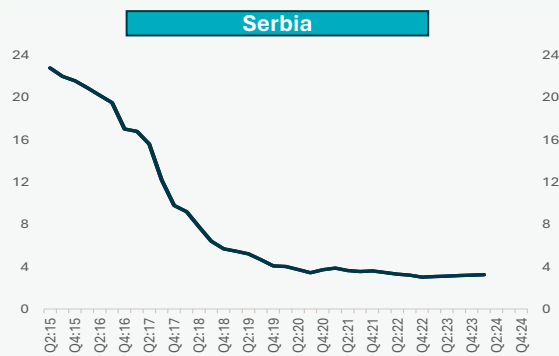
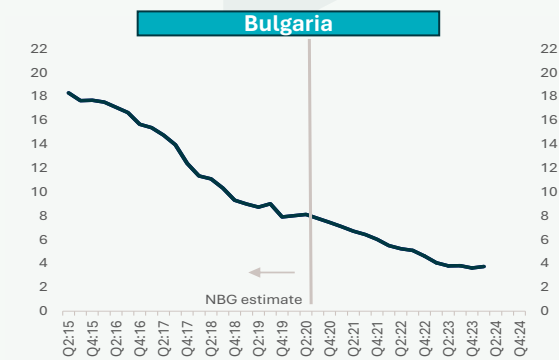
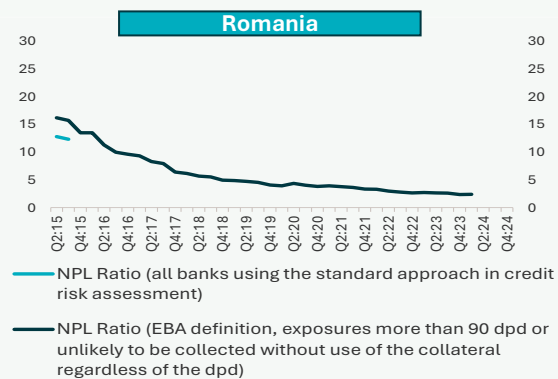
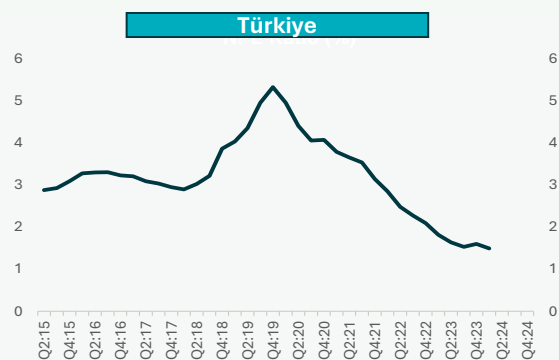
Banking systems in all countries under review remain **well-capitalised**, suggesting that there is significant headroom to absorb potential losses





# Non-performing loans ratio (%)

Despite the challenges posed by a prolonged period of high interest rates and elevated inflation, pressure on asset quality has been limited so far, with NPL ratios remaining close to their recent multi-year low levels



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