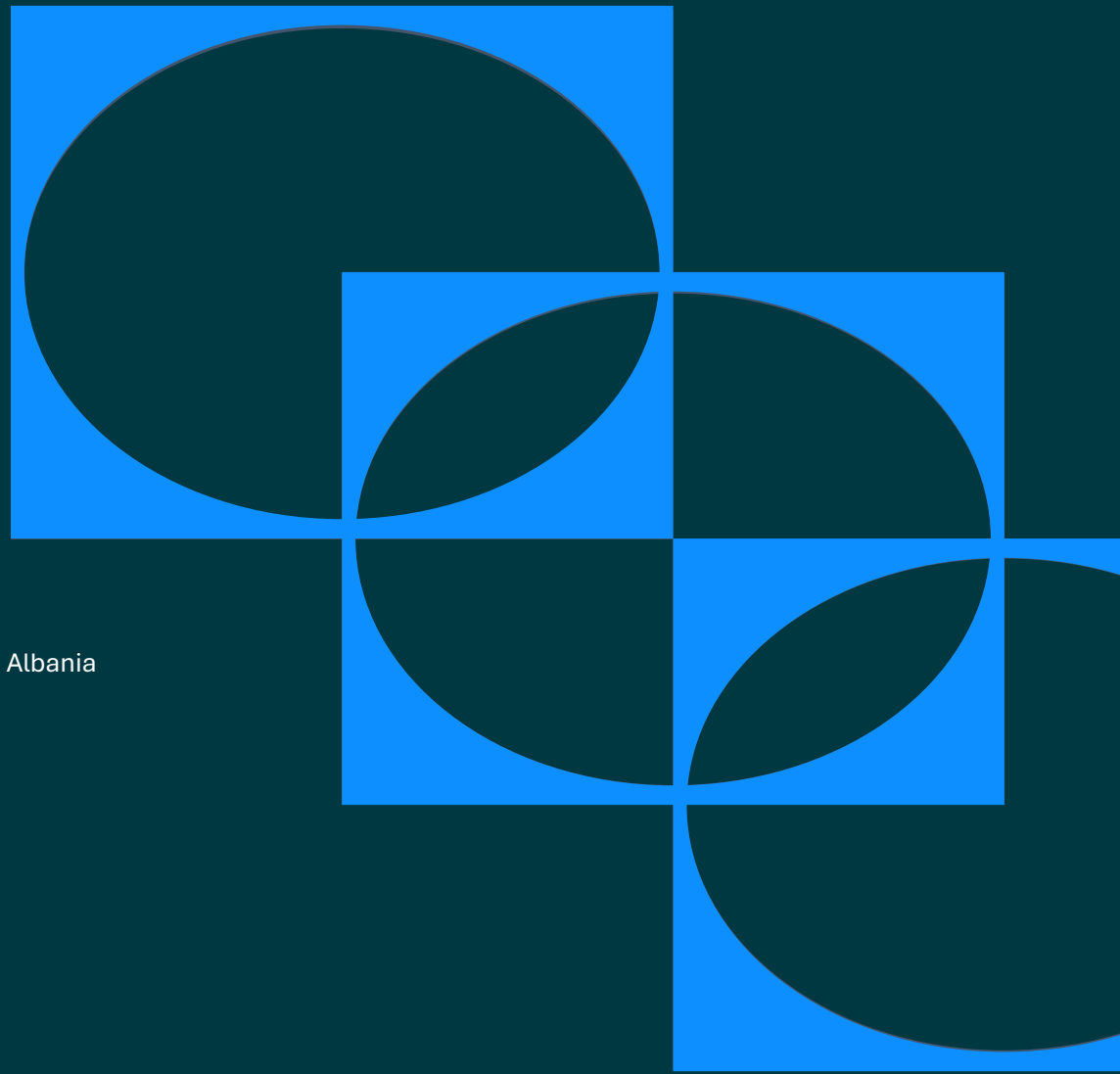


Quarterly Chartbook Q4:24

“Improving outlook but uncertainty remains”

Economic Analysis Division Emerging Markets Analysis

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



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Snapshot

General information

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Republic of Türkiye



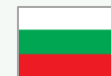
Population (2023, mn): 86.3
 GDP (2023, EUR, bn): 1,032.3
 GDP per Capita (2023, EUR): 11,966
 Government type: Parliamentary Republic
 Chief of state: Recep Tayyip ERDOGAN
 Head of Government: Recep Tayyip ERDOGAN
 Minister of Finance: Mehmet SIMSEK
 Central Bank Governor: Fatih KARAHAN



Romania



Population (2023, mn): 19.0
 GDP (2023, EUR, bn): 324.6
 GDP per Capita (2023, EUR): 17,055
 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): 94.7
 GDP per Capita (2022, EUR): 14,016
 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): 75.3
 GDP per Capita (2023, EUR): 11,156
 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): 14.6
 GDP per Capita (2023, EUR): 8,010
 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): 21.9
 GDP per Capita (2023, EUR): 7,909
 Government type: Parliamentary Republic
 Chief of state: Bajram BEGAI
 Head of Government: Edi RAMA
 Minister of Finance: Petrit MALAJ
 Central Bank Governor: Gent SEJKO



Republic of Cyprus



Population (2023, mn): 0.9
 GDP (2023, EUR, bn): 31.3
 GDP per Capita (2023, EUR): 33,804
 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

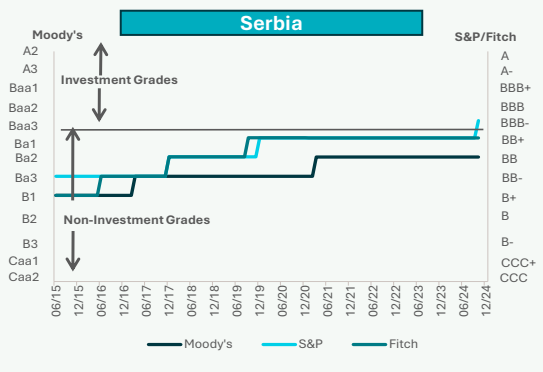
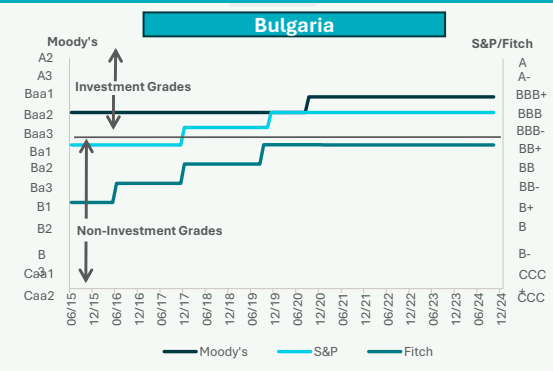
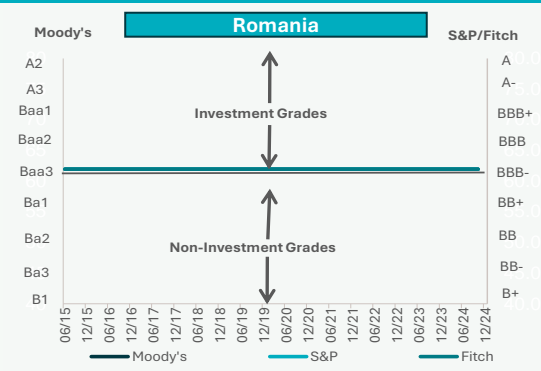
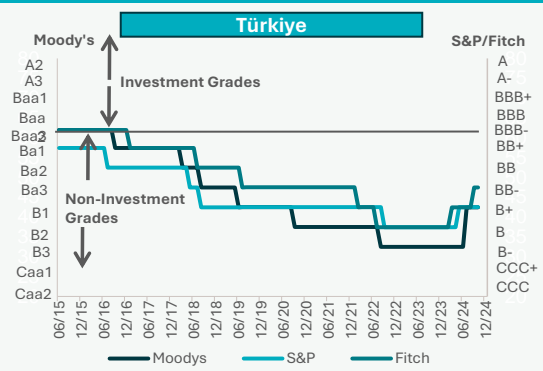


Population (2023, mn): 105.7
 GDP (2023, EUR, bn): 390.6
 GDP per Capita (2023, EUR): 3,703
 Government type: Presidential Republic
 Chief of state: Abdel Fattah Saeed EL-SISI
 Head of Government: Mostafa MADBOULY
 Minister of Finance: Ahmed KOUCHOUK
 Central Bank Governor: Hassan ABDALLA

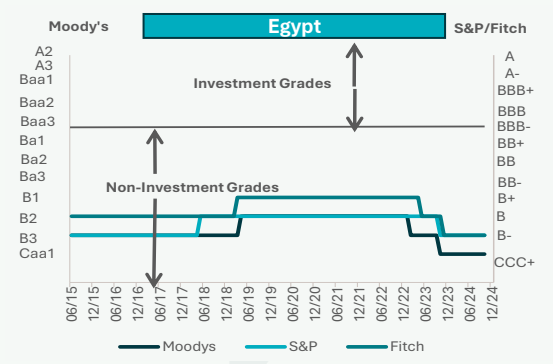
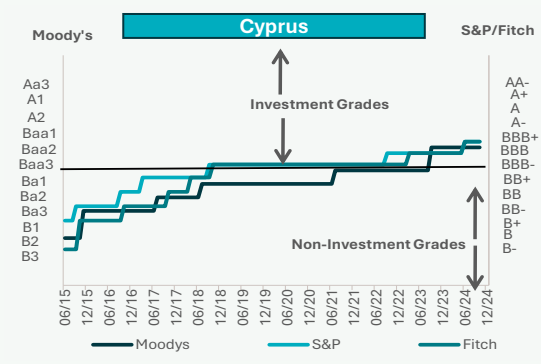
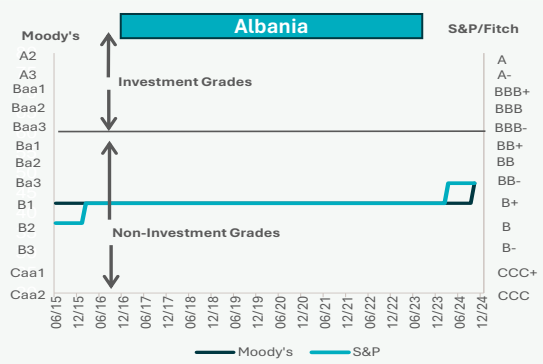
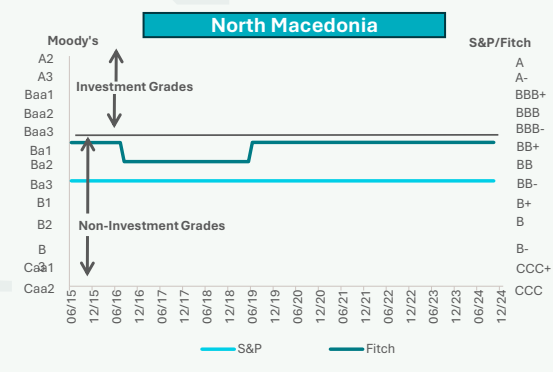
- In **Bulgaria**, the October snap election -- the 7th held in 3½ years -- delivered another hung Parliament, failing to end political uncertainty. As expected, pro-Western centre-right GERB topped the polls (with 26.4% of the vote) but -- once again -- fell short of securing an absolute majority (winning 69 out of 240 Parliamentary seats), meaning that it needs to seek coalition partners to form a functioning Government. However, this would not be an easy task, as GERB would need to rely on the also pro-Western liberal “We Continue the Change”-“Democratic Bulgaria” (WCC-DB) coalition, which finished 2nd (with 14.2% of the vote, 37 seats) and with whom it had previously engaged into a short-lived coalition that collapsed due to disagreement over the allocation of ministerial seats, and at least one other party. Note that GERB has refused to work with the nationalist pro-Russian Revival party which came in 3rd (with 13.4% of the vote, 35 seats). At the same time, most parties have rejected the prospect of entering a Government in which the GERB’s ally, the DPS-New Beginning party (11.5% of the vote, 30 seats) of the controversial media tycoon D. Peevski, who has been sanctioned by the US and the UK for corruption, would participate. All said, political noise is unlikely to ease soon, in a country which has been in limbo since the 2020 anti-graft protests and has been governed by caretaker Governments for much of these years. 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
- In **North Macedonia**, while the May election brought political stability domestically, with the installation of a broadly-backed coalition Government (led by the nationalist right-wing VMRO-DPMNE, also comprising the ethnic-Albanian VREDI/VLEN alliance and the left-wing nationalist ZNAM), uncertainty as regards the country’s EU accession is set to remain. Indeed, the VMRO-DPMNE officially supports EU integration but its hard-line stance against the required constitutional amendments (as agreed between the previous Government and that of Bulgaria in 2022), providing, among others, for the recognition of a Bulgarian minority in the country, should deter Bulgaria from lifting the veto on North Macedonia’s EU accession. 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 coalition has been thrown into turmoil a few weeks before the December Parliamentary election after the centre-right PNL cut ties with its partner, the centre-left PSD, but stayed in the Government. The PNL’s decision came after the Constitutional Court (whose majority of judges has been appointed by the PSD) removed a far-right candidate from the presidential race, due at end-November. The break-up of the ruling coalition comes as a surprise, as the two partners (together since 2021) were until recently declaring their intention to stick together after the elections. Note that the latest election polls suggest that the formation of a ruling majority requires participation of both former partners. Worryingly, prolonged political uncertainty could derail much-needed fiscal consolidation

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

- Fitch upgraded **Türkiye**'s credit rating for a 2nd time this year, to "BB-" with positive outlook, citing improved fiscal policy and stronger external buffers
- S&P awarded **Serbia** first-ever investment grade credit rating, "BBB-" with stable outlook, highlighting accelerating GDP growth, easing inflation, low current account deficit and record-high FX reserves as key factors behind the decision. The upgrade is set to enhance Serbia's access to the global debt market, help lower borrowing costs and cement investor confidence
- Albania**'s favourable economic outlook and strengthening fiscal position prompted Moody's to upgrade the country's credit rating by 1 notch, to "Ba3" with stable outlook, bringing it on par with that of S&P's



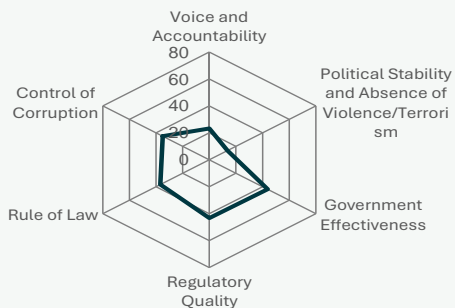
Long-Term Foreign Debt Currency Ratings, October 2024				
Grades	Agency	S&P	Moody's	Fitch
		Investment Grades	A+	
	A			
	A-			
Non-Investment Grades	BBB+	Cyprus	Bulgaria	Cyprus
	BBB	Bulgaria	Cyprus	Bulgaria
	BBB-	Romania, Serbia	Romania	Romania
	BB+			North Macedonia, Serbia
	BB		Serbia	
	BB-	North Macedonia,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



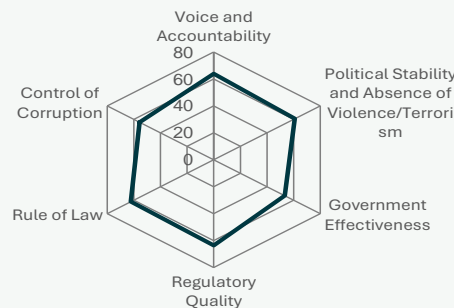
World Governance Indicators (2023)

- Governance standards in EU candidate countries (**Serbia, North Macedonia, Albania**) are approaching those of new EU member states (**Romania, Bulgaria**)
- The EU opened negotiations with Albania on “Cluster 1 - Fundamentals” in mid-October, ending 2 years of stalemate on its bid to join the EU. The opening of chapters of the EU *Aquis* is set to provide Albania an important policy anchor, strengthening authorities’ reform drive and eventually helping accelerate convergence with the EU
- **Türkiye’s** and **Egypt’s** low ranking in terms of governance constrains investor sentiment

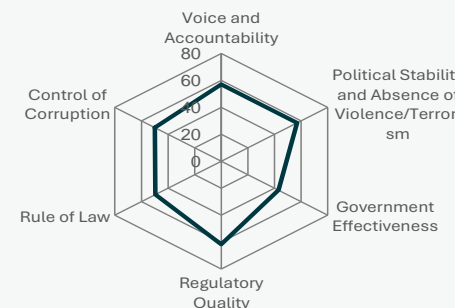
Türkiye



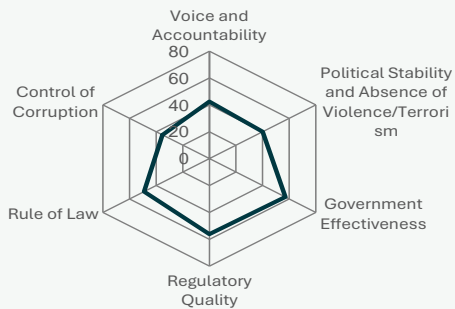
Romania



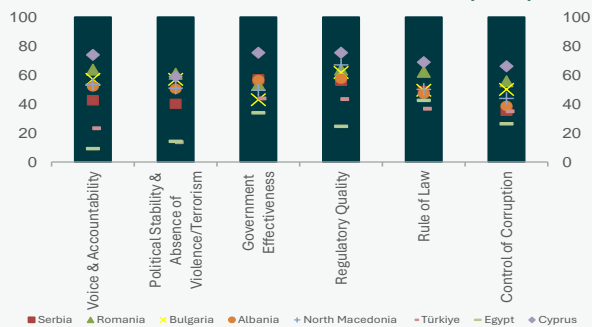
Bulgaria



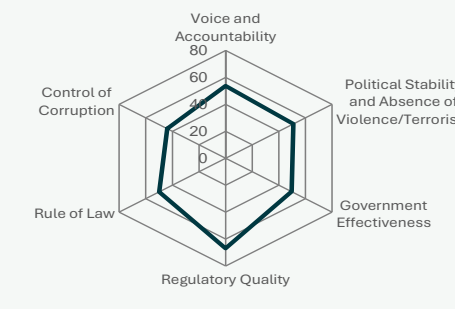
Serbia



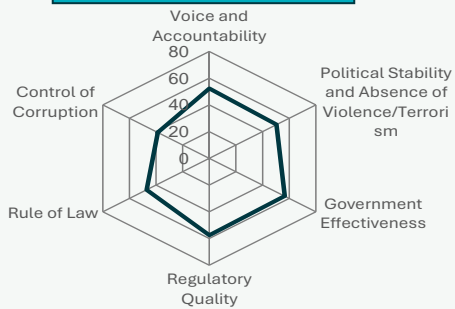
Worldwide Governance Indicators (2023)



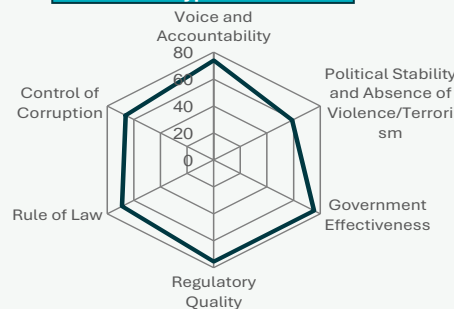
North Macedonia



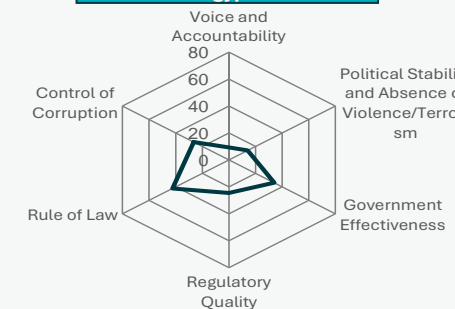
Albania



Cyprus



Egypt



Snapshot

Real Sector

- Real GDP
- Output gap
- Economic outlook summary
- Convergence with the EU
- Official financial support
- Economic sentiment
- Industrial production
- Retail sales
- Employment growth & Employment rate
- Unemployment rate
- Wages (nominal and real)
- Wages (nominal, EUR) and Tax rates

External Accounts

Prices & Monetary Policy

Fiscal Position

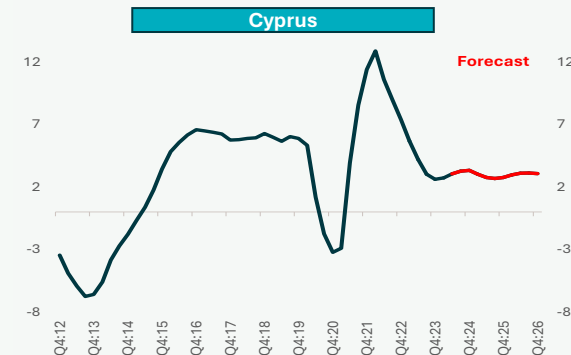
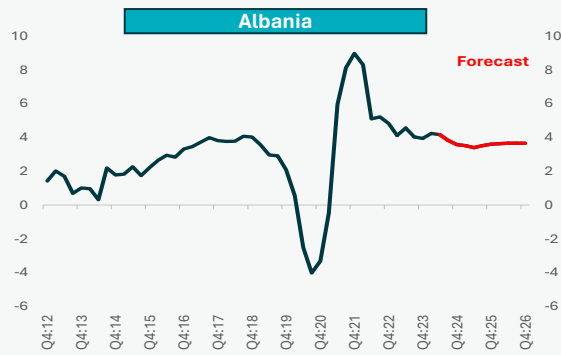
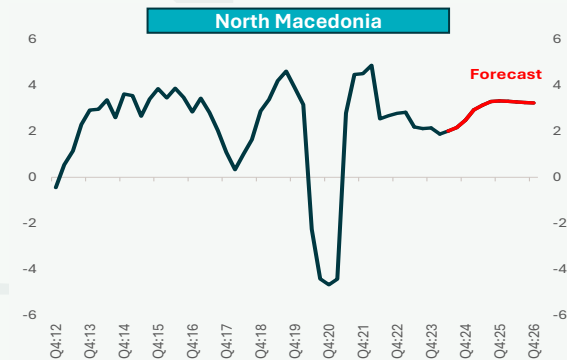
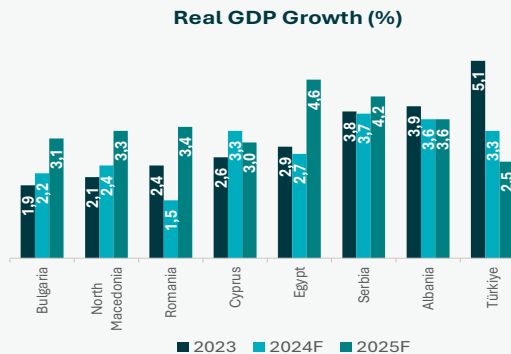
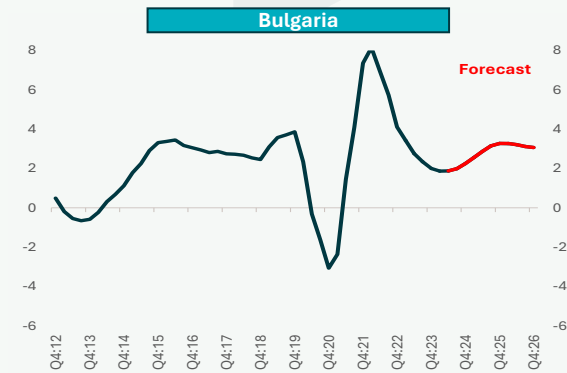
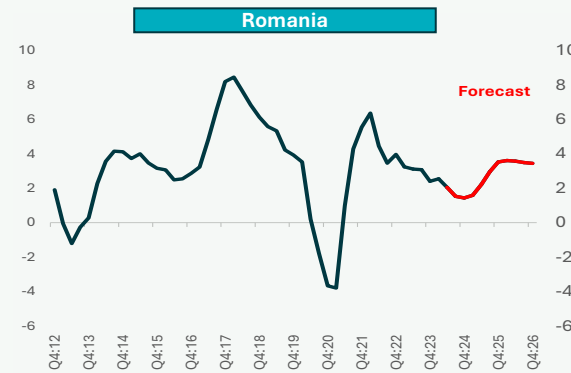
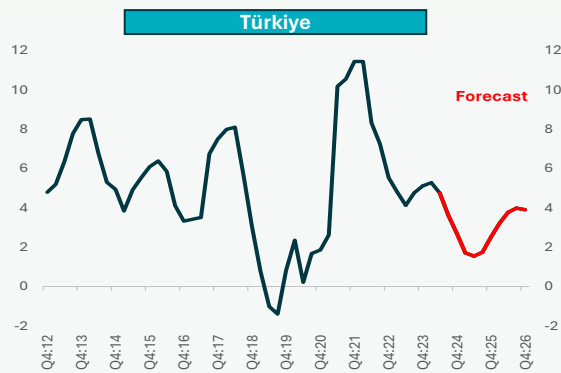
Financial Markets

Banking Sector



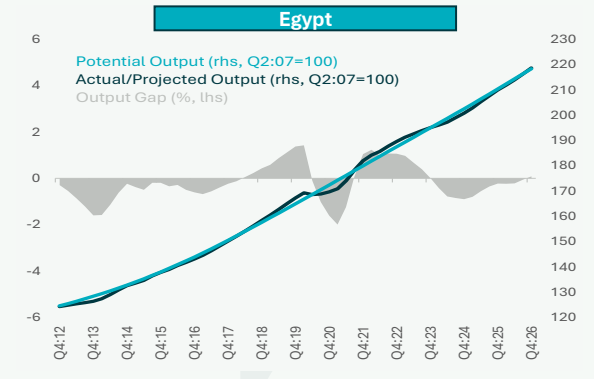
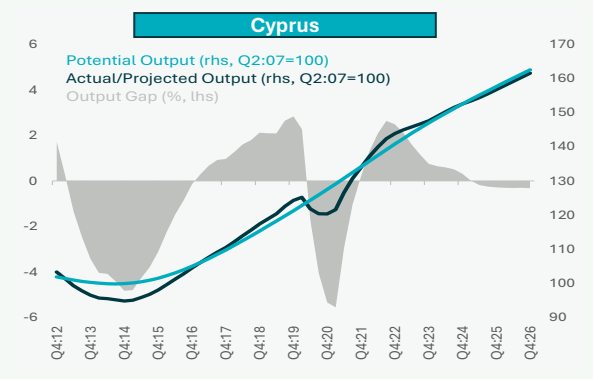
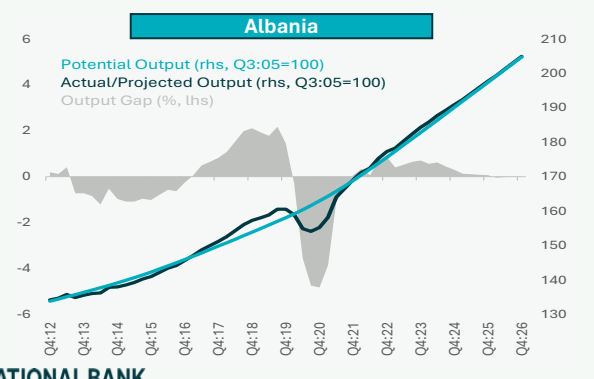
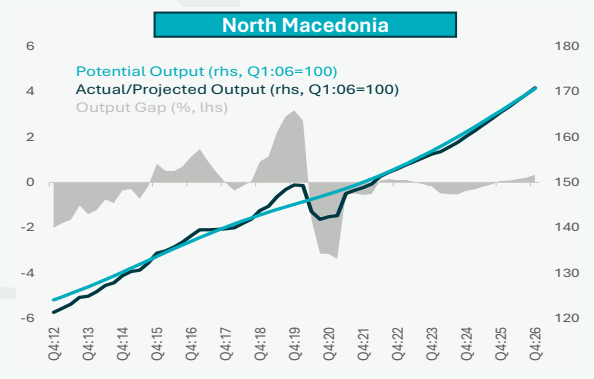
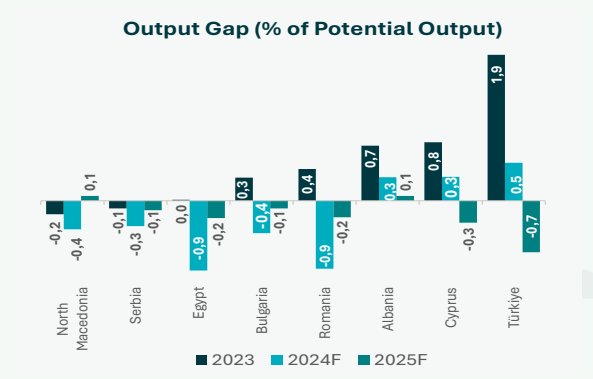
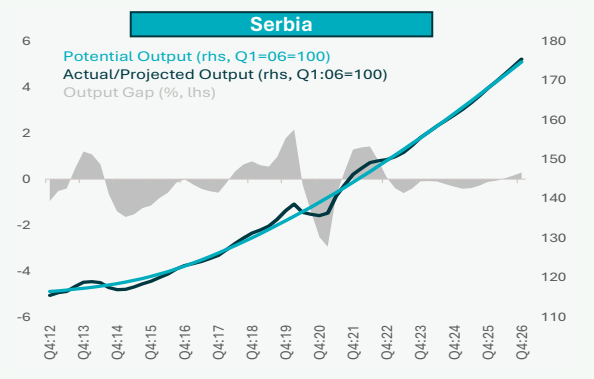
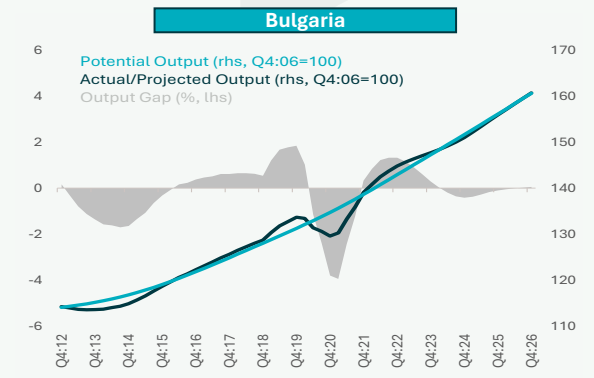
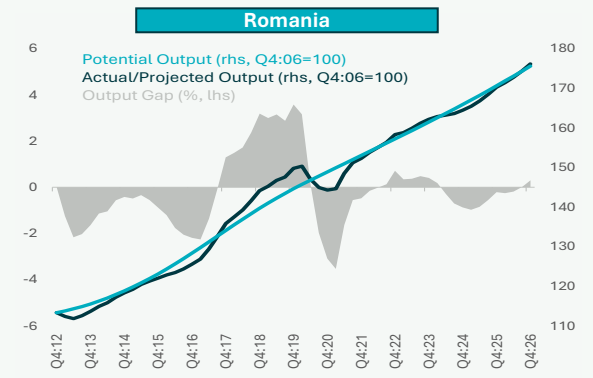
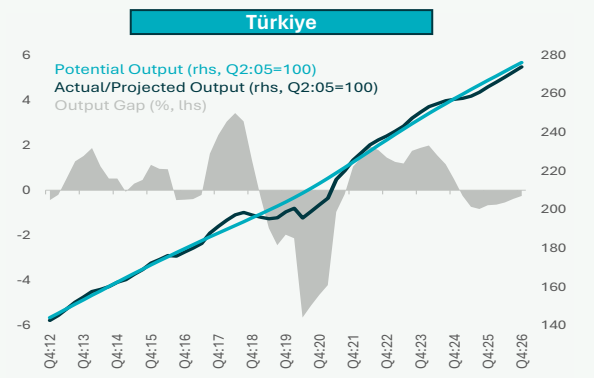
Real GDP (4-quarter rolling, y-o-y % change)

Against the backdrop of easing inflationary pressures, which enabled central banks to start reversing (cautiously) past years' aggressive policy tightening, GDP has been growing at a quite solid pace so far this year, in most of the economies under review (barring Türkiye and Egypt, which are subject to economic adjustment and head for a soft landing, and Romania)

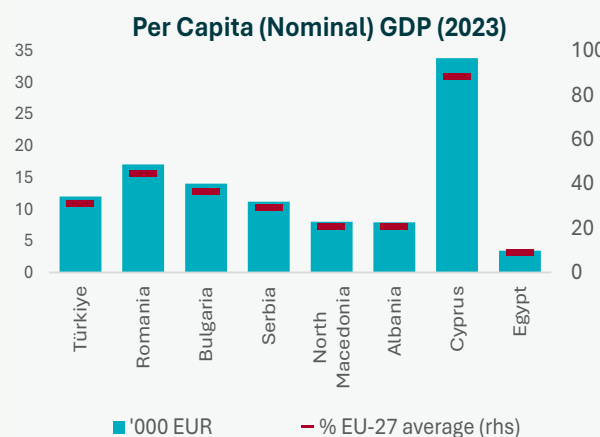
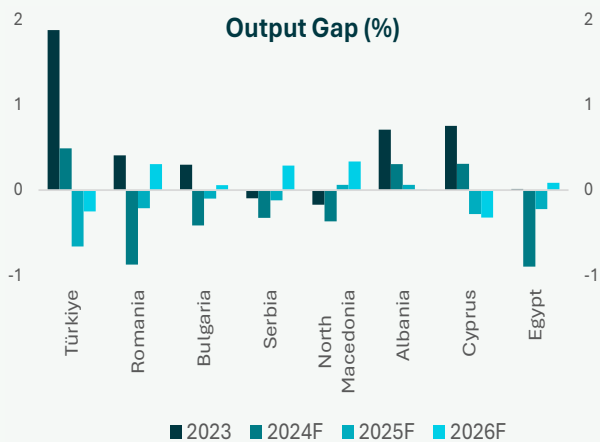
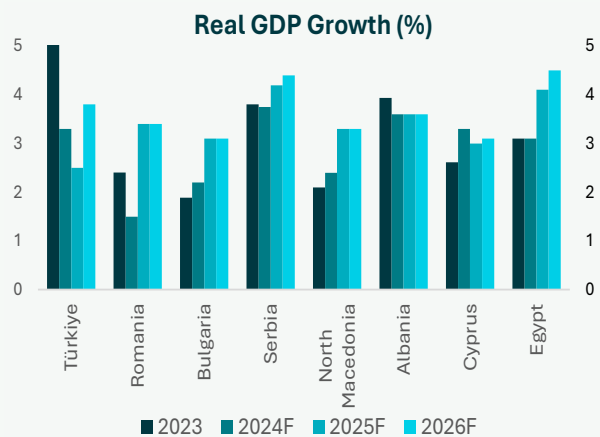


Output gap (4-quarter rolling)

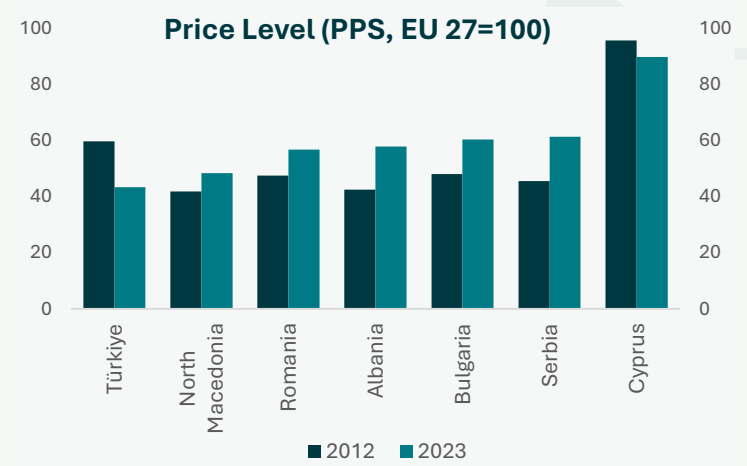
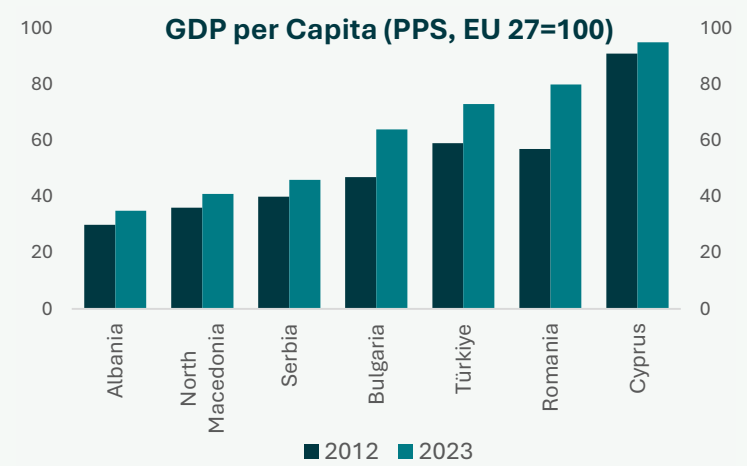
- The massive relocation of foreign companies in **Cyprus** to benefit from its attractive headquartering policy (with more than 1,600 firms -- most of them operating in the ICT sector -- with 14,000 employees having registered locally over the past 2 years) and the overperformance of the tourism sector in **Albania** (with tourist arrivals in FY:23 having exceeded by c. 60% their pre-pandemic level) have resulted in both economies currently growing at a pace exceeding that of potential growth
- Türkiye** has only now managed to close its large positive output gap, c. 1½ years after the sharp reversal in monetary policy



- GDP growth is seen firming in 2025** in most of the economies under review (barring Türkiye). With inflation projected to remain in check at relatively low levels (yet above those observed in pre-pandemic times) and economic sentiment improving, **private consumption should continue to drive overall growth**, supported by tight labour market conditions, as reflected in robust -- yet decelerating -- real ex-post wage growth. Amid further **easing in financing conditions**, fixed investment is also set to increase its contribution to overall growth, albeit at a slow pace. Public investment should provide a critical contribution to overall growth, especially in EU countries, which will continue to benefit from sizeable EU financing. Net exports are unlikely to add to overall growth next year, considering slow economic recovery in the EU (especially Germany), on the one hand, and firming domestic demand, on the other hand
- Risks** to our forecasts are tilted to the **downside**, mainly reflecting repercussions from **ongoing geopolitical tensions**. Indeed, a new jump in global energy prices could disrupt the disinflation process and, thus, a tighter-for-longer monetary policy. A slower-than-envisaged recovery in the EU, due, *inter alia*, to a potential escalation of global trade war, would weigh on the region's (long-term) growth outlook. Should uncertainty over geopolitics and trade policies feed volatility in global financial markets, leading to a reversal in capital flows, economic outlook could not but be also affected



- **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, driven by capital deepening and productivity gains, 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. Assuming a potential growth of around 3.0% it would **take more than 30 years** to align the countries' per-capita GDP with that of the EU's



- Following upcoming completion of **Serbia's** 24-month stand-by arrangement (SBA) with the IMF, domestic authorities reached staff-level agreement on a new 36-month Policy Coordination Instrument (PCI) arrangement, to start as of 2025. The PCI is a non-financing instrument, designed to help authorities commit to strong economic policies and structural reforms, and thus potentially unlock financing from other IFIs. Recall that ever since the 2nd review of the SBA in December 2023, Serbia has treated the SBA as precautionary
- In light of the economic disruptions caused by the ongoing crisis in Middle-East, **Egypt** and the IMF have agreed to engage into negotiations with a view to alleviate the burden of adjustment

IMF & EU Financial Support (EUR bn)														
		Türkiye	Romania	Bulgaria	Serbia	North Macedonia		Albania		Cyprus	Egypt			
Period		---	---	---	2022-2024 ^a	2020 ^b	2022-2024 ^c	2014-2017 ^d	2020 ^b	2013-2016 ^e	2016-2019	2020 ^b	2020-2021 ^a	2022-2026 ^{g,h}
Programme	IMF	---	---	---	2.4	0.2	0.5	0.4	0.2	1.1	11.9 ^f	2.8 ^f	5.2 ^f	8.0 ^f
	EU	---	---	---	---	---	---	---	---	9.0	---	---	---	---
Drawn so far	IMF	---	---	---	1.2	0.2	0.1	0.4	0.2	1.0	11.9 ^f	2.8 ^f	5.2 ^f	2.0 ^f
	EU	---	---	---	---	---	---	---	---	6.3	---	---	---	---
Repaid	IMF	---	---	---	---	0.2	---	0.4 since 2019	0.2 since 2023	1.1	5.7 ^f	2.1 ^f	2.6 ^f	---
	EU	---	---	---	---	---	---	---	---	---	---	---	---	---
Next Repayments	IMF	---	---	---	---	0.1 in 2025	Starting in 2026	---	---	---	2.5 ^f in 2025	0.7 ^f in 2025	2.0 ^f in 2025	---
	EU	---	---	---	---	---	---	---	---	Starting in 2025	---	---	---	---

^a Stand-By Arrangement (SBA)

^b Rapid Financing Instrument

^c Precautionary and Liquidity Line (PLL)

^d under Post-Programme Monitoring since 2018

^e under Post-Programme Monitoring since 2016

^f bn USD

^g Extended Fund Facility (EFF), extended by USD 5bn in 2024

^h Egypt is also eligible to USD 1.2bn under IMF's Resilience and Sustainability Facility (RSF) for green transition

- As of 2024, EU countries lost access to funding under the 2014-20 **Multiannual Financial Framework** (MFF, T+3 rule). We expect the EU funds absorption rate under the current MFF to accelerate progressively as expiration date approaches
- 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.

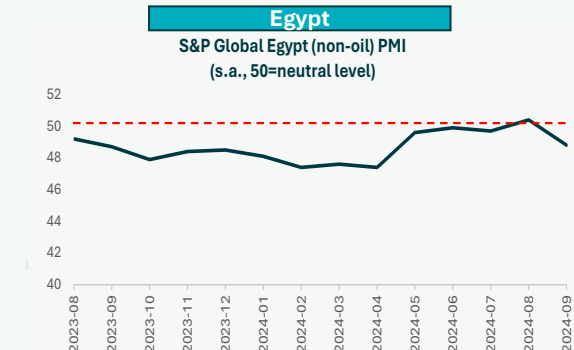
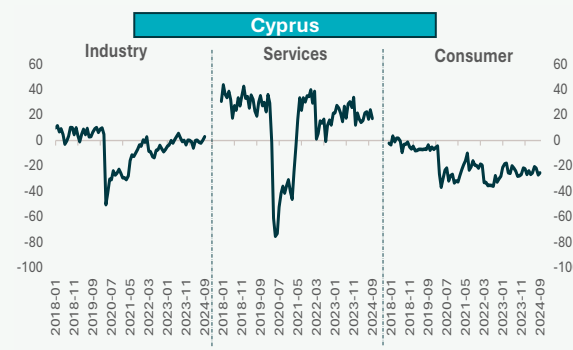
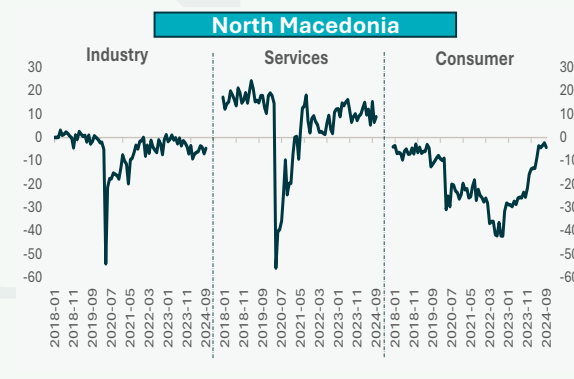
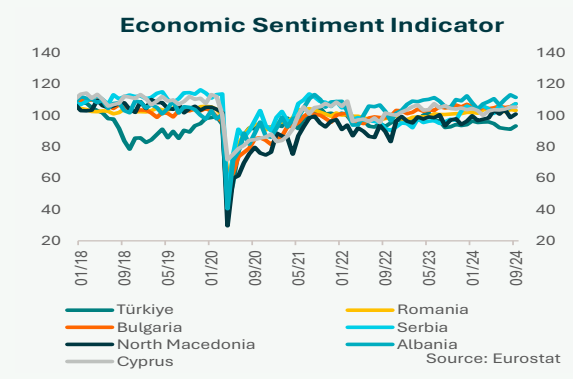
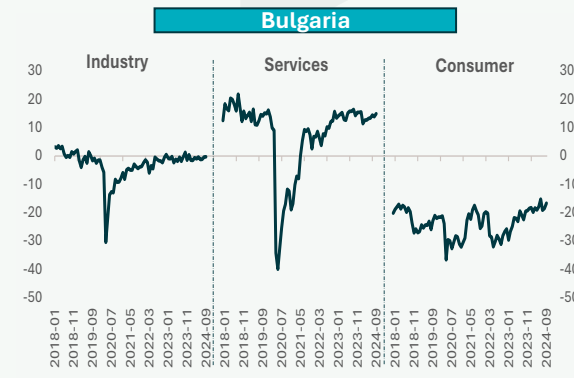
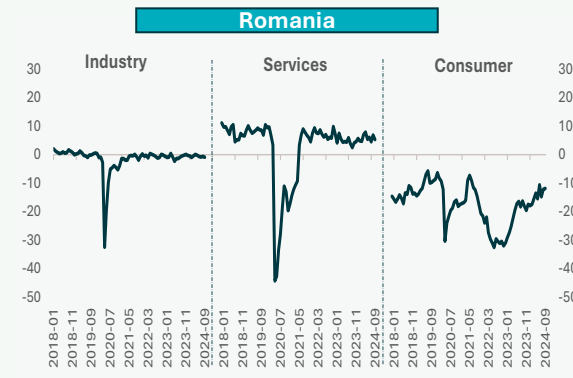
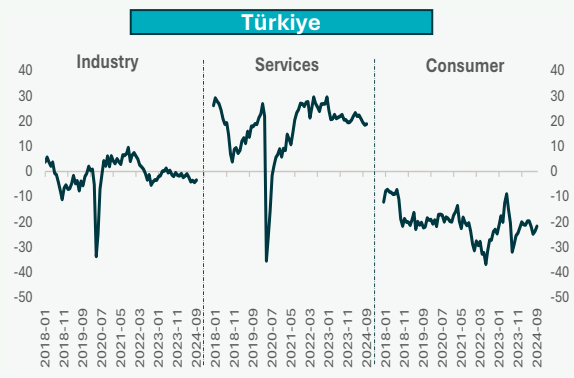
*** Includes Cohesion Policy allocations and payments under the European Agricultural Fund for Rural Development, the European Agricultural Guarantee Fund and the Just Transition Fund.

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

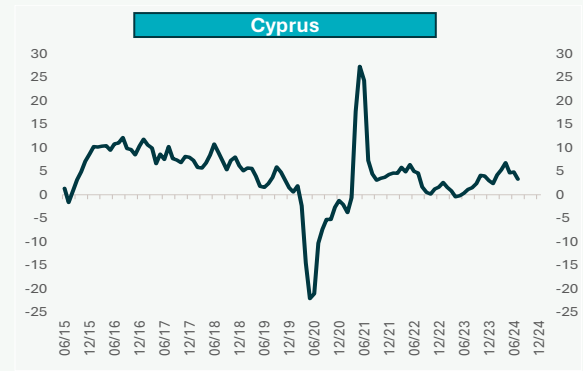
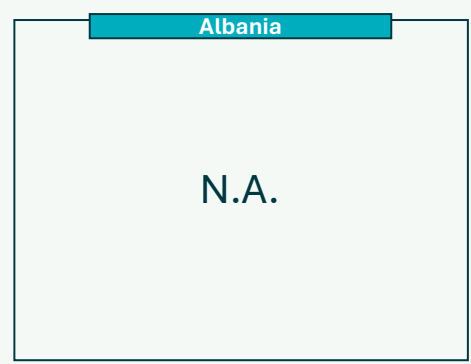
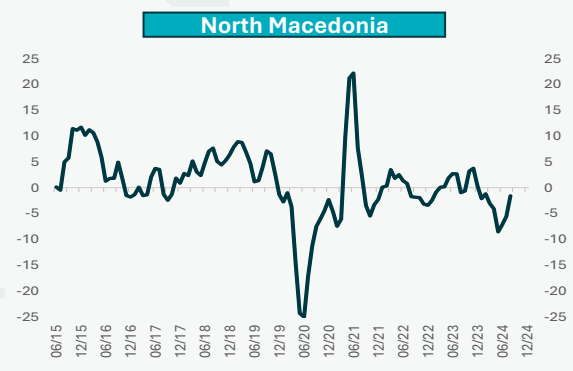
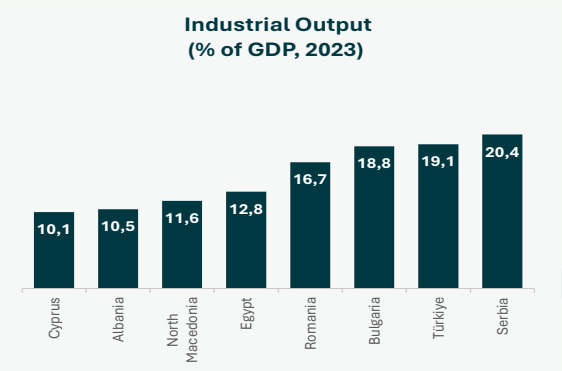
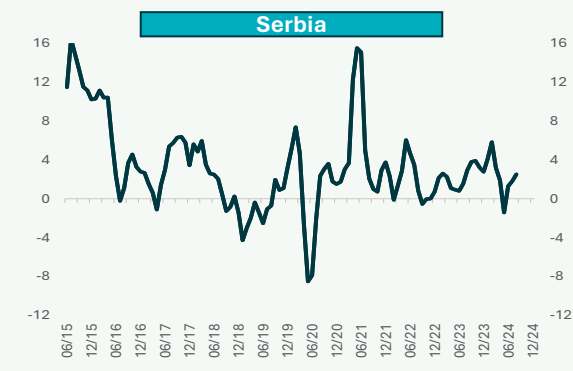
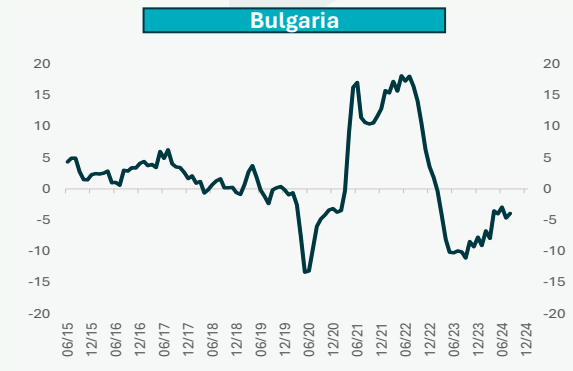
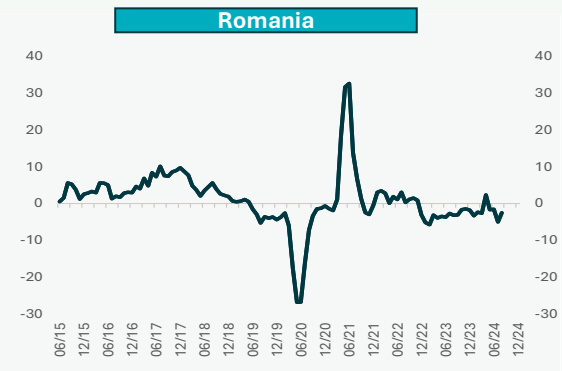
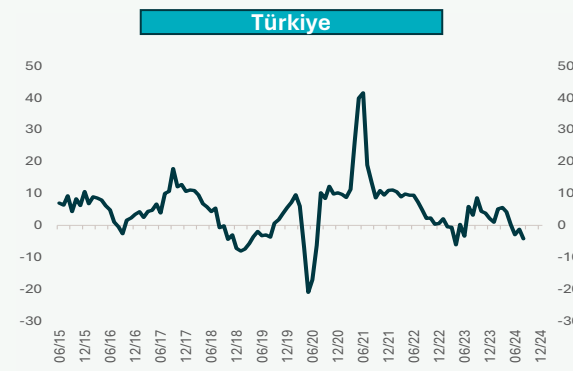
Economic Sentiment Indicator (difference between the % of respondents giving positive and negative replies, s.a.)

- The services sector continues to exhibit remarkable strength (despite fading pandemic-related pent-up demand), while weakness in the industrial sector remains, mainly reflecting the sluggish growth outlook for the EU, especially Germany
- Consumer confidence has been improving in most of the economies under review, fueled by rising real incomes
- Overall economic sentiment in most of the economies under review has been improving sluggishly

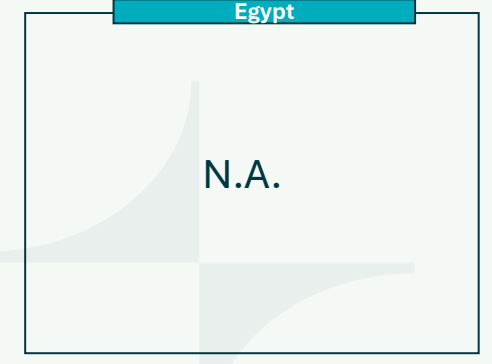
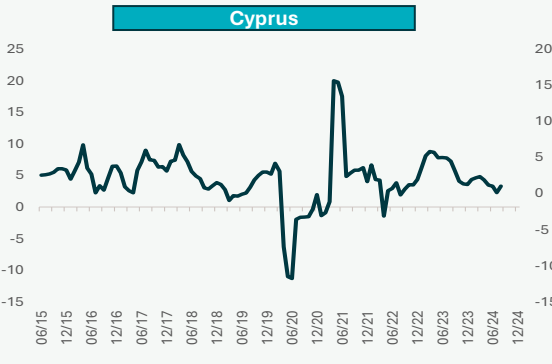
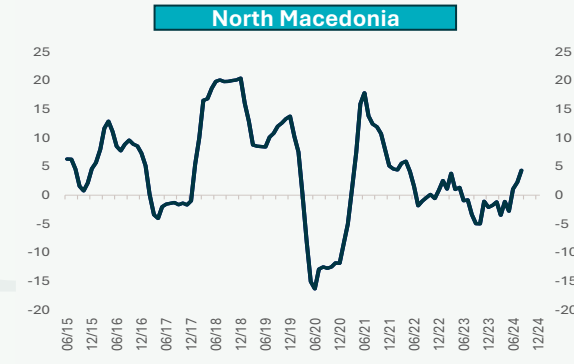
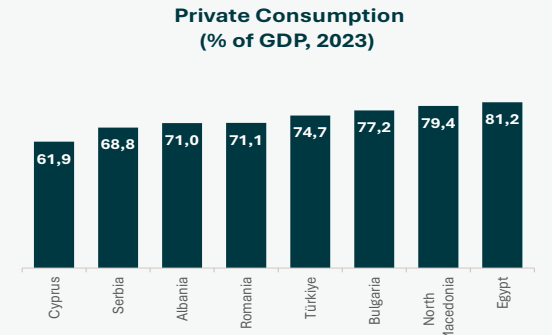
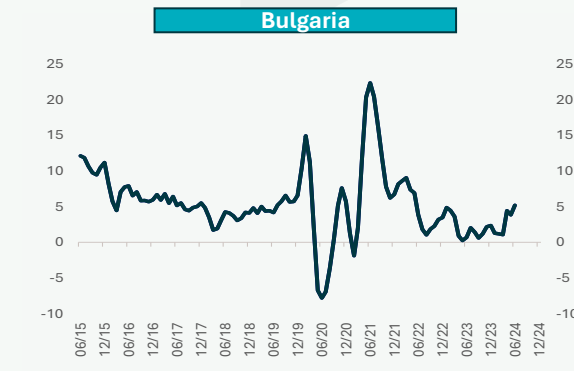
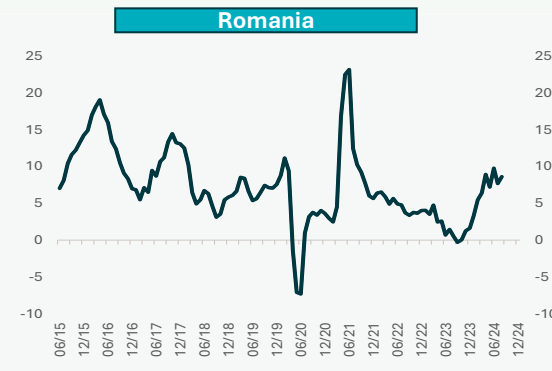
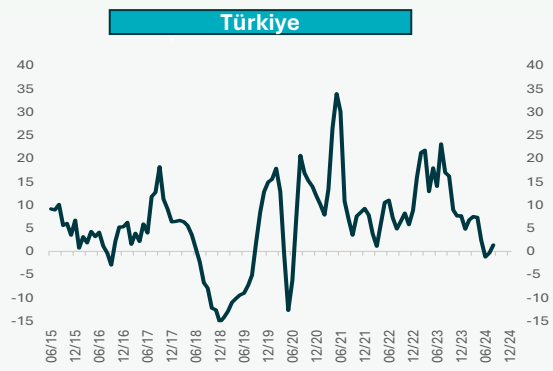


Industrial production (3-month rolling, y-o-y % change)

- Reflecting sluggish economic growth in the EU (especially Germany), the region's main trade partner, the **industrial sector has yet to witness tangible signs of recovery**, despite healthy domestic demand. This discrepancy reflects, *inter alia*, the economies' under review relatively low position in global value chains
- The **need to replenish inventories**, which have been depleting for quite a long some time, should support activity in the period ahead
- A potential escalation of **global trade war** could affect the sector's growth outlook

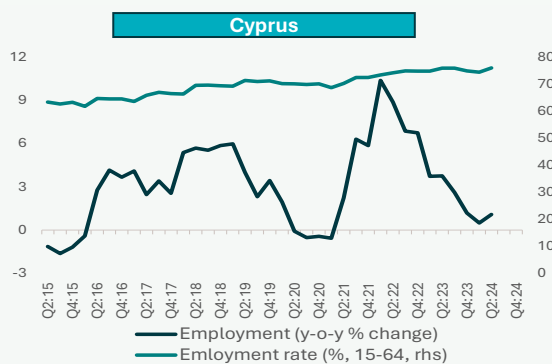
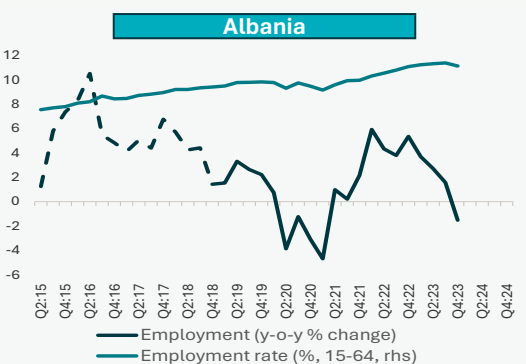
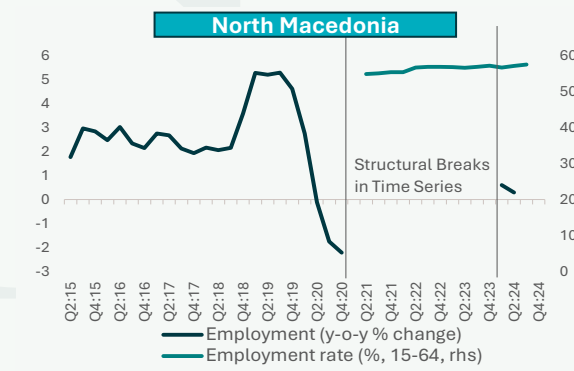
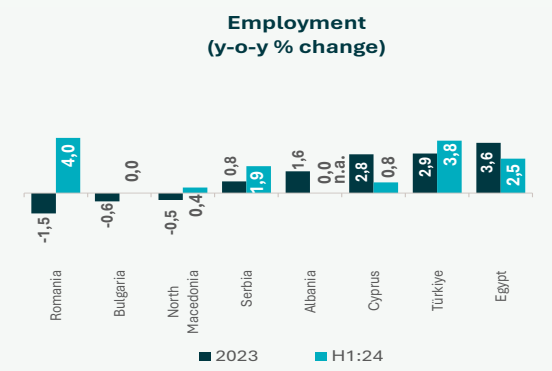
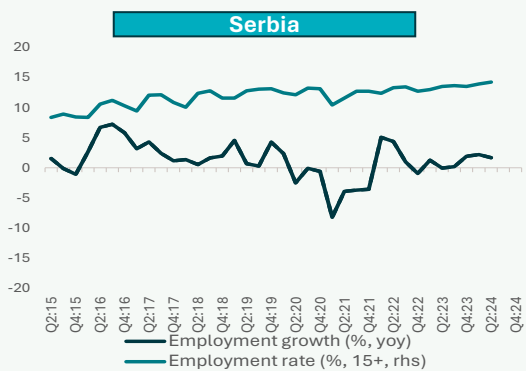
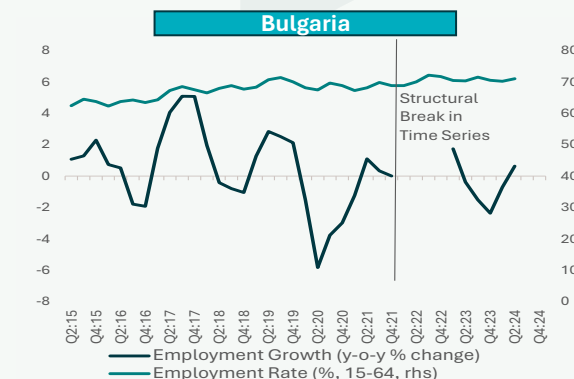
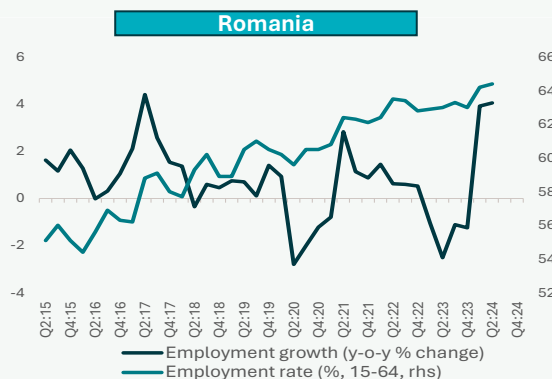
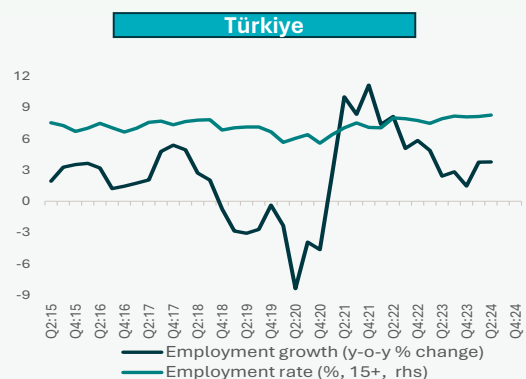


▪ Easing inflationary pressures and gradually improving consumer confidence have been sustaining growth in retail sales



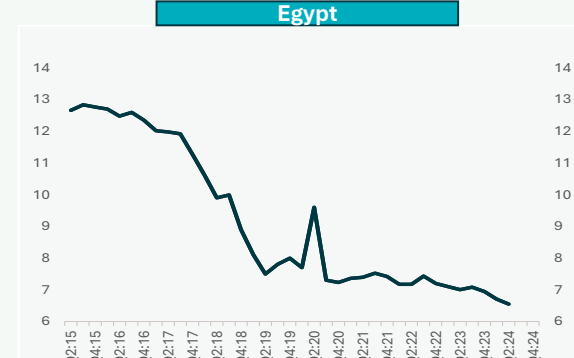
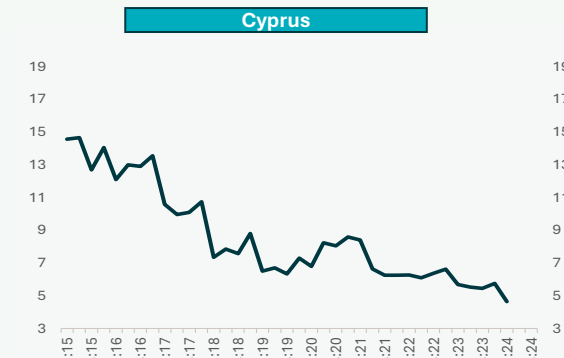
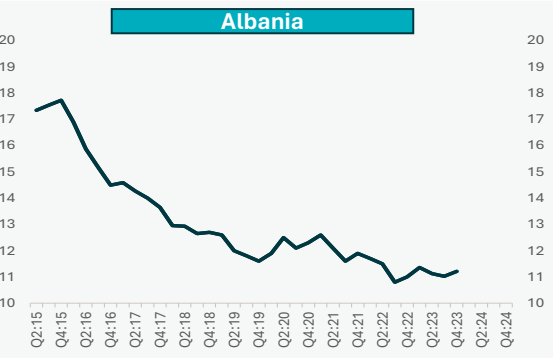
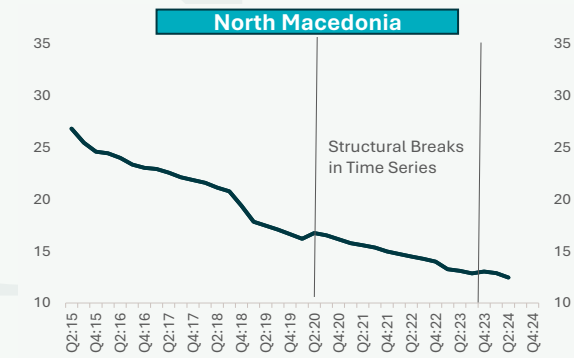
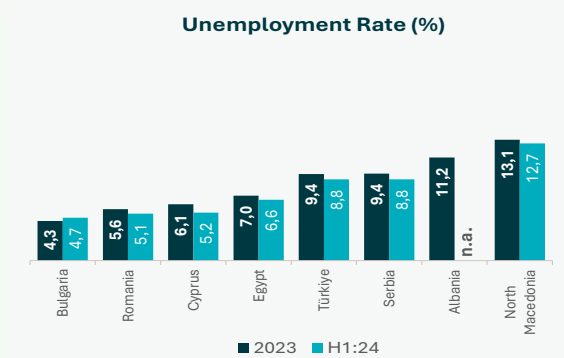
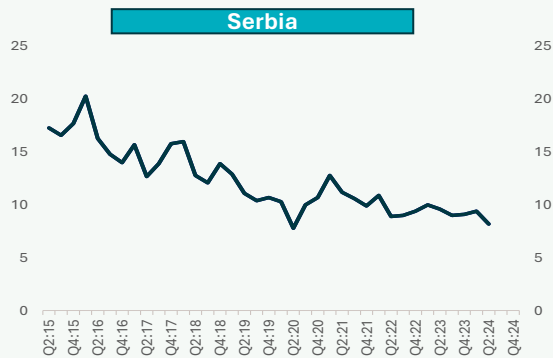
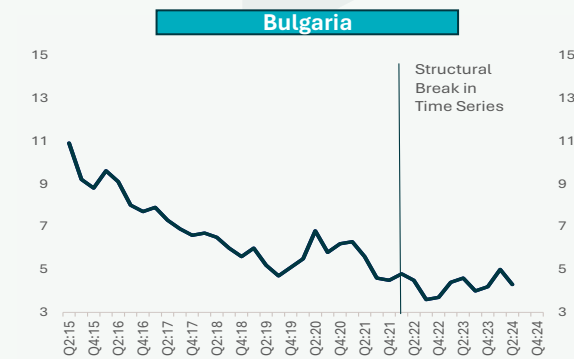
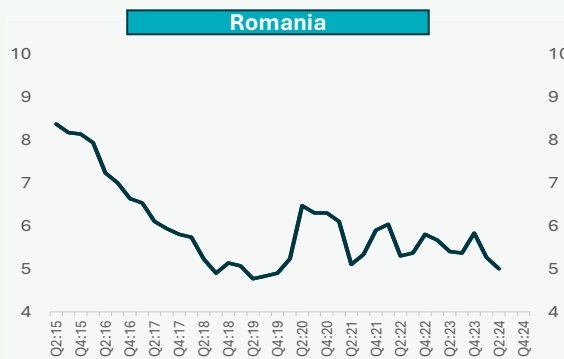
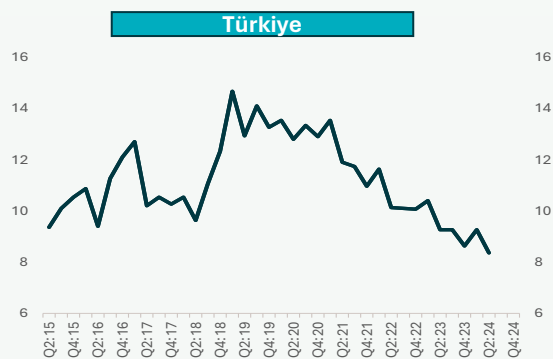
Employment growth (y-o-y % change) & Employment Rate (%)

- 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. Given that employers are under-utilising their workforce -- especially in the industrial sector -- employment growth is unlikely to strengthen significantly in the short-term.
- Still, considering employment and unemployment rates, overall labour market conditions remain **tight**
- Ageing and migration** as well as structural issues (especially **skills mismatches**) should continue to pose significant challenges in the period ahead



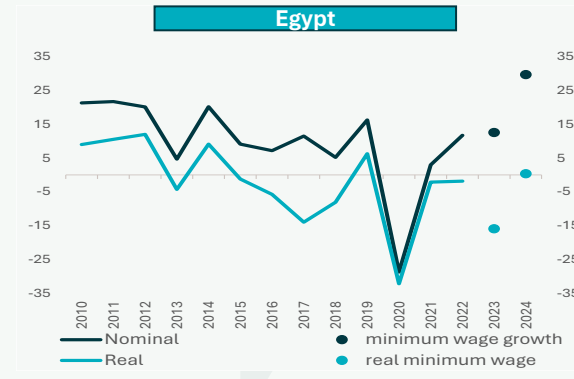
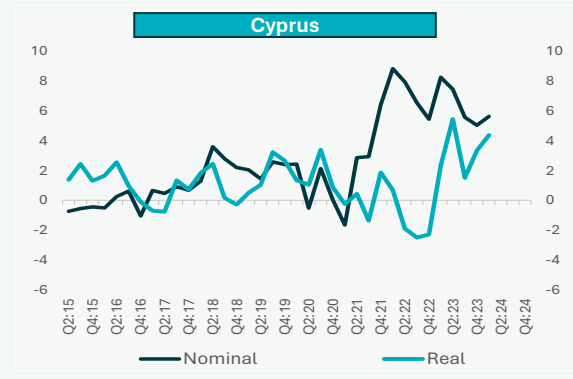
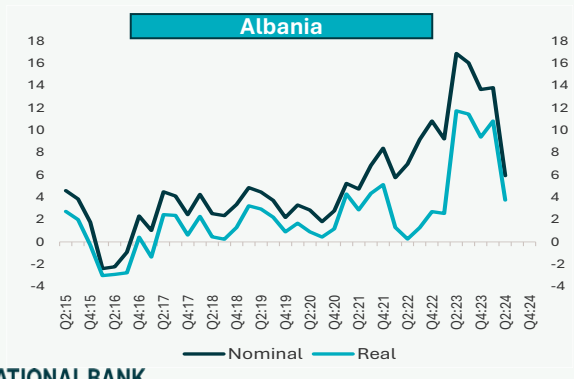
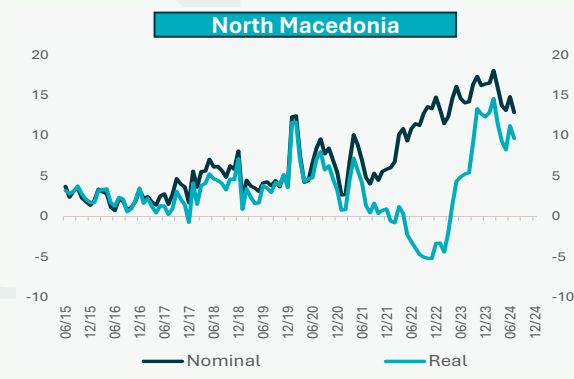
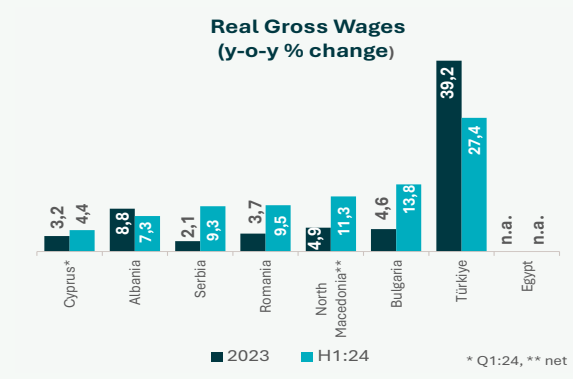
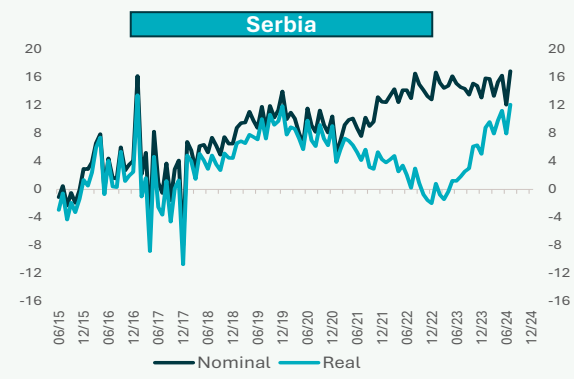
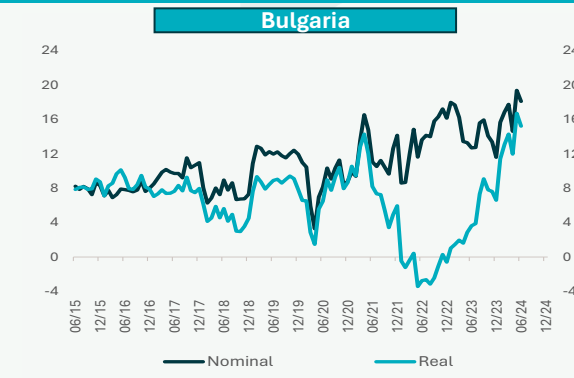
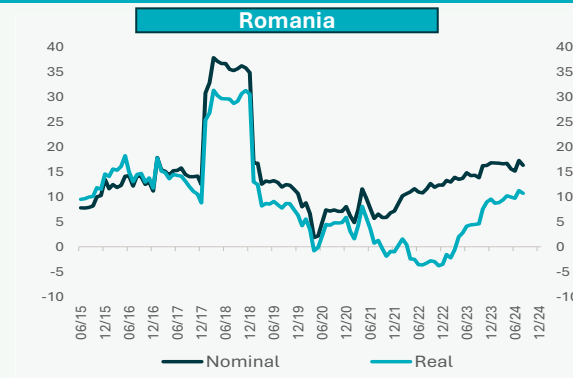
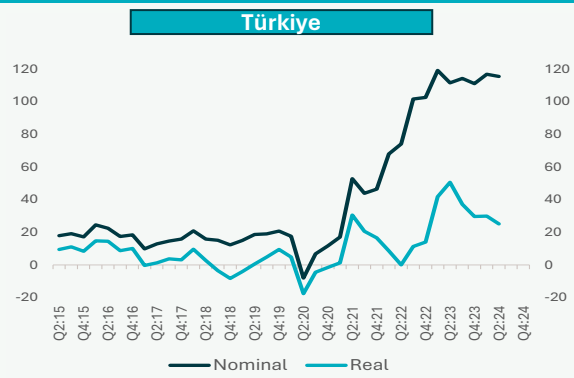
Unemployment rate (%)

- The unemployment rate has embarked on a slow downward trend 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 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



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 over 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. In the long-term, it should converge towards the much more modest (i.e. low single-digit) growth in labour productivity



- **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

* Cyprus has yet to enact the 15% global minimum effective tax rate for Pillar 2 companies (i.e. mainly large multinational companies and large-scale domestic groups in the EU), as agreed under an OECD inclusive framework and enclosed in an EU directive, which was due to be applied as of January 1st, 2024. A draft legislation aligned with the directive was submitted to the Parliament in mid-October

Snapshot

Real Sector

External Accounts

- External trade
- Real effective exchange rate
- Current account balance
- Net FDI
- Other net capital flows
- Balance of payments
- FX reserves
- Short-term external debt / FX reserves
- External debt

Prices & Monetary Policy

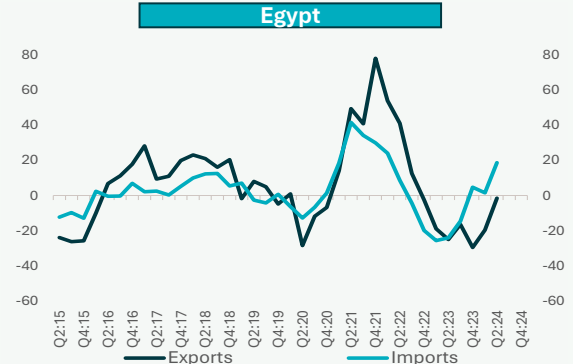
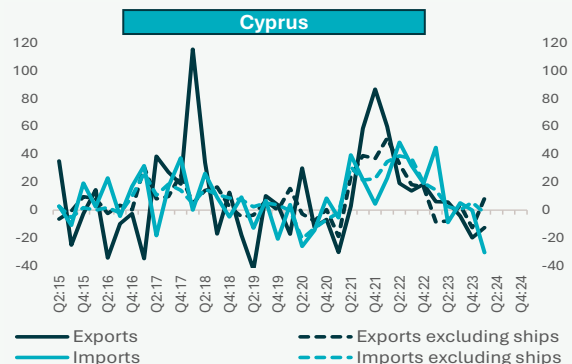
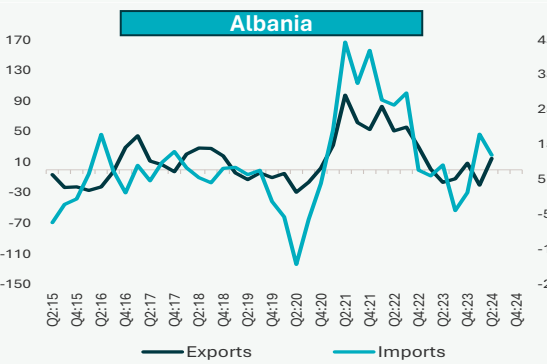
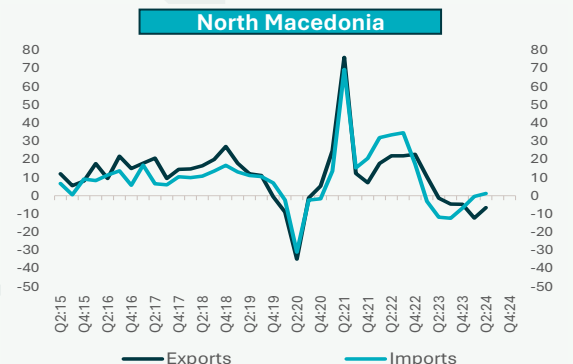
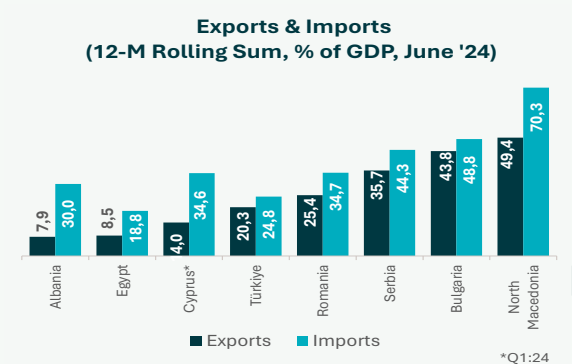
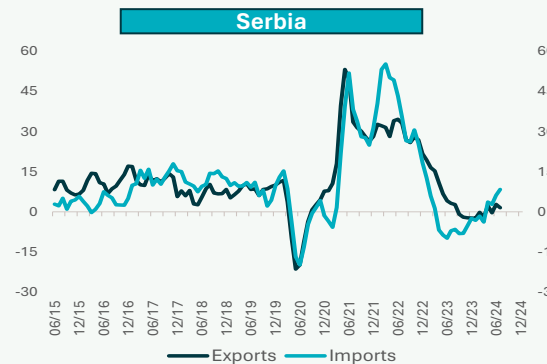
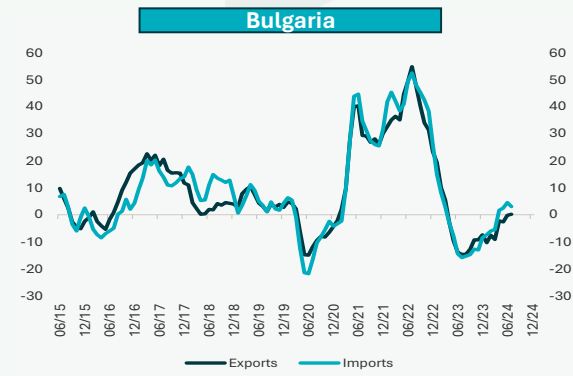
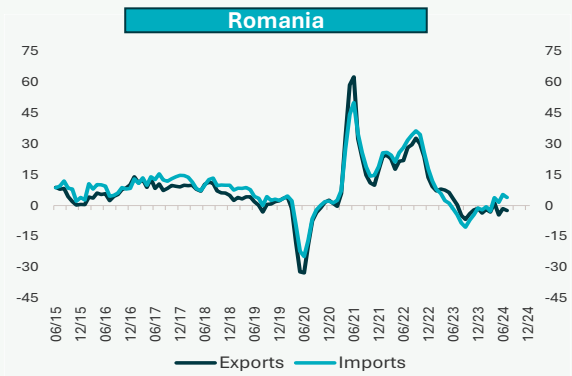
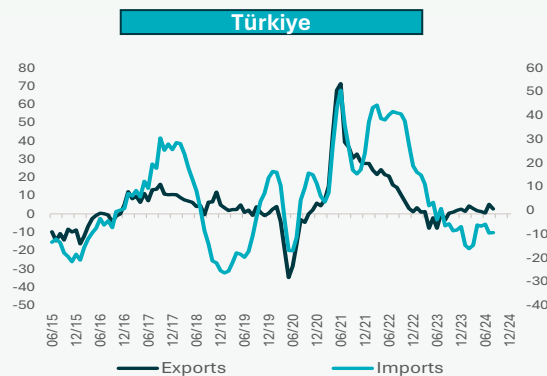
Fiscal Position

Financial Markets

Banking Sector

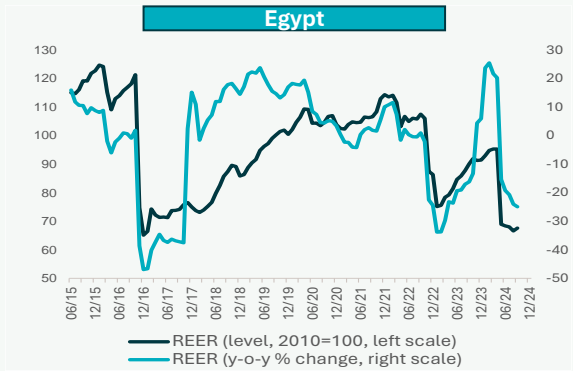
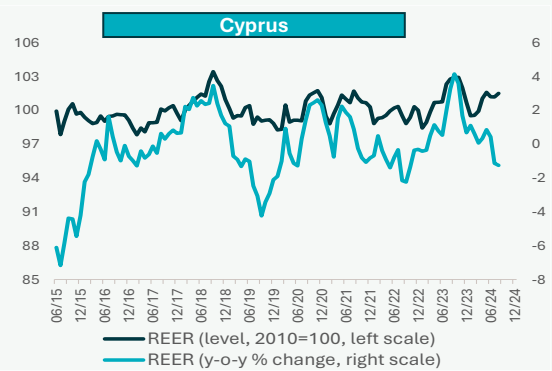
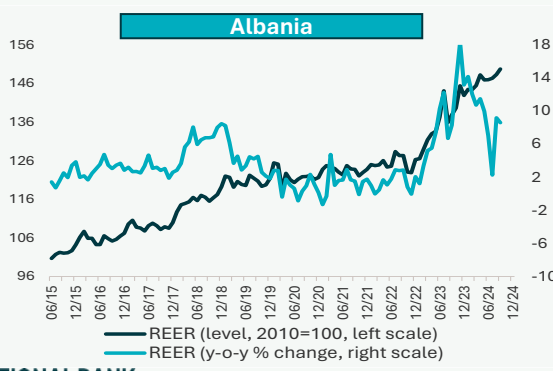
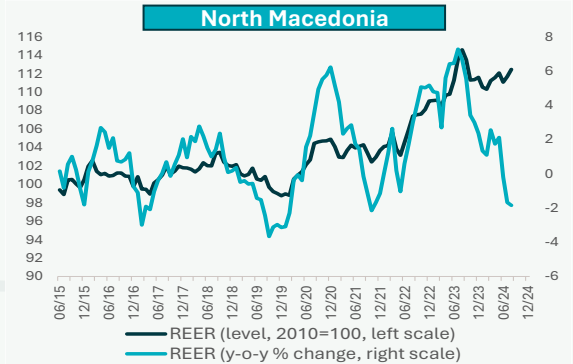
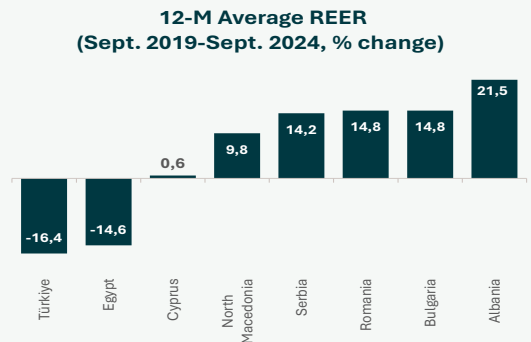
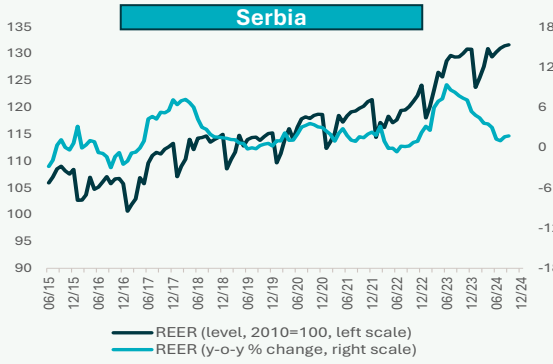
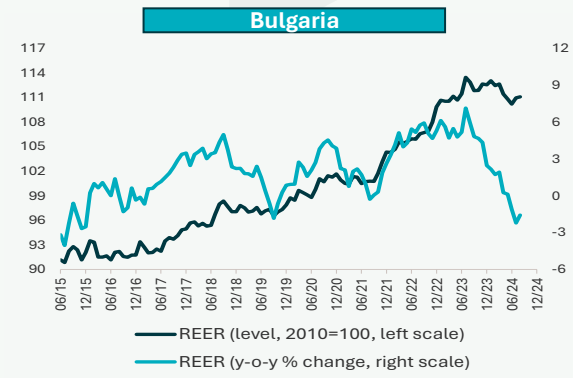
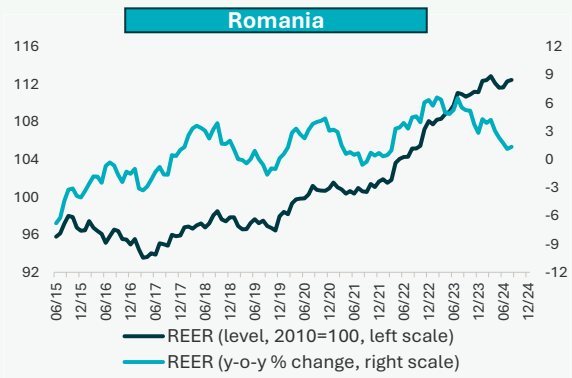
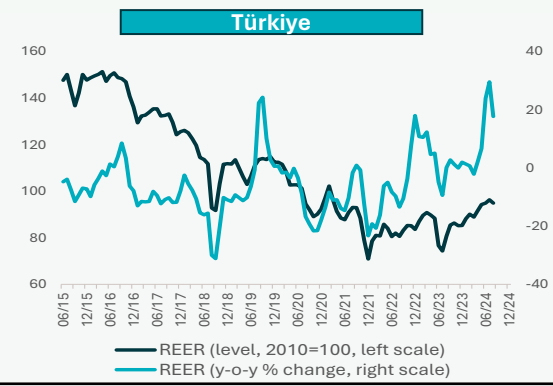


Following a sharp slowdown, attributed to the correction in global commodity prices, growth in external trade appears to be picking-up again



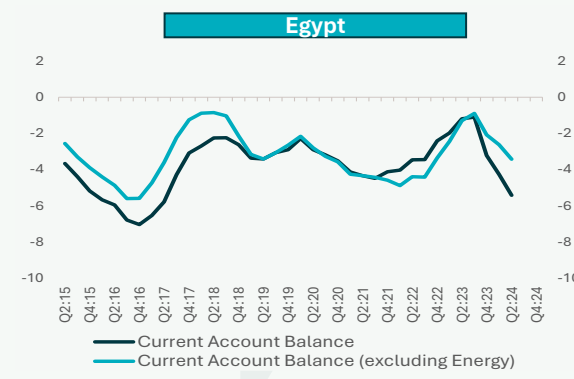
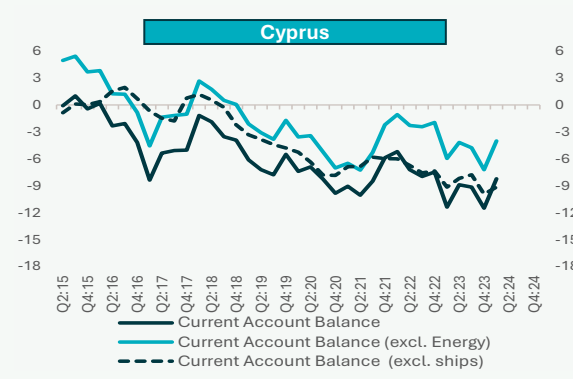
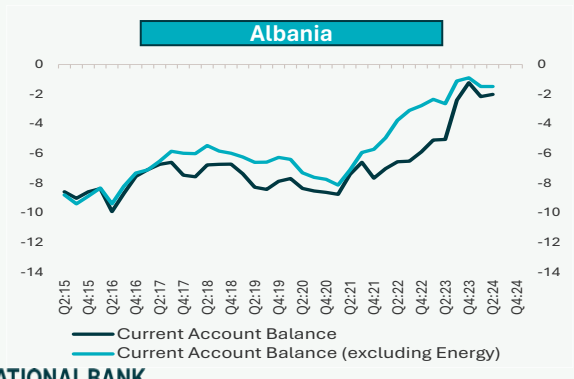
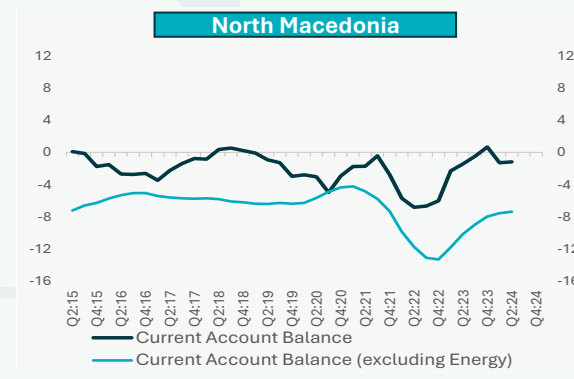
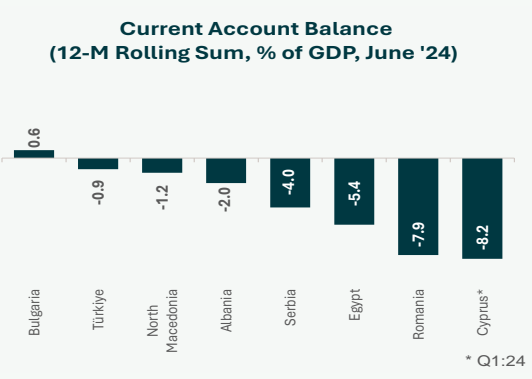
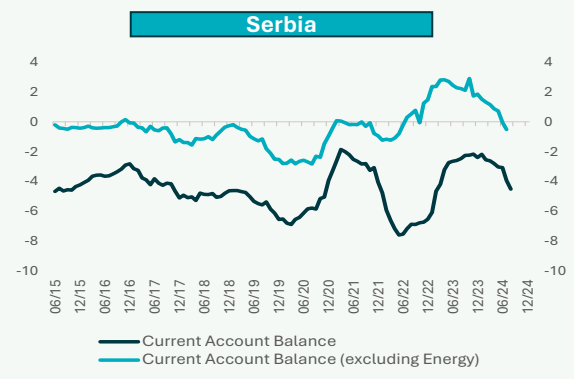
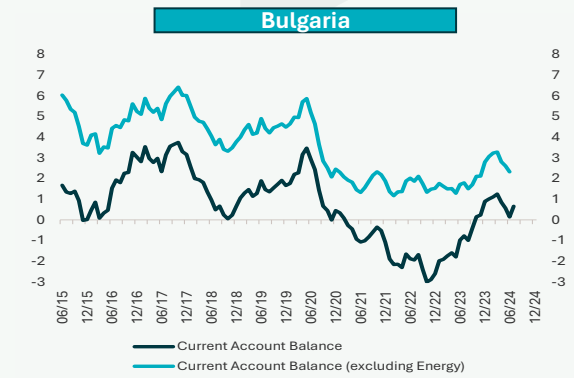
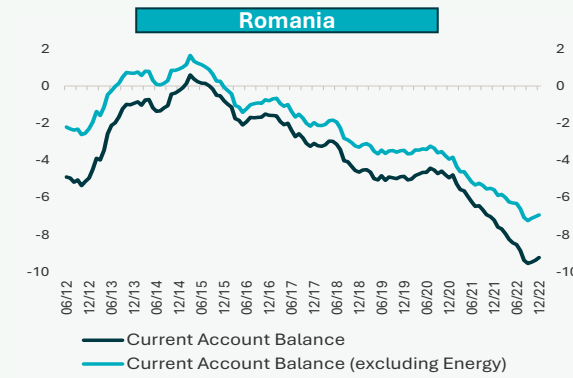
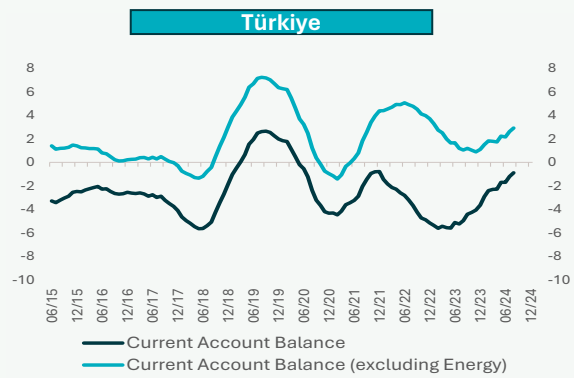
CPI-based real effective exchange rate

- 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** corrected the losses in external price competitiveness implied by stubbornly high inflation



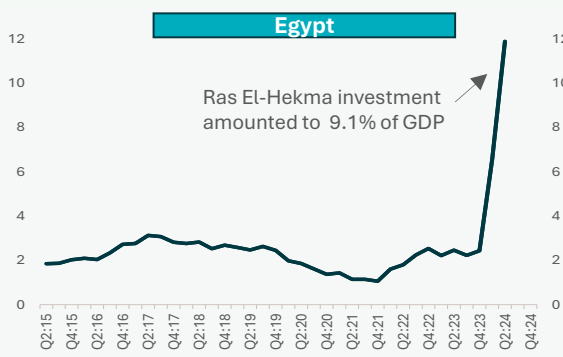
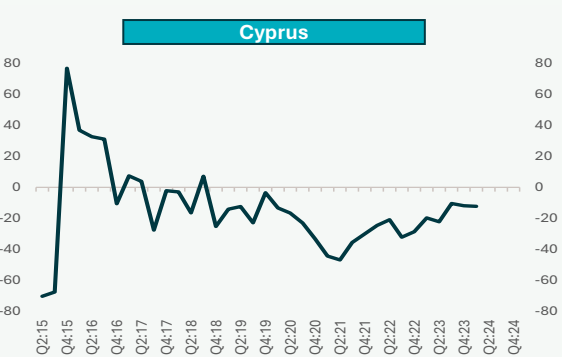
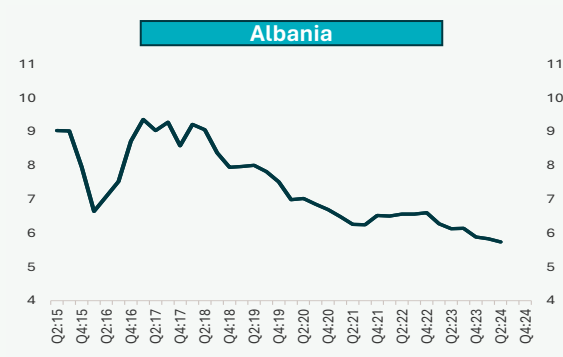
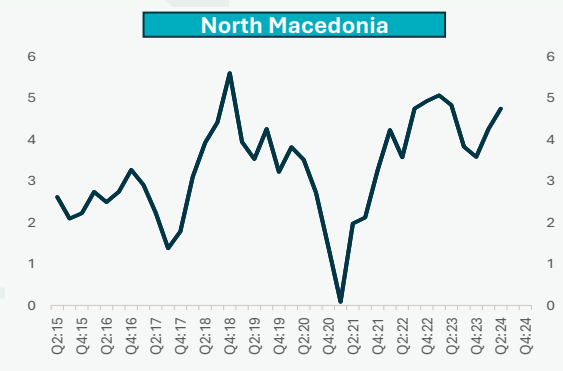
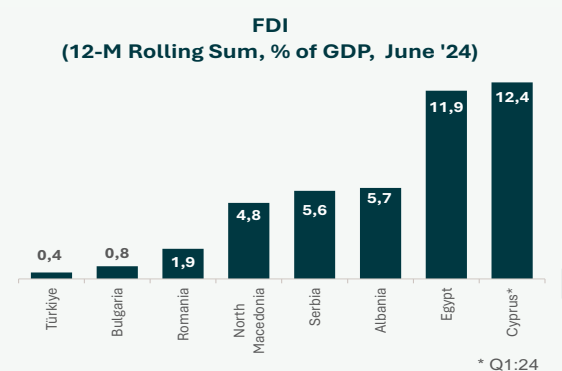
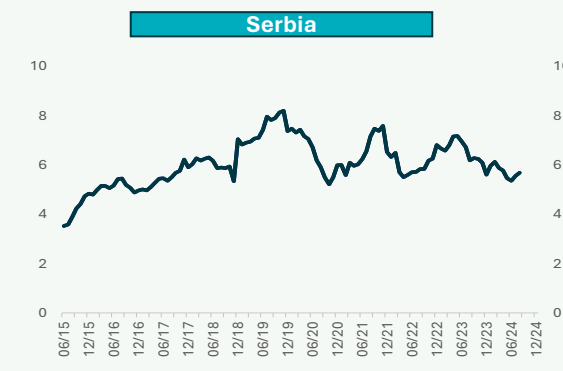
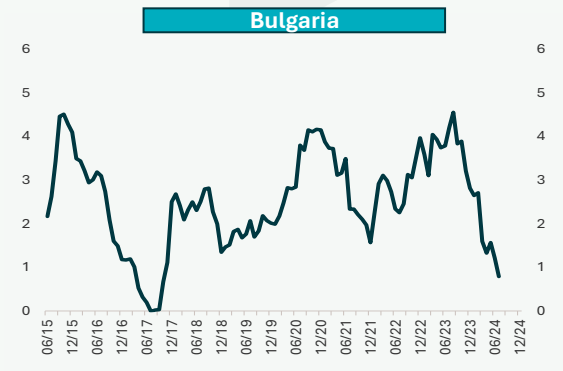
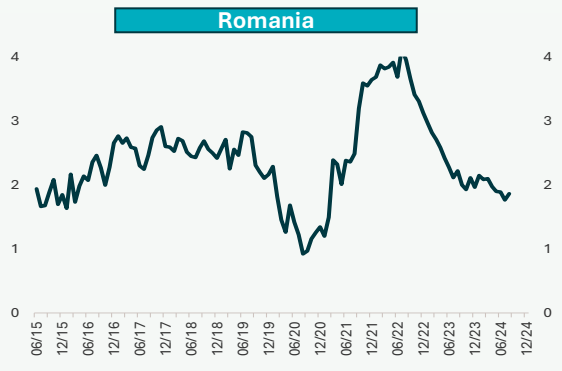
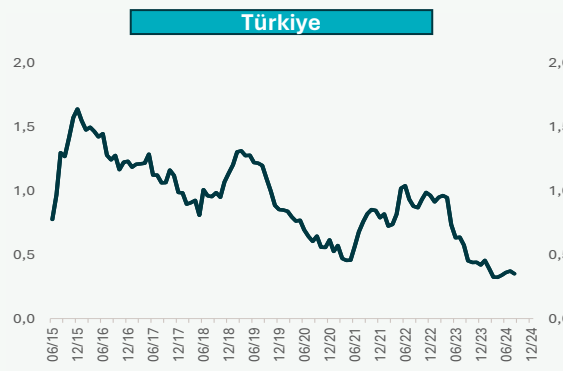
Current account balance (12-month rolling, % of GDP)

- Following a correction in the previous year, **external imbalances are widening** (modestly) again in most of the economies under review mostly on **firing domestic demand**, despite favourable global commodity (especially energy) prices
- Economic adjustment is continuing in **Türkiye**, compressing further the current account deficit. In **Egypt**, the lifting of import restrictions boosted the trade deficit, despite the massive depreciation of the EGP



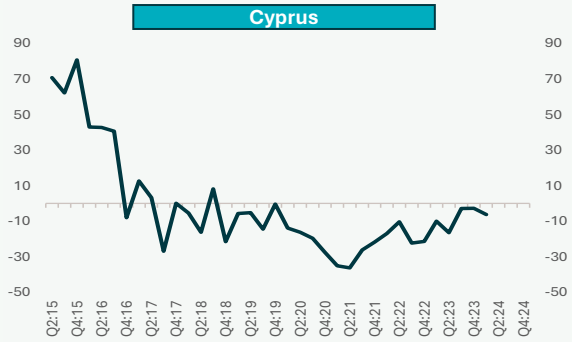
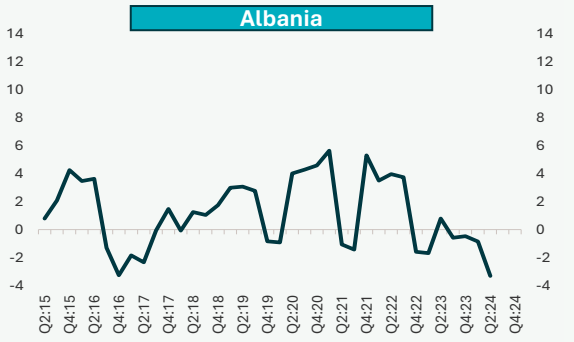
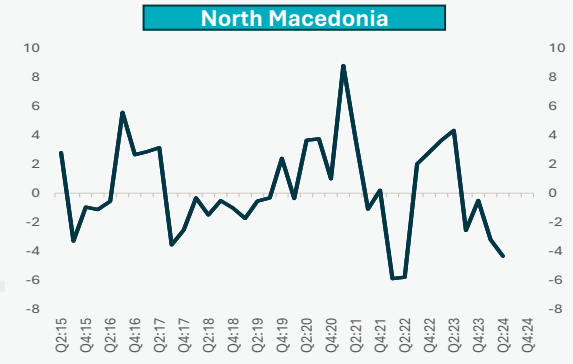
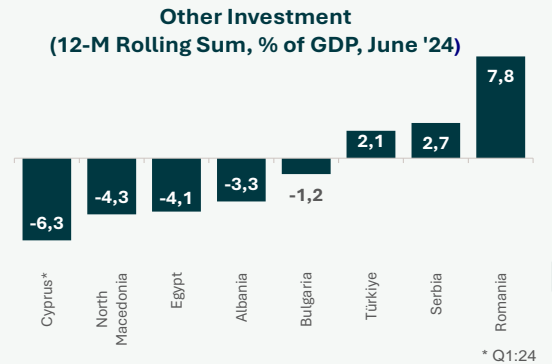
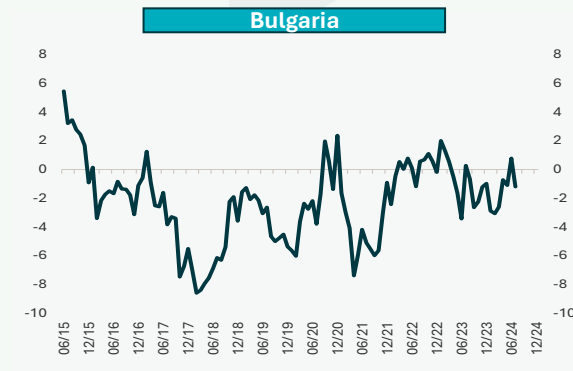
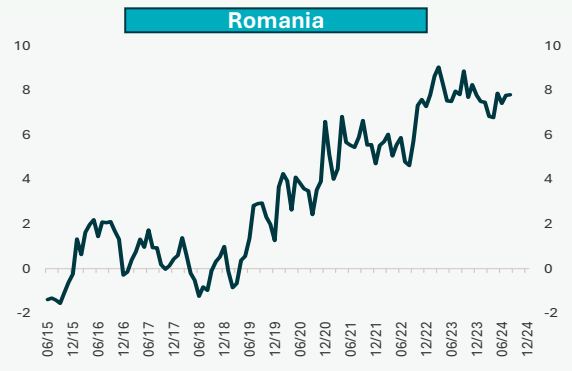
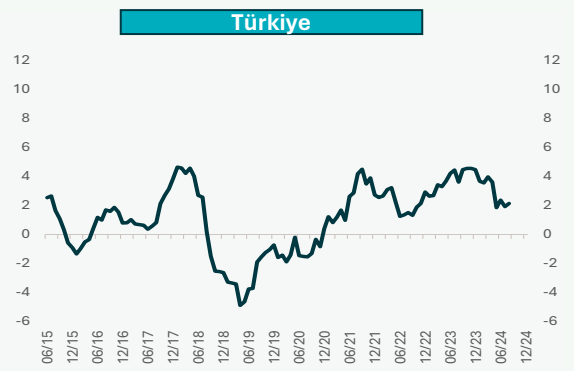
Net foreign direct investment (12-month rolling, % of GDP)

- Against the backdrop of, *inter alia*, elevated uncertainty, **FDI inflows have yet to see signs of recovery** in most of the economies under review
- Albania** and **Serbia** continue to enjoy the strongest FDI inflow in the region
- UAE's Ras El-Hekma development project, worth USD 35bn (c. 9.0% of GDP), provided a critical FX inflow to **Egypt**, helping to ease financing pressures. Note that, in a bid to attract investments and much-needed FX, authorities have allocated five areas on the Red Sea Coast for similar large-scale investments



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

- Despite gradually easing global financing conditions, other investment flow has been subdued so far
- Romania, Bulgaria and Cyprus will continue to benefit from increased flow of funds under the EU Recovery & Resilience Facility
- Serbia's upgrade to investment grade could see foreign investors increasing their holdings of sovereign debt



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

- The **current account deficit is set to remain under pressure** in most of the economies under review, in line with **firming domestic demand**. A notable exception is **Türkiye**, where economic adjustment is underway
- Under our baseline scenario, external accounts should continue benefiting from **favourable global oil prices** next year as well. Risks to this outlook are tilted to the upside, nonetheless, given ongoing geopolitical tensions
- Tourism-reliant economies should continue to benefit from (another) **strong tourism season**. Note that **Cyprus** has successfully substituted losses from reduced inflows from Israel (the islands 2nd source country, accounting for c. 11.0% of total arrivals in FY:23) with higher inflows from the EU
- In all the economies under review (barring that of Romania and Cyprus), the current account deficit is set to remain **below** the empirical critical threshold of c. 5.0% of GDP
- Easing external financing conditions should help most countries under review **plug their external financing gap** next year without drawing on FX reserves

Türkiye	Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
Current account balance	-3.6	-1.4	-1.2	-1.8
Net FDI	0.4	0.2	0.2	0.2
Other net capital inflows *	4.4	1.8	1.7	0.0

Bulgaria	Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
Current account balance	0.9	0.4	0.4	0.3
Net FDI	2.8	1.3	1.4	1.4
Other net capital inflows *	-1.0	-1.7	-0.7	-0.7

North Macedonia	Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
Current account balance	0.7	-1.9	-2.4	-2.8
Net FDI	3.6	3.0	3.0	3.1
Other net capital inflows *	-1.6	0.8	0.8	0.0

Cyprus	Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
Current account balance**	-11.5	-9.1	-8.1	-7.7
Net FDI**	12.0	14.2	15.5	16.2
Other net capital inflows *	-2.8	-5.1	-6.4	-5.8

** 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 30th

Romania	Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
Current account balance	-7.0	-7.7	-7.3	-6.9
Net FDI	2.0	2.0	2.0	1.9
Other net capital inflows *	9.1	7.0	5.9	5.5

Serbia	Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
Current account balance	-2.3	-3.8	-4.3	-4.6
Net FDI	5.6	5.5	5.4	5.4
Other net capital inflows *	3.6	2.1	1.1	1.1

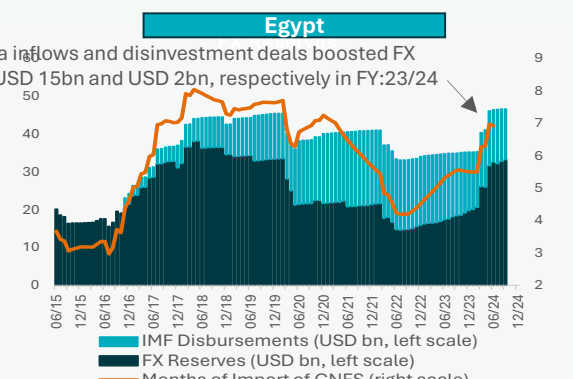
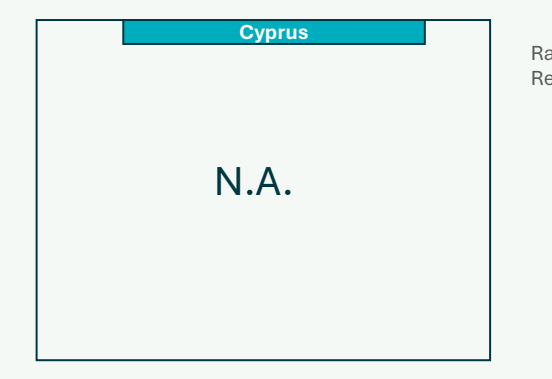
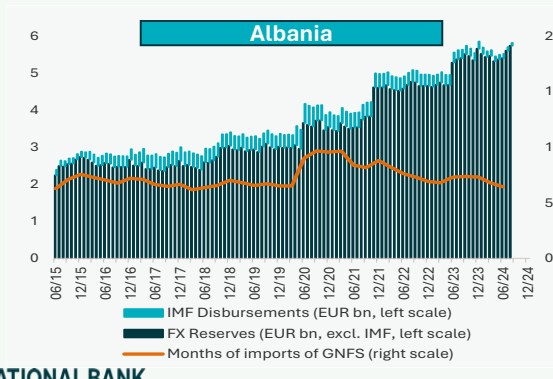
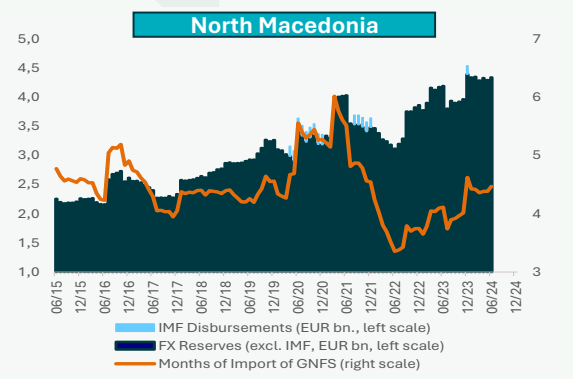
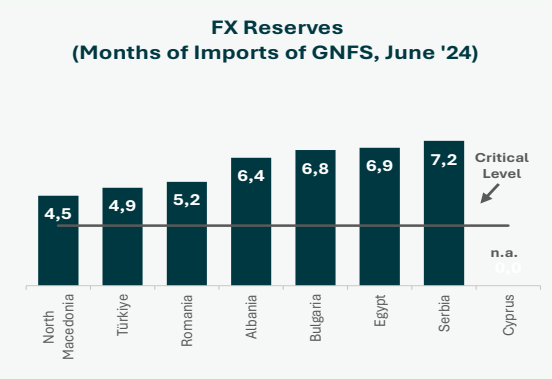
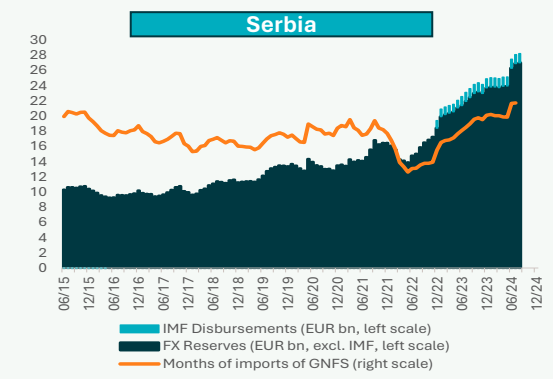
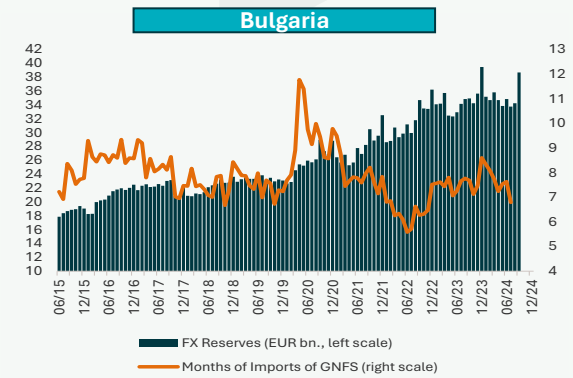
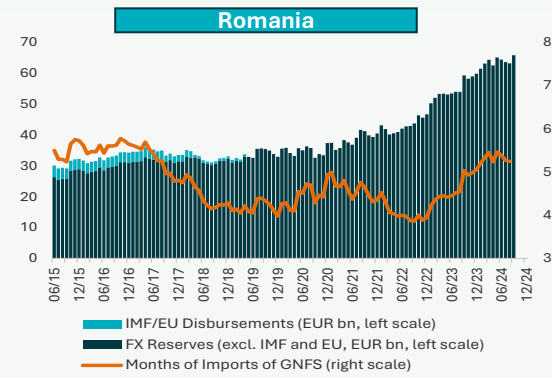
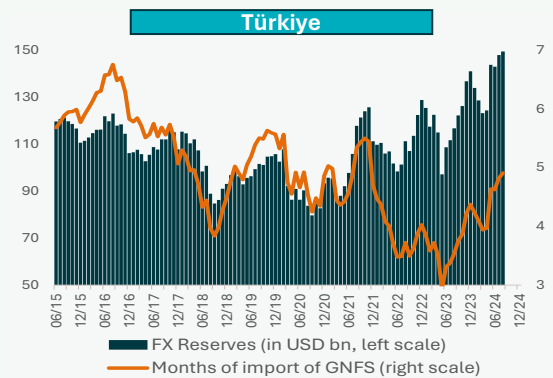
Albania	Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
Current account balance	-1.2	-1.7	-2.2	-2.3
Net FDI	5.7	5.2	5.2	5.1
Other net capital inflows *	-0.5	-2.6	-0.5	-0.4

Egypt#	Jun. 23	Jun. 24	Jun. 25F	Jun. 26F
Current account balance	-1.2	-5.4	-4.9	-4.4
Net FDI	2.5	11.9***	3.1	3.0
Other net capital inflows *	0.0	-3.3	3.3	1.8

***: including divestment proceeds from the Ras El-Hekma project

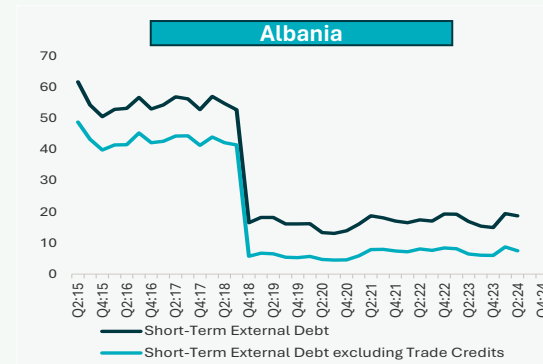
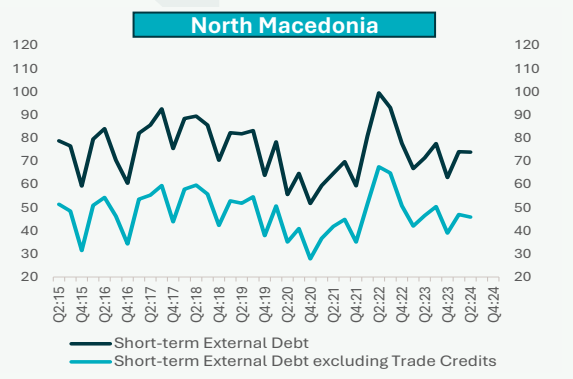
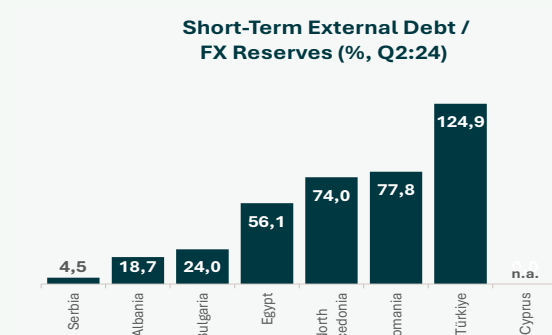
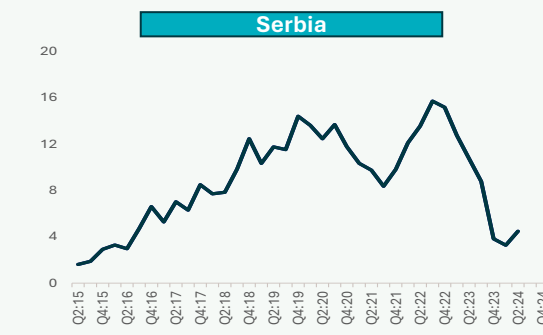
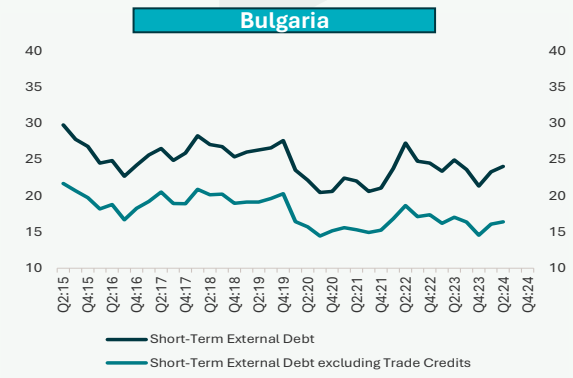
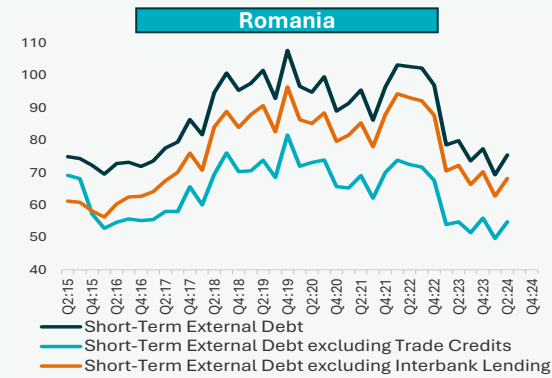
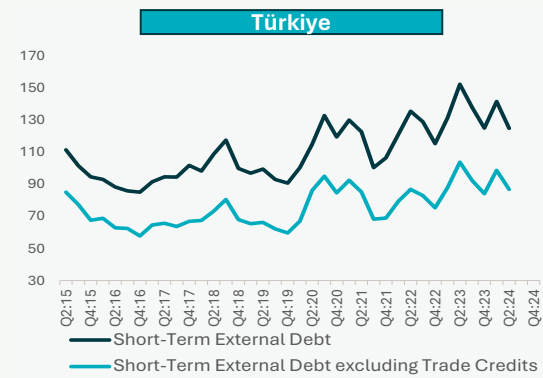
Foreign exchange reserves

- 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



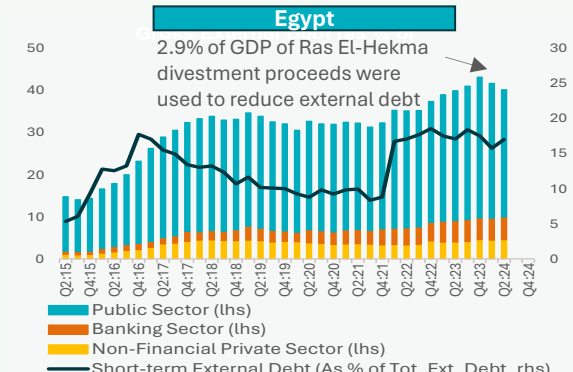
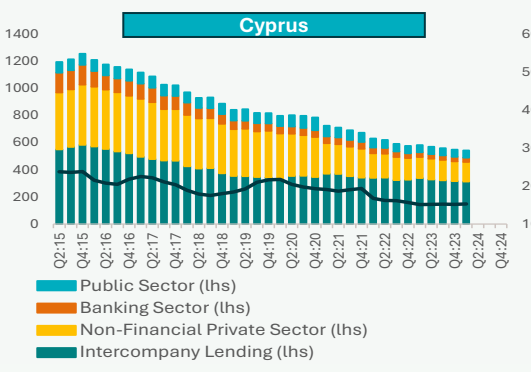
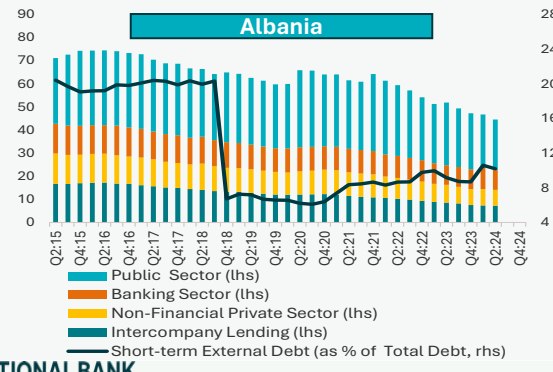
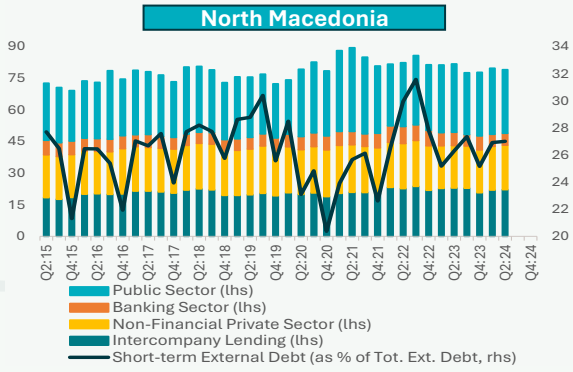
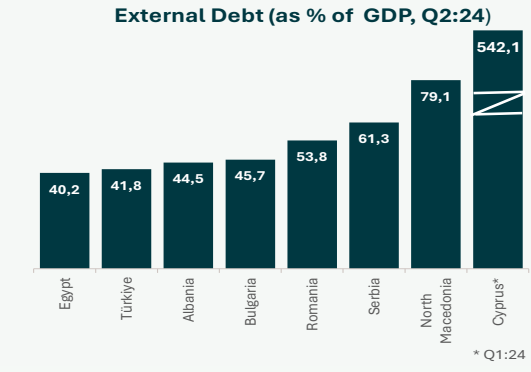
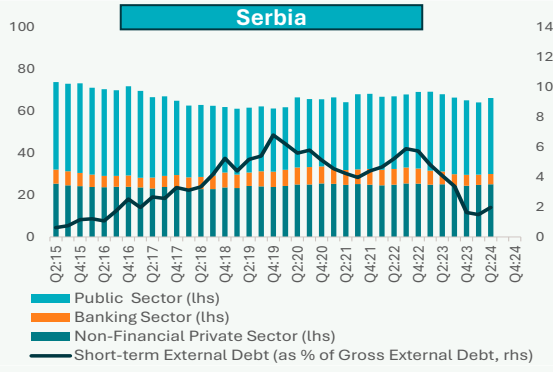
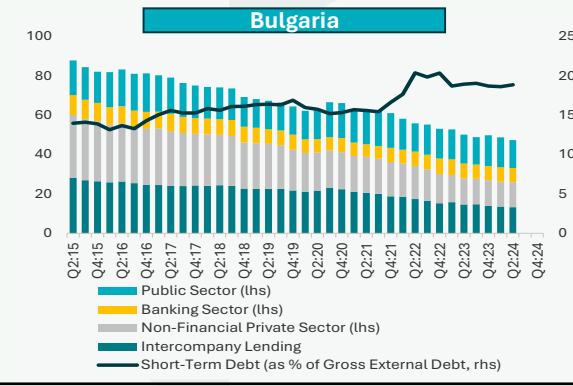
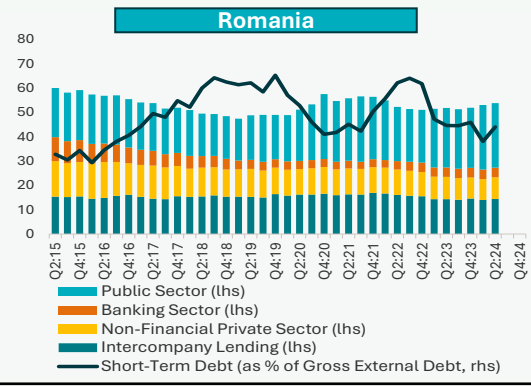
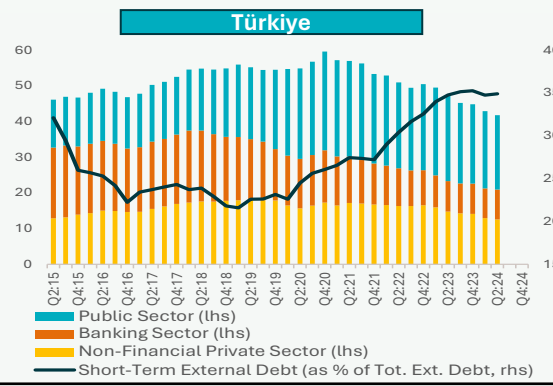
Short-term external debt-to-Foreign exchange reserves ratio (%)

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



External debt (% of GDP)

- Modest current account deficits, together with solid GDP growth (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
- Importantly, the **cost of debt accumulation should ease gradually**



Snapshot

Real Sector

External Accounts

Prices & Monetary Policy

Real estate prices

Inflation

Energy & Food prices and Transport costs

Nominal effective exchange rate

Policy rate

Reserve requirement ratios

Fiscal Position

Financial Markets

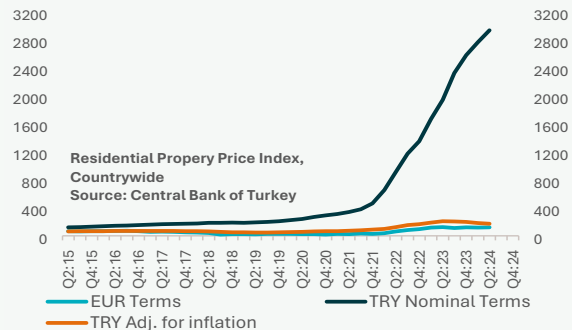
Banking Sector



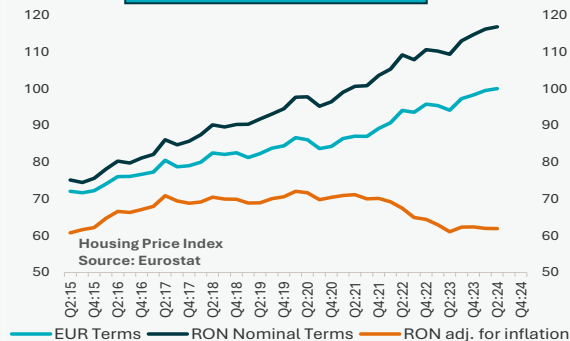
Real estate prices

- The overperformance of the real estate market in **Cyprus** is mostly driven by external demand, following relocation of employees of foreign companies to the island, and to a lesser extent, war-related migration from Russia and Ukraine
- In **Türkiye**, agents have rushed into the real estate market to hedge against skyrocketing inflation
- In a bid to tame inflation pressures on the residential real estate market, the central bank of **Bulgaria** tightened lending standards on new mortgage loans
- Easing financing conditions should provide a **tailwind** to the real estate market in the period ahead

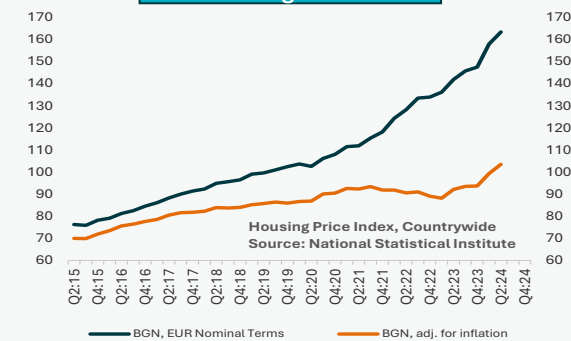
Türkiye



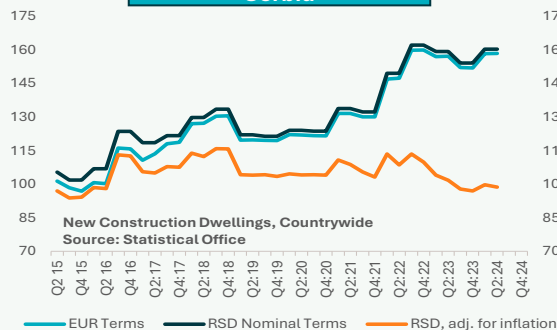
Romania



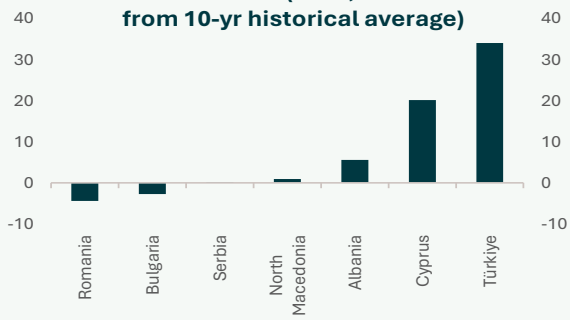
Bulgaria



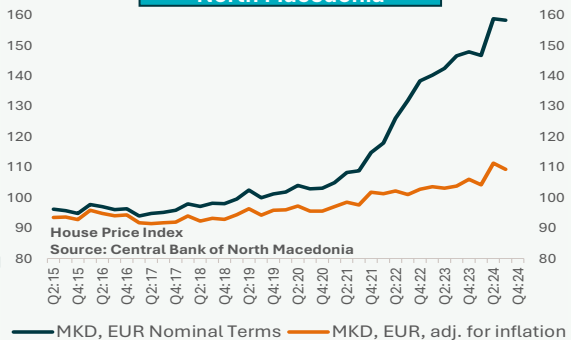
Serbia



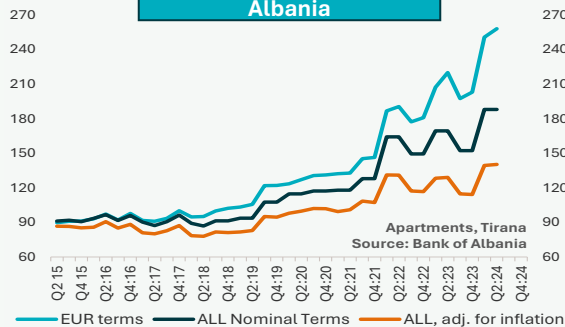
Price-to-Income (2024, % deviation from 10-yr historical average)



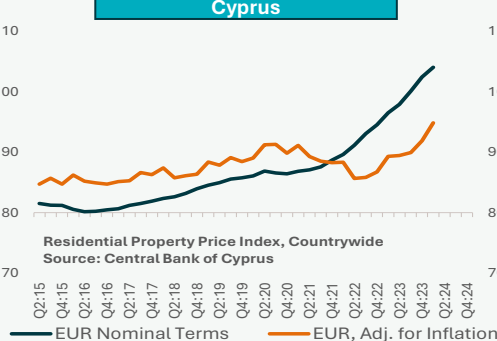
North Macedonia



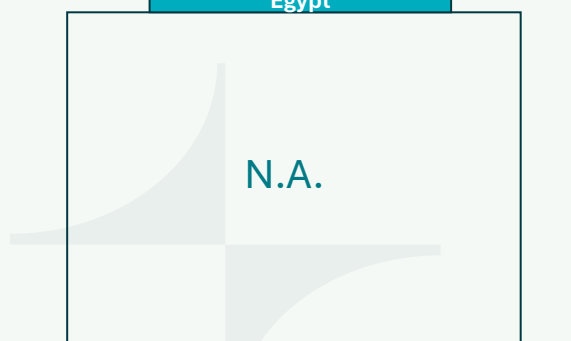
Albania



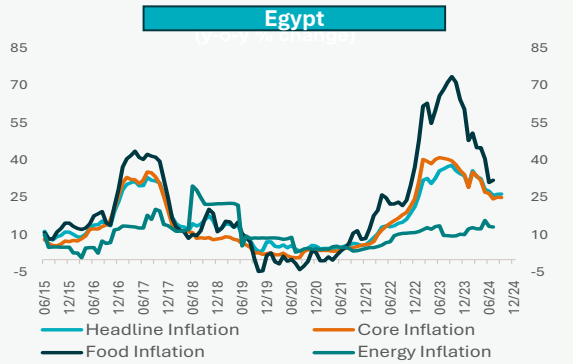
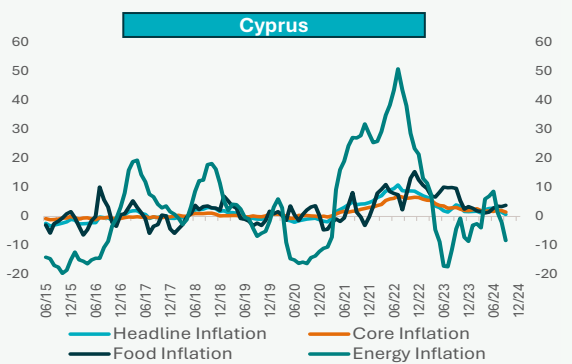
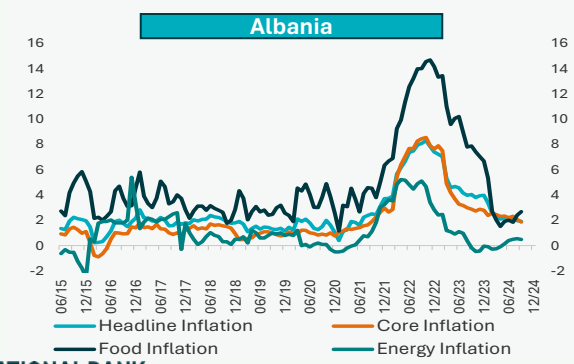
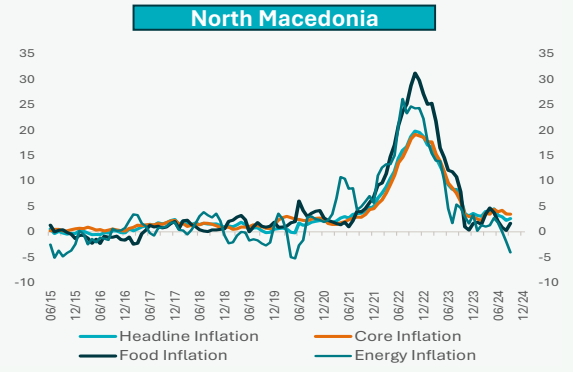
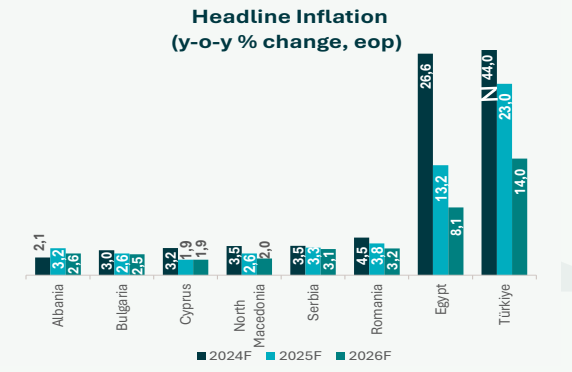
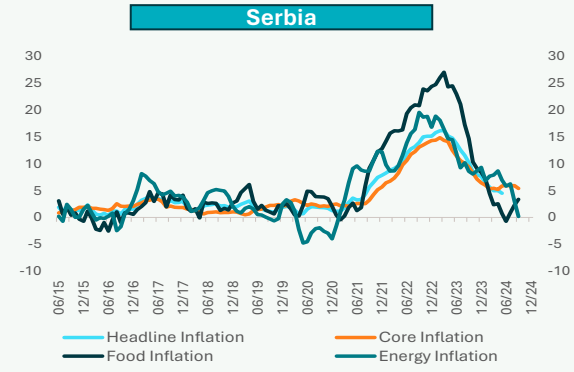
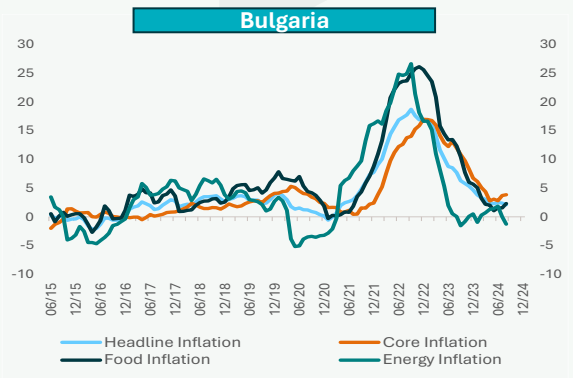
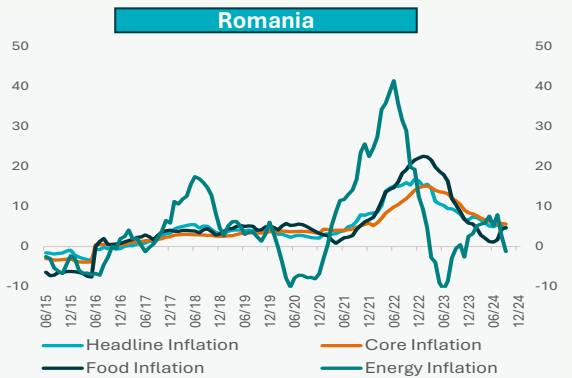
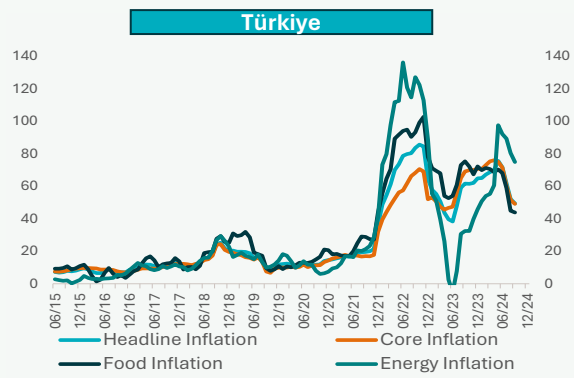
Cyprus



Egypt

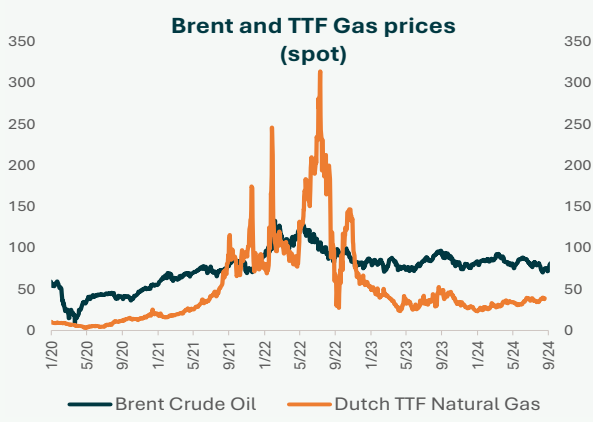
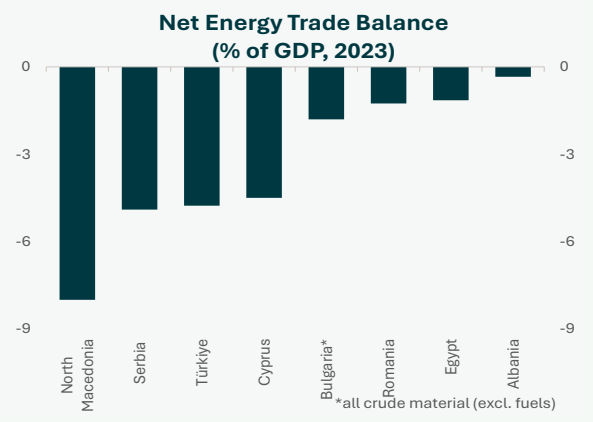


- Disinflation appears to have stalled lately, due not only to negative base effects from the unwinding of the measures mitigating the cost-of-living crisis but also to sticky services inflation
- Overall, headline inflation should continue on a slow downward trend but is **unlikely to return to pre-pandemic levels** before the end of the 2-year forecast horizon. Risks to this outlook are tilted to the upside, reflecting potential repercussions from ongoing geopolitical tensions

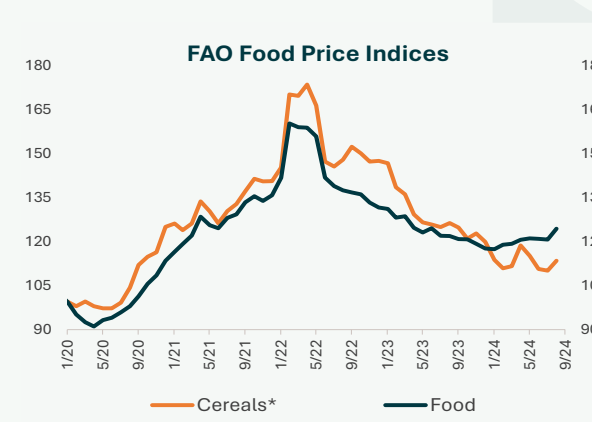
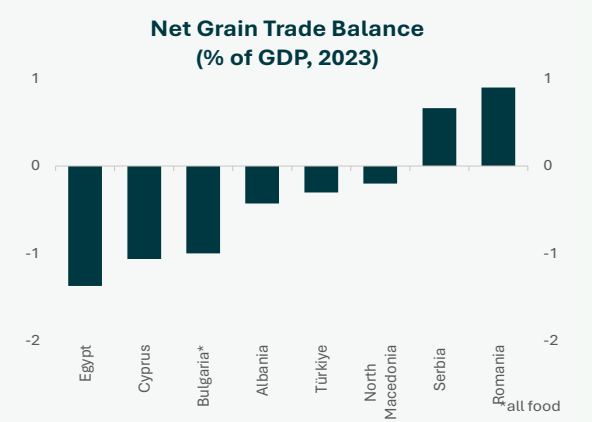


• Assuming favourable energy and food inflation development, **core inflation** should continue to **exceed** the headline measure in the period ahead

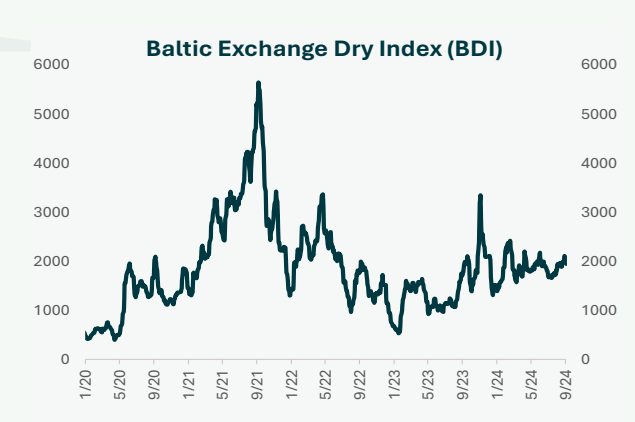
Energy



Food

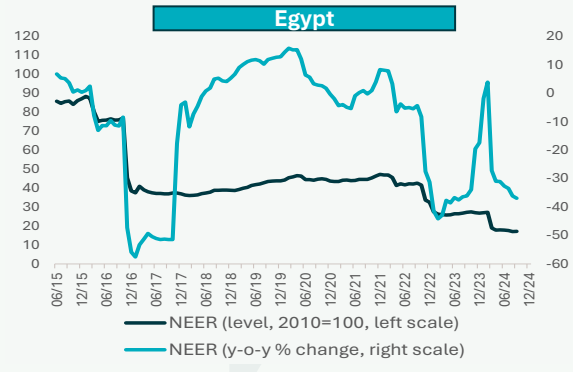
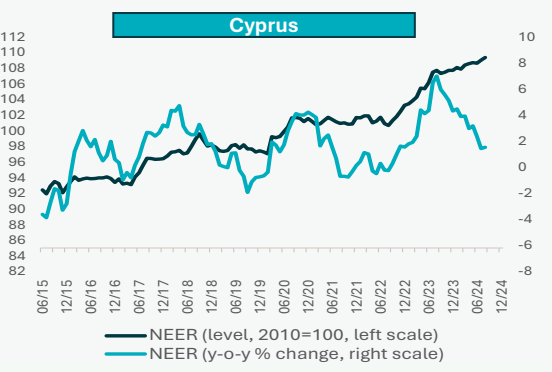
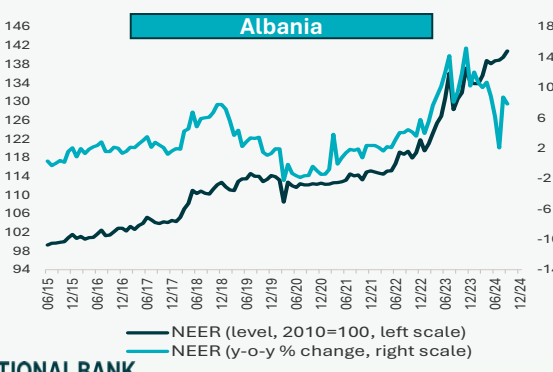
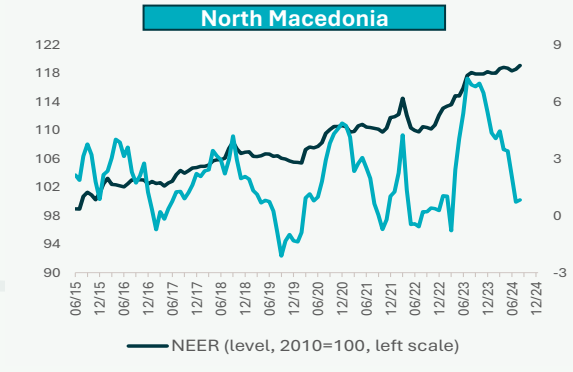
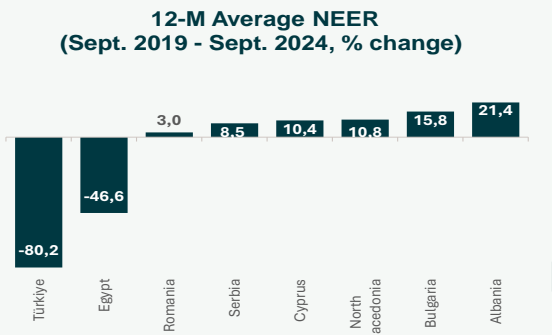
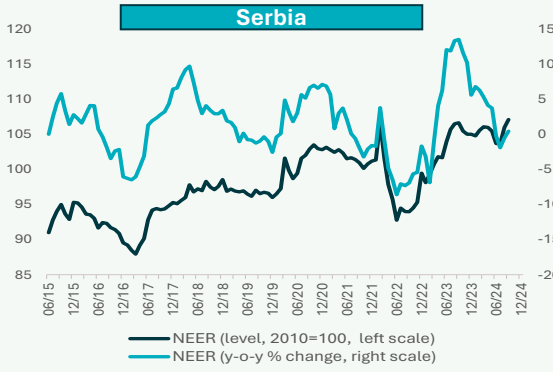
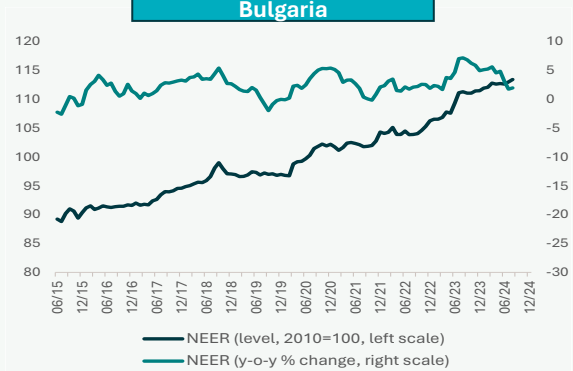
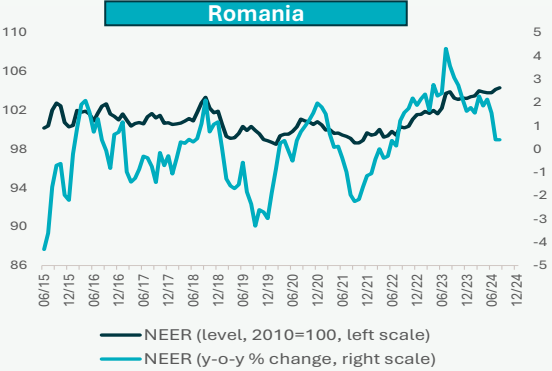
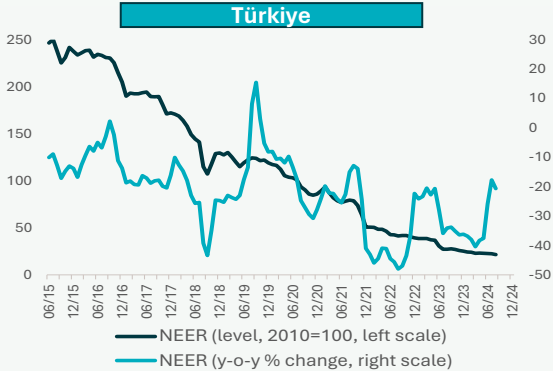


Transport



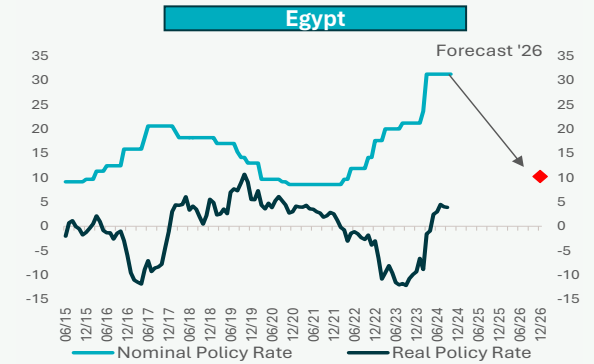
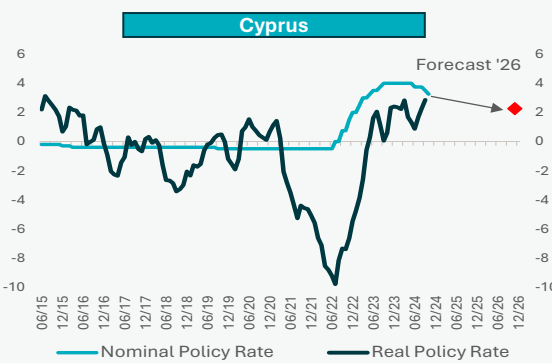
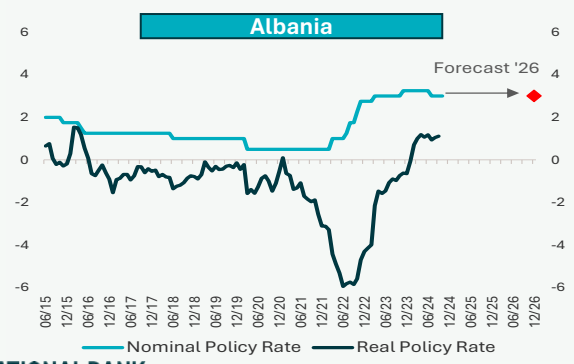
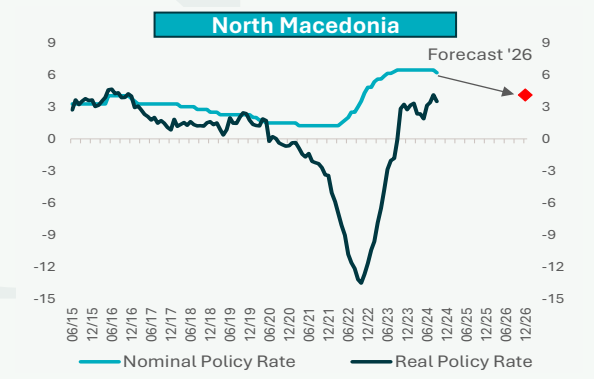
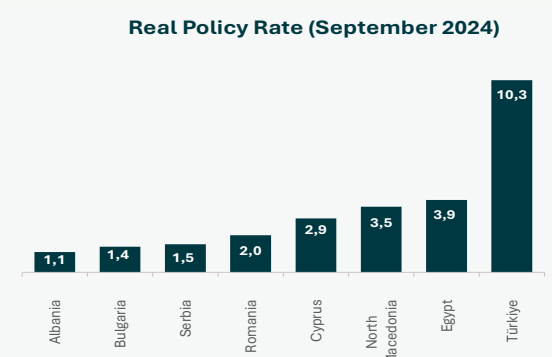
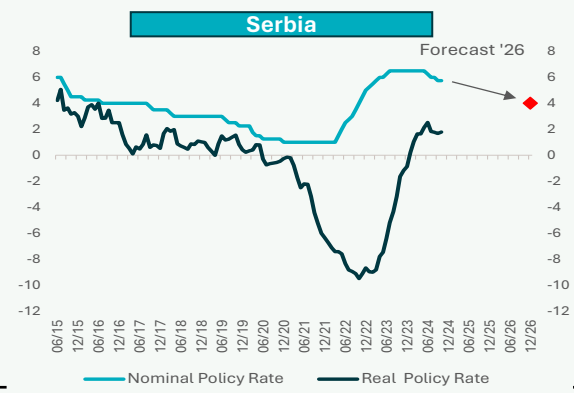
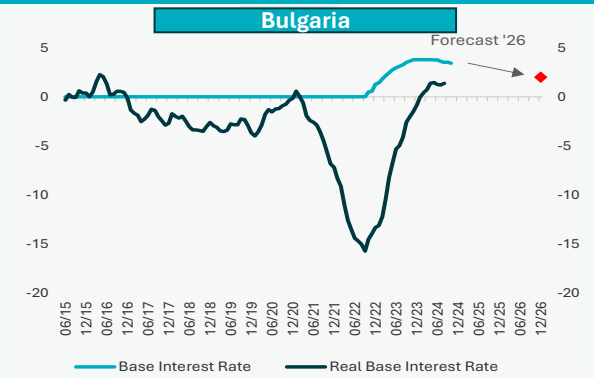
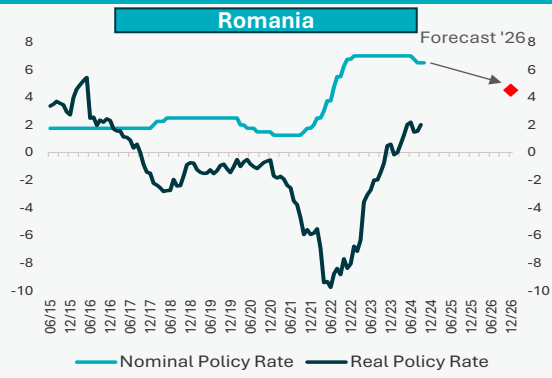
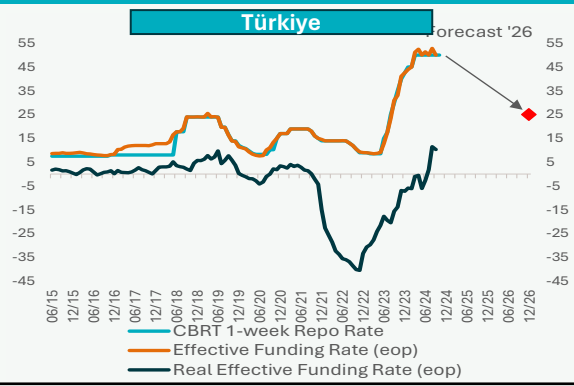
Nominal effective exchange rate

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 policy turnaround and ongoing economic adjustment in both countries, FX depreciation pressures have subsided markedly, nonetheless



Policy rate

- Easing inflation has allowed the central banks of Serbia, Albania, Romania & N. Macedonia to **start cutting rates**. The forthcoming policy rate cuts by the ECB and the Fed should broaden the scope for further easing by the central banks under review. Still, their next steps should be done **cautiously**, given **upside risks to inflation**, mainly reflecting potential repercussions from ongoing geopolitical tensions and/or a wage-price spiral
- The need to tame inflation and 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** raised further its reserve requirement ratios on LC-denominated liabilities

Türkiye

Reserve Requirement Ratios (%)			
	Dec. 2022	Dec. 2023	Sep. 2024
LC Liabilities	3.0-8.0	0.0-8.0*	0.0-15.0*
FC Liabilities	5.0-26.0	5.0-29.0	5.0-29.0

Romania

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

* FX protected accounts: 5.0-25.0

Serbia

Reserve Requirement Ratios (%)			
	Dec. 2022	Dec. 2023	Sep. 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	Sep. 2024
LC Liabilities	5.0	5.0	8.0
FC Liabilities	18.0	21.0	21.0

Albania

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

Snapshot

Real Sector

External Accounts

Prices & Monetary Policy

Fiscal Position

Fiscal performance

Fiscal balance

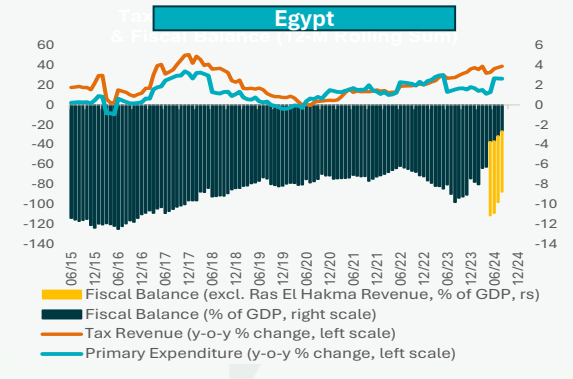
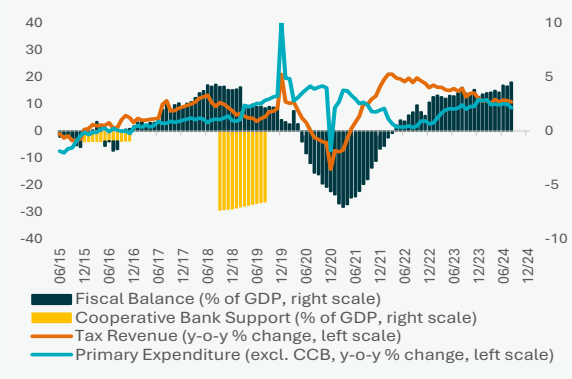
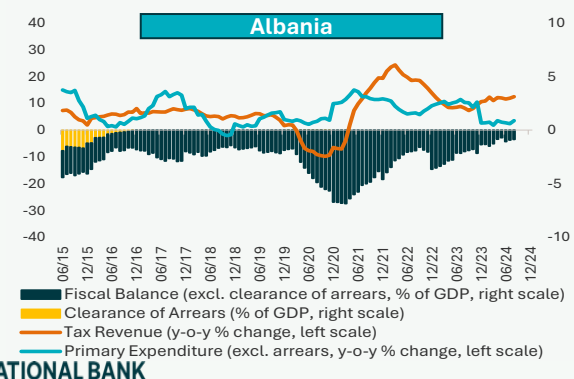
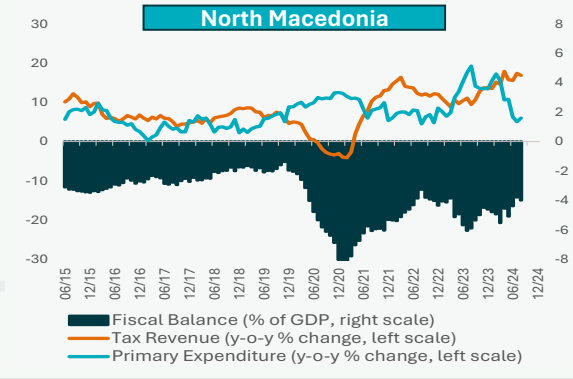
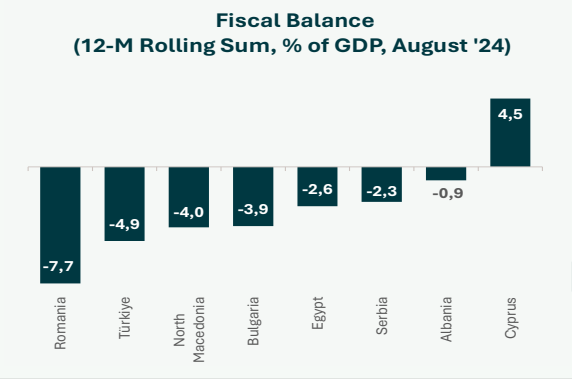
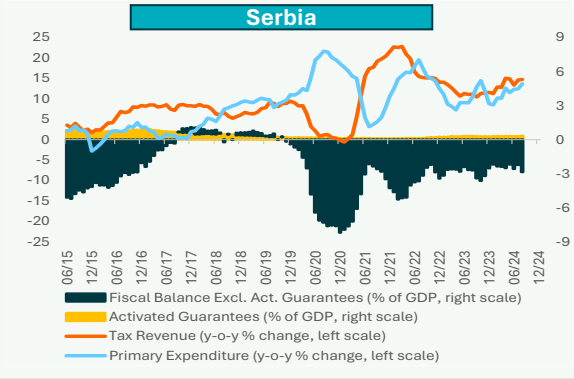
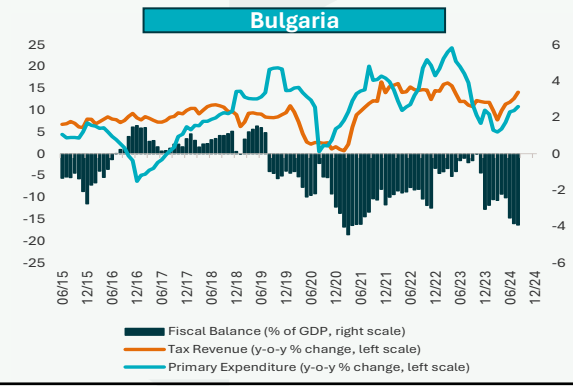
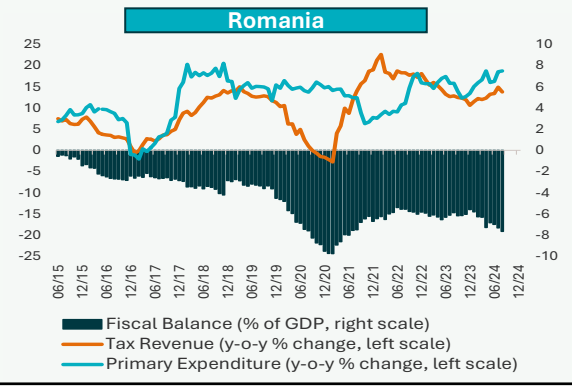
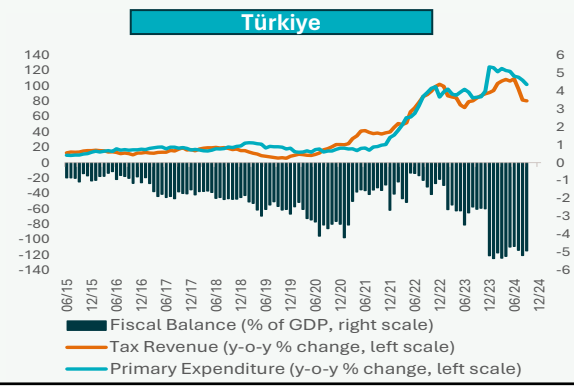
Public debt

Financial Markets

Banking Sector



The **pace of fiscal consolidation has been slowing down**, as tax revenue growth moderates, following dwindling of windfalls from high inflation, and spending remains high, despite the phasing-out of the schemes mitigating the impact of the cost-of-living crisis, fueled, *inter alia*, by **higher interest payments**



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

- Under current policies, **fiscal consolidation is unlikely to gain pace** in the period ahead. As a result, fiscal balances are set to remain above their pre-pandemic levels over the forecast horizon in most of the economies under review
- Heavy pre-election spending is projected to push **Romania's** budget deficit to over 7.0% of GDP in FY:24. Assuming political stability and adoption of measures, fiscal consolidation is set to resume as of next year. Still, its budget deficit is unlikely to fall below the critical threshold of 3.0% of GDP 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
- Pension hikes and the need to repay arrears would virtually halt fiscal consolidation in **North Macedonia** next year
- High public debt servicing costs (absorbing c. 40% of budget revenue) make substantial progress with **Egypt's** fiscal consolidation difficult, given, *inter alia*, the ongoing economic adjustment

Türkiye Romania Bulgaria

Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
-5.2	-4.5	-3.6	-3.0

Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
-5.6	-7.3	-6.4	-5.4

Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
-3.0	-3.3	-3.0	-2.6

Serbia North Macedonia Albania

Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
-2.1	-2.8	-3.0	-3.0

Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
-4.6	-4.6	-4.2	-3.6

Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
-1.3	-2.0	-2.0	-2.0

Cyprus Egypt*

Dec. 23	Dec. 24F	Dec. 25F	Dec. 26F
2.0	3.5	3.0	2.8

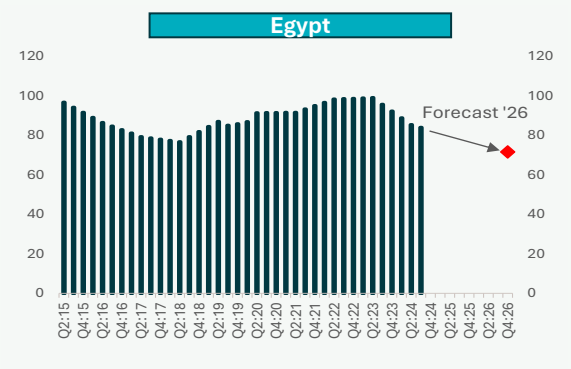
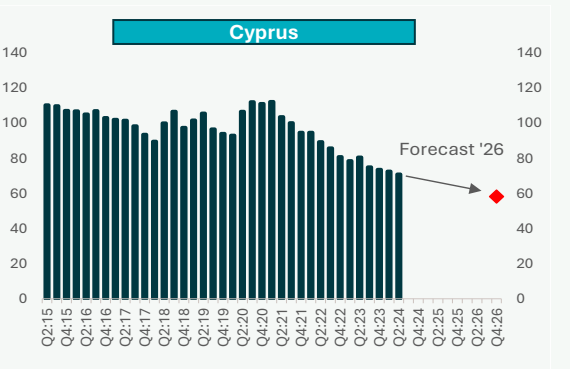
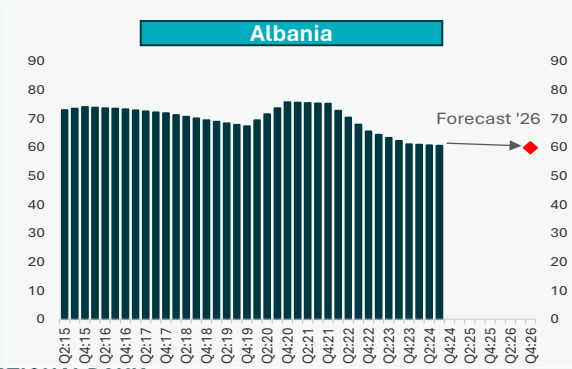
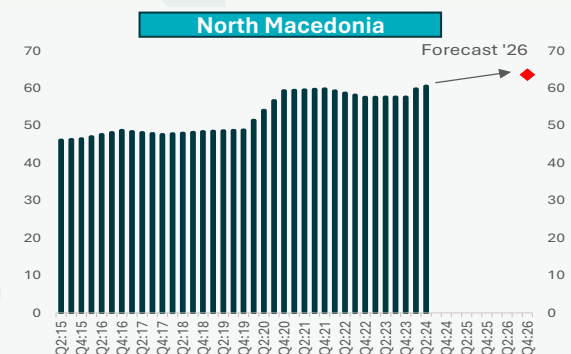
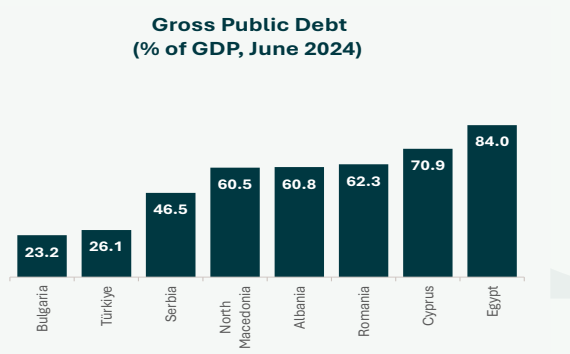
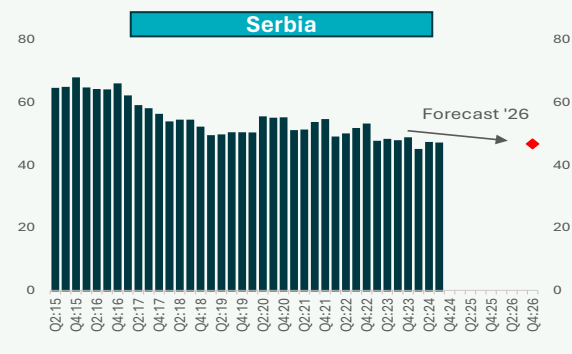
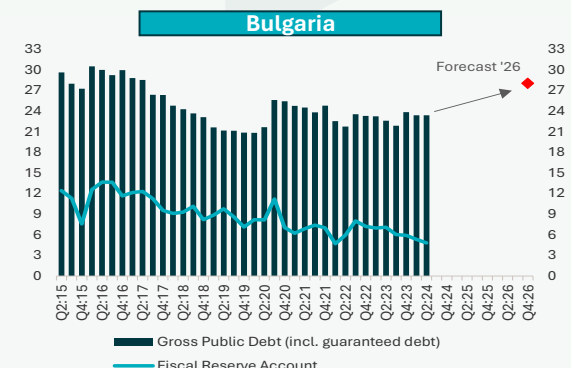
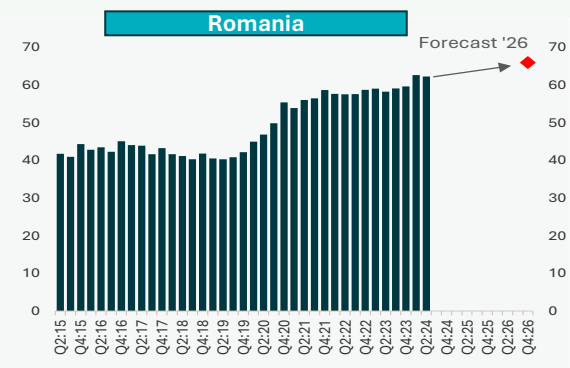
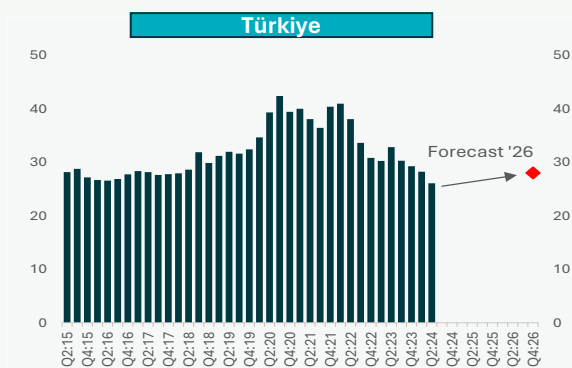
Jun. 23	Jun. 24E**	Jun. 25F	Jun. 26F
-6.0	-3.6	-8.0	-6.2

*: Fiscal year ending on June 30th.

** : Ras El-Hekma divestment proceeds subtracted 3.8 pps of GDP from fiscal deficit in FY:23/24

Public debt (% of GDP)

- Public debt dynamics should continue benefiting from a **favourable -- but diminishing -- “snowball” effect**
- Past years' large fiscal slippage has sent **Romania's** gross public debt above the critical EU threshold of 60.0% of GDP
- Against the backdrop, *inter alia*, of recurring large budget surpluses, **Cyprus** should be able to lower its public debt-to-GDP ratio below the EU threshold by end-2027



Snapshot

Real Sector

External Accounts

Prices & Monetary Policy

Fiscal Position

Financial Markets

Exchange rates

Money market rates

Government debt rates

Sovereign spreads

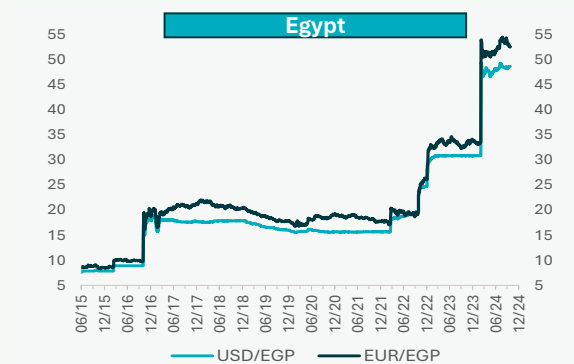
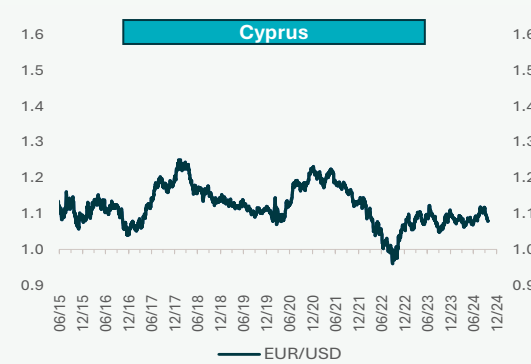
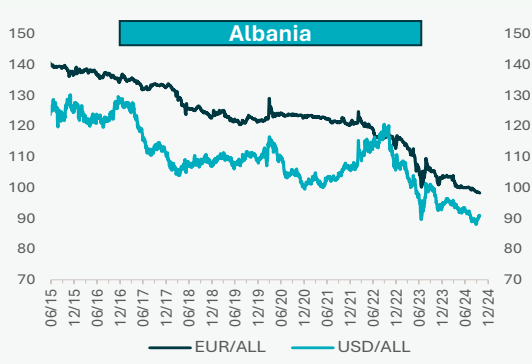
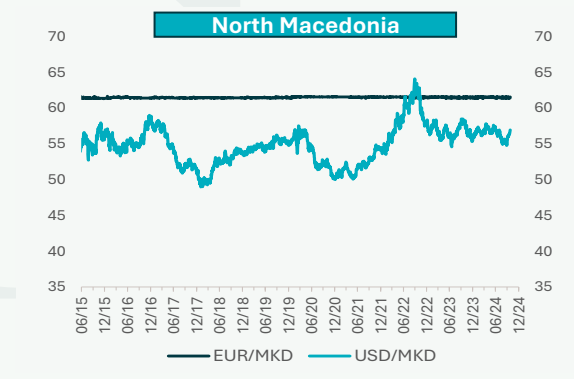
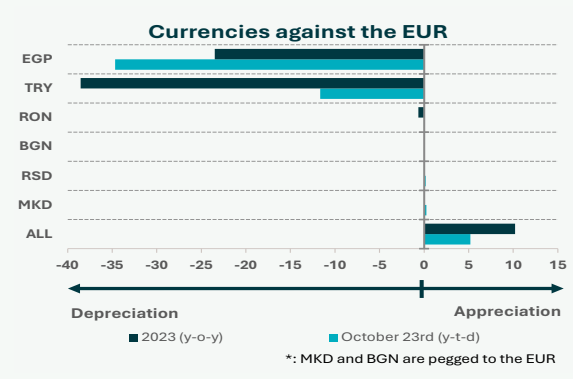
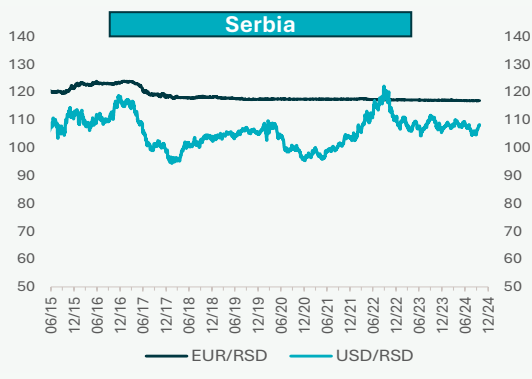
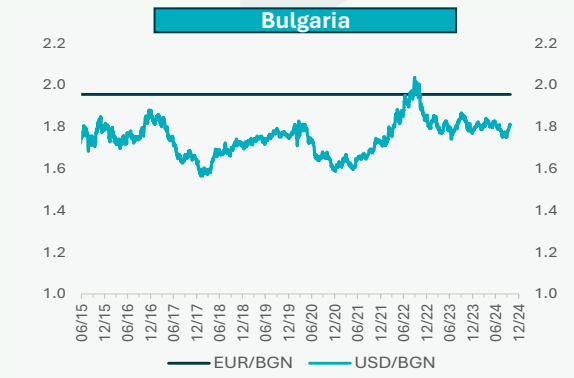
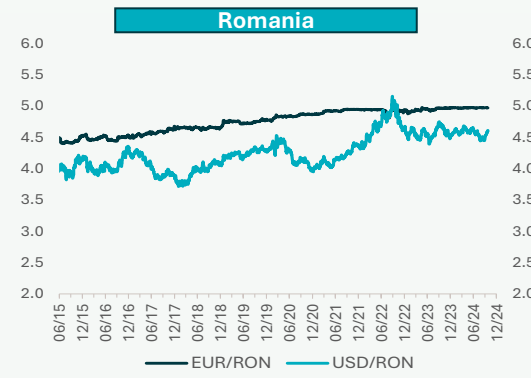
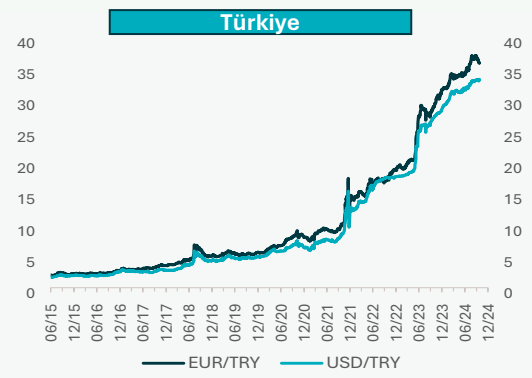
Stock market

Banking Sector



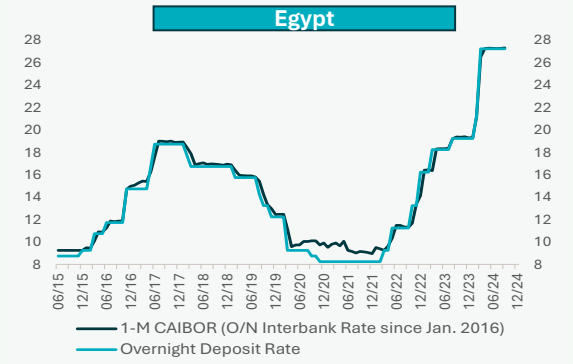
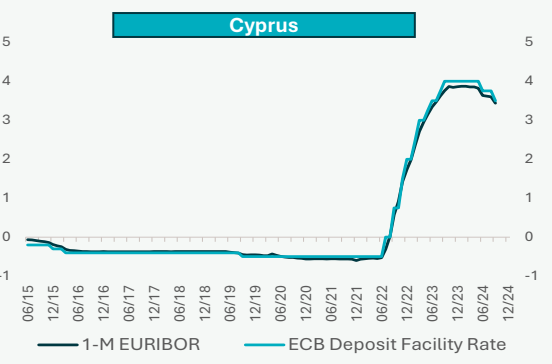
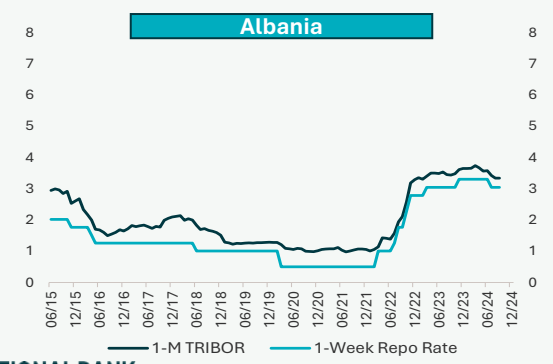
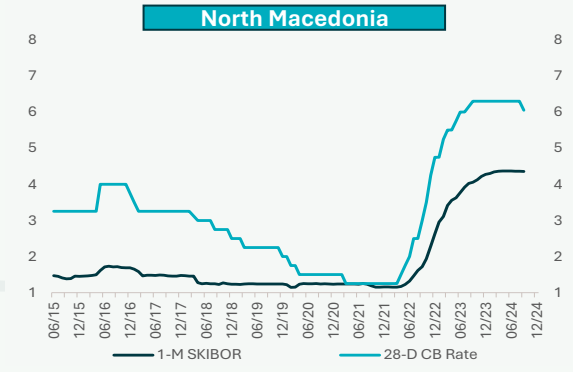
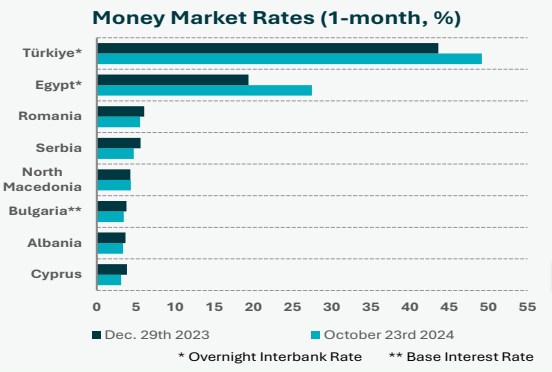
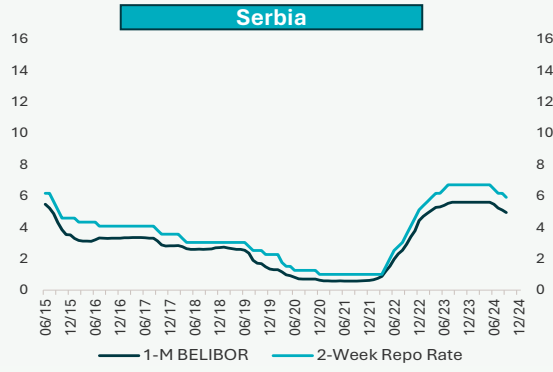
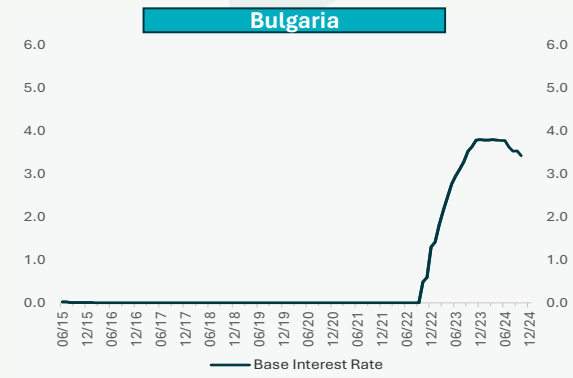
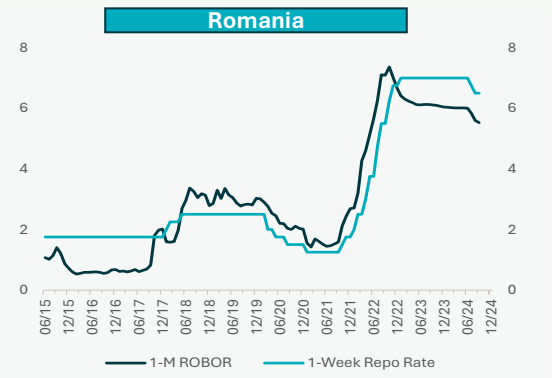
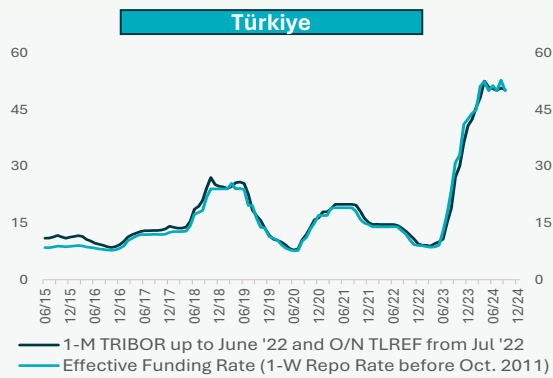
Exchange rates

- Depreciation pressures on the **Turkish lira** have eased significantly in the wake of the turnaround in monetary policy in June '23 and completion of the election cycle in March '24
- **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 have won back investors' confidence



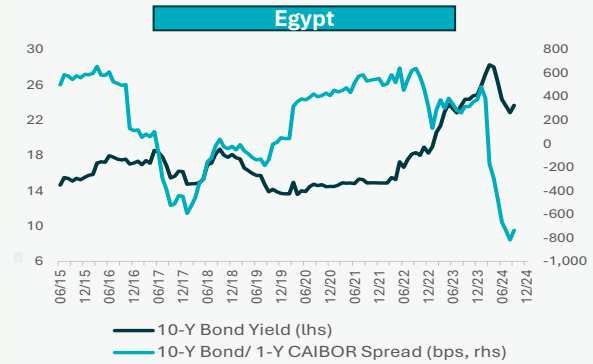
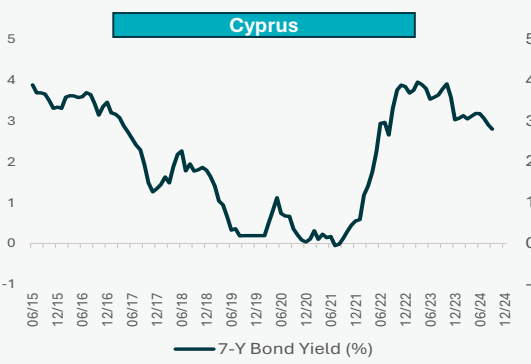
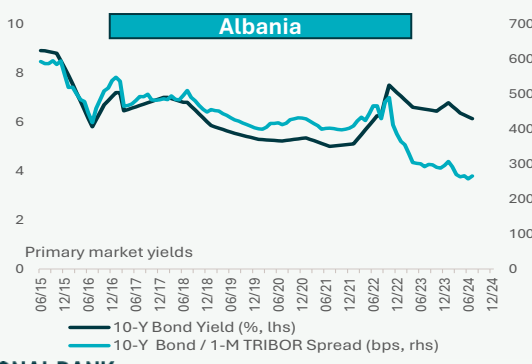
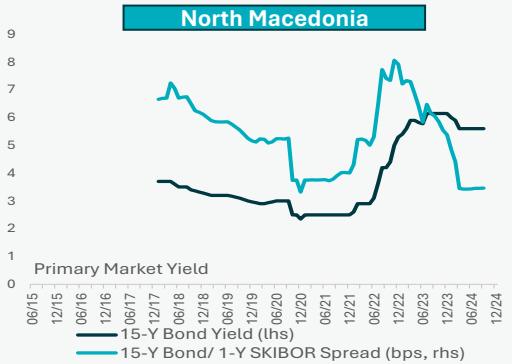
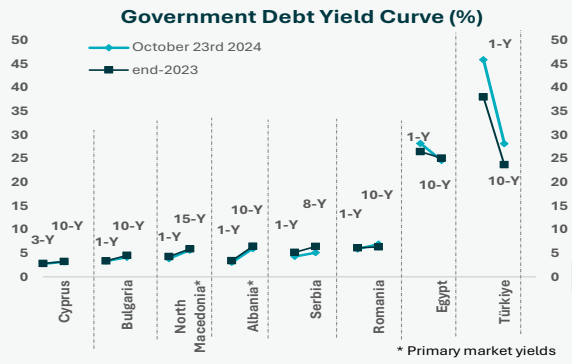
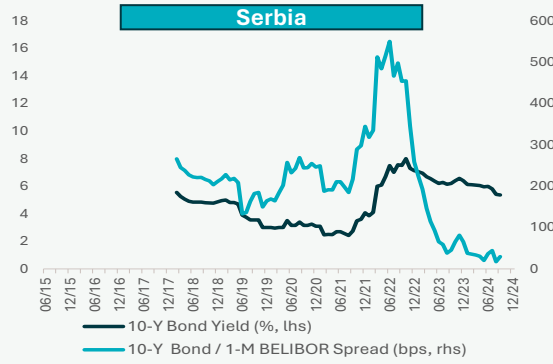
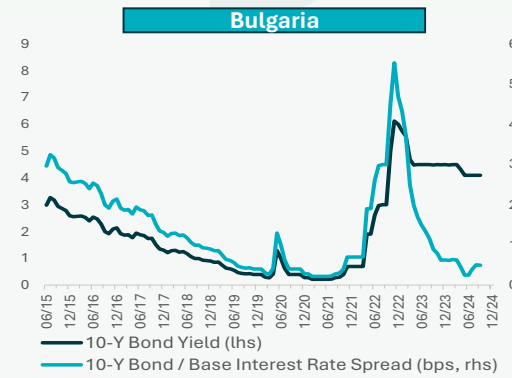
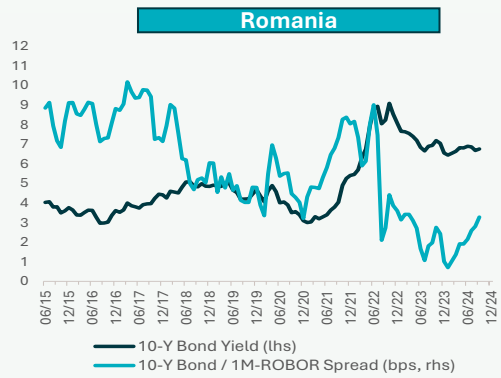
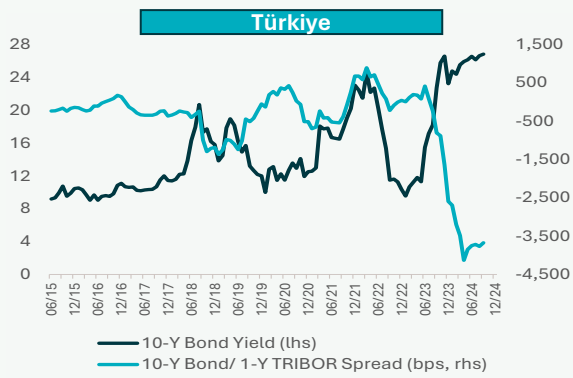
Money market rates (%)

Money market rates have embarked on a downward trend in all the economies under review (barring those of Türkiye and Egypt), following initiation of central banks' easing cycle

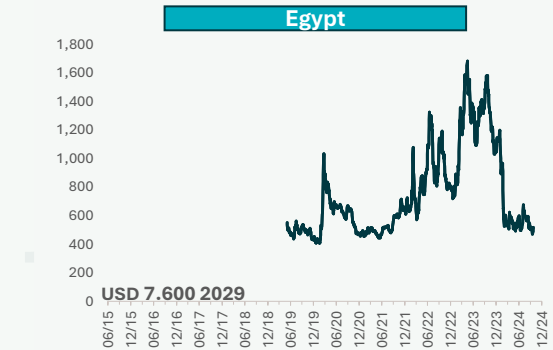
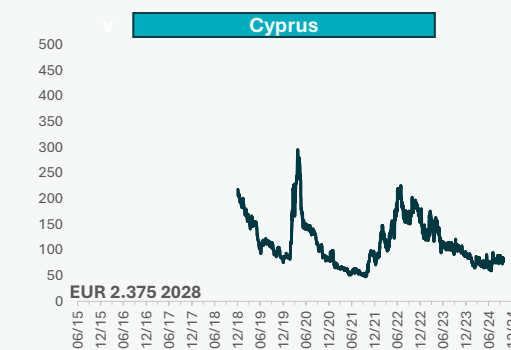
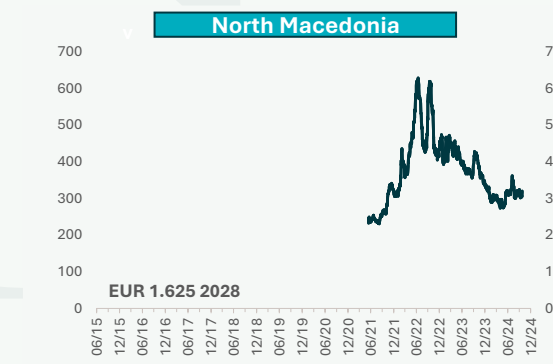
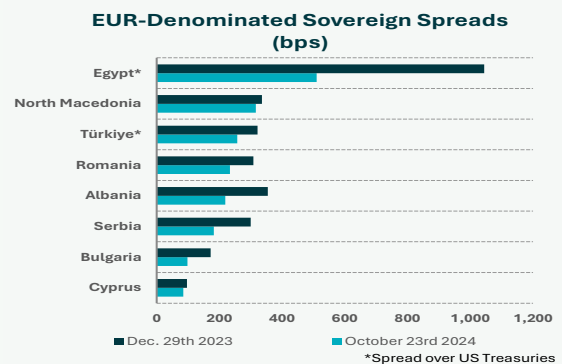
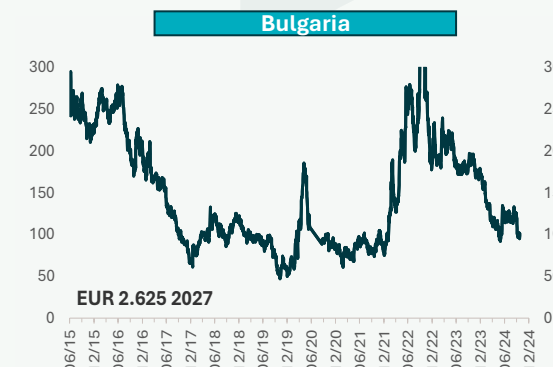
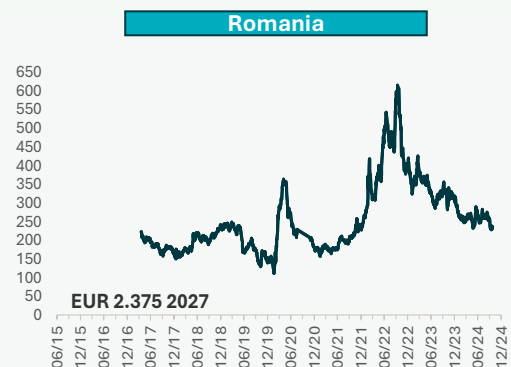
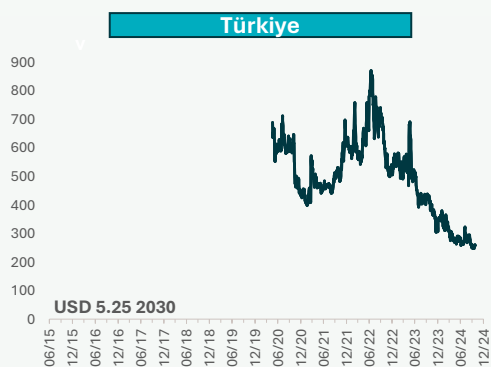


Government Debt Yields (%)

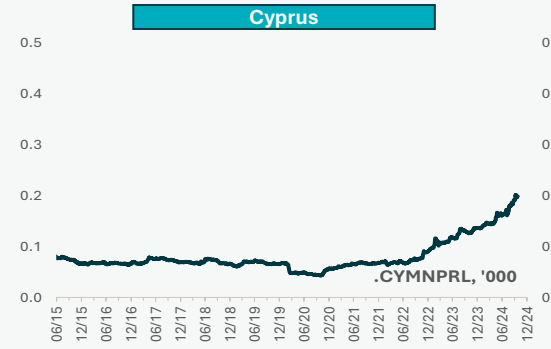
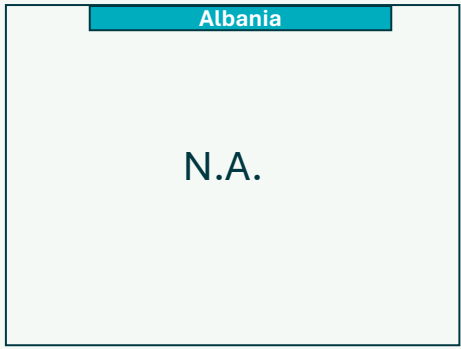
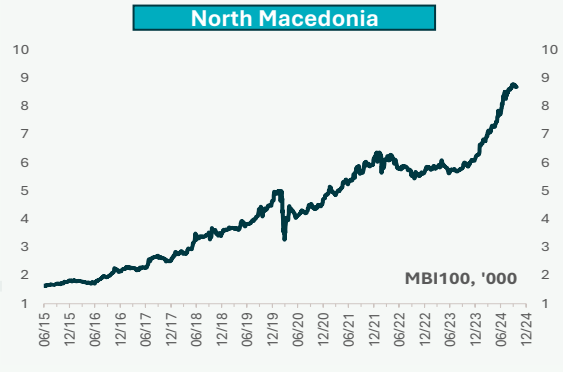
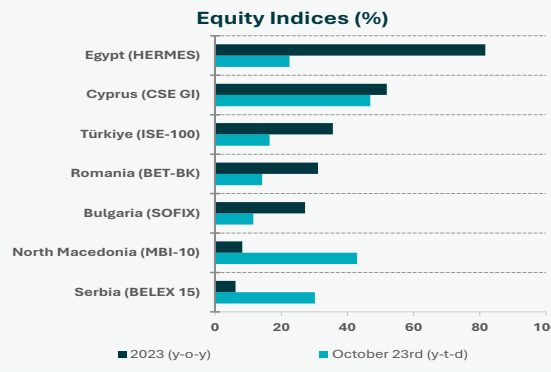
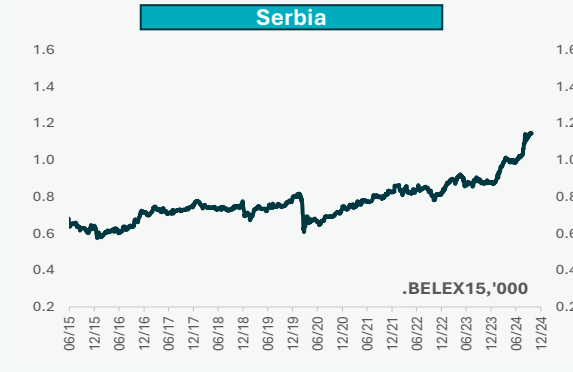
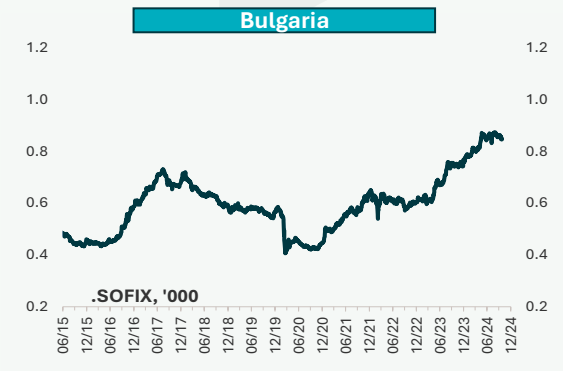
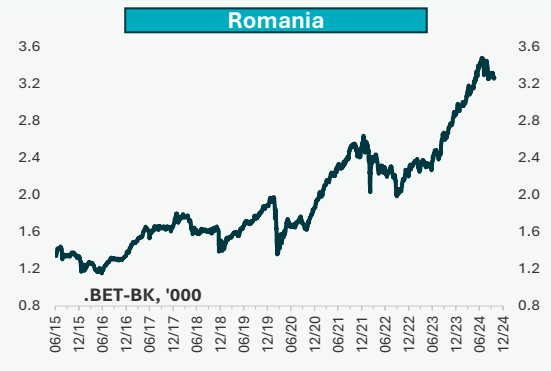
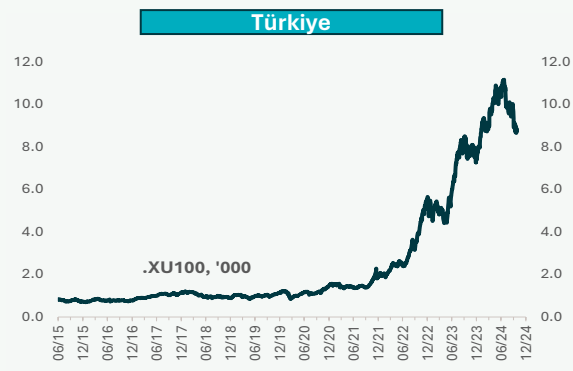
- Government debt yields have been **heading south** in most of the economies under review, in line with moderating inflation and the prospect of lower interest rates. At the same time, yield curves have become **less steep**
- Reflecting ongoing adjustment, the yield curves of **Türkiye** and **Egypt**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



▪ Narrowing interest rate differentials have been driving sovereign spreads lower



- Concerns over the prospect of slower-than- envisaged economic growth path appear to have weighed on stock markets lately, despite easing financing conditions
- Valuations are now close to historical averages



Snapshot

Real Sector

External Accounts

Prices & Monetary Policy

Fiscal Position

Financial Markets

Banking Sector

Total loans (y-o-y % change)

Total deposits (y-o-y % change)

Loans/GDP (%)

Deposits/GDP (%)

Loans/deposits (%)

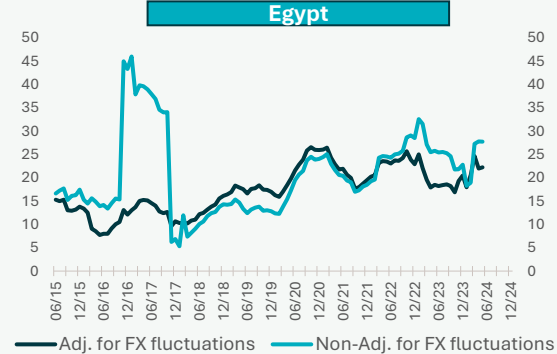
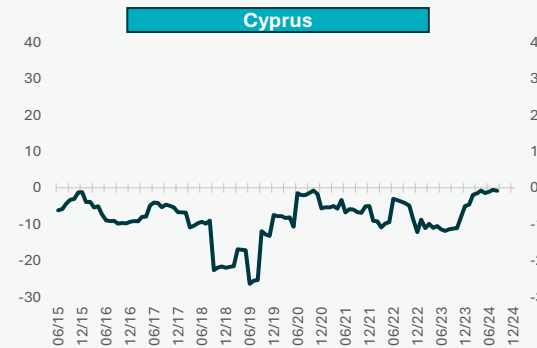
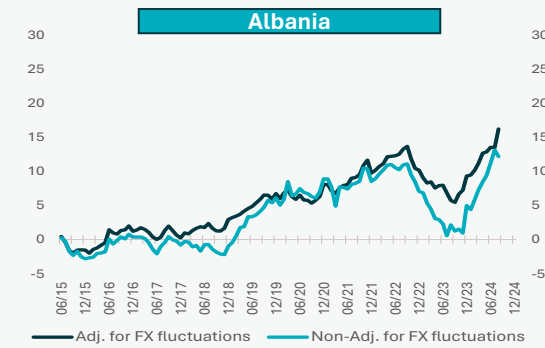
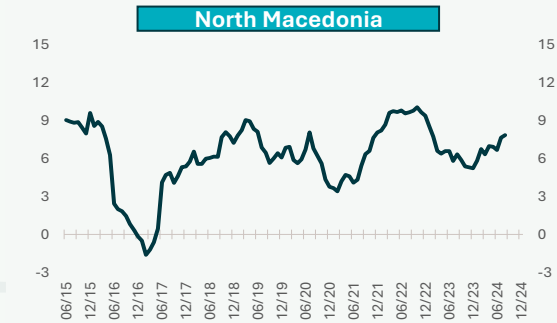
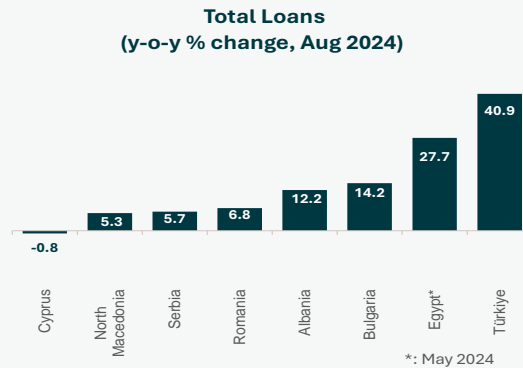
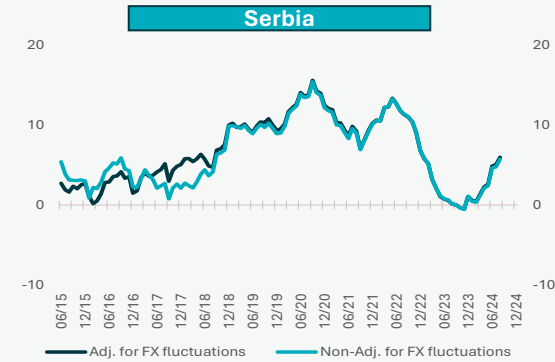
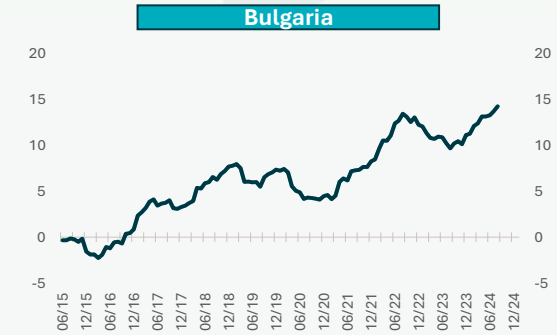
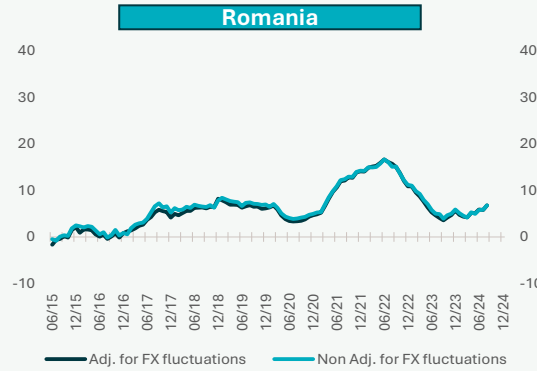
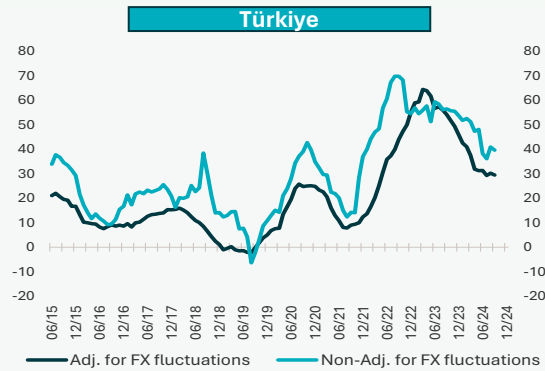
ROAE (%)

CAD ratio (%)

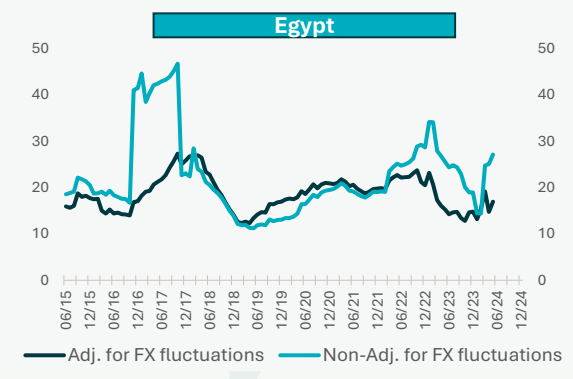
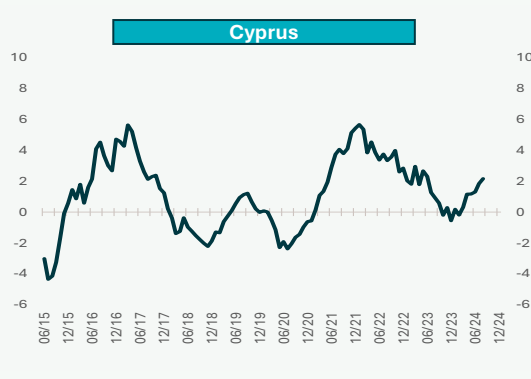
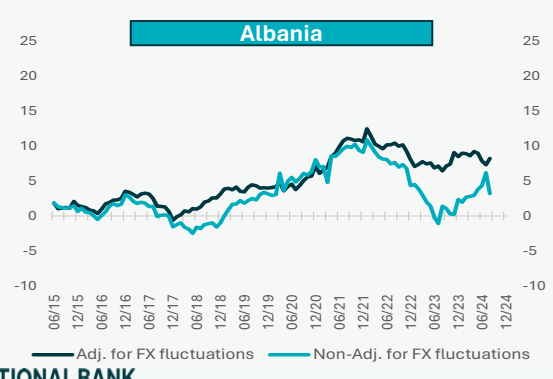
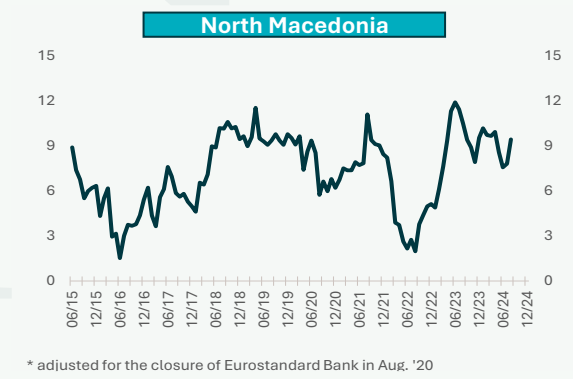
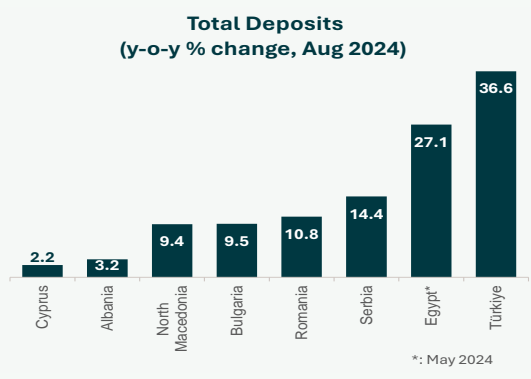
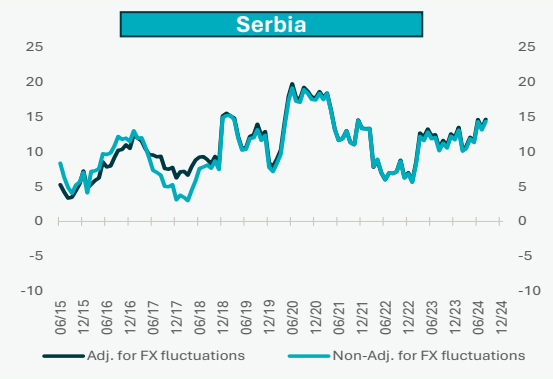
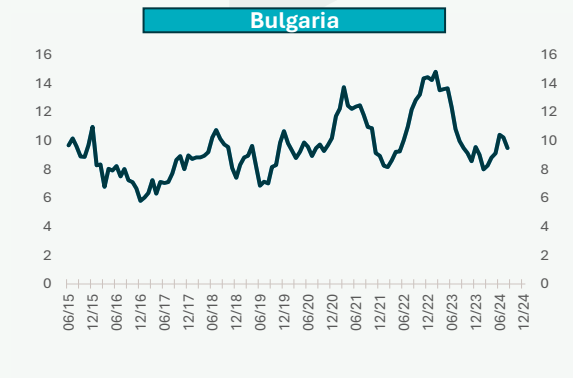
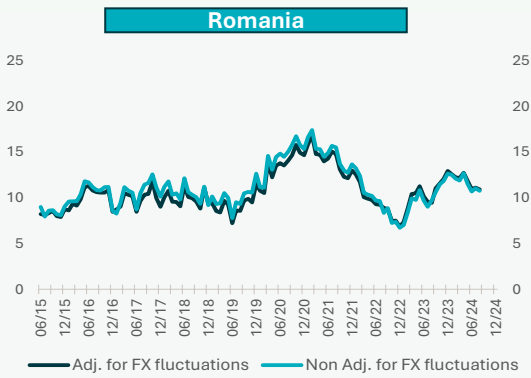
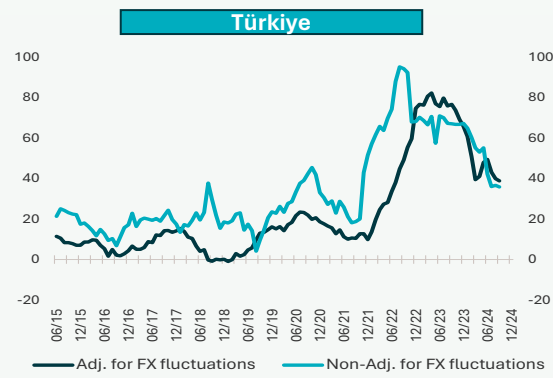
NPL ratio (%)



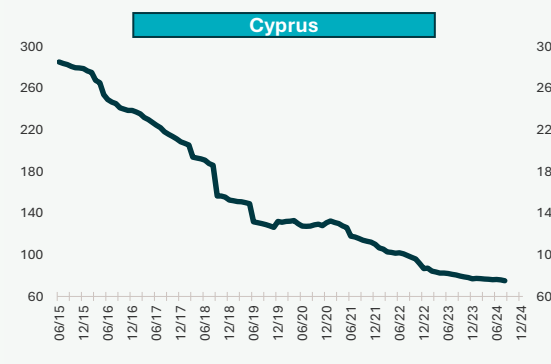
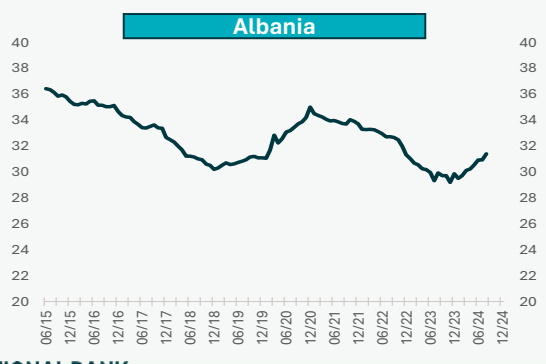
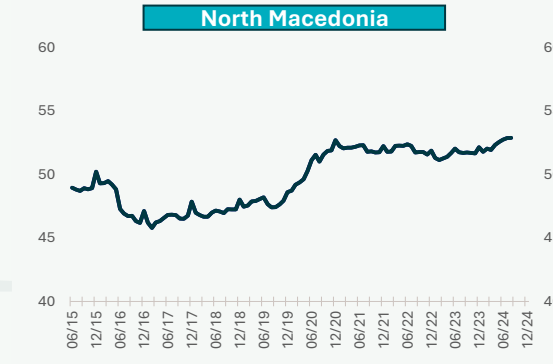
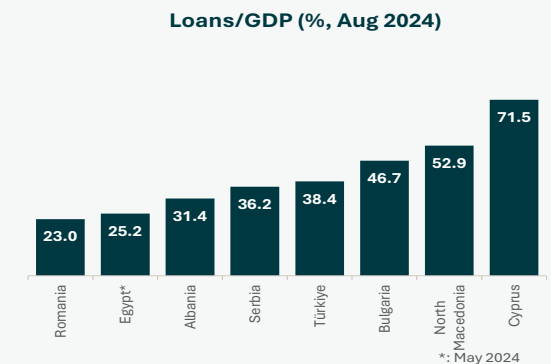
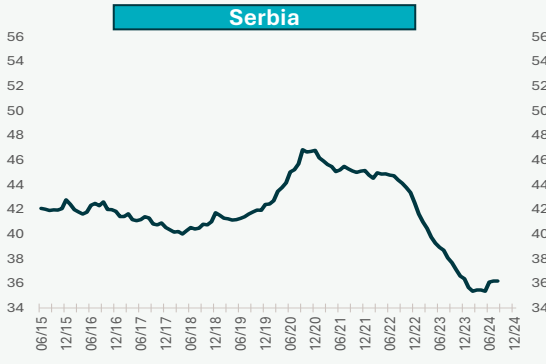
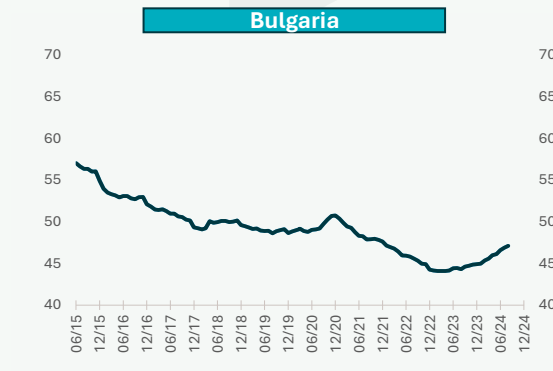
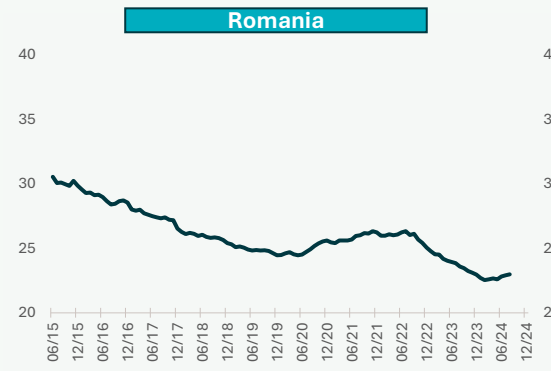
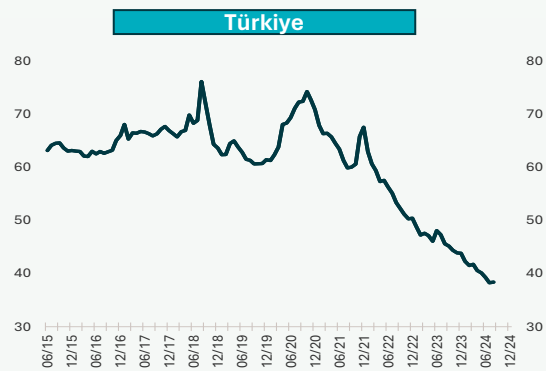
- Signs of revival in credit activity are already evident in most of the countries under review
- Declining interest rates and easing lending standards bode well for further improvement



Deposit growth remains **strong**, following easing of cost-of-living crisis, healthy economic growth and rising real (*ex-post*) deposit interest rates

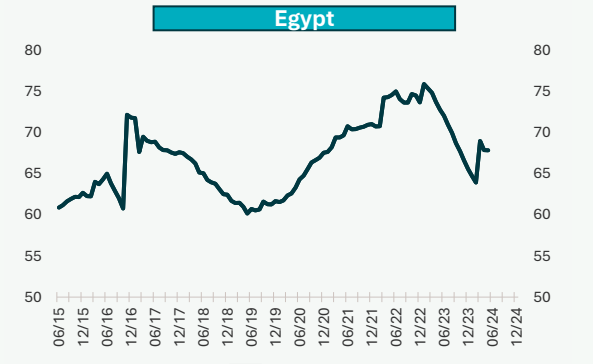
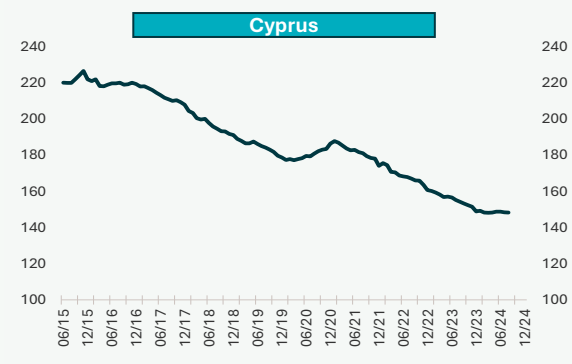
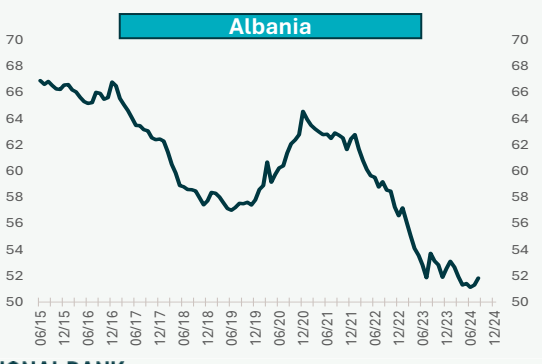
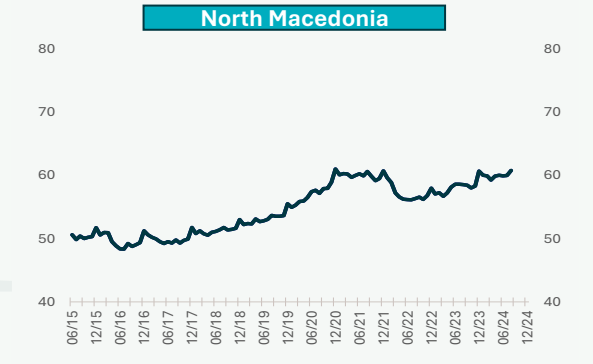
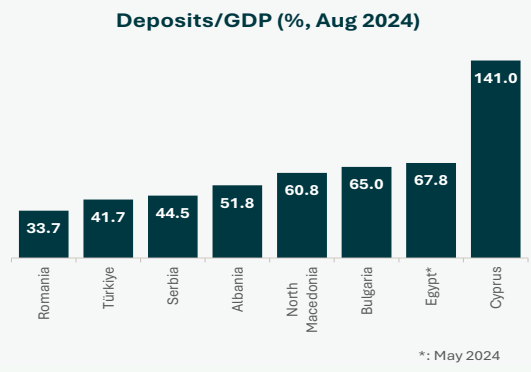
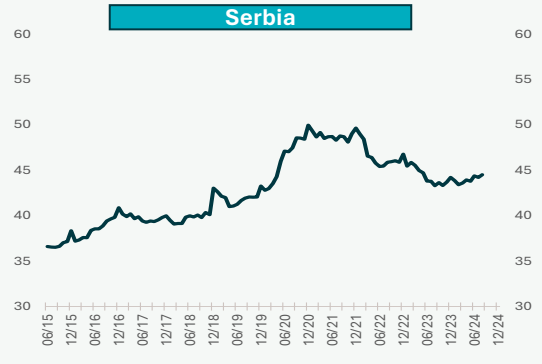
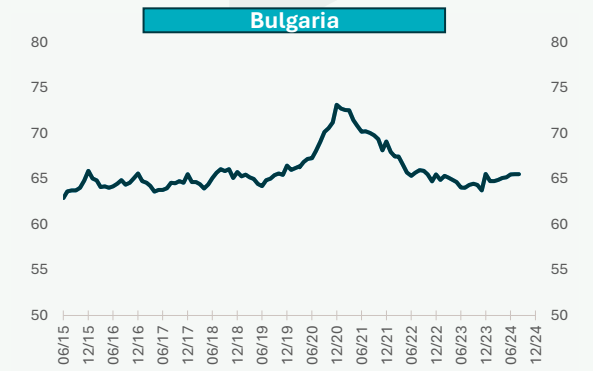
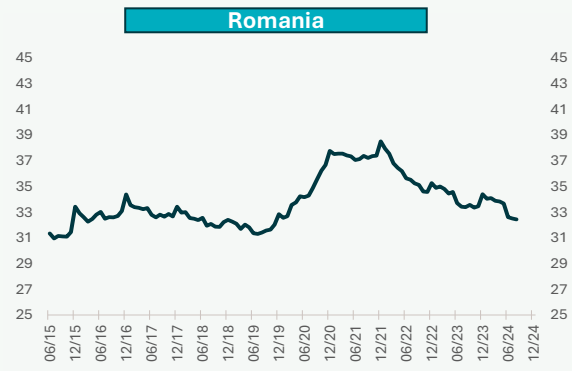
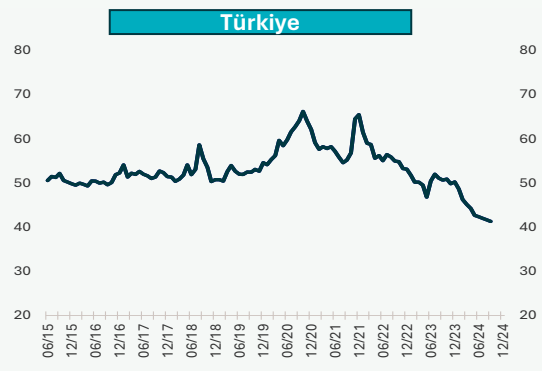


All economies under review, except Cyprus, are still **underpenetrated** in terms of lending, with no advance since prior to the pandemic



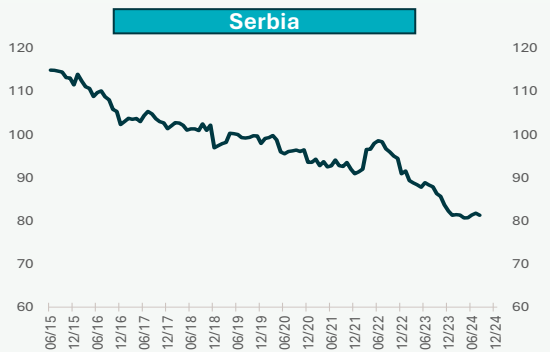
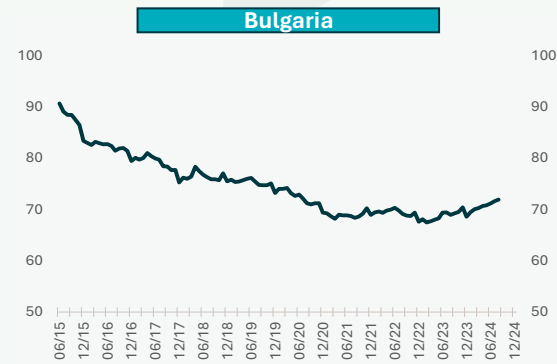
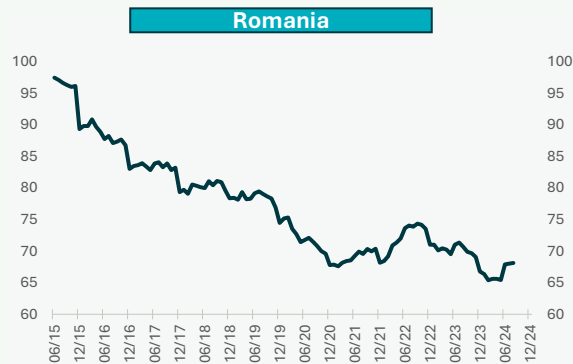
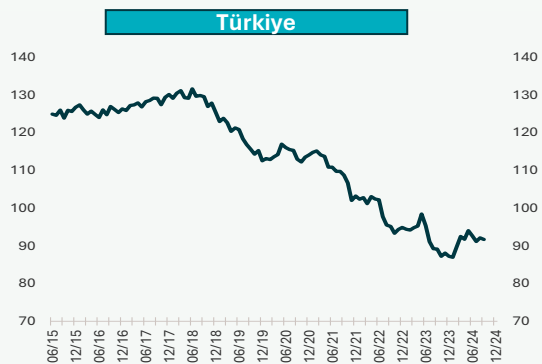
Total deposits-to-GDP ratio (%)

With the exception of Türkiye and Egypt, which are in phase of economic adjustment, the deposit-to-GDP ratio appears to be **stabilizing** in most of the economies under review (with Bulgaria, Serbia and North Macedonia even witnessing an increase in the underlying savings rate)

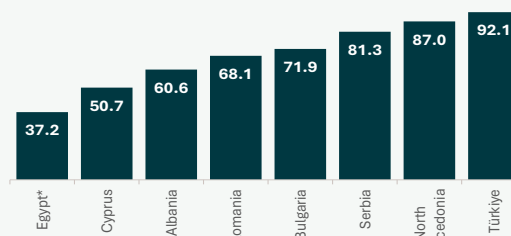


Total loans-to-total deposits ratio (%)

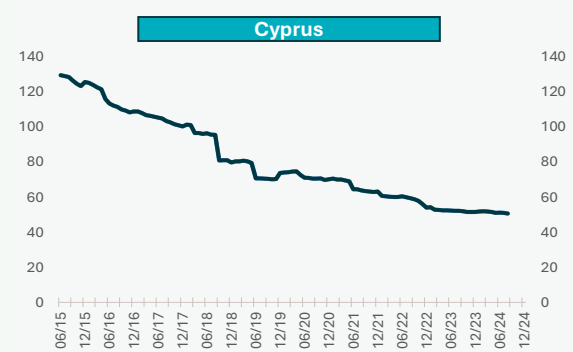
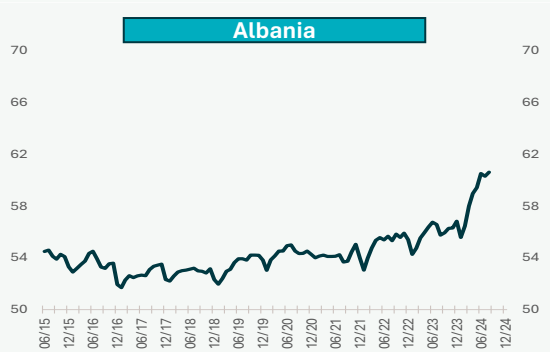
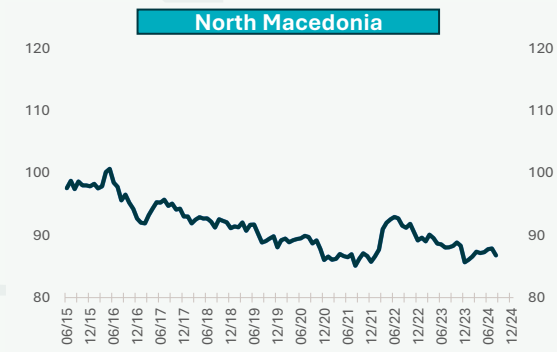
All banking systems under review enjoy a **loan-to-deposit ratio below the 100% threshold**



Loans/Deposits (% , Aug 2024)

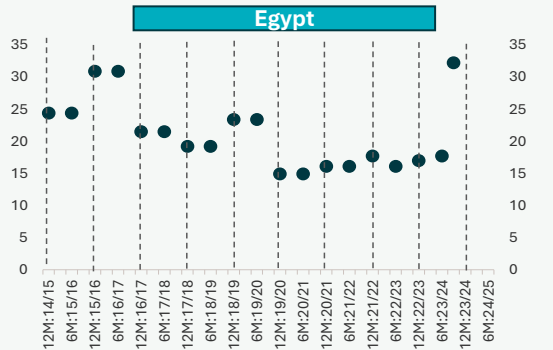
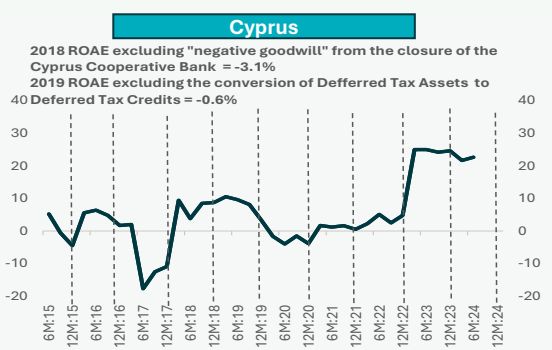
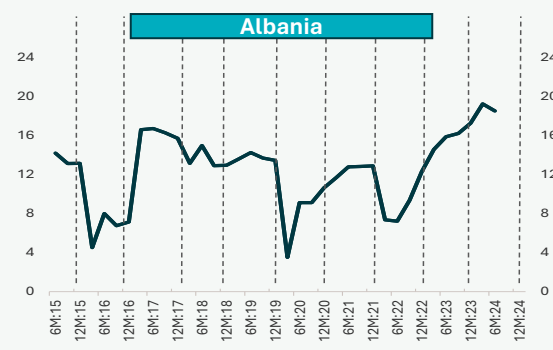
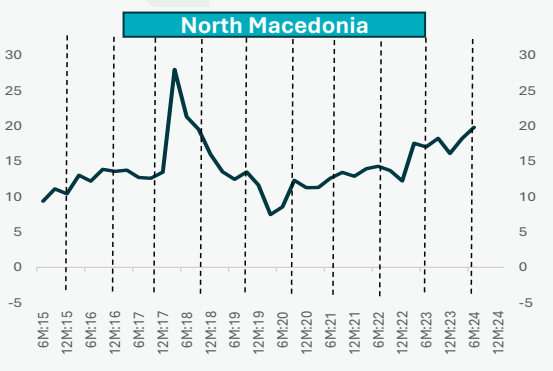
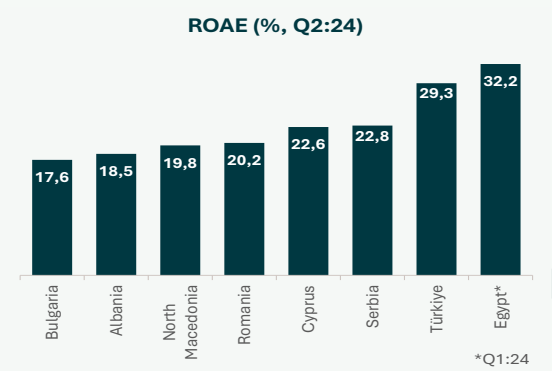
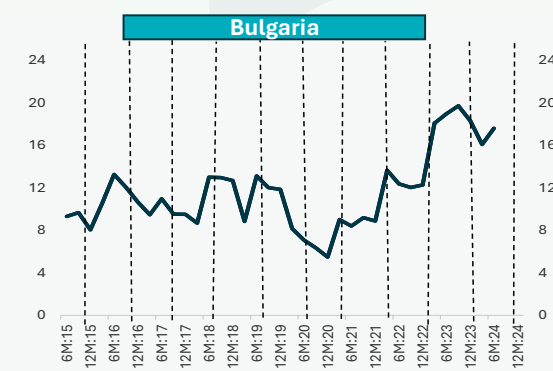
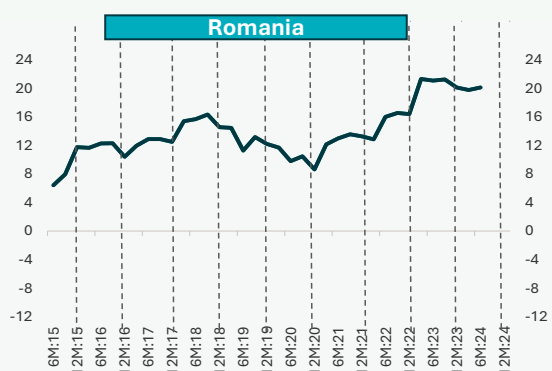
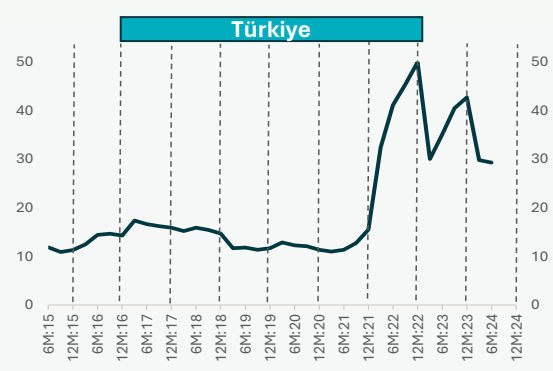


*: May 2024

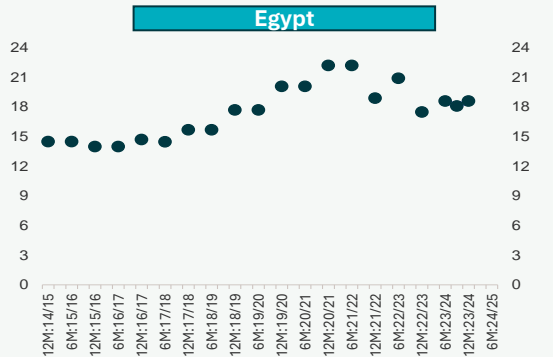
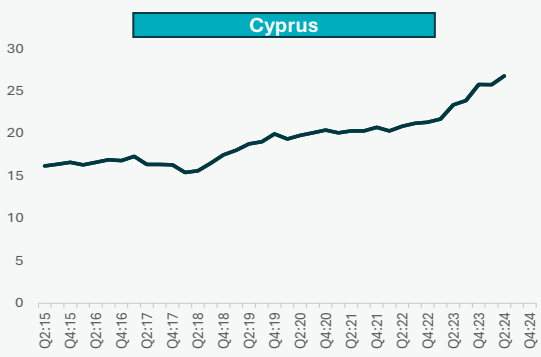
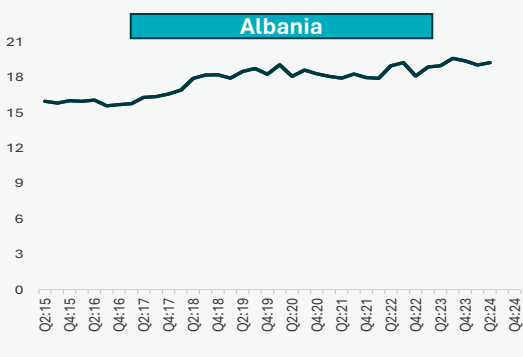
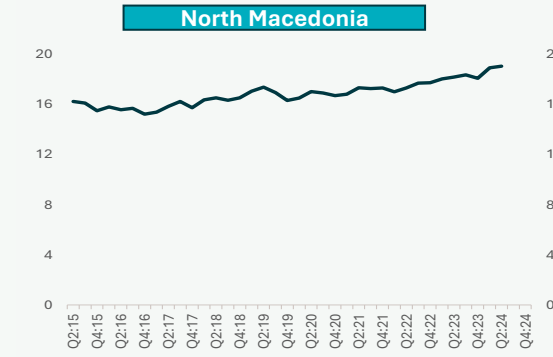
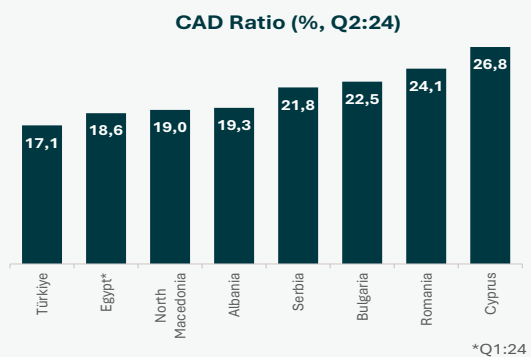
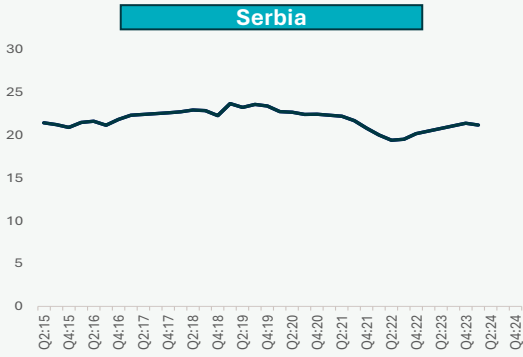
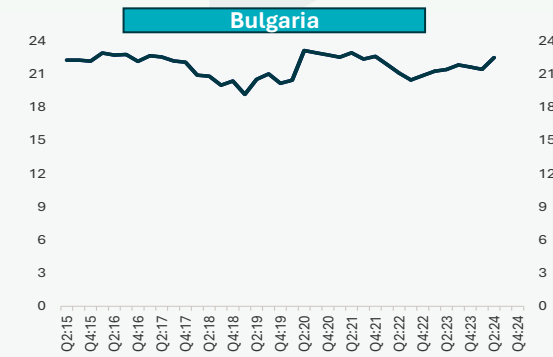
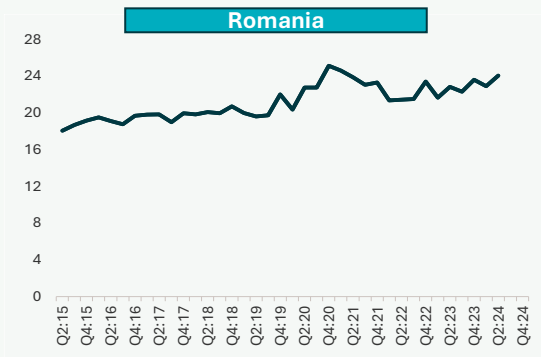
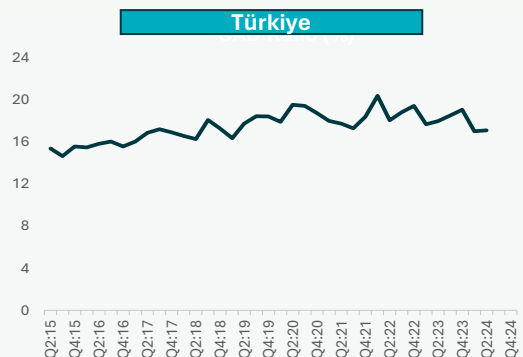


Return-to-average equity ratio (% , cumulative and annualised)

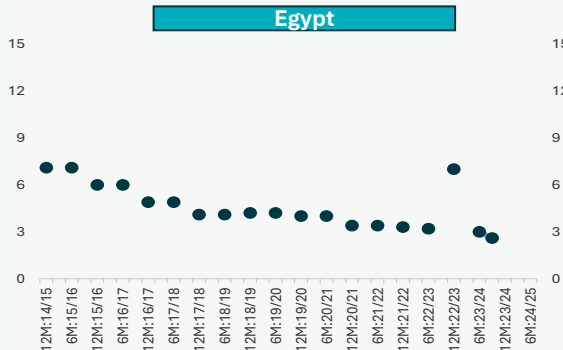
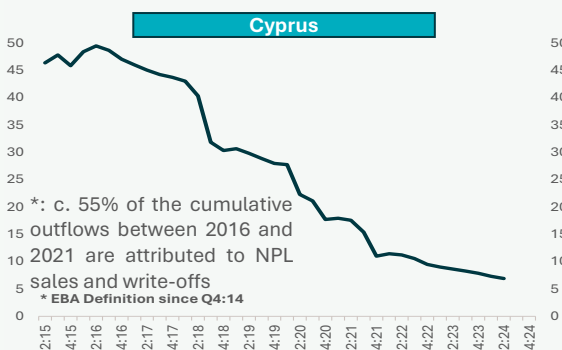
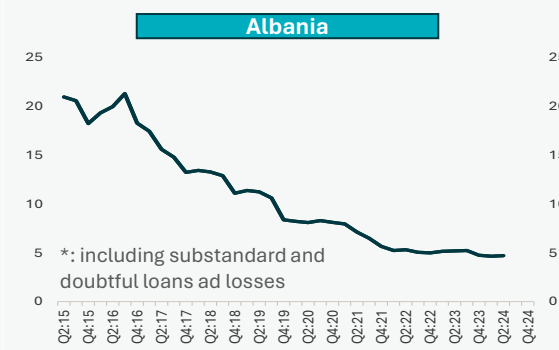
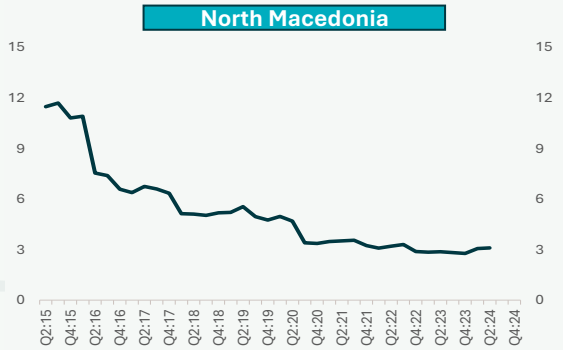
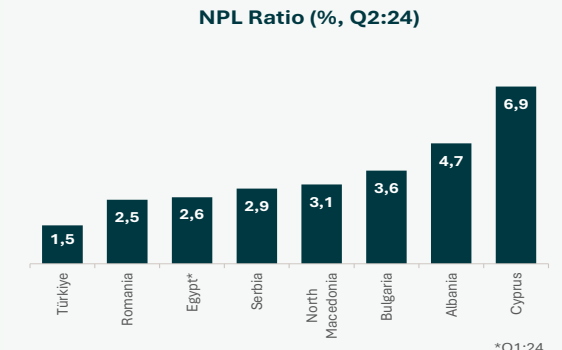
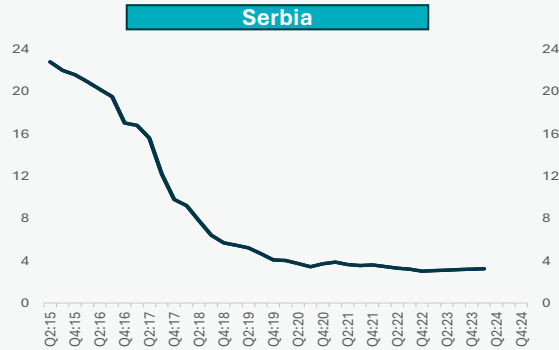
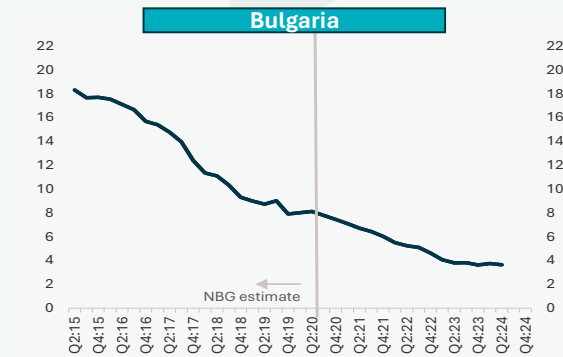
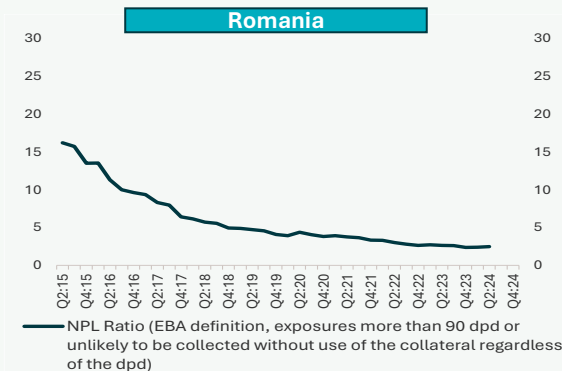
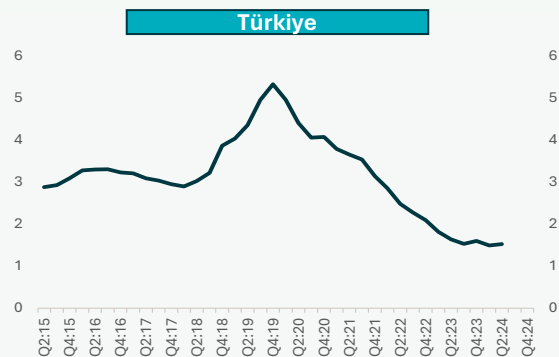
- Although interest rates have started to ease, the adjustment in banks' net interest margin (NIM) has been very slow, meaning that ROAE continues to hover around **record-high levels**
- A moderation (to still above historical average levels) is expected as monetary policy easing proceeds



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



Despite the challenges posed by higher-than-before interest rates, 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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