

Quarterly Chartbook Q1:25

“Resilient economic growth against an uncertain global backdrop”

Special Focus:
Impact of
potential US tariffs

Economic Analysis Division Emerging Markets Analysis

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



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Snapshot

General information

Date of next elections

Foreign currency credit rating

World Governance Indicators

Real Sector

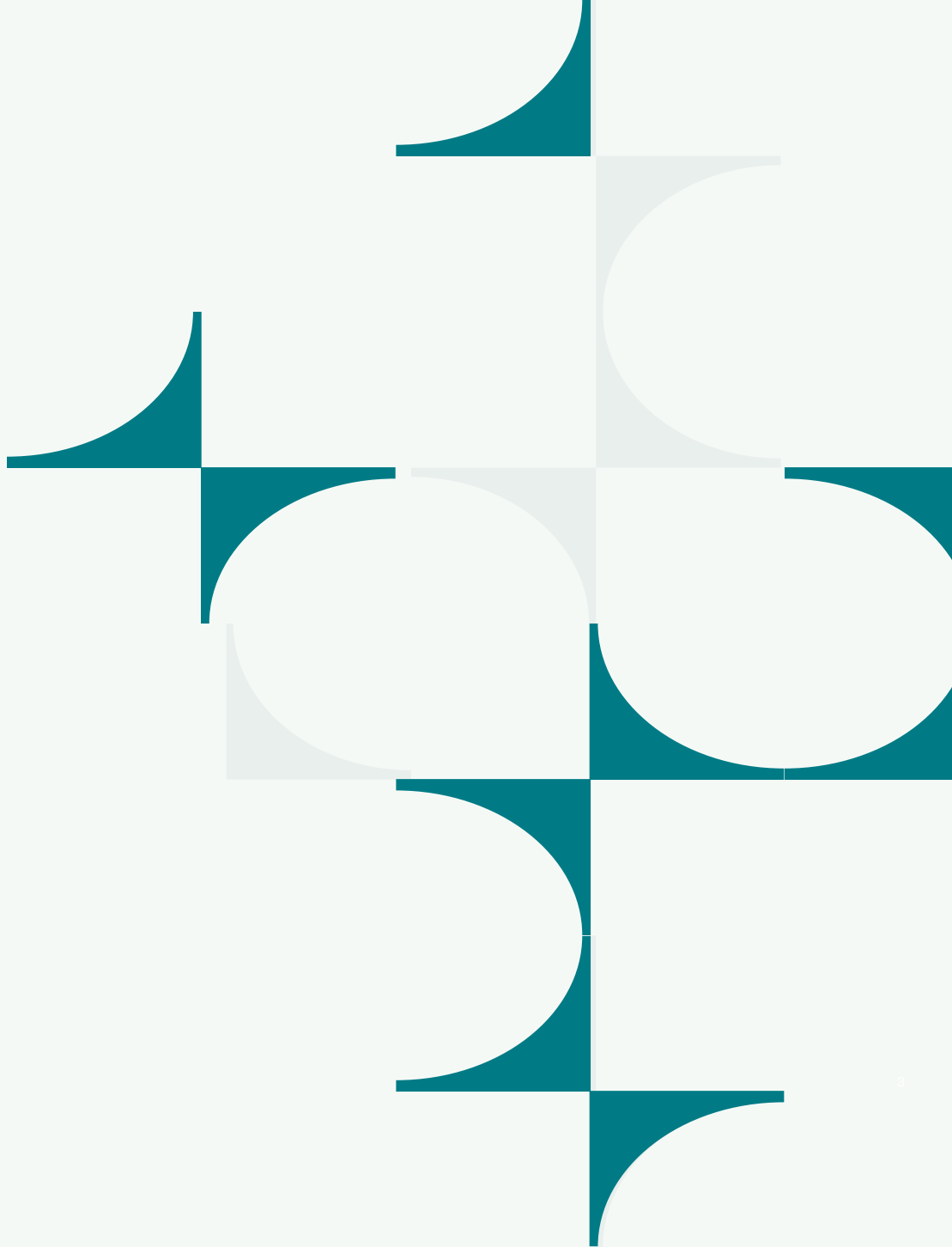
External Accounts

Prices & Monetary Policy

Fiscal Position

Financial Markets

Banking Sector





Republic of Türkiye



Population (2024e, mn): 85.8
 GDP (2024e, EUR, bn): 1,232.0
 GDP per Capita (2024e, EUR): 14,357
 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 (2024e, mn): 18.9
 GDP (2024e, EUR, bn): 344.2
 GDP per Capita (2024e, EUR): 18,168
 Government type: Semi Presidential Republic
 Chief of state: Klaus Werner IOHANNIS
 Head of Government: Marcel CIOLACU
 Minister of Finance: Barna TÁNCZOS
 Central Bank Governor: Mugur ISĂRESCU



Republic of Bulgaria



Population (2024e, mn): 6.4
 GDP (2024e, EUR, bn): 100.7
 GDP per Capita (2024e, EUR): 15,851
 Government type: Parliamentary Republic
 Chief of state: Rumen RADEV
 Head of Government: Rosen ZHELYAZKOV
 Minister of Finance: Temenuzhka PETKOVA
 Central Bank Governor: Dimitar RADEV



Republic of Serbia



Population (2024e mn): 6.7
 GDP (2024e, EUR, bn): 81.8
 GDP per Capita (2024e, EUR): 12,171
 Government type: Parliamentary Republic
 Chief of state: Aleksandar VUCIC
 Head of Government: Milos VUCEVIC (acting)
 Minister of Finance: Sinisa MALI
 Central Bank Governor: Jorgovanka TABAKOVIC



Republic of North Macedonia



Population (2024e, mn): 1.8
 GDP (2024e, EUR, bn): 15.5
 GDP per Capita (2024e, EUR): 8,472
 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 (2024e, mn): 2.7
 GDP (2024e, EUR, bn): 25.0
 GDP per Capita (2024e, EUR): 9,367
 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 (2024e, mn): 0.9
 GDP (2024e, EUR, bn): 33.2
 GDP per Capita (2024e, EUR): 35,507
 Government type: Presidential Republic
 Chief of state: Nikos CHRISTODOULIDIS
 Head of Government: Nikos CHRISTODOULIDIS
 Minister of Finance: Makis KERAUVOS
 Central Bank Governor: Christodoulos PATSALIDES



Arab Republic of Egypt

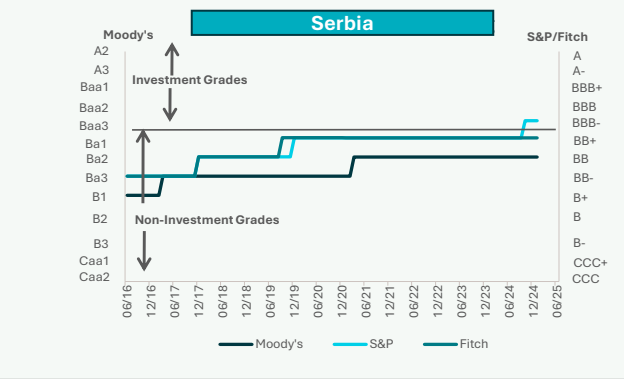
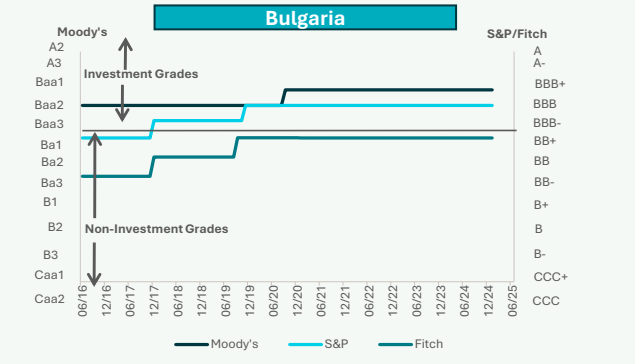
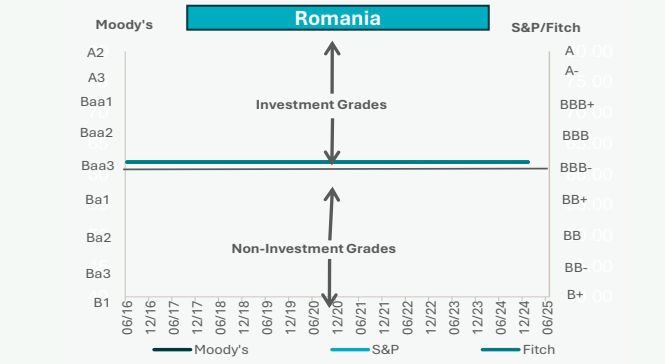
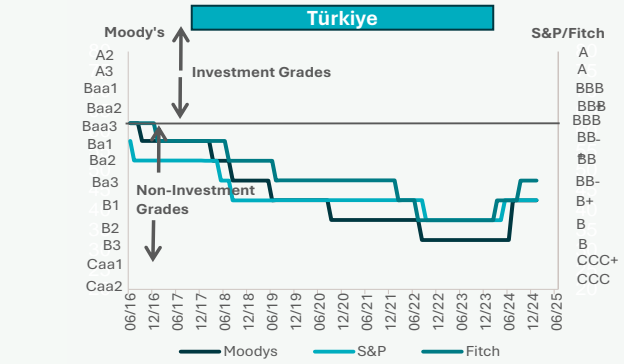


Population (2024e, mn): 108.9
 GDP (2024e, EUR, bn): 339.5
 GDP per Capita (2024e, EUR): 3,120
 Government type: Presidential Republic
 Chief of state: Abdel Fattah Saeed EL-SISI
 Head of Government: Mostafa MADBOULY
 Minister of Finance: Ahmed KOUCHOUK
 Central Bank Governor: Hassan ABDALLA

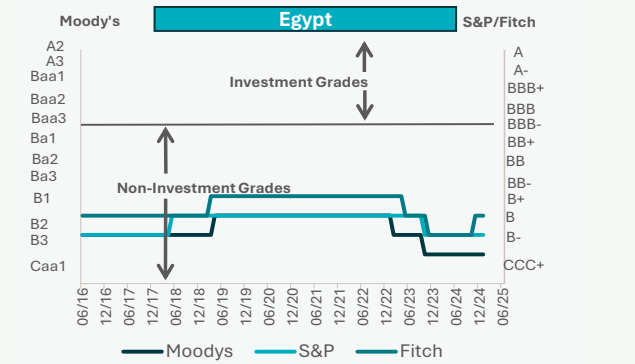
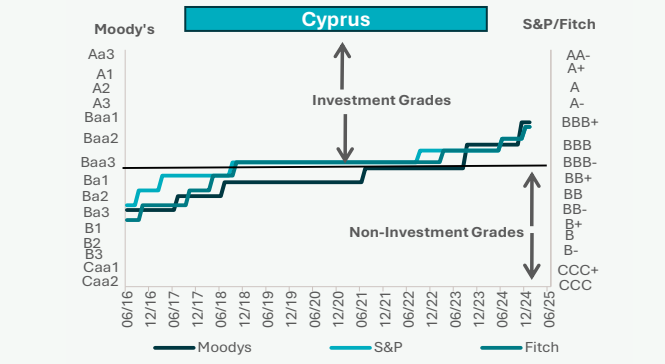
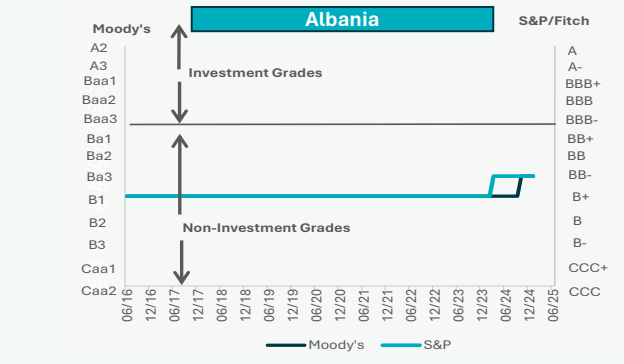
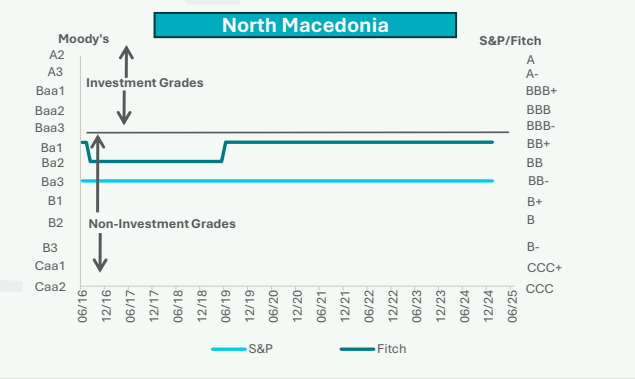
- In **Romania**, a new pro-EU Government, led by the centre-left PSD and also comprising the centre-right PNL, the Hungarian-minority party, UDMR, and representatives of other ethnic minorities, took office after the December Parliamentary election. Despite their frictions under the outgoing Government, the PSD and the PNL -- which saw their popularity wane markedly in the election -- stuck together to crowd-out the rising far-right. The latter garnered c. 1/3rd of the vote in the December Parliamentary election, while one of its candidates, little-known, pro-Russian, C. Georgescu, won the 1st round of the Presidential election -- which was, however, later annulled by the Constitutional Court (CC), after intelligence information showed that Georgescu had benefitted from a “coordinated campaign on social media sponsored by a state actor from abroad”. The new vote will take place on May 4, with latest opinion polls still placing Georgescu in the first place (note that the CC’s decision over his potential disqualification from the election is pending), ahead of C. Antonescu of the PNL, joint candidate of the ruling coalition. All said, in view of the ruling coalition’s slim parliamentary majority and considering the challenges lying ahead, especially on the fiscal consolidation front, maintaining political stability would be a herculian task
- In **Serbia**, PM M. Vučević resigned at end-January, amid country-wide anti-corruption protests, sparked by the collapse of the roof at Novi Sad’s railway station, killing 15 people in November. His resignation has also raised pressure on President Vučić, who has been long accused by opposition of corruption and ties with organized crime as well as for intervening in previous elections. President Vučić and his ruling SNS party (which comfortably won a snap election a year ago) have yet to decide whether to proceed with forming a new majority Government or calling snap elections (most likely in May). All said, political noise is set to remain elevated in the period ahead. In the event authorities proceed with a snap election, we expect the SNS to remain in power, given the fragmented opposition
- In **Bulgaria**, 3 months after the October election -- the 7th held over the past 4 years -- the Parliament voted in a new Government, backed by: i) the pro-EU, centre-right GERB-UDF coalition, which had topped the polls; ii) the centre-left BSP-United Left; and iii) the populist “There is Such People” party, altogether holding 107 out of 240 Parliamentary seats. To secure necessary majority, the ruling coalition relies on the Turkish minority party, DPS - Dogan (19 seats), which offered its support, without, however, appointing any ministers. Although the prospect of a working Government bodes well for economic activity and gives Bulgaria a vital opportunity to deliver on critical reforms (especially those linked to RRF disbursements, which are behind schedule) and proceed with euro adoption, the challenges emerging from the different political orientation of the coalition partners, which, *nota bene*, have never worked together in the past, cannot but raise concerns over its effectiveness and longevity. Importantly, the risk of 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

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

- Political uncertainty and implied risks to fiscal consolidation prompted Fitch to cut **Romania**'s credit rating outlook to negative in December
- 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
- Citing strengthening macroeconomic fundamentals since FX liberalization, Fitch upgraded **Egypt**'s long-term sovereign debt rating -- for the first time since 2019 -- by 1 notch to "B" (still 5 notches below investment grade and 1 notch below the country's rating before the currency crisis)

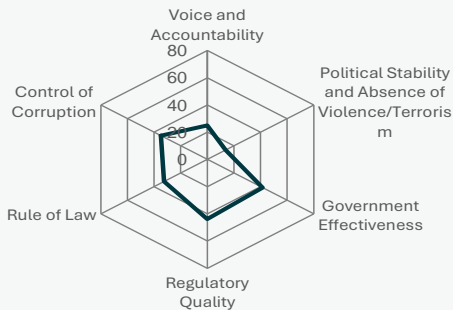


Long-Term Foreign Debt Currency Ratings, January 2025					
Investment	Grades	A+	S&P	Moody's	Fitch
		A			
		A-	Cyprus	Cyprus	Cyprus
		BBB+		Bulgaria	
		BBB	Bulgaria		Bulgaria
		BBB-	Romania,Serbia	Romania	Romania
Non-Investment	Grades	BB+			North Macedonia Serbia
		BB		Serbia	
		BB-	North Macedonia Albania	Albania	Türkiye
		B+	Türkiye	Türkiye	
		B			Egypt
		B-	Egypt		
		CCC+		Egypt	

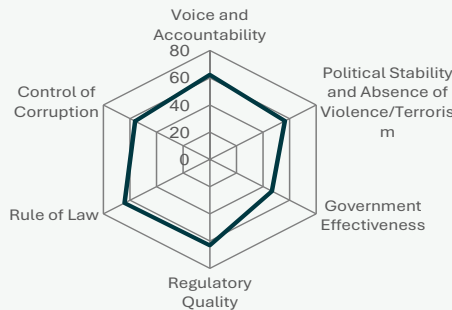


- Governance standards in EU candidate countries (**Serbia, North Macedonia, Albania**) are approaching those of new EU member states (**Romania, Bulgaria**)
- Türkiye's** and **Egypt's** low ranking in terms of governance constrains investor sentiment

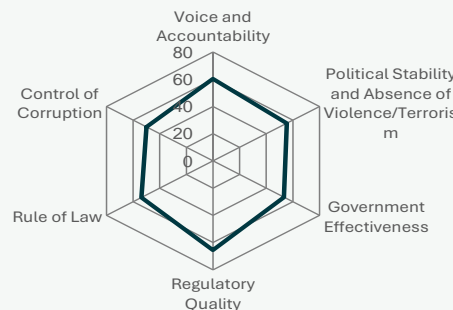
Türkiye



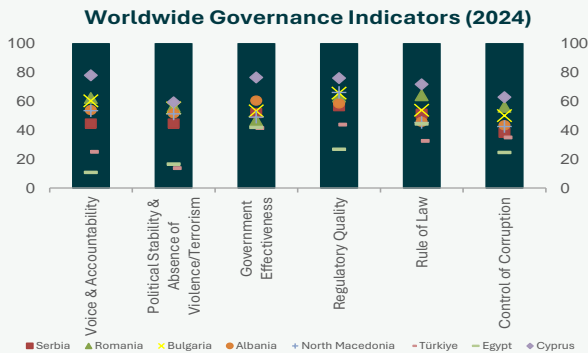
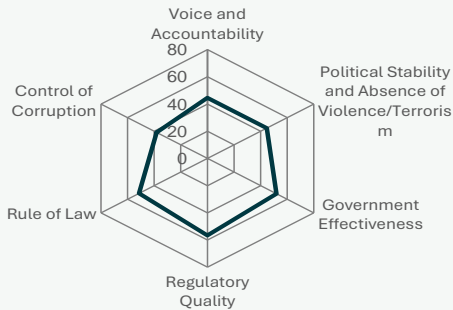
Romania



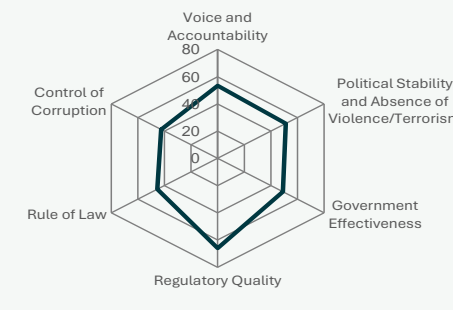
Bulgaria



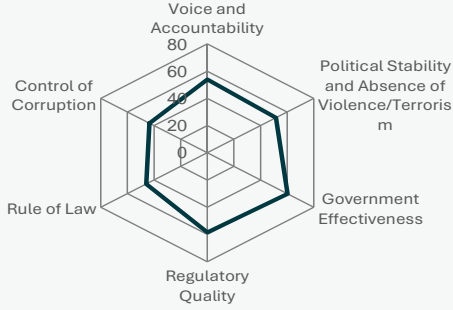
Serbia



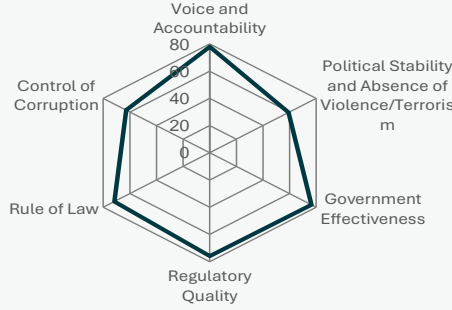
North Macedonia



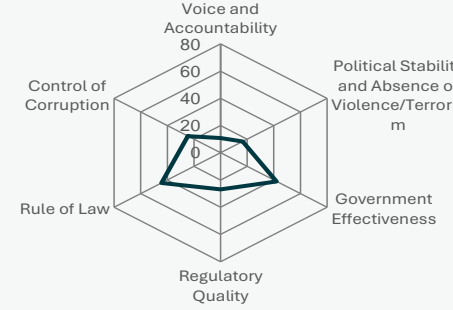
Albania



Cyprus



Egypt



Snapshot

Real Sector

- Real GDP
- Output gap
- Economic outlook summary
- Potential impact of US tariffs
- 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

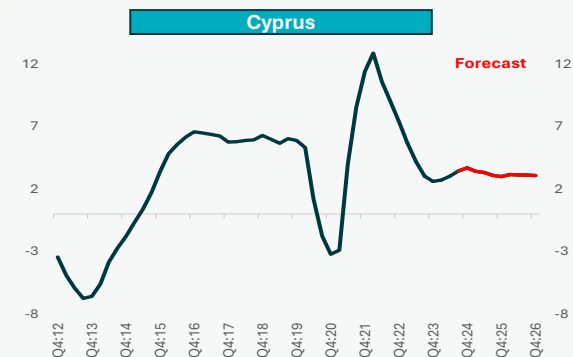
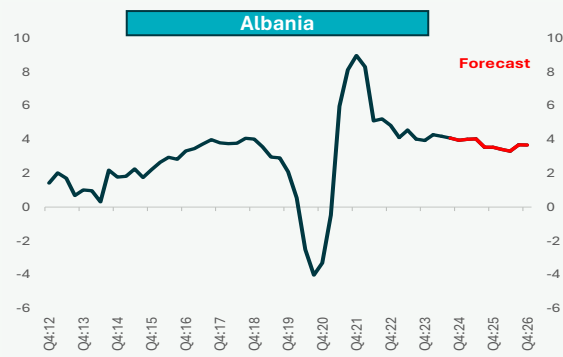
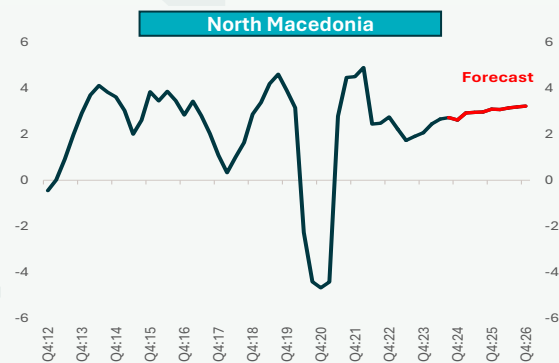
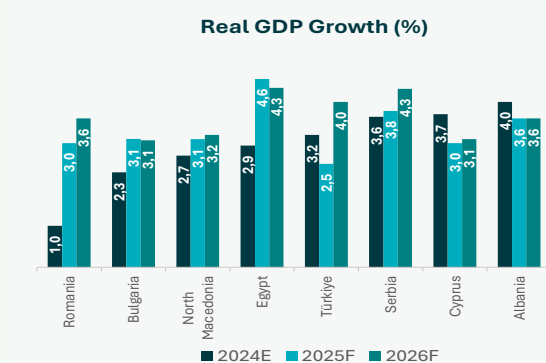
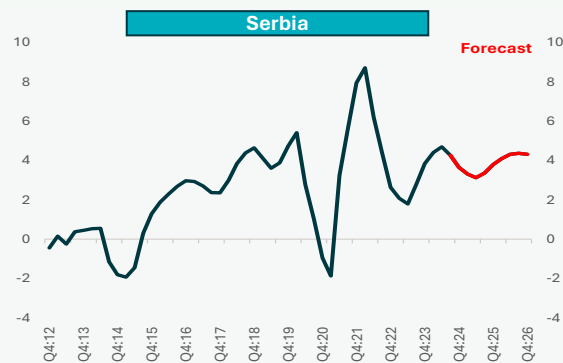
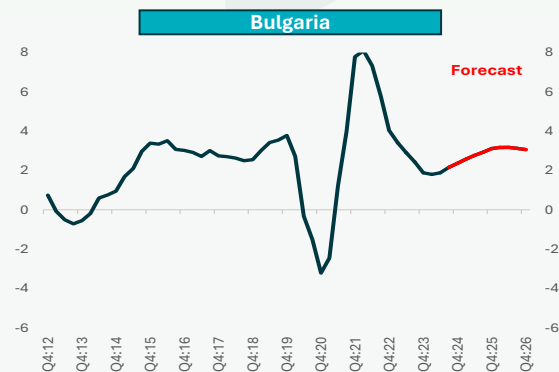
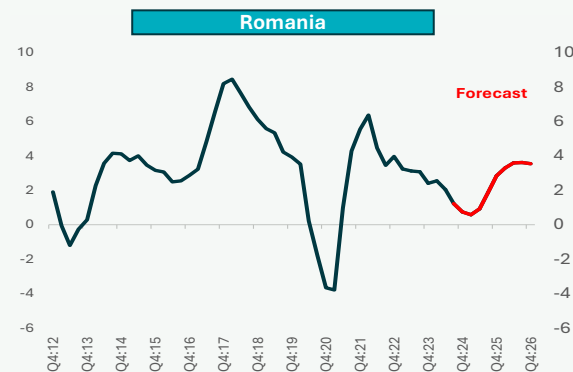
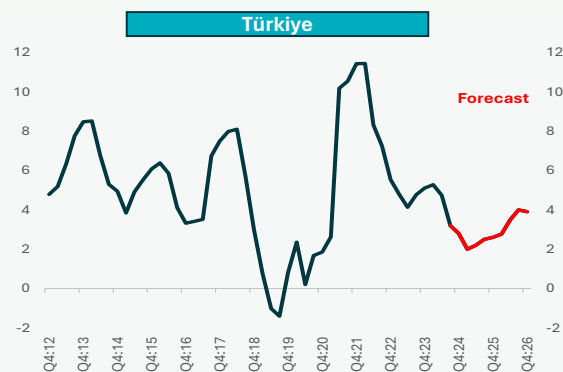
Financial Markets

Banking Sector



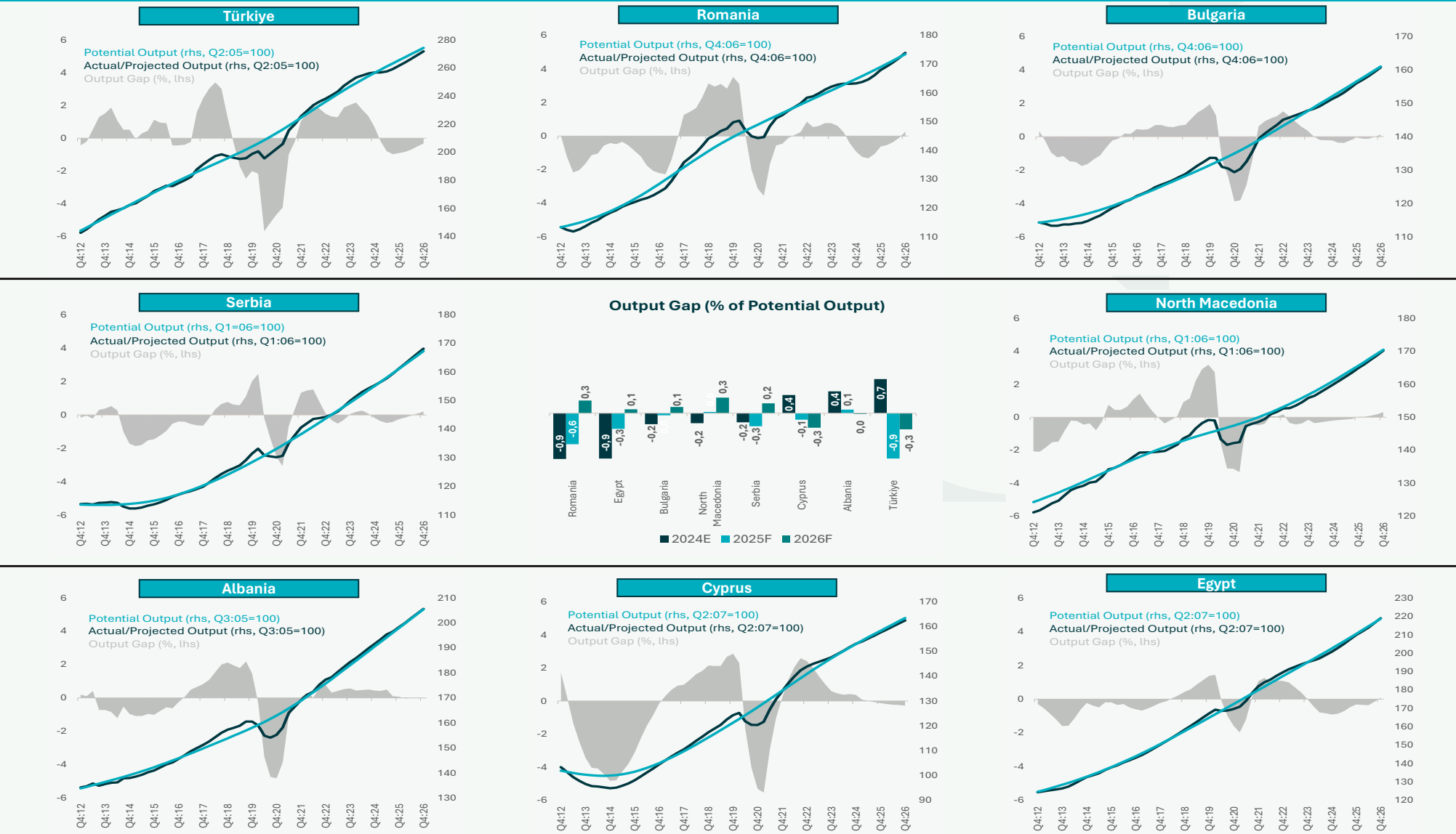
Real GDP (4-quarter rolling, y-o-y % change)

- Against the backdrop of easing inflationary pressures, which enabled central banks to start reversing (cautiously) past years' aggressive policy tightening, GDP is estimated to have grown at a quite solid pace in FY:24, in all the economies under review, barring Romania. Türkiye and Egypt, which are undergoing economic adjustment, saw their pace of economic expansion moderating, however, compared with FY:23



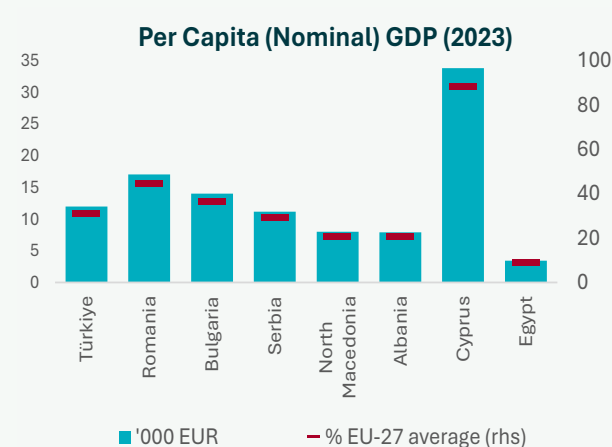
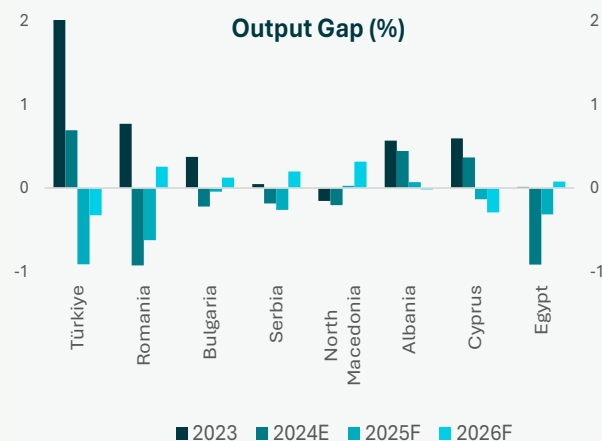
Output gap (4-quarter rolling)

- The massive relocation of foreign companies in **Cyprus** to benefit from its attractive headquartering policy (with 2,300 firms -- most of them operating in the ICT sector -- with 12,000 employees having registered locally over the past 2 years) and the overperformance of the tourism sector in **Albania** (with tourist arrivals in FY:24 having exceeded by c. 85% their pre-pandemic level) have resulted in both economies currently growing at a pace exceeding their potential growth
- Türkiye's** large positive output gap was eventually closed, c. 1½ years after the sharp reversal in monetary policy
- Barring Türkiye and Romania, all the economies under review are expected to grow broadly in line with their potential in FY:25

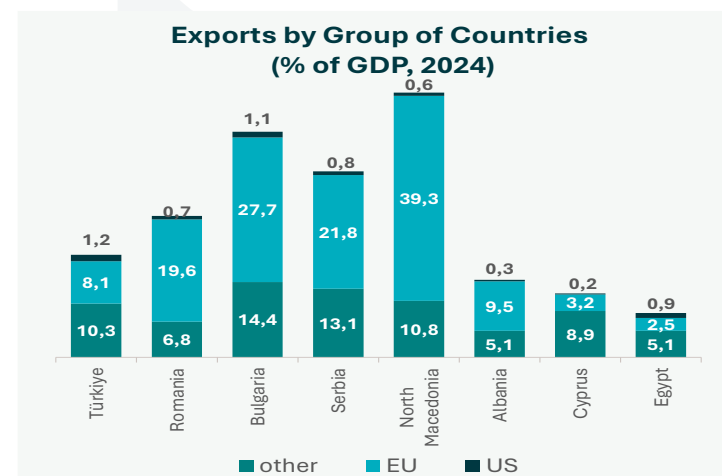
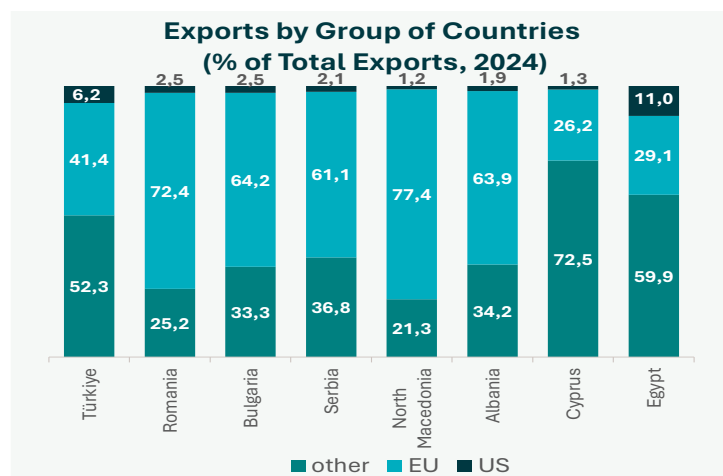


Real GDP growth, potential real GDP growth, output gap and per capita (nominal) GDP

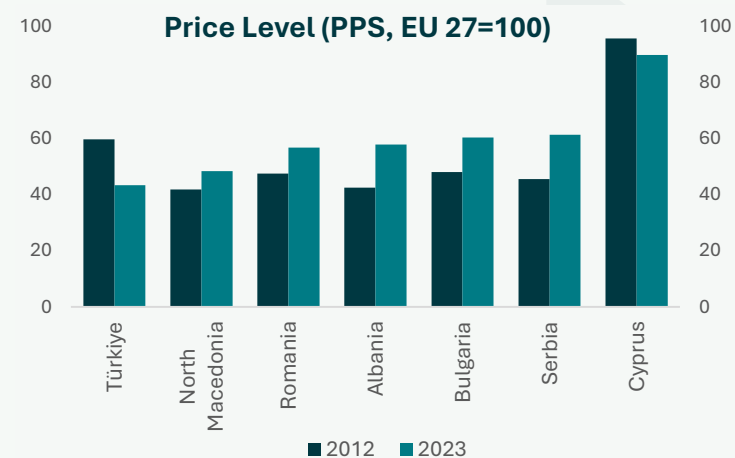
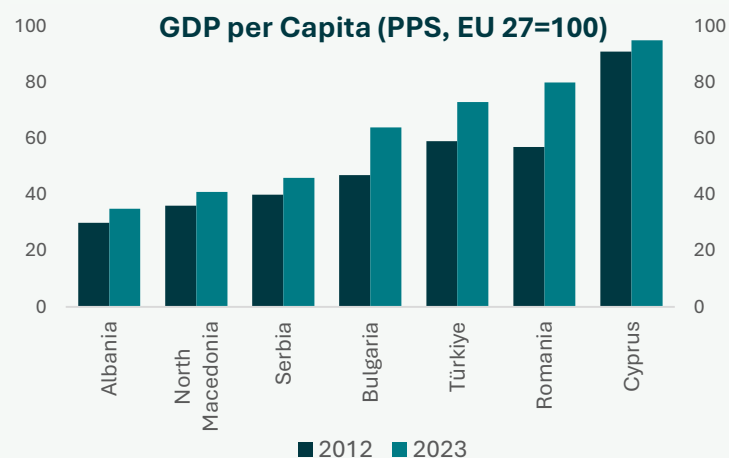
- GDP growth is seen firming in 2025** in most of the economies under review (barring Türkiye), **supported by lower inflation** (which, however, is set to continue exceeding the levels seen prior to the pandemic) and **further easing in monetary policy conditions**. **Private consumption should continue driving overall growth**, underpinned, *inter alia*, by solid -- yet easing -- wage growth, amid still tight labour market conditions. Fixed investment is also due to increase its contribution to overall growth, albeit modestly, with the public sector continuing to provide a critical contribution. In contrast, despite (slow) economic recovery in the EU (held back by a structurally weak German economy), net exports are unlikely to add to overall growth this year, considering firming domestic demand
- Risks** to our forecasts are tilted to the **downside**. Indeed, a resurgence of geopolitical tensions and a new spike in global energy prices could derail disinflation, distorting monetary policy. A slower-than-expected recovery in the EU, especially in the event of escalation of the US-triggered trade war, would also affect the economies' growth path. Note that both Türkiye and Egypt, which are undergoing economic adjustment, could face headwinds from higher US rates and a stronger USD straining both their public and private sectors' FX debt repayment capacity



- A major global trade war is *ante portas*, with the new US administration announcing new universal tariffs on some of its main trade partners (Canada -- 25%, Mexico -- 25%, China -- 10%), effective as of February 1, but later agreeing to defer their levy on Mexico and Canada by 1 month. The latter two had announced their intention to hit back with retaliatory measures. On the other hand, China has already responded with imposing tariffs on some US imports (crude oil, LNG, coal, farm equipment and some autos) and filing a complaint with the WTO
- The US has so far refrained from expanding trade measures to the EU, but has threatened to do so, citing the large bi-lateral trade deficit. Currently, the average applied tariff for EU exports to the US is estimated at c. 2.0%. The EU has said that it is set to “respond firmly” if the US extends tariffs to Europe
- As regards the potential economic impact of such trade measures to the economies under review, we note that their direct exports to the US -- both in terms of their share in total exports and as well as in terms of economic importance (% of GDP) -- are not significant, suggesting a relatively **low direct impact**
- However, accounting for: i) the economies’ under review value added on exports of 3rd countries to the US; as well as for ii) the direct and indirect spillover effects not only on other sectors of their domestic economies (note that services related to external trade account up to 33% of the value of total exports of services) but also on the EU economy -- region’s main trade partner -- should result in a **much larger overall impact**
- The final impact could be moderated by a depreciation of the economies’ currencies against the USD, absorption of part of the tariff cost by producers and substitution of trade partner
- All said, given the complexity of the channels through which the impact of potential US tariffs and retaliatory measures would kick-in, it is difficult to quantify the overall impact on the economies under review. Based on past literature and assuming levy of a broad 10% tariff, we would expect the **GDP of the economies’ under review to be reduced modestly -- up to 0.3 pps versus our baseline path**



- **Cyprus** is close to the 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. Full Schengen accession -- effective as of January 1, 2025 -- should help both economies fully reap the benefits of the single market
- Despite the unorthodox policy mix pursued by authorities over the past years, 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



Official financial support (IMF)

- The IMF approved a 36-month Policy Coordination Instrument (PCI) with **Serbia**, following the conclusion of the previous EUR 2.4 Stand-By Agreement (SBA). 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
- IMF and **Egypt** reached staff-level agreement on the 4th review under the Extended Fund Facility (EFF) arrangement in December. Its eventual approval by the Executive Board should provide Egypt access to c. USD 1.2bn. In light of economic disruptions caused by the crisis in Middle-East and the challenging domestic environment, Egypt and the IMF agreed to recalibrate the fiscal adjustment path

IMF & EU Financial Support (EUR bn)																
		Türkiye	Romania	Bulgaria	Serbia		North Macedonia		Albania		Cyprus	Egypt				
Period		---	---	---	2022-2024 ^a	2024-2027 ^b	2020 ^c	2022-2024 ^d	2014-2017 ^e	2020 ^f	2013-2016 ^g	2016-2019	2020 ^c	2020-2021 ^a	2022-2026 ^{h,i}	2024-2027 ^j
Programme	IMF	---	---	---	2.4	---	0.2	0.5	0.4	0.2	1.1	11.9 ^g	2.8 ^g	5.2 ^g	8.0 ^g	---
	EU	---	---	---	---	---	---	---	---	---	9.0	---	---	---	---	5.0
Drawn so far	IMF	---	---	---	1.2	---	0.2	0.1	0.4	0.2	1.0	11.9 ^g	2.8 ^g	5.2 ^g	2.0 ^g	---
	EU	---	---	---	---	---	---	---	---	---	6.3	---	---	---	---	1.0
Repaid	IMF	---	---	---	---	---	0.2	---	0.4 since 2019	0.1 since 2023	1.1	5.8 ^g	2.0 ^g	2.8 ^g	---	---
	EU	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Next Repayments	IMF	---	---	---	---	---	0.1 in 2025	Starting in 2026	0.05 in 2025	0.04 in 2025	---	2.6 ^g in 2025	0.7 ^g in 2025	2.0 ^g in 2025	---	---
	EU	---	---	---	---	---	---	---	---	---	0.4 in 2025	---	---	---	---	---

^a Stand-By Arrangement (SBA)

^b under the Policy Coordination Instrument

^c Rapid Financing Instrument

^d Precautionary and Liquidity Line (PLL)

^e under Post-Programme Monitoring since 2018

^f under Post-Programme Monitoring since 2016

^g bn USD

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

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

^j concessional lending under EU's Macro-Financial Assistance (MFA), which is part of a broader support package, worth EUR 7.4bn, which also includes EUR 1.8bn in investments under the Southern Neighborhood Economic and Investment Plan and EUR 0.6bn in grants

Official financial support (EU)

- 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**
- Against the backdrop of 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.

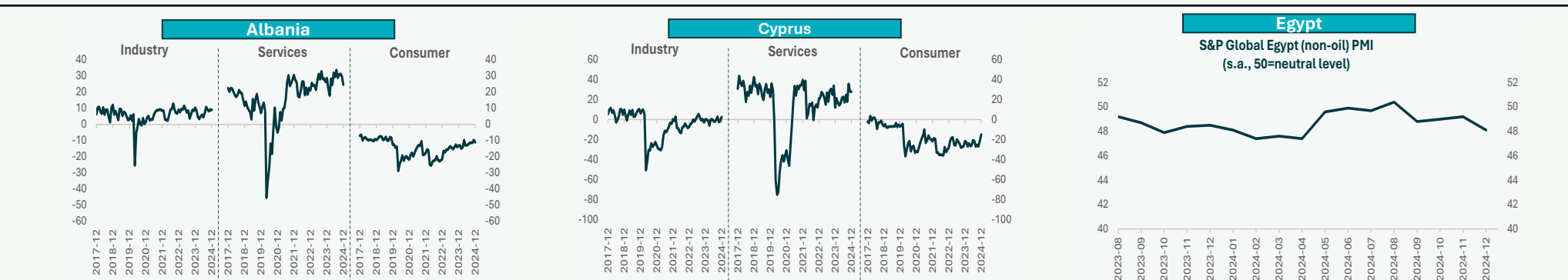
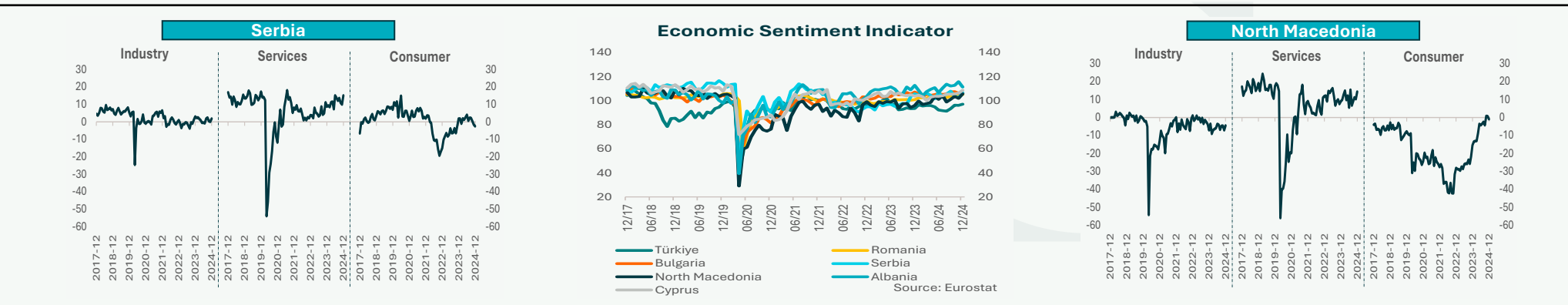
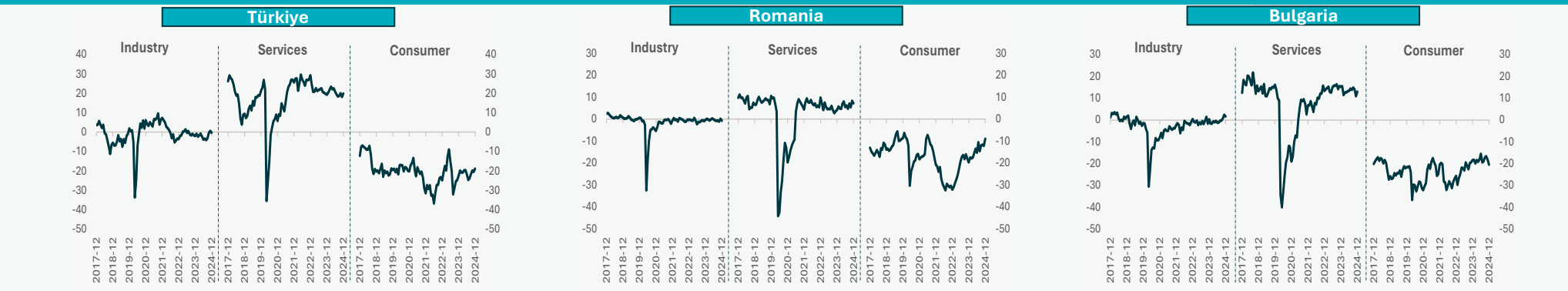
*** Includes Cohesion Policy allocations and payments under the European Agricultural Fund for Rural Development, the European Agricultural Guarantee Fund and the Just Transition Fund.

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

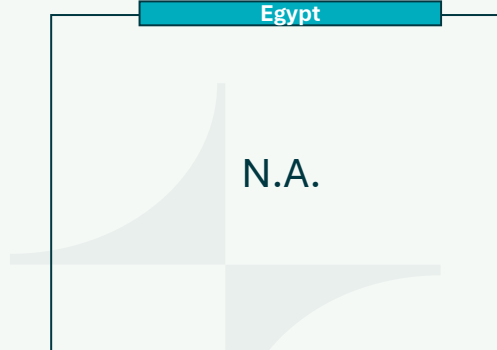
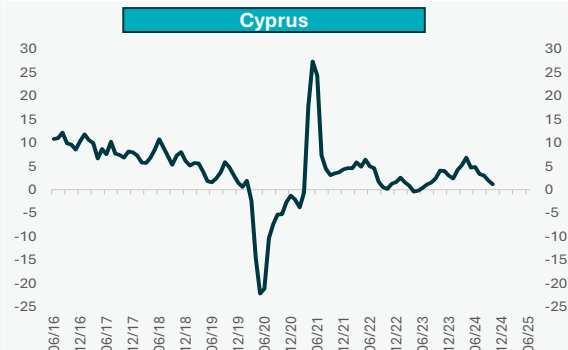
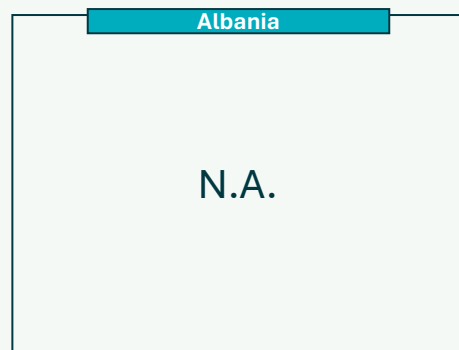
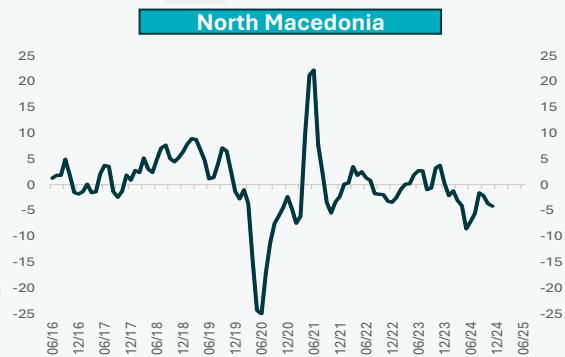
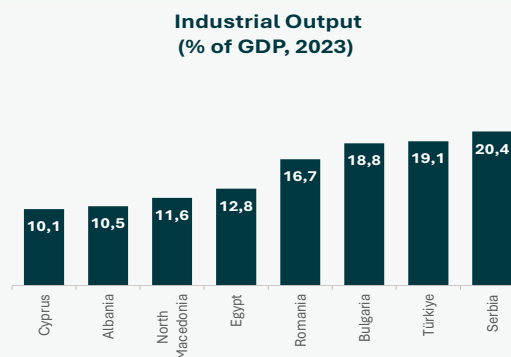
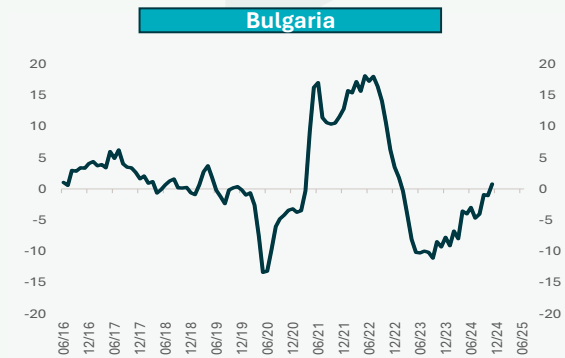
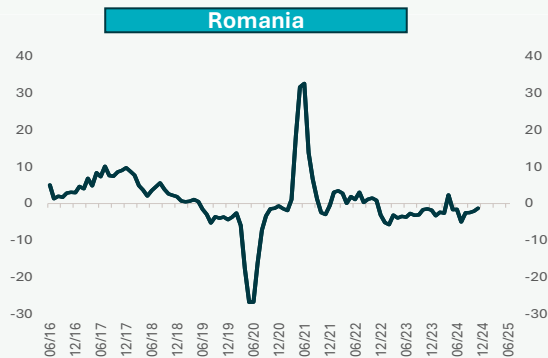
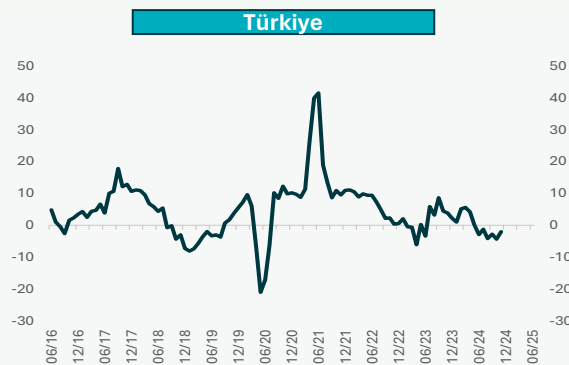
Economic Sentiment Indicator (difference between the % of respondents giving positive and negative replies, s.a.)

- The services sector continues to exhibit remarkable strength, despite fading pandemic-related pent-up demand
- At the same time, weakness in the industrial sector remains, mainly reflecting slow economic recovery in the EU, especially Germany, and relatively high energy prices. Uncertainty around US tariffs also remains a constraint
- Consumer confidence has been building up 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

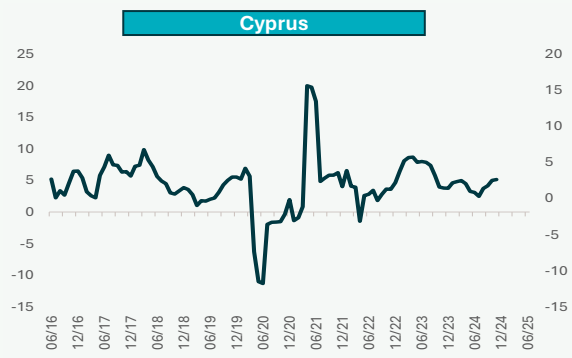
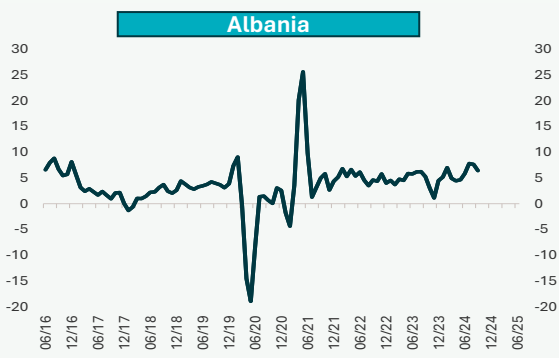
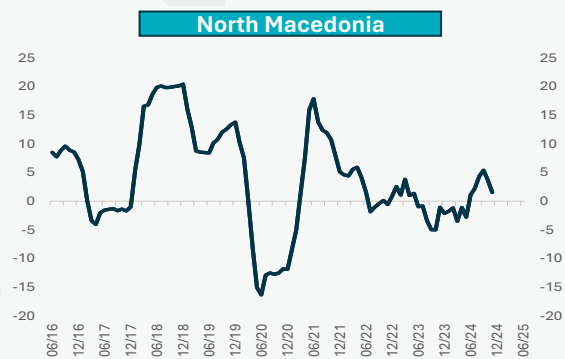
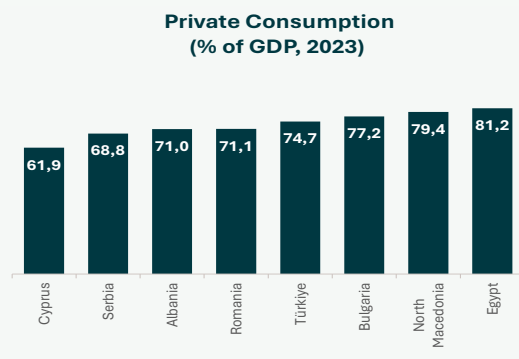
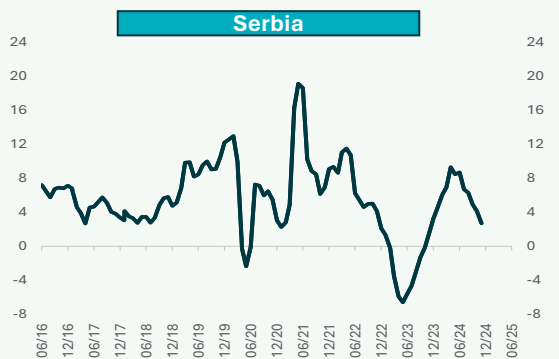
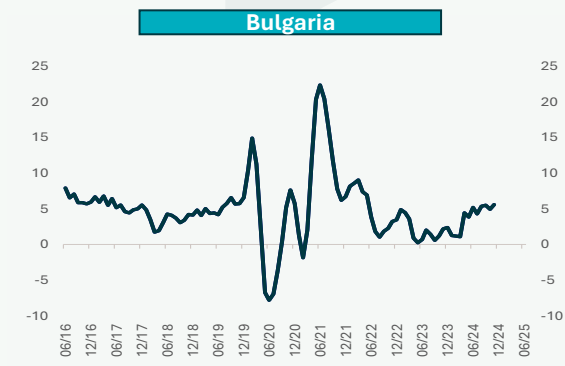
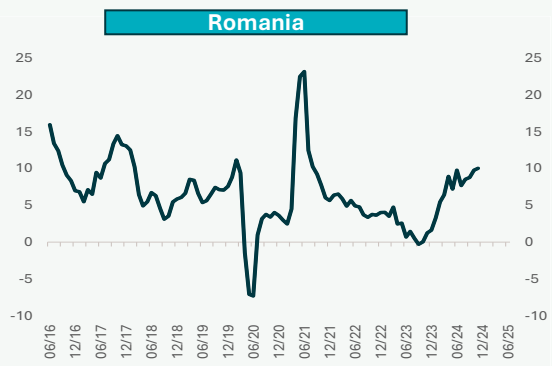
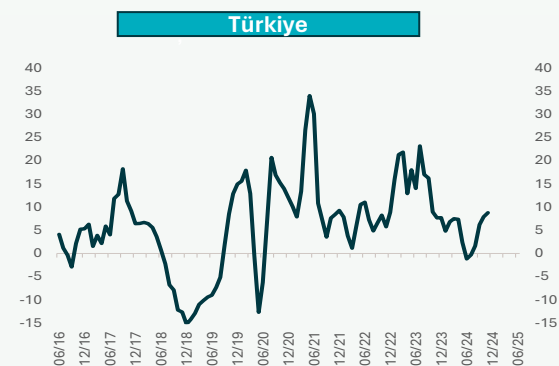


Industrial production (3-month rolling, y-o-y % change)

- In the absence of external impulse, the **industrial sector remains at a standstill**, despite healthy domestic demand. This discrepancy reflects, *inter alia*, the relatively low position in global value chains of the economies under review
- A potential escalation of **global trade war** could affect the sector's growth outlook

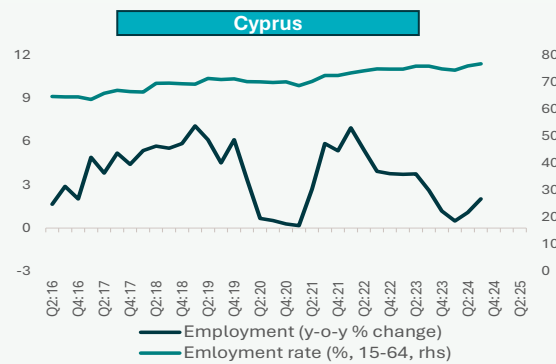
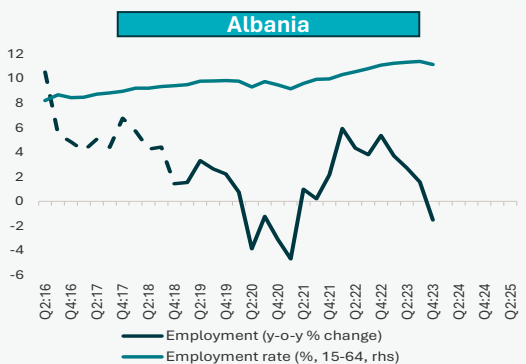
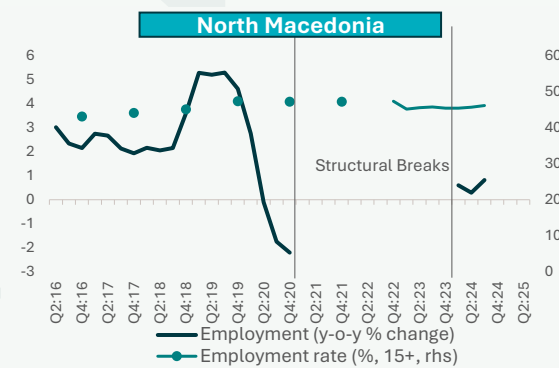
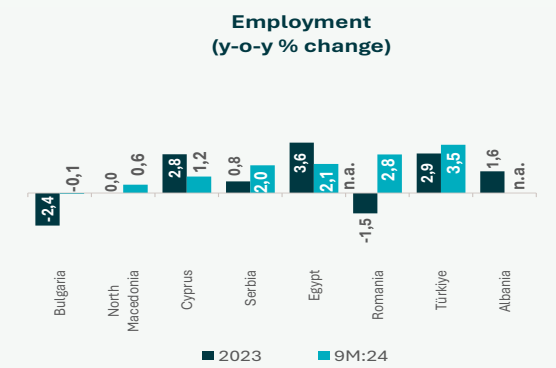
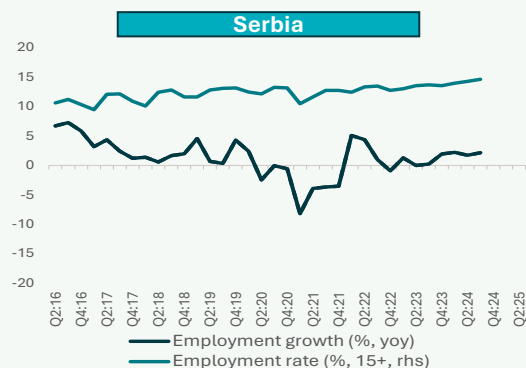
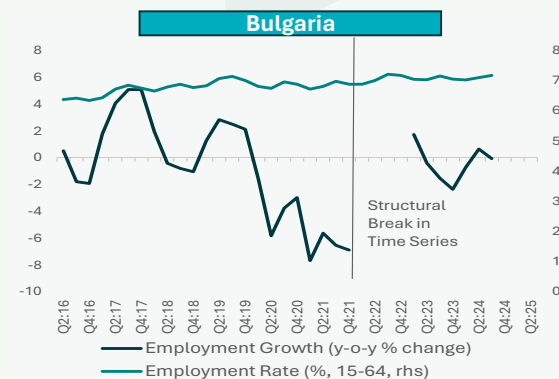
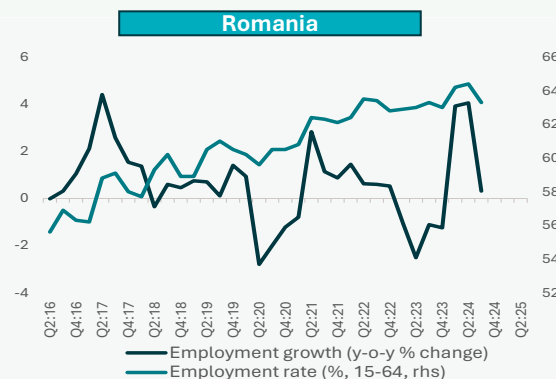
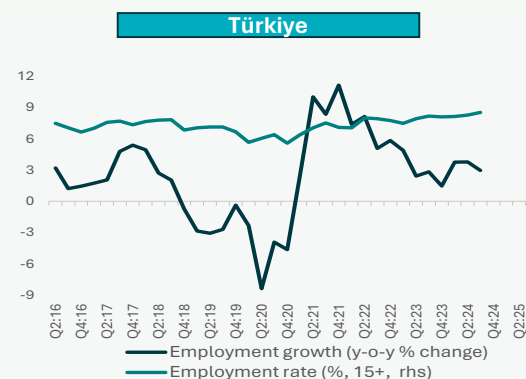


- Rising (real) incomes and gradually improving consumer confidence have been sustaining growth in retail sales in most of the economies under review



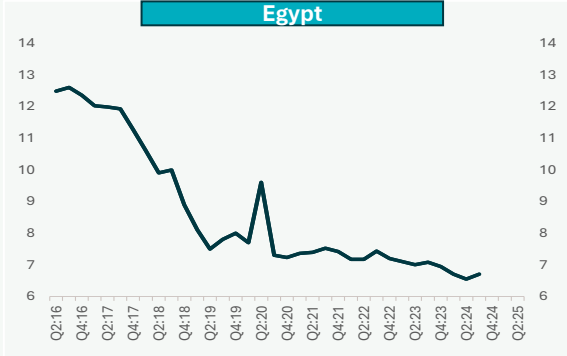
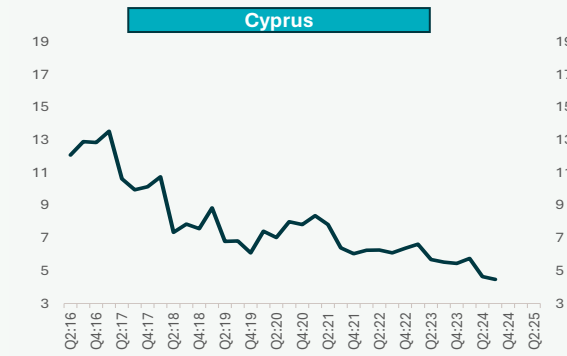
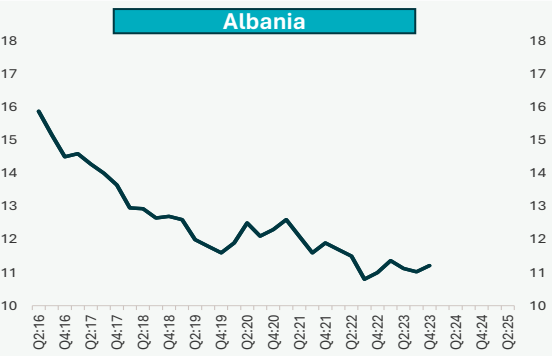
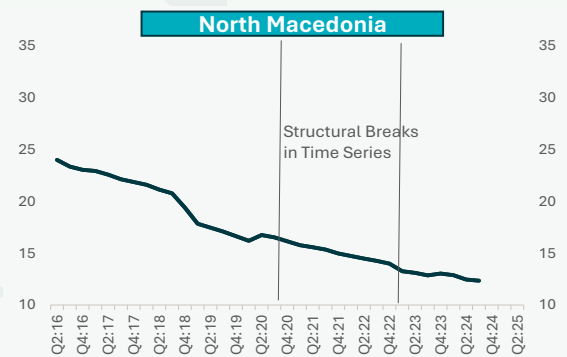
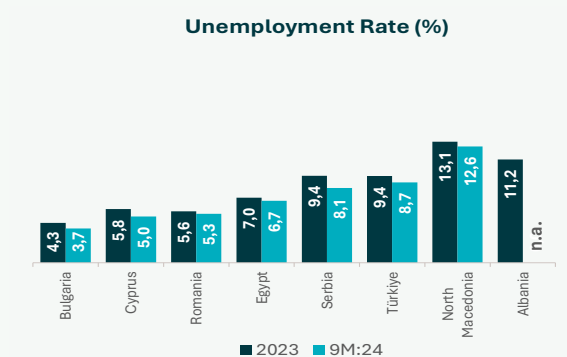
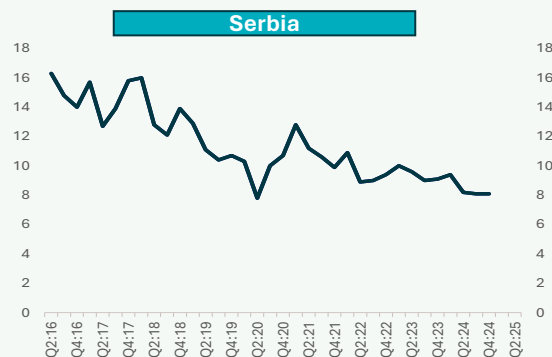
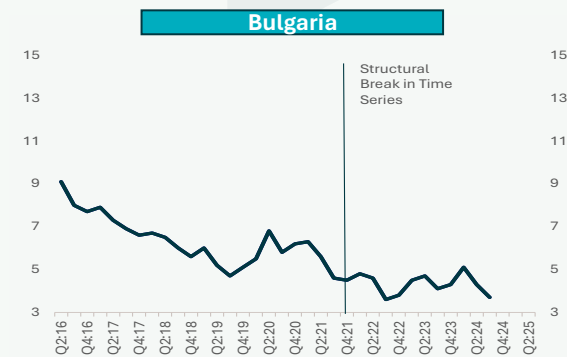
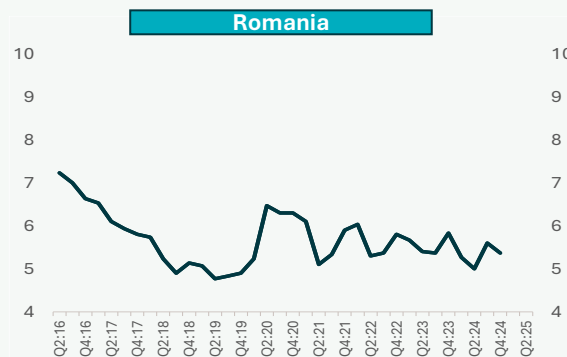
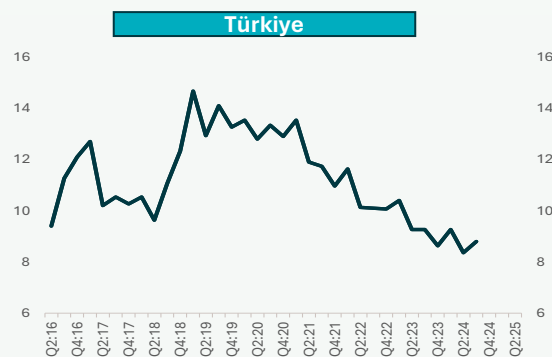
Employment growth (y-o-y % change) & Employment Rate (%)

- Following strong expansion over the past 2 years, **employment growth has moderated significantly** 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**) are set to continue posing significant challenges in the period ahead



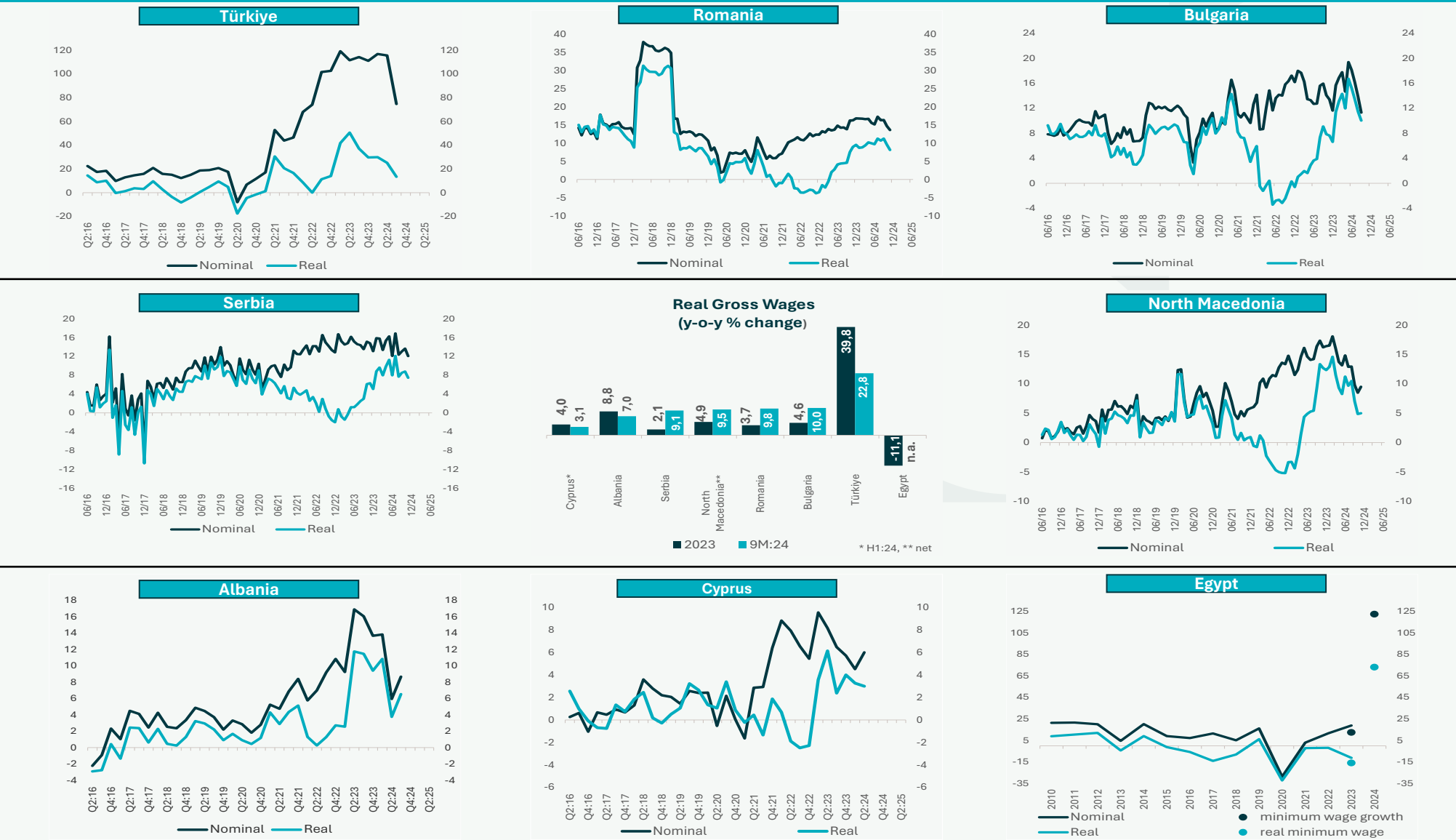
Unemployment rate (%)

- 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 and more sluggish levels of unemployment in **North Macedonia** and **Albania** and, to a lesser extent **Serbia**, largely reflect the large share of domestic grey economy. The latter implies much stronger underlying activity trends in those economies than suggested by official data

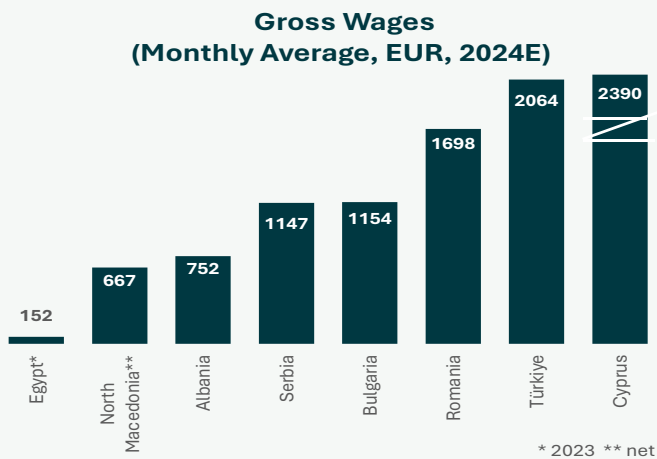


Nominal and real wages (y-o-y % change)

- 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
- Given that the purchasing power losses incurred by households over the past 2 years have been largely recouped, both nominal and real wage growth is expected to **moderate** in the period ahead, remaining, nonetheless, above historical levels. In the long-term, wage growth should converge towards the much more modest (i.e. low single-digit) growth of 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 (% , 2025)		
	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

* At end-2024, Cyprus’ Parliament approved levy of a 15% global minimum effective tax (GMCT) on Pillar 2 companies (i.e. mainly large multinational companies and large-scale domestic groups in the EU) -- starting from January 2026 -- aligning with EU standards. Note that the GMCT was due to be applied by January 1, 2024.

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

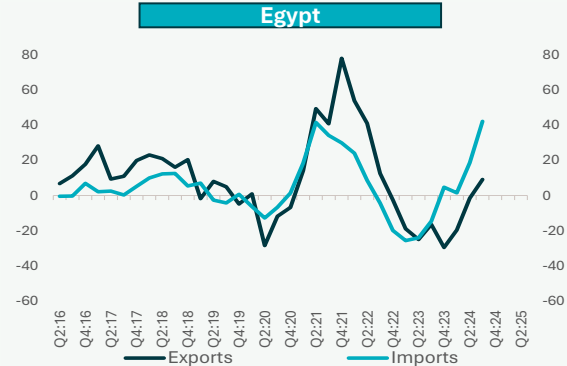
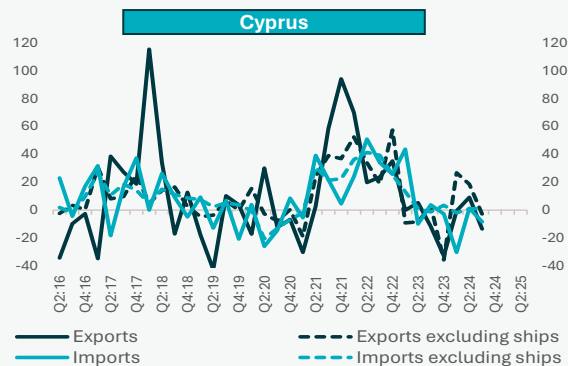
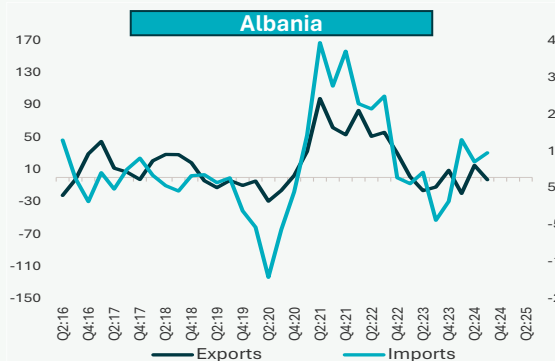
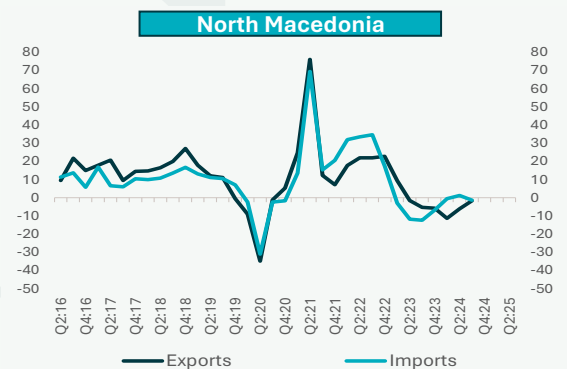
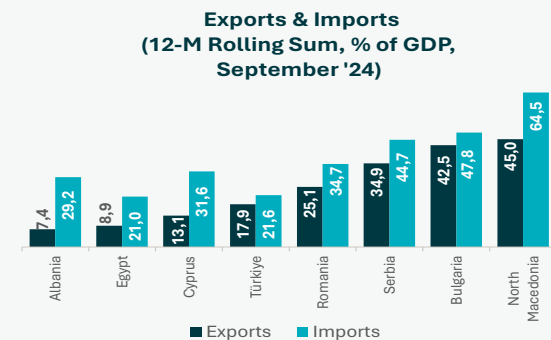
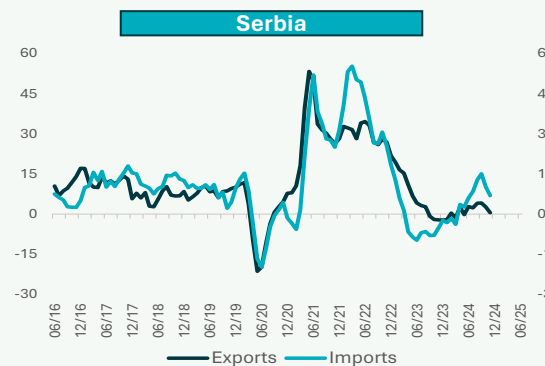
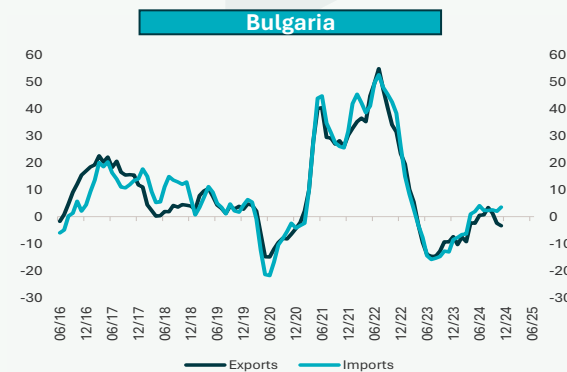
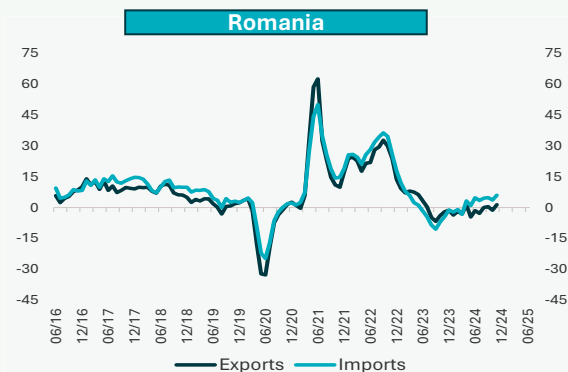
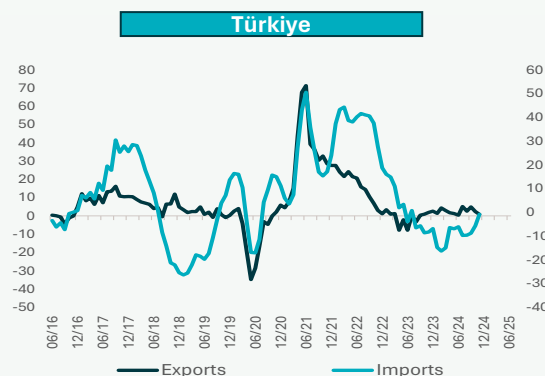
Fiscal Position

Financial Markets

Banking Sector

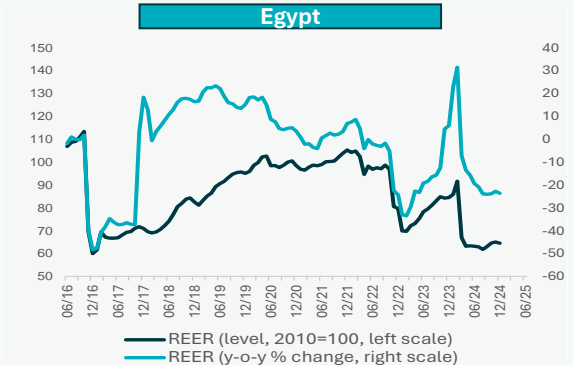
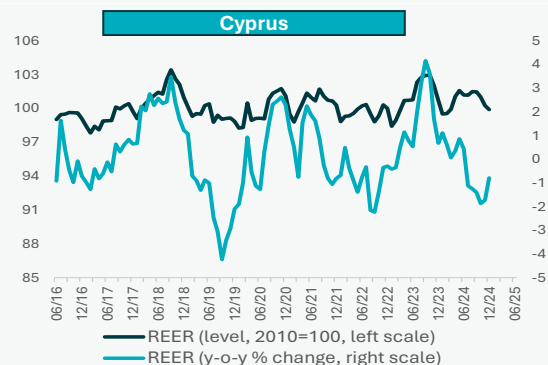
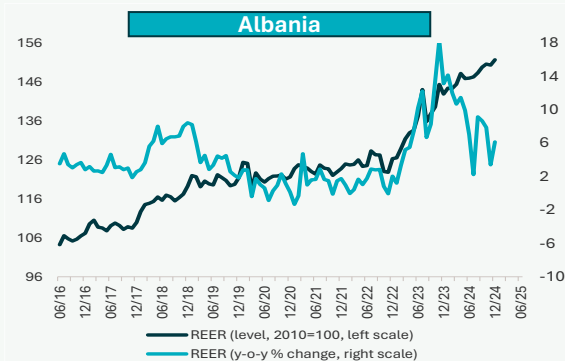
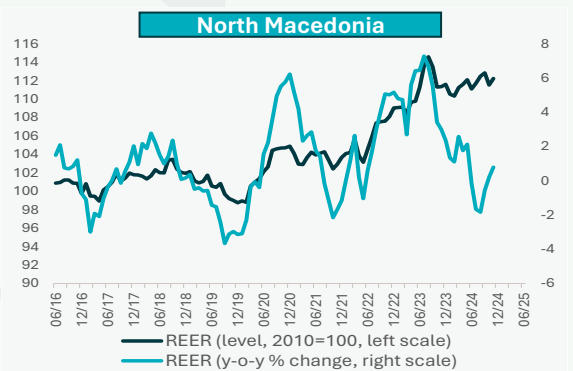
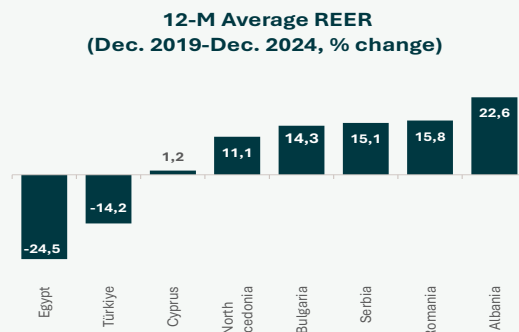
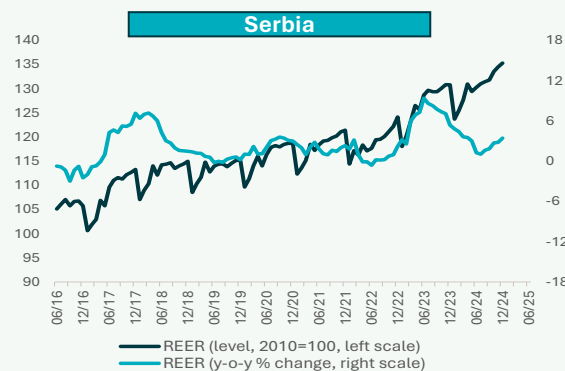
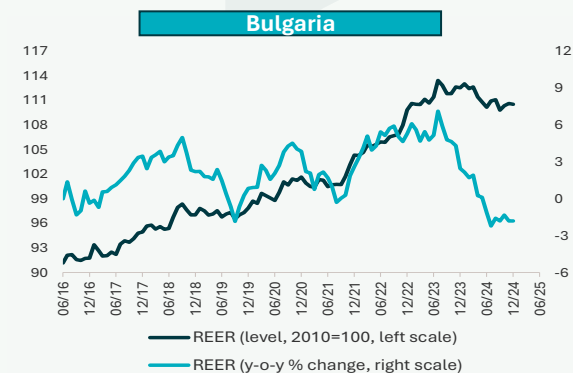
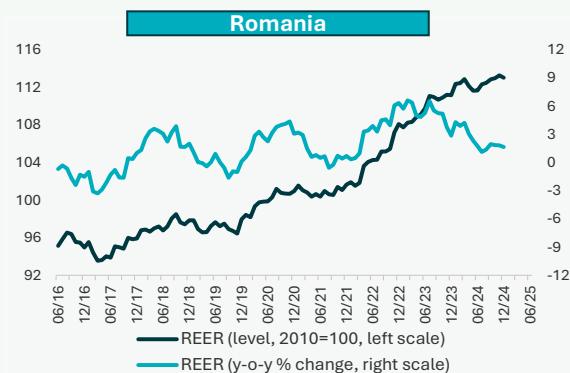
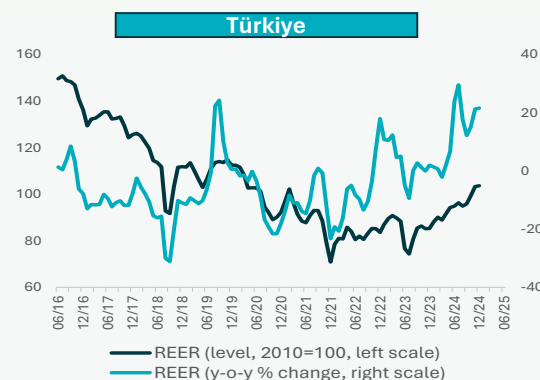


- Export growth has stalled, in line with the relatively weak pace of expansion in the EU, falling behind that of imports in most of the economies under review



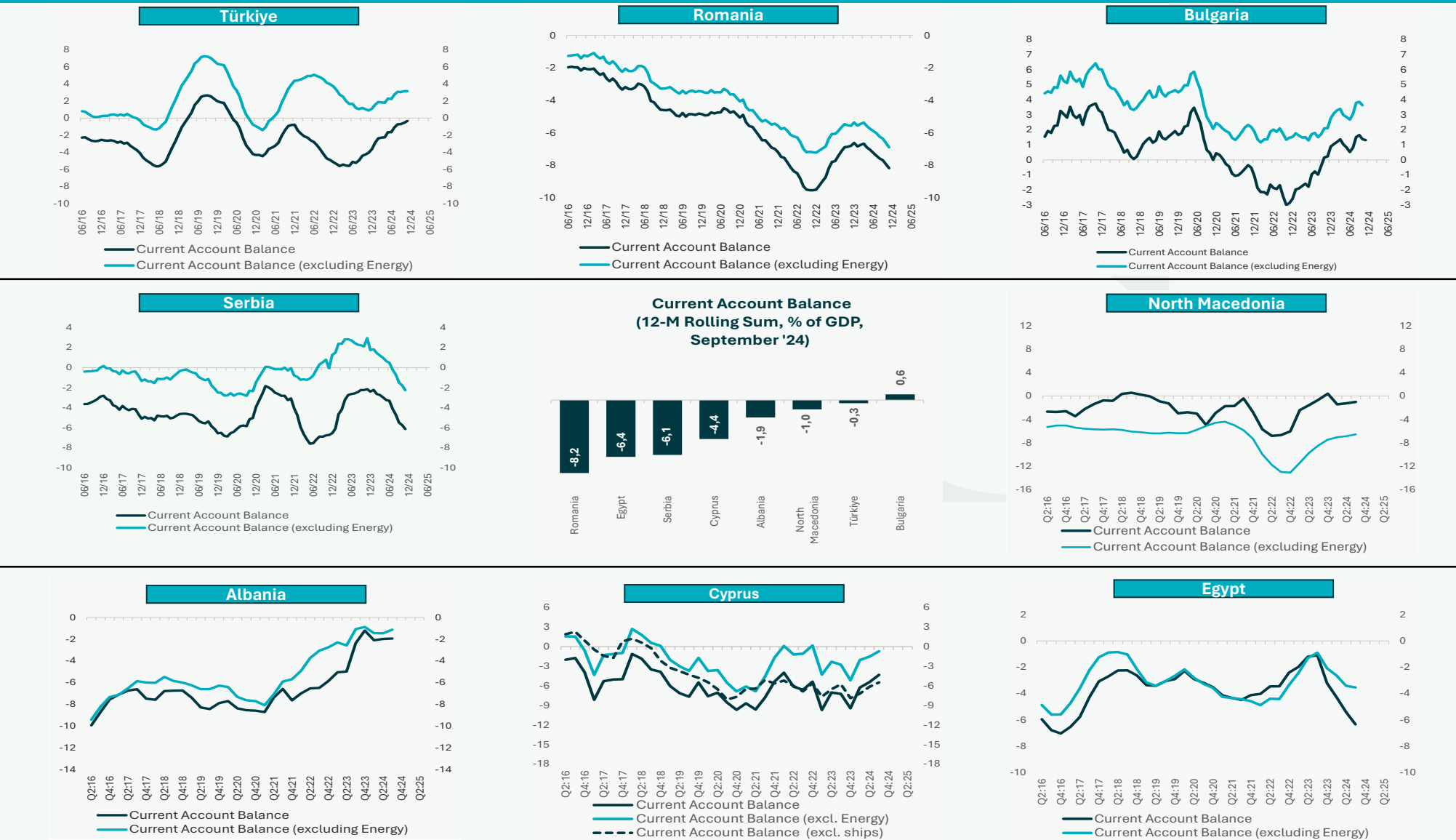
CPI-based real effective exchange rate

- High inflation has been eroding 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 sharp depreciation of the **Egyptian Pound** corrected the losses in external price competitiveness stemming from stubbornly high inflation



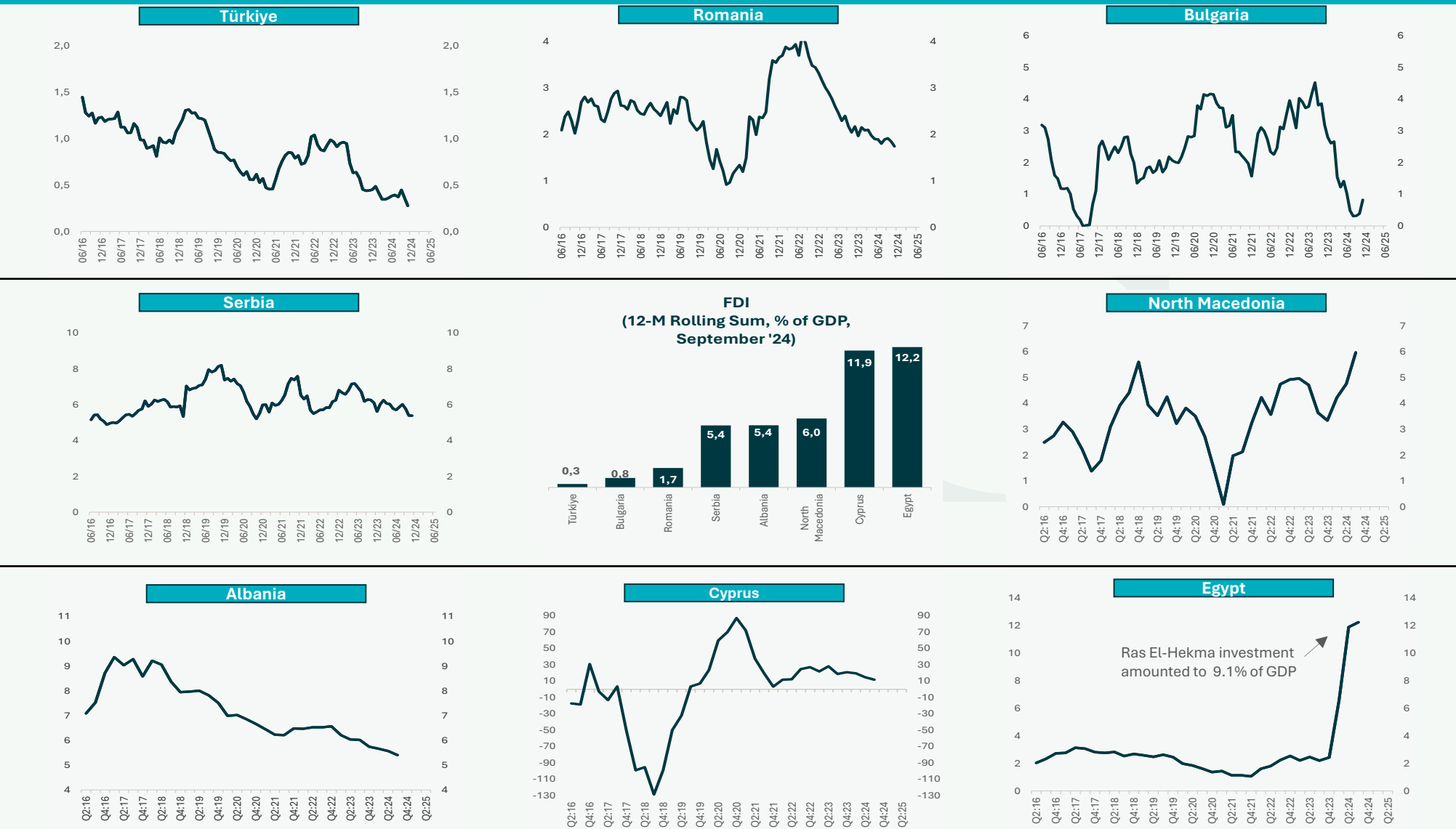
Current account balance (12-month rolling, % of GDP)

- Firming domestic demand kept trade balances under pressure in most of the economies under review (especially **Romania** and **Serbia**), despite favourable global energy prices
- In **Türkiye**, economic adjustment has resulted in a sharp correction in external imbalances. **Cyprus** has benefitted from a structural widening in its services surplus, following foreign business' relocation to the island, seeing its current account deficit narrow in FY:24. In **Egypt**, the lifting of import restrictions boosted the trade deficit, despite the massive depreciation of the EGP and weaker economic growth



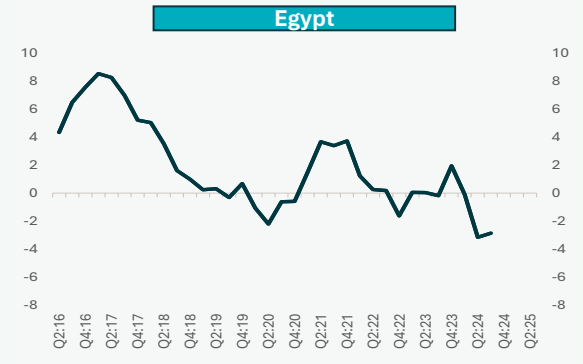
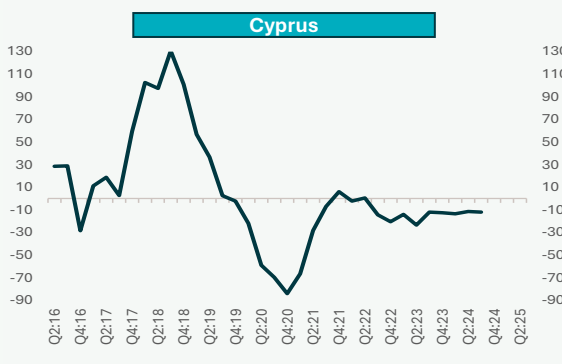
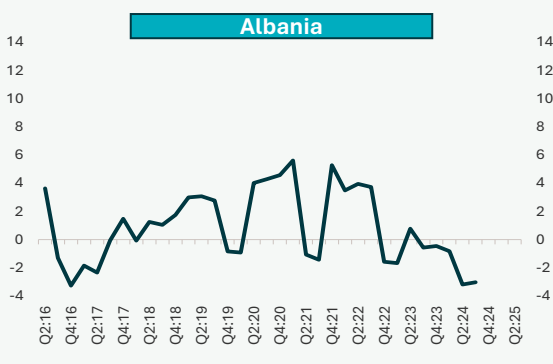
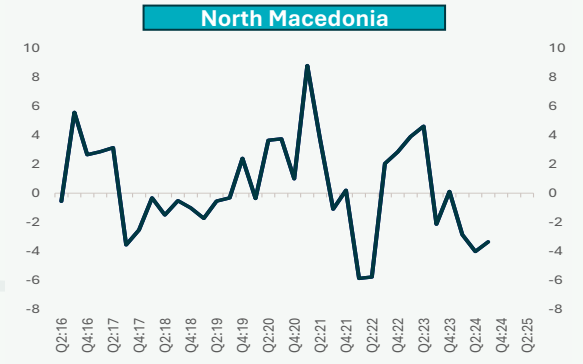
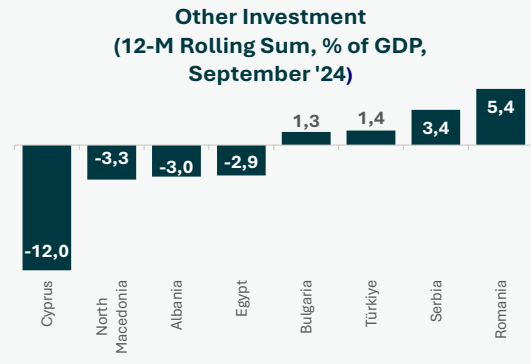
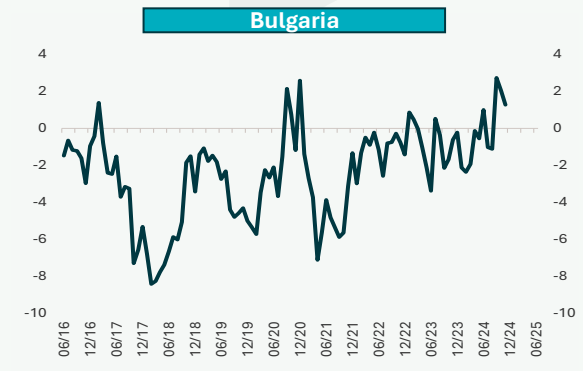
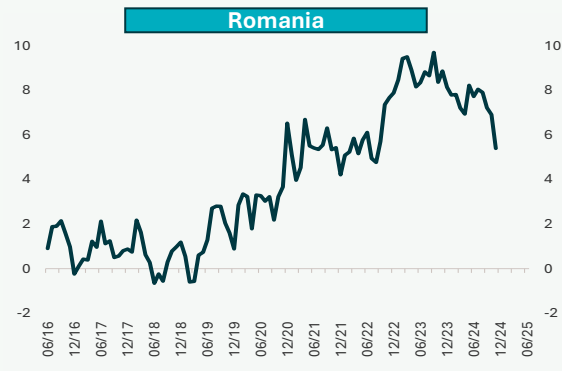
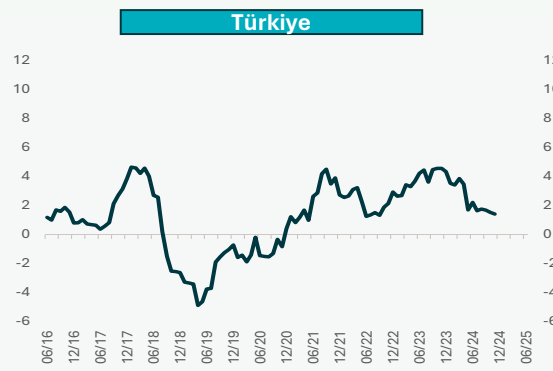
Net foreign direct investment (12-month rolling, % of GDP)

- Against the backdrop, *inter alia*, of broad-based uncertainty, **FDI inflows have yet to see signs of recovery** in most of the economies under review
- Albania, Serbia** and, to a lesser extent, **North Macedonia** 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
- Traditionally, the bulk of FDI consist of **reinvested earning** and **intercompany lending**



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 should foreign investors increase their holdings of sovereign debt



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

- The **current account balance 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 price trends** next year as well, especially if geopolitical risk subsides
- With tourism activity in most of the economies under review having broadly returned to pre-pandemic levels, the scope for (further) significant improvement in the respective tourism services balances appears to be narrow. A remarkable exception is **Albania** (Europe's fastest growing tourism destination since after the pandemic, albeit from a low base), which is set to continue overperforming, benefiting, *inter alia*, from strong price competitiveness vis-à-vis its regional peers
- The ceasefire deal between Israel and Hamas should help restore Suez Canal traffic, alleviating pressure on **Egypt's** current account deficit
- In all the economies under review (barring that of Romania), the current account deficit is set to remain **below** the empirical critical threshold of c. 5.0% of GDP
- Easing external financing conditions should help most countries under review **plug their external financing gap** this year without drawing on FX reserves

Türkiye	Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F
Current account balance	-3.6	-0.6	-1.1	-1.4
Net FDI	0.5	0.2	0.2	0.2
Other net capital inflows *	4.4	1.8	1.6	0.0

Bulgaria	Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F
Current account balance	0.9	1.4	1.0	0.5
Net FDI	2.8	0.7	0.9	1.1
Other net capital inflows *	-0.2	-2.8	-0.9	-0.8

North Macedonia	Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F
Current account balance	0.4	-1.8	-2.3	-2.4
Net FDI	3.3	4.5	3.5	3.5
Other net capital inflows *	-0.9	0.4	0.4	0.0

Cyprus	Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F
Current account balance**	-9.5	-4.7	-5.0	-5.2
Net FDI**	21.0	16.8	18.4	19.3
Other net capital inflows *	-12.6	-12.1	-12.5	-11.3

** 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. 24E	Dec. 25F	Dec. 26F
Current account balance	-6.6	-8.1	-7.6	-7.0
Net FDI	2.0	1.8	1.8	1.8
Other net capital inflows *	8.8	6.9	6.3	5.7

Serbia	Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F
Current account balance	-2.3	-5.5	-6.2	-6.6
Net FDI	5.6	5.4	5.3	5.3
Other net capital inflows *	3.7	4.0	1.7	1.8

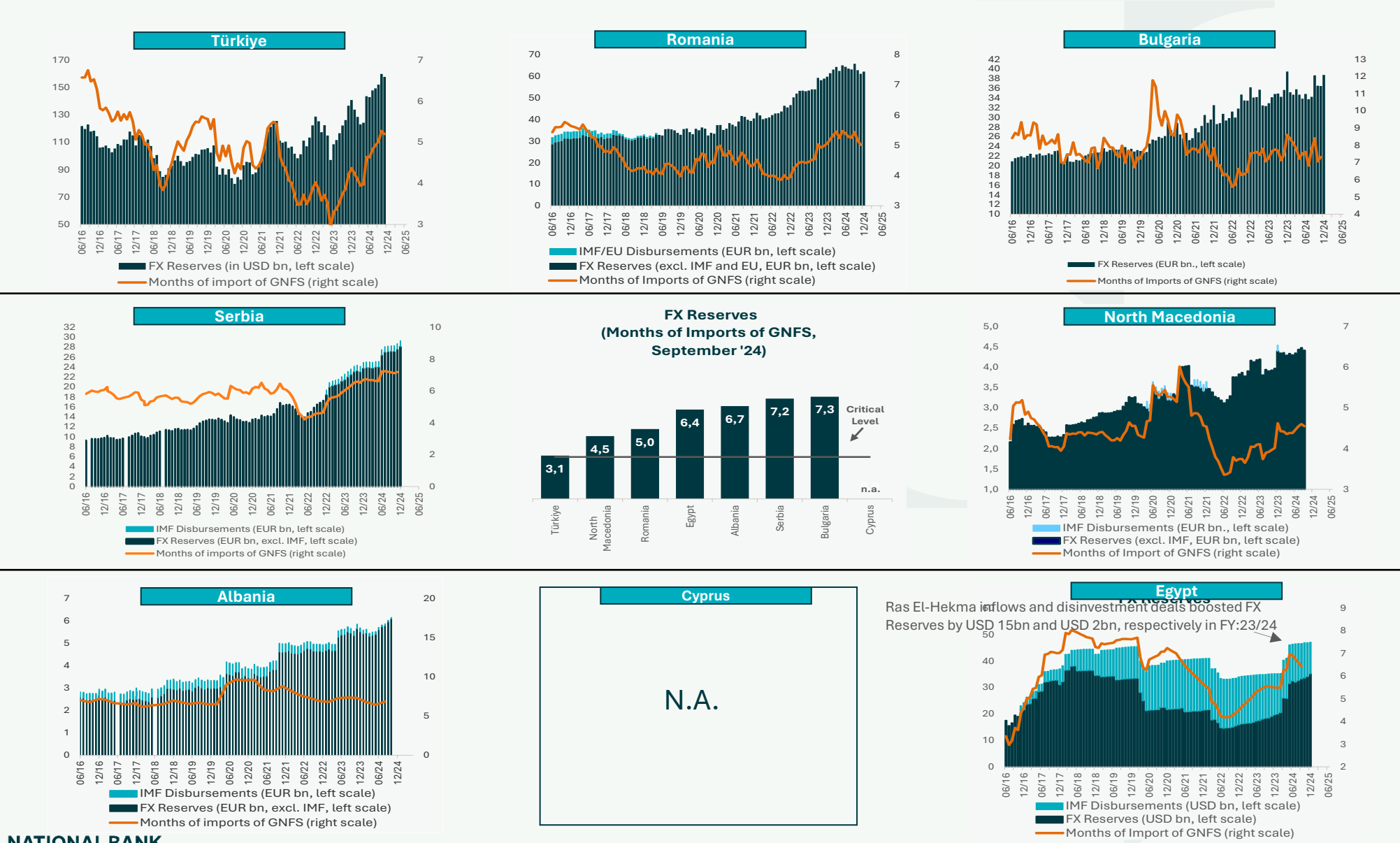
Albania	Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F
Current account balance	-1.2	-1.7	-2.1	-2.3
Net FDI	5.7	5.2	5.0	5.0
Other net capital inflows *	-0.4	-2.0	-0.4	-0.4

Egypt#	Jun. 23	Jun. 24	Jun. 25F	Jun. 26F
Current account balance	-1.2	-5.4	-5.0	-4.6
Net FDI	2.5	11.9***	3.2	3.1
Other net capital inflows *	0.0	-3.2	3.7	2.7

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

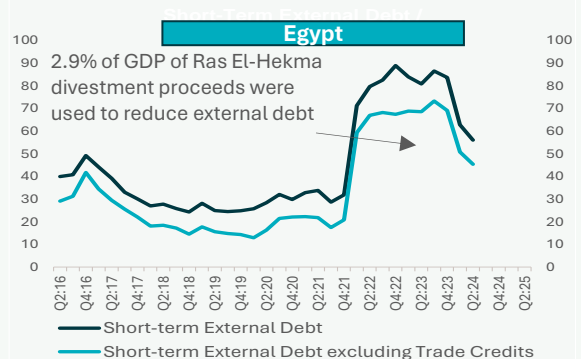
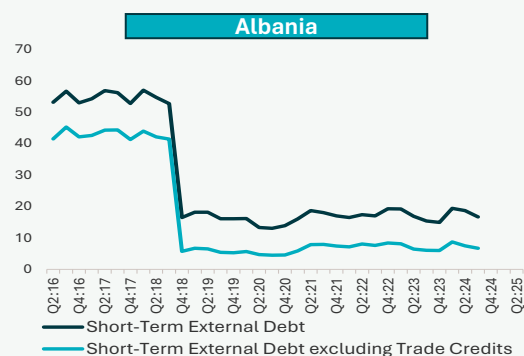
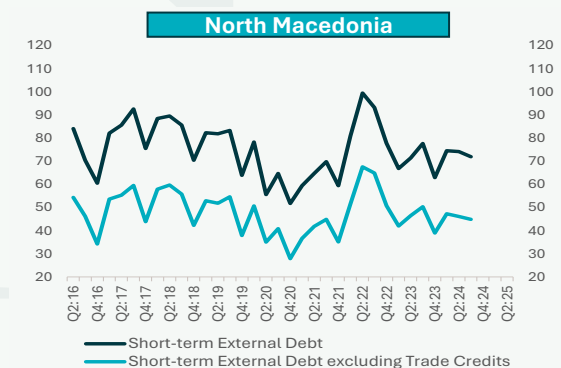
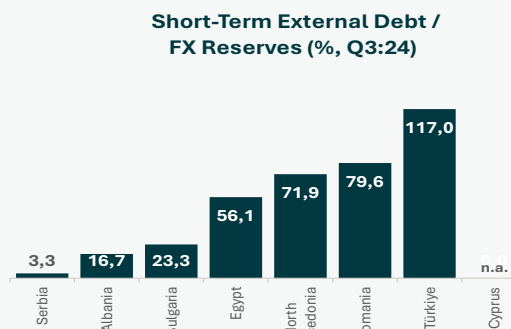
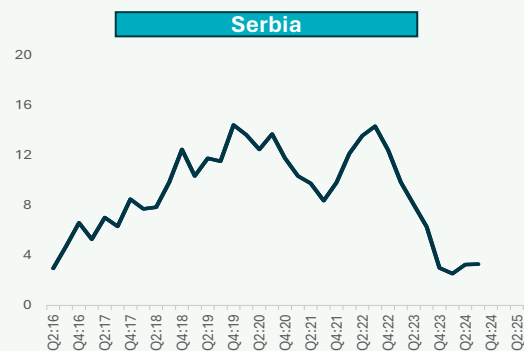
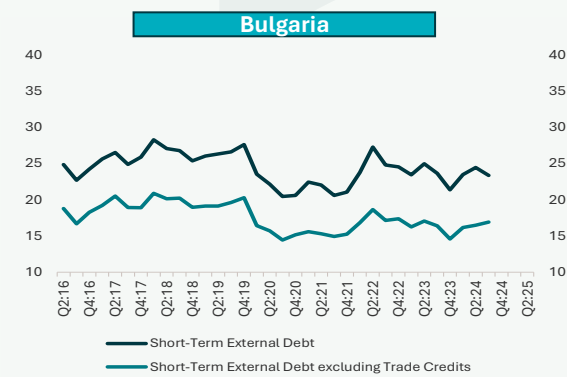
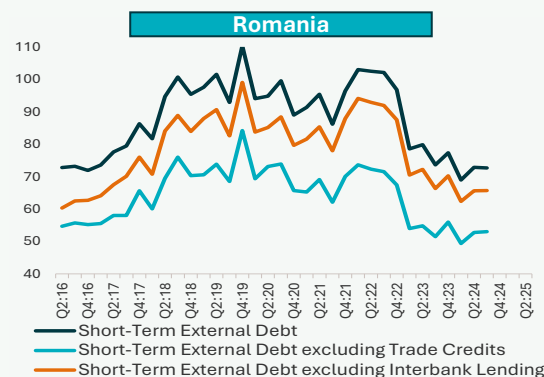
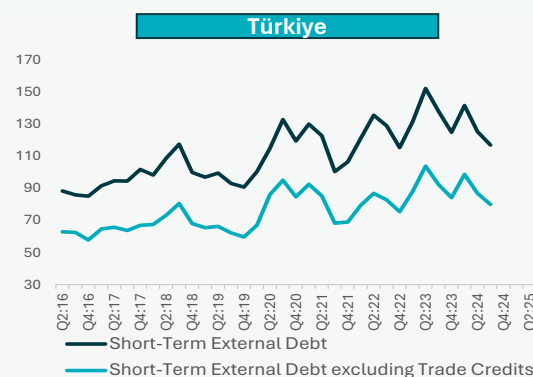
Foreign exchange reserves

- FX reserves stand at **adequate** levels in all countries under review, having significantly strengthened over the past year
- Following the mid-2023 policy reversal, FX reserves accumulation in **Türkiye** has been fast, with net FX reserves re-entering (after 4 years) positive territory in mid-2024
- A sizeable FDI has bolstered **Egypt**'s FX reserves. Further improvement is in the pipeline, following FX liberalization and inflow of funding from IFIs



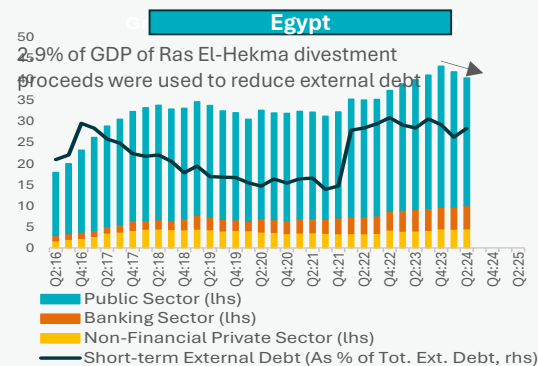
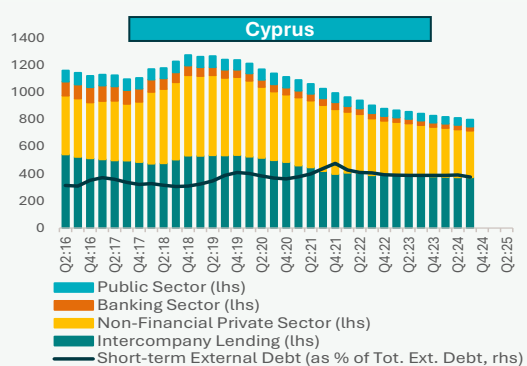
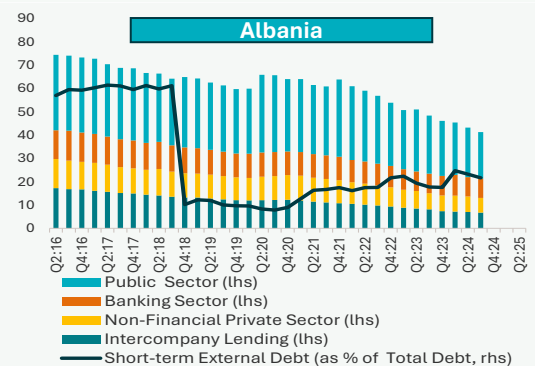
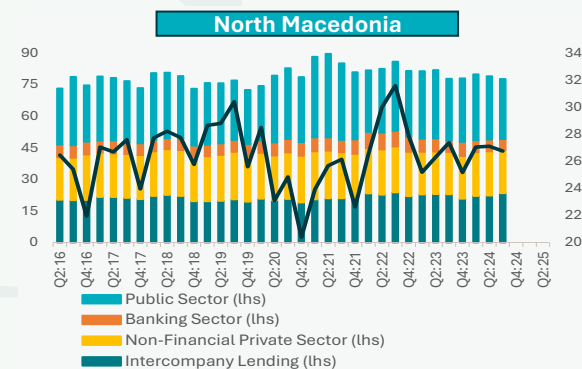
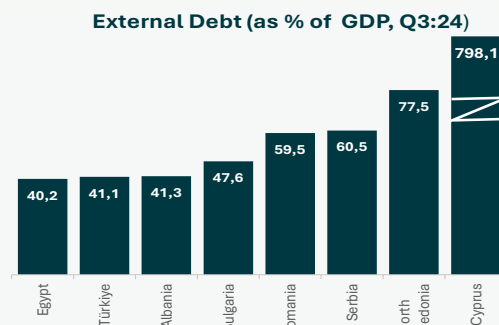
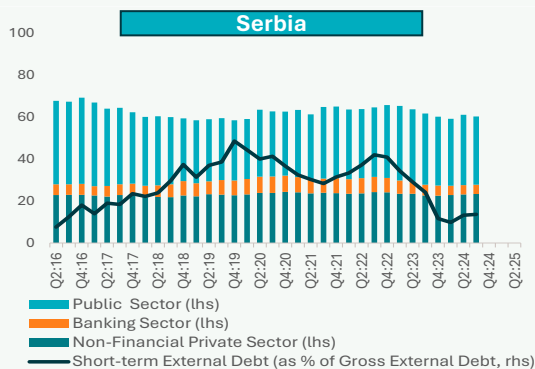
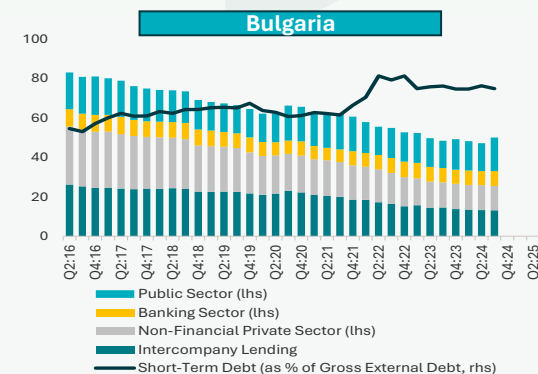
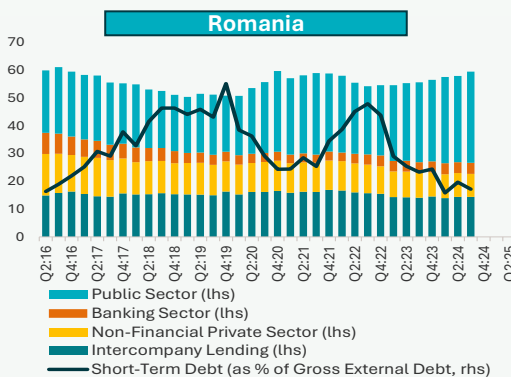
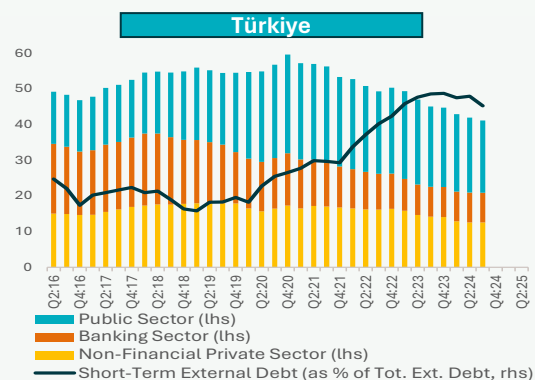
Short-term external debt-to-Foreign exchange reserves ratio (%)

- 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 -- yet easing -- GDP growth (denominator effect), should keep the **external debt-to-GDP ratio broadly at current levels** over the forecast horizon in most of the countries under review
- Importantly, the **cost of debt accumulation should ease** gradually
- Both **Türkiye** and **Egypt** could face headwinds from higher US rates and a stronger USD straining both their public and private sectors' FX debt repayment capacity



Snapshot

Real Sector

External Accounts

Prices & Monetary Policy

Real estate prices

Inflation

Energy & Food prices and Transport costs

Nominal effective exchange rate

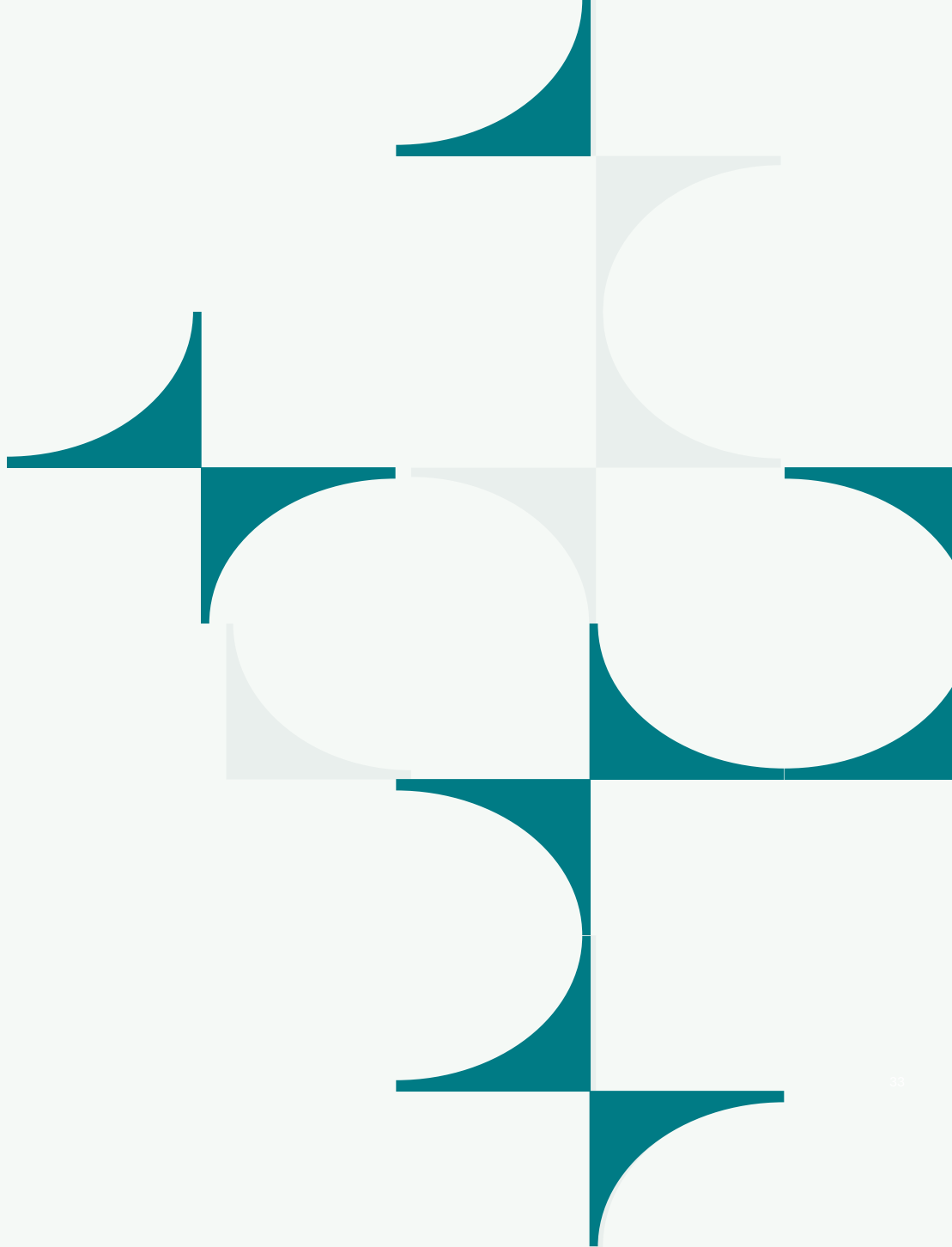
Policy rate

Reserve requirement ratios

Fiscal Position

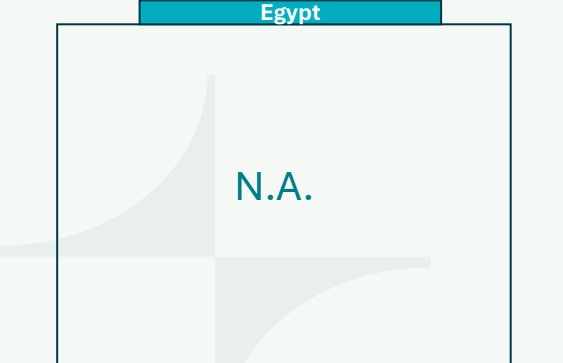
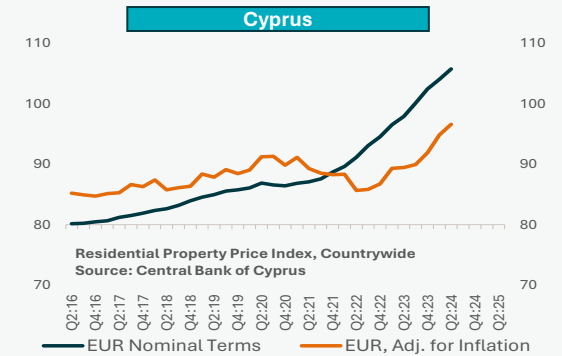
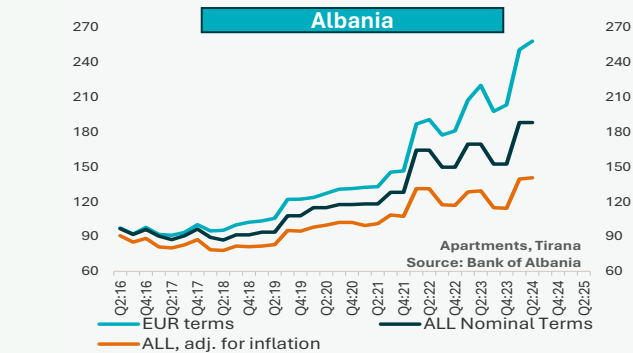
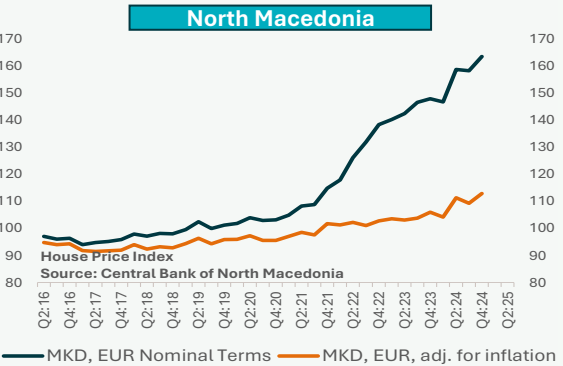
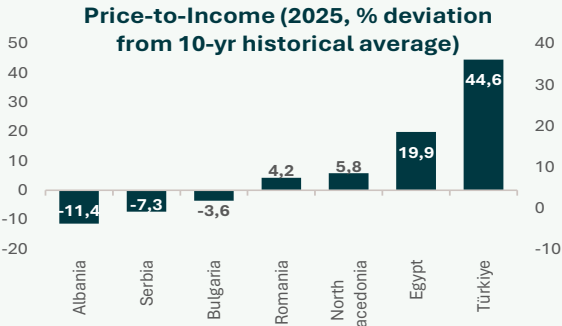
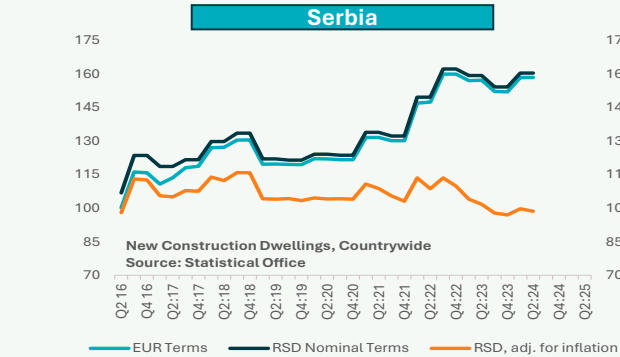
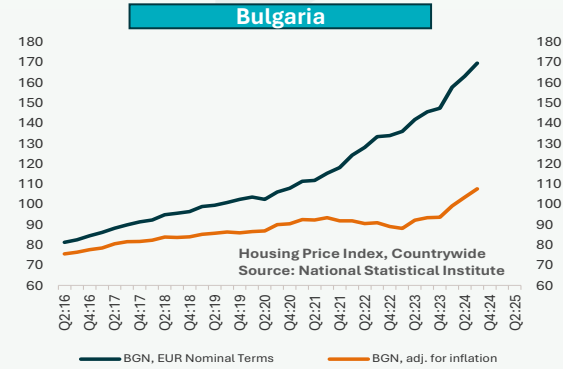
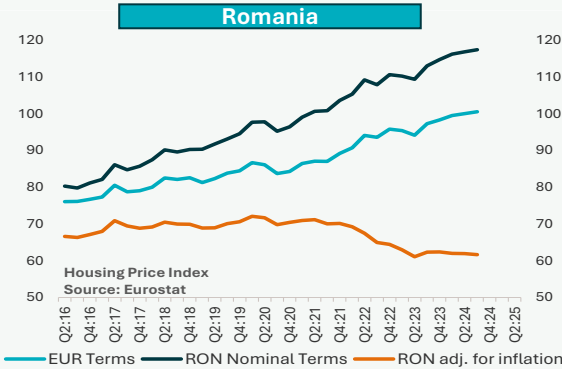
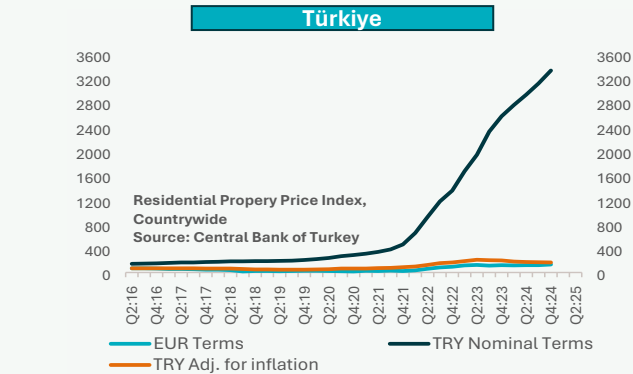
Financial Markets

Banking Sector



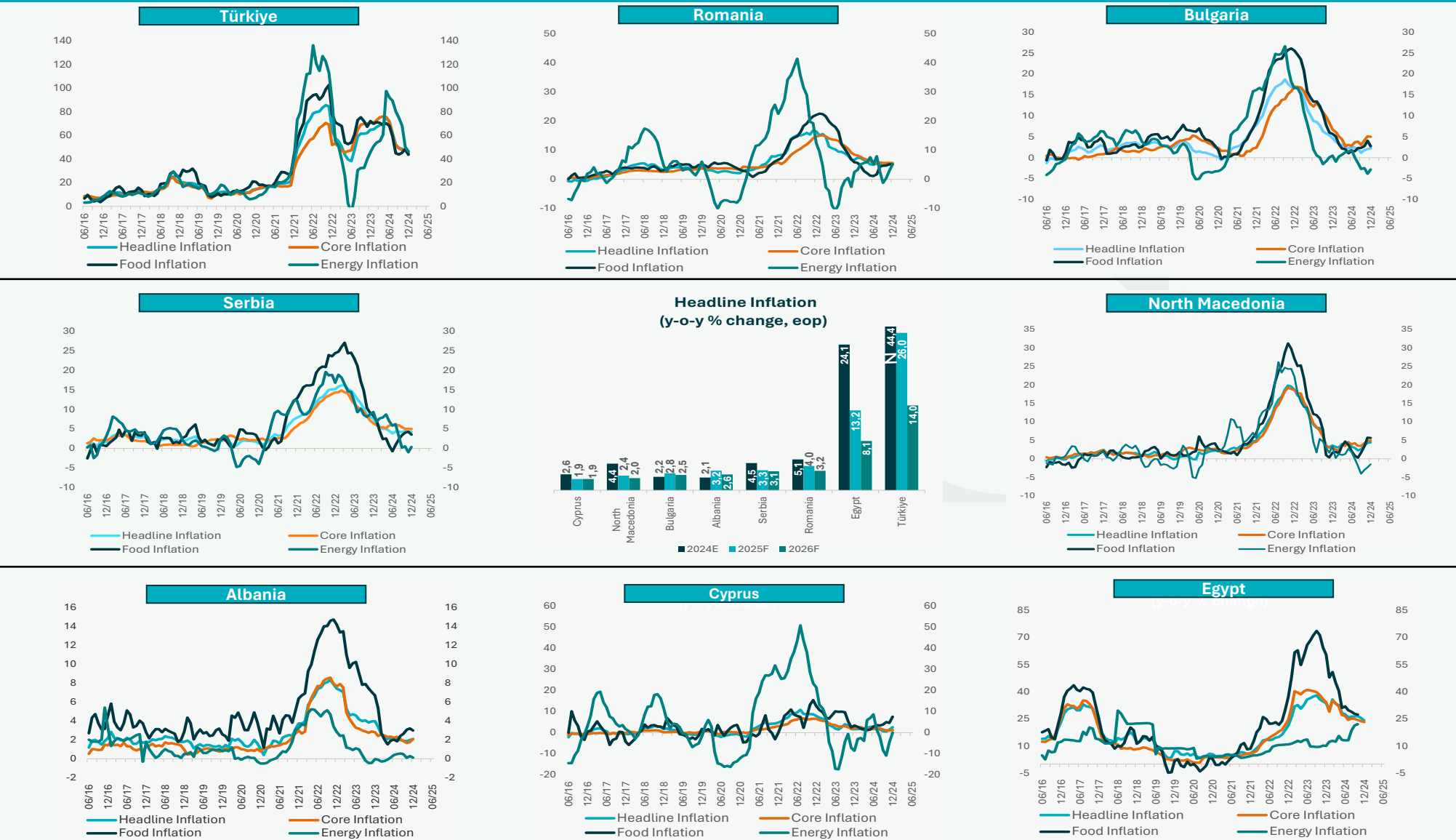
Real estate prices

- The overperformance of the real estate market in **Cyprus** has been mostly driven by foreigners, following relocation of foreign companies to the island, and to a lesser extent, war-related migration from Russia, Ukraine and the Middle-East
- 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** has tightened lending standards on new mortgage loans
- Easing financing conditions should provide a **tailwind** to the real estate market in the period ahead



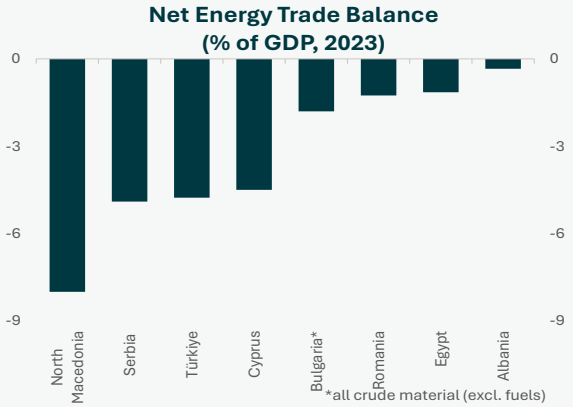
Inflation (%)

- Disinflation has lost much of its steam lately, due not only to negative base effects from the unwinding of the measures mitigating the cost-of-living crisis but also to higher volatile food prices, following past year's floods in SEE, fading impact of lower energy prices and 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
- The sign of the impact from a potential imposition of tariffs on US imports from the EU (assuming full retaliation) is **uncertain**. Nonetheless, the **final impact should be small** even when adjusting for potential indirect effects

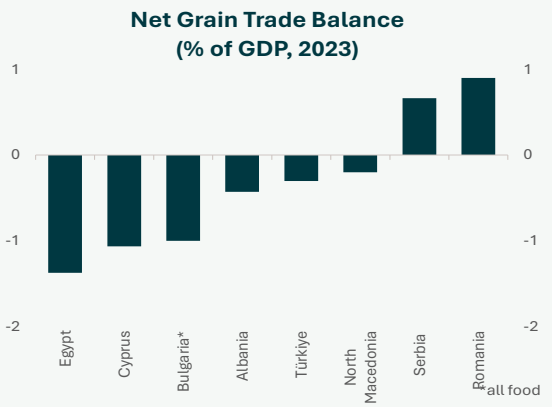


- Fading favourable base effects from lower energy & food prices suggests that the gap between (currently higher) core and headline inflation rates is set to **narrow** in the period ahead
- Global supply pressures remain contained, sustaining disinflation

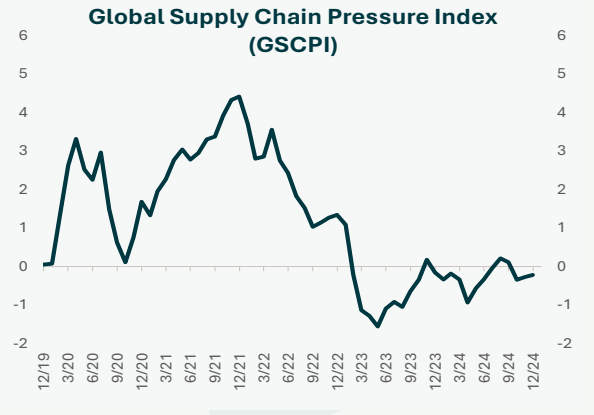
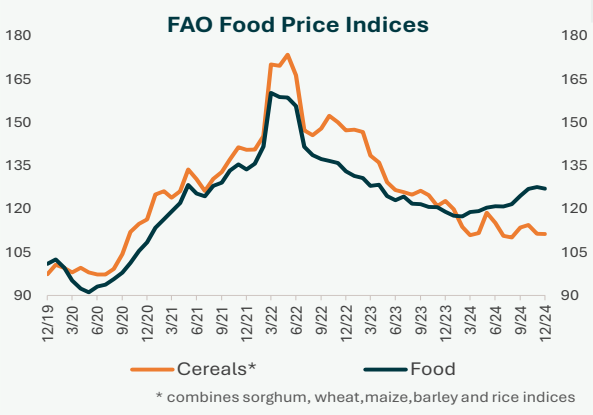
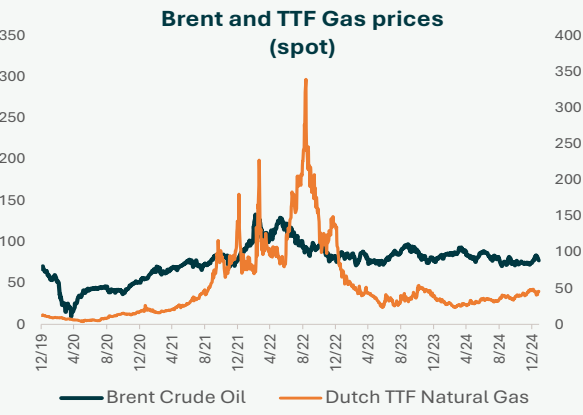
Energy



Food

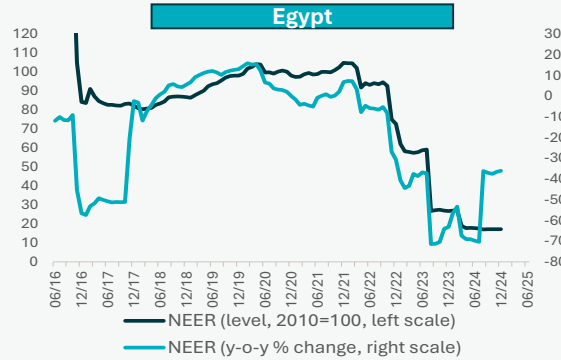
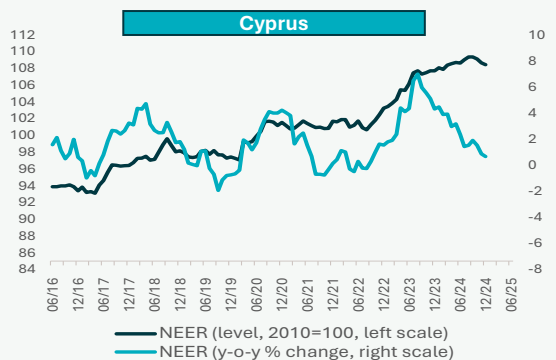
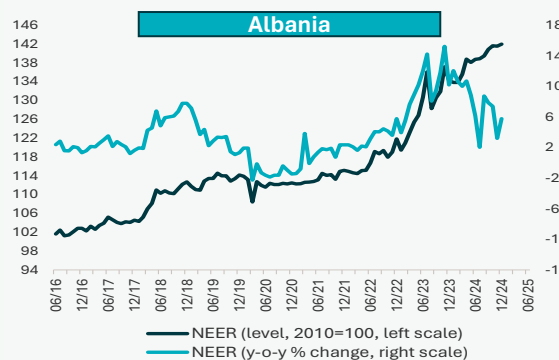
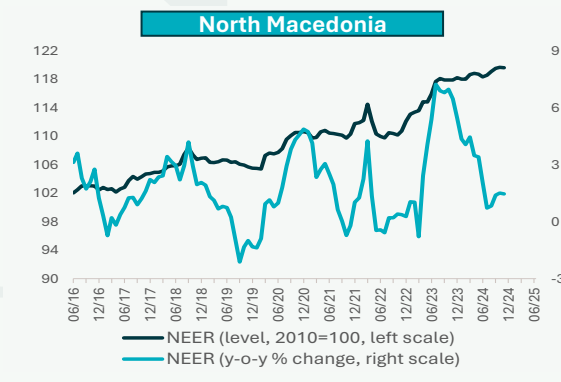
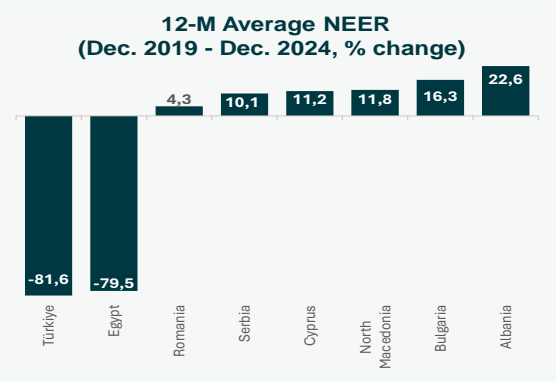
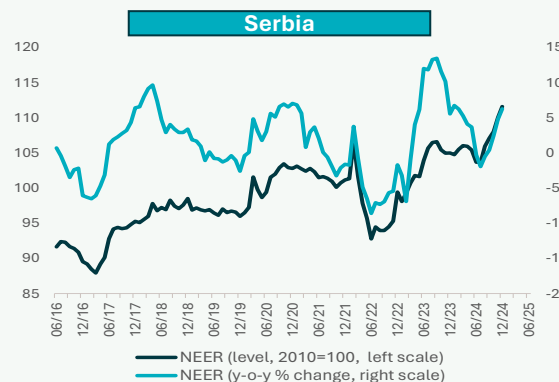
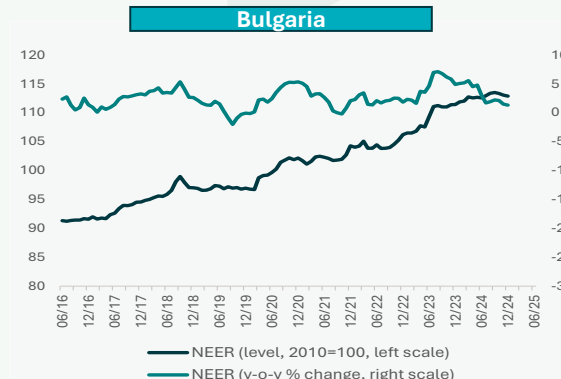
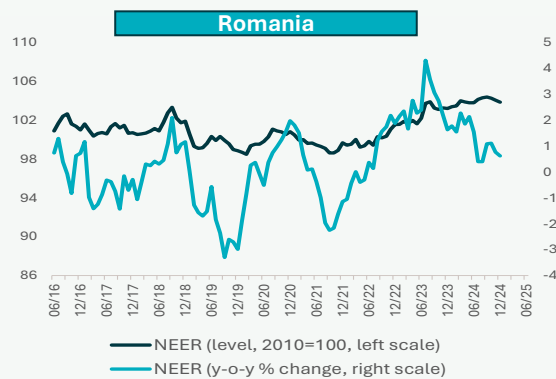
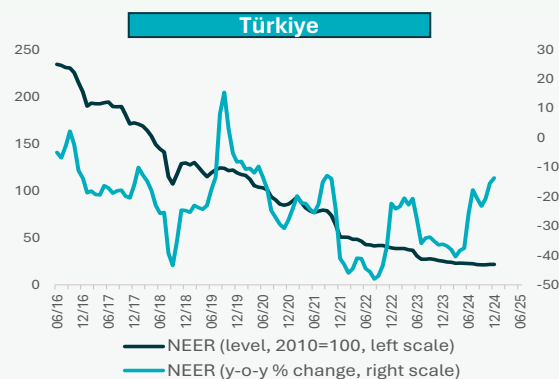


Global Supply

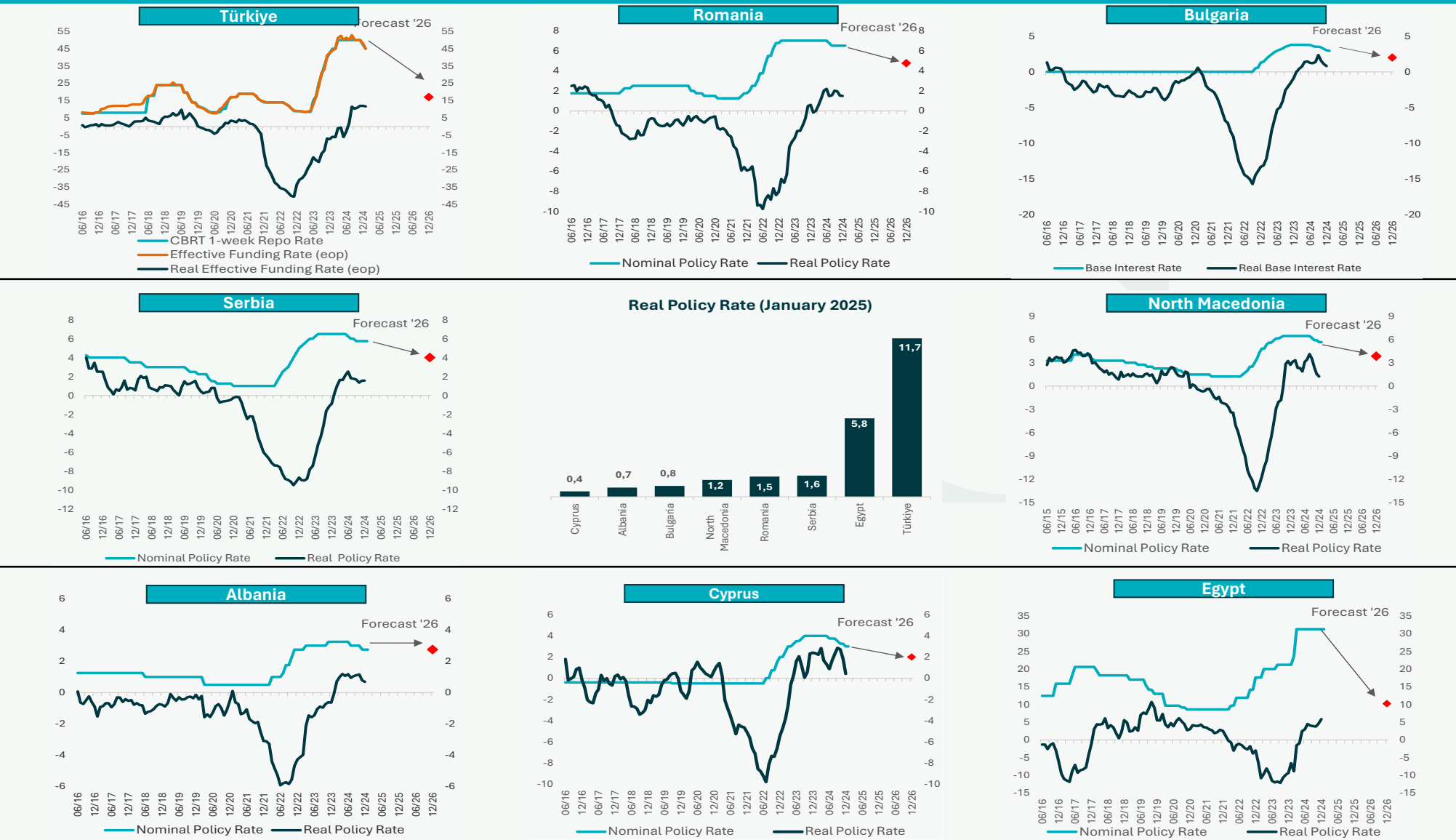


Nominal effective exchange rate

- 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
- Against the backdrop of a slowdown in disinflation and high uncertainty, regional central banks are set to move to a **more cautious pace of monetary policy easing** in 2025, despite the ECB's determination to get ahead of the curve as fast as possible
 - In **Türkiye**, after a 1½-year tightening drive, the central bank has started cutting rates (down 500 bps since November '24). Still, the lagged impact of the unprecedented monetary policy tightening would be felt for much longer
 - In **Egypt**, easing inflation and a much more stable EGP should allow the CBE to start cutting rates by end-Q1:25



Reserve requirement ratios

- In a bid to absorb excess liquidity in the market, the central banks of **Türkiye** and **North Macedonia** have raised their reserve requirement ratios on LC-denominated liabilities

Türkiye				Romania				Bulgaria			
Reserve Requirement Ratios (%)				Reserve Requirement Ratios (%)				Reserve Requirement Ratios (%)			
	Dec. 2023	Dec. 2024	Jan. 2025		Dec. 2023	Dec. 2024	Jan. 2025		Dec. 2023	Dec. 2024	Jan. 2025
LC Liabilities	0.0-8.0*	0.0-15.0*	0.0-15.0*	LC Liabilities	8.0	8.0	8.0	LC Liabilities	12.0	12.0	12.0
FC Liabilities	5.0-29.0	5.0-29.0	5.0-29.0	FC Liabilities	5.0	5.0	5.0	FC Liabilities	10.0	12.0	12.0

* FX protected accounts: 5.0-25.0

Serbia				North Macedonia				Albania			
Reserve Requirement Ratios (%)				Reserve Requirement Ratios (%)				Reserve Requirement Ratios (%)			
	Dec. 2023	Dec. 2024	Jan. 2025		Dec. 2023	Dec. 2024	Jan. 2025		Dec. 2023	Dec. 2024	Jan. 2025
LC Liabilities	2.0-7.0	2.0-7.0	2.0-7.0	LC Liabilities	5.0	8.0	8.0	LC Liabilities	5.0-7.5	5.0-7.5	5.0-7.5
FC Liabilities	16.0-23.0	16.0-23.0	16.0-23.0	FC Liabilities	21.0	21.0	21.0	FC Liabilities	12.5-20.0	12.5-20.0	12.5-20.0

Cyprus				Egypt			
Reserve Requirement Ratios (%)				Reserve Requirement Ratios (%)			
	Dec. 2023	Dec. 2024	Jan. 2025		Dec. 2023	Dec. 2024	Jan. 2025
LC Liabilities	1.0	1.0	1.0	LC Liabilities	18.0	18.0	18.0
FC Liabilities	1.0	1.0	1.0	FC Liabilities	---	---	---

Snapshot

Real Sector

External Accounts

Prices & Monetary Policy

Fiscal Position

Fiscal performance

Fiscal balance

Public debt

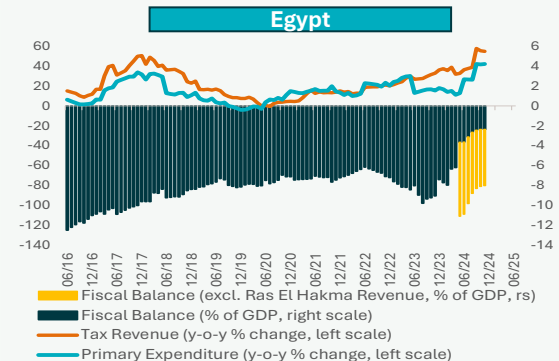
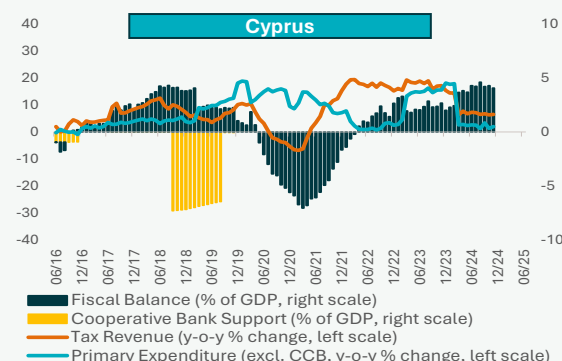
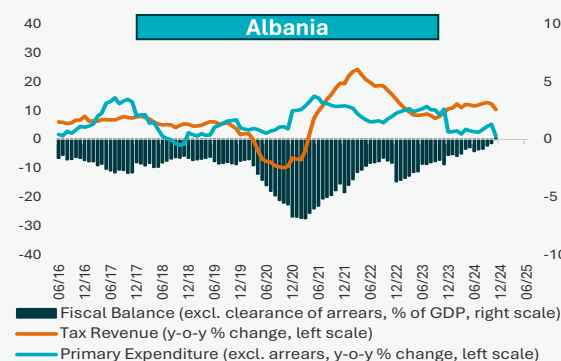
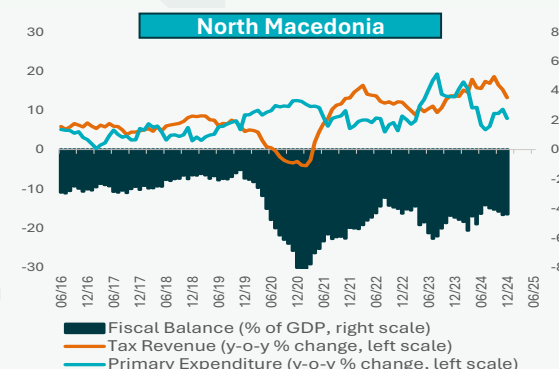
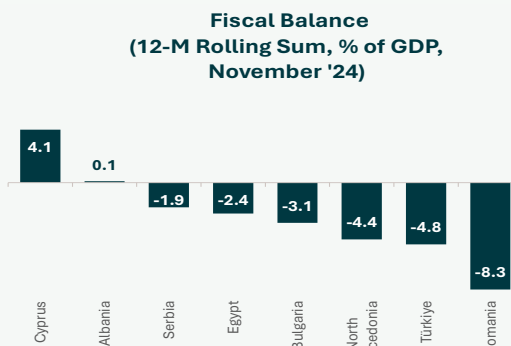
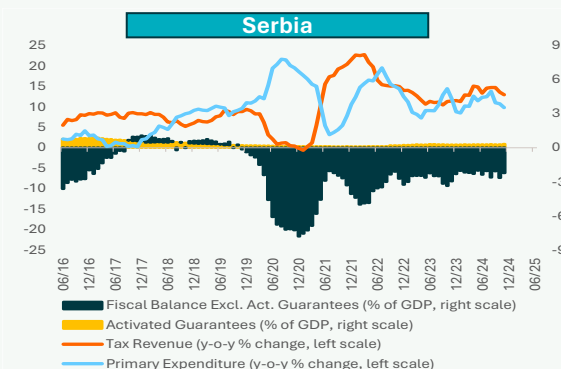
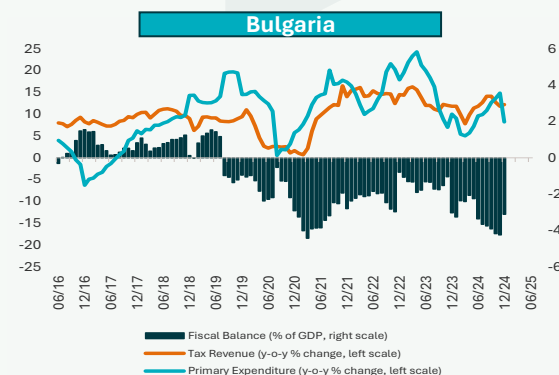
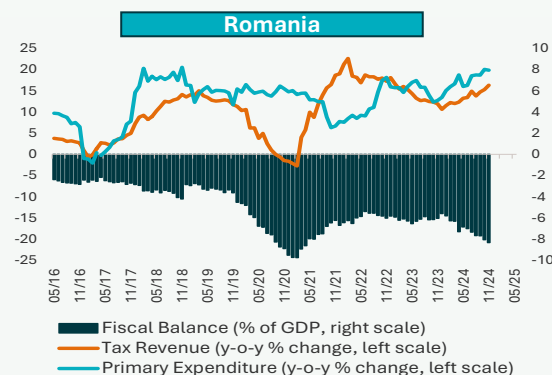
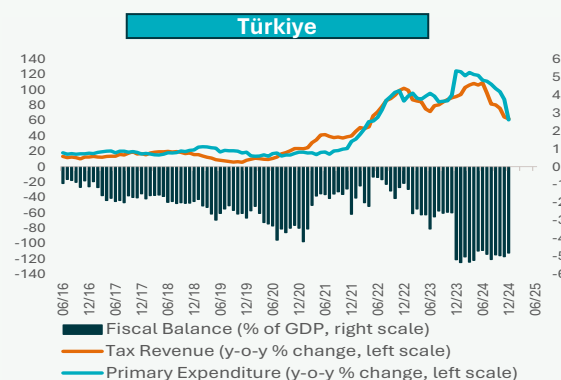
Financial Markets

Banking Sector



Fiscal performance (12-month rolling)

- The pace of fiscal consolidation slowed down in 2024, as tax revenue growth moderated, following dwindling of windfalls from high inflation, and spending continued to rise, despite the phasing-out of the schemes mitigating the impact of the cost-of-living crisis, fueled, *inter alia*, by **higher interest payments**
- In **Romania**, amid a busy election year, fiscal consolidation was reversed, with the budget deficit widening to an estimated c. 8.5% of GDP in 2024 -- the highest in the EU



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

- Under current policies, **fiscal consolidation is unlikely to gain much 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
- In **Romania**, following adoption of corrective measures, fiscal consolidation should resume this year. Still, the budget deficit is unlikely to fall below the critical threshold of 3.0% of GDP earlier than 2031
- Amid solid economic growth, and with a view to reduce further the public debt stock, **Cyprus** should continue to post large fiscal surpluses
- High public debt servicing costs (absorbing c. 40% of budget revenue) make substantial progress with **Egypt**’s fiscal consolidation difficult, given, *inter alia*, ongoing economic adjustment and repercussions from the crisis in the Middle-East

Türkiye				Romania				Bulgaria			
Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F	Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F	Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F
-5.2	-4.8	-3.6	-3.0	-5.6	-8.5	-7.4	-6.6	-3.0	-3.0	-3.0	-2.6

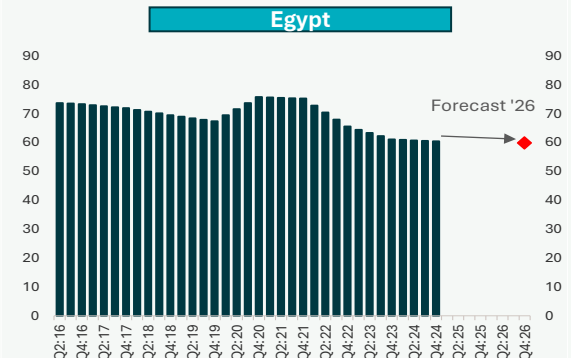
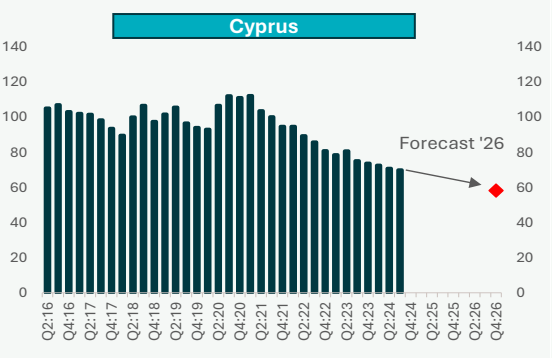
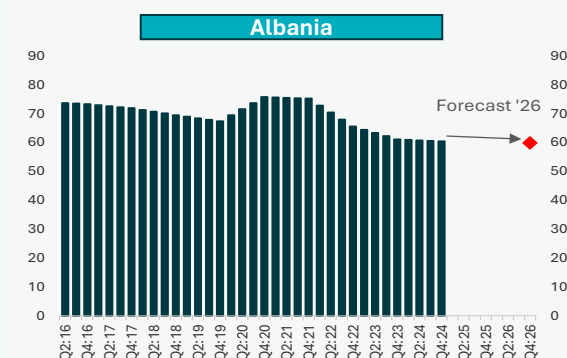
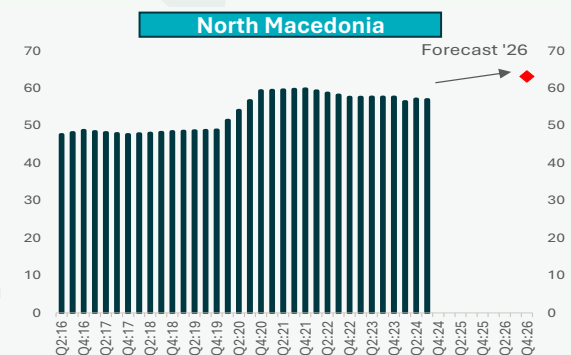
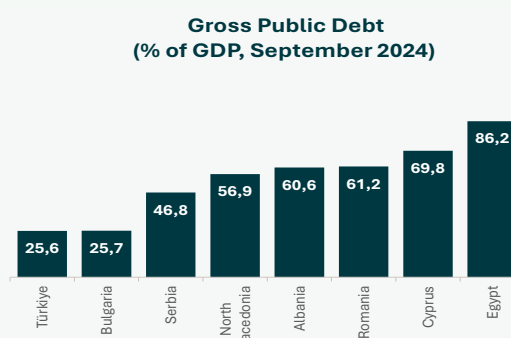
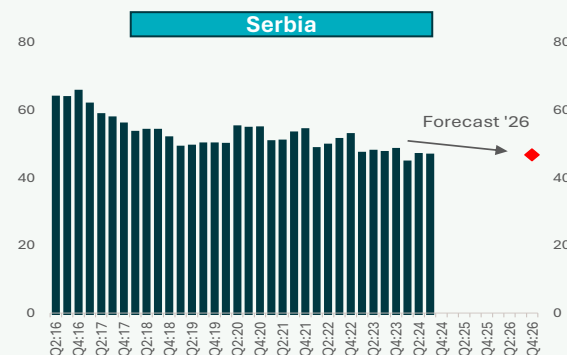
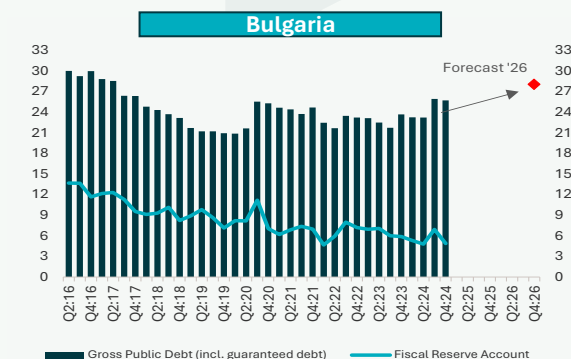
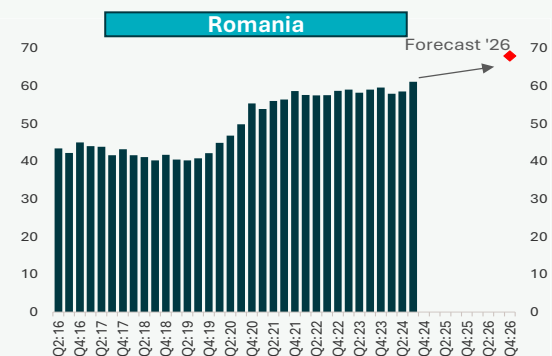
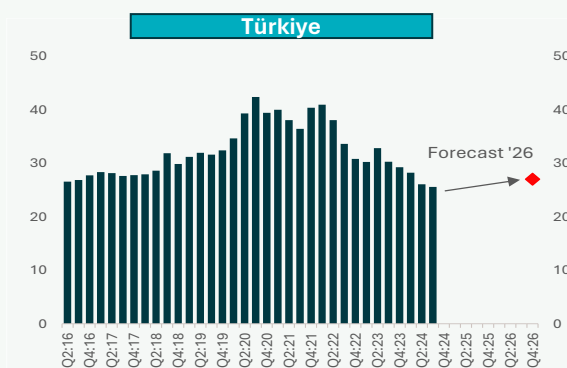
Serbia				North Macedonia				Albania			
Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F	Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F	Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F
-2.1	-2.8	-3.0	-3.0	-4.6	-4.4	-4.0	-3.4	-1.3	-1.8	-2.0	-2.0

Cyprus				Egypt*			
Dec. 23	Dec. 24E	Dec. 25F	Dec. 26F	Jun. 23	Jun. 24**	Jun. 25F	Jun. 26F
2.0	3.5	3.0	2.8	-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)

- Easing inflation means that public debt dynamics' benefit from a **favourable “snowball” effect should diminish** in the period ahead
- Following past years' fiscal slippage, **Romania's** gross public debt has embarked on an upward trend
- 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-2026



Snapshot

Real Sector

External Accounts

Prices & Monetary Policy

Fiscal Position

Financial Markets

Exchange rates

Money market rates

Government debt rates

Sovereign spreads

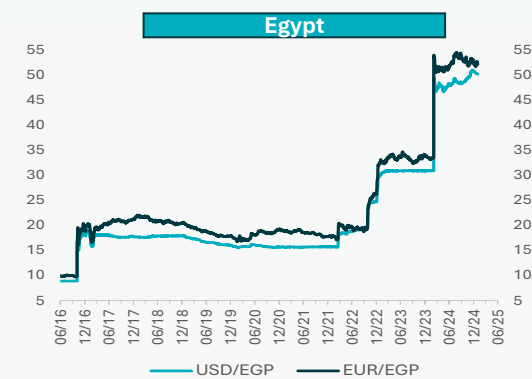
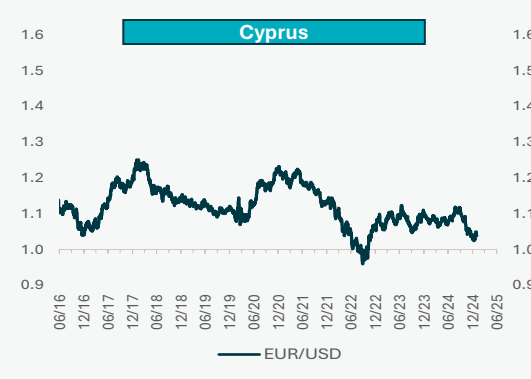
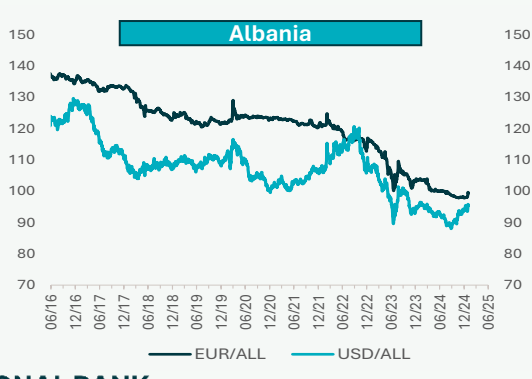
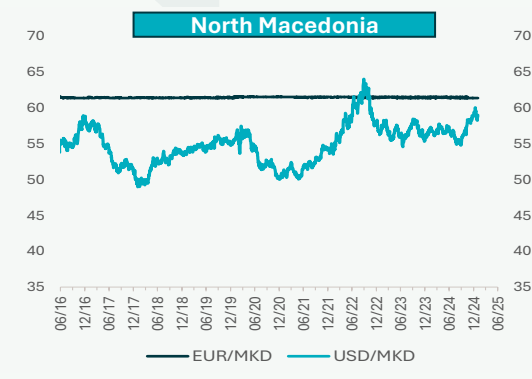
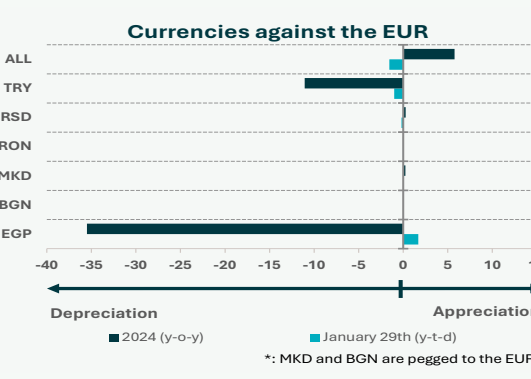
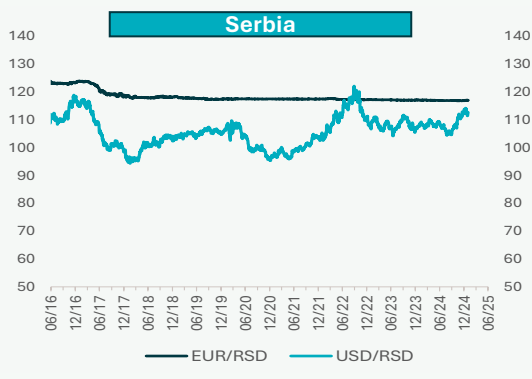
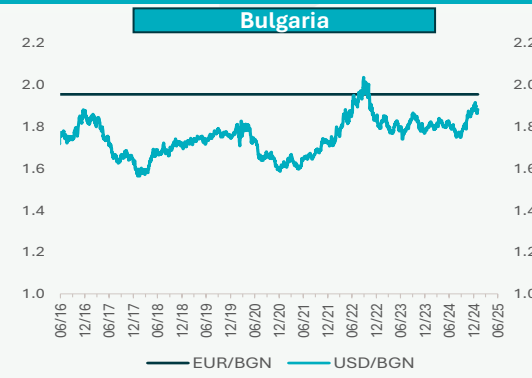
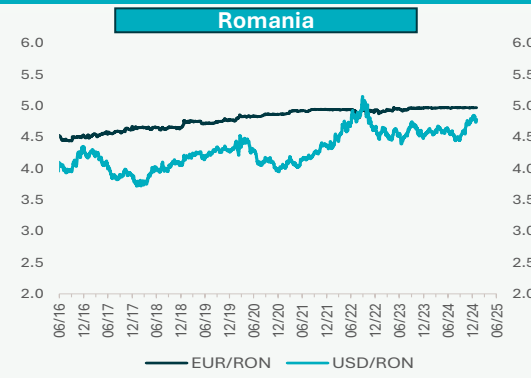
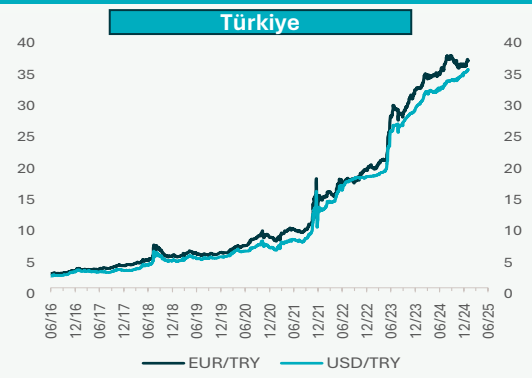
Stock market

Banking Sector

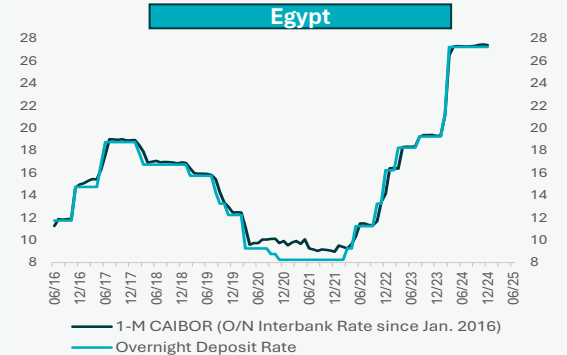
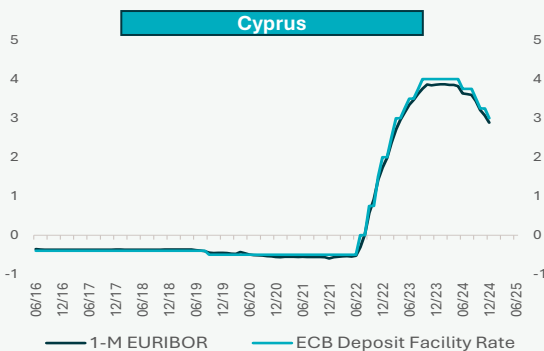
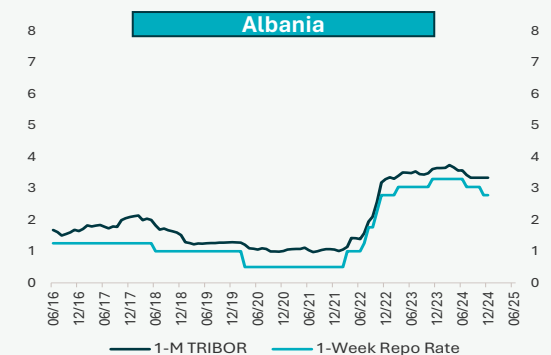
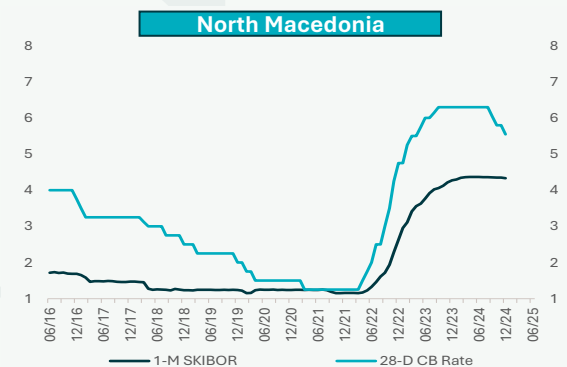
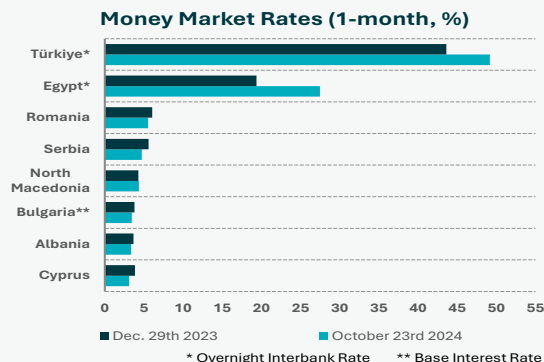
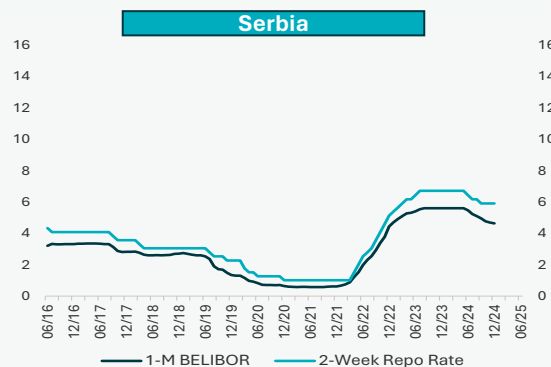
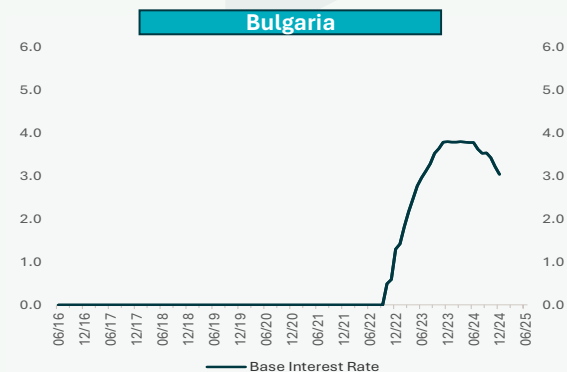
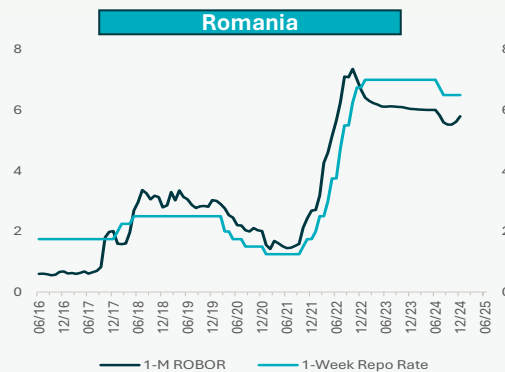
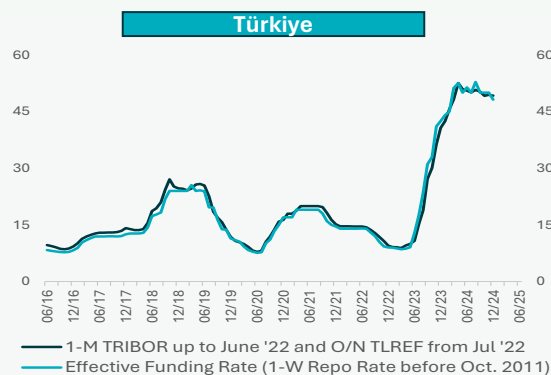


Exchange rates

- Depreciation pressures on the **Turkish lira** have eased significantly in the wake of the turnaround in monetary policy in June '23
- **Albanian Lek's** appreciation came on the back of solid FDI inflows, increased remittances, strong tourism activity and a positive nominal interest rate differential
- Following a sizeable depreciation in March, the **Egyptian Pound** appears to have won back investors' confidence
- The **USD** has been strengthening following Fed's looking into slower and shallower interest rate cuts in response to sticky domestic inflation and new administration's inflationary policy mix

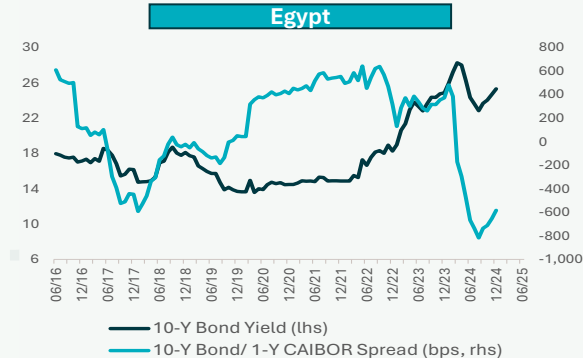
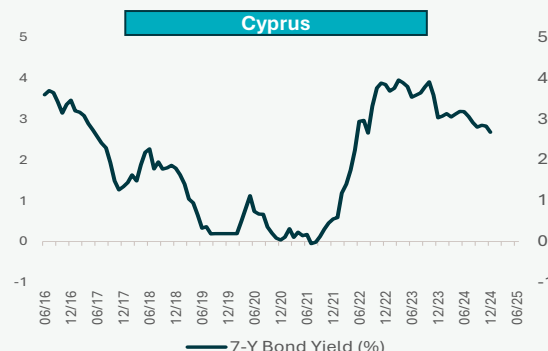
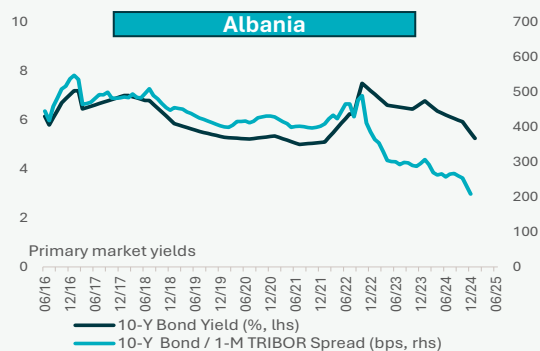
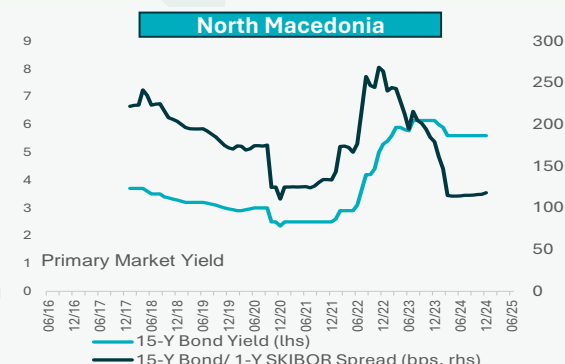
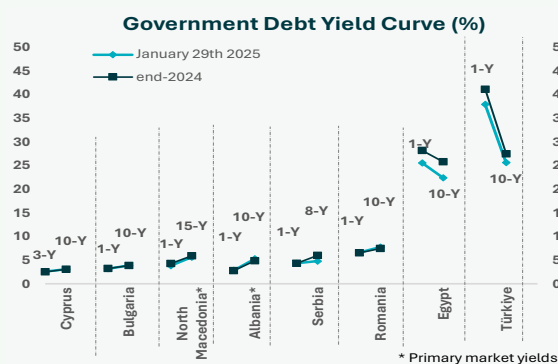
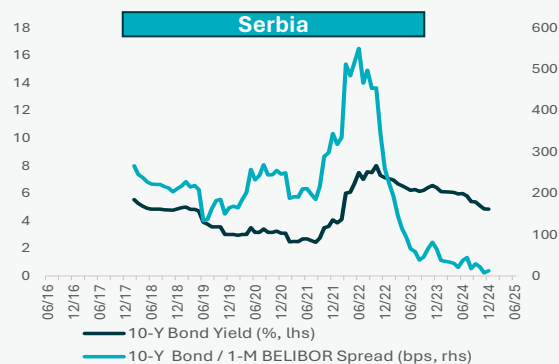
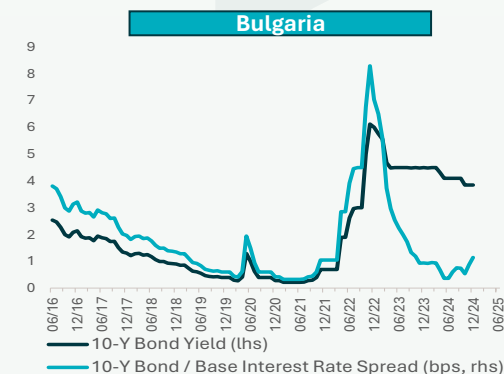
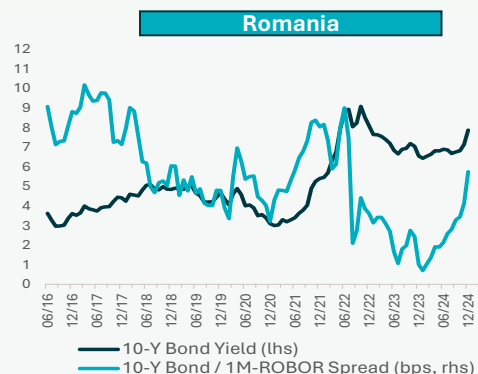
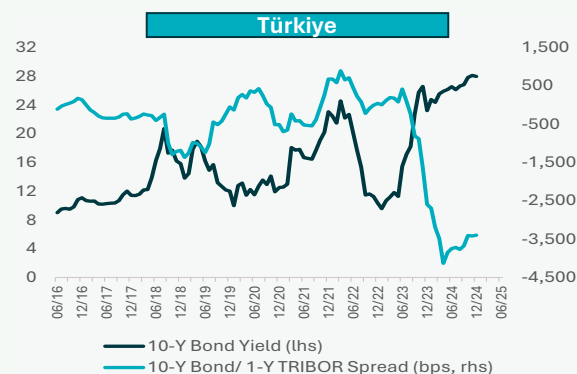


- Money market rates **continue on a downward trend** in all the economies under review (barring Egypt), following central banks' easing cycle

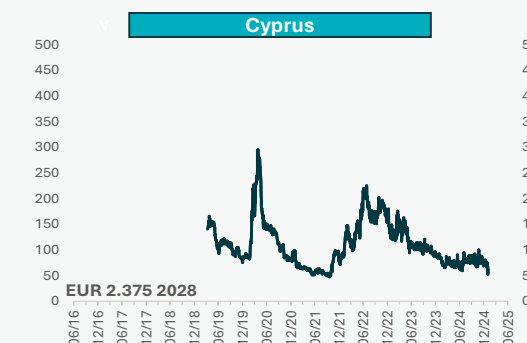
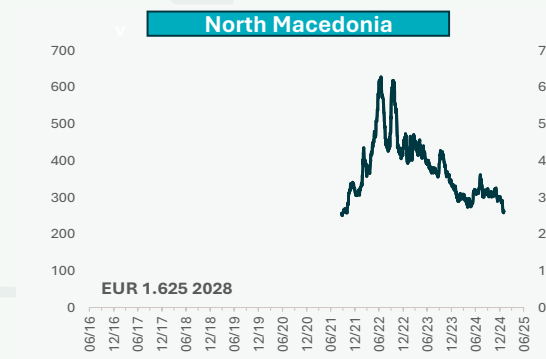
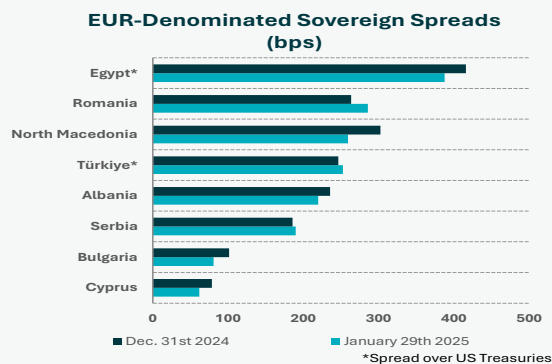
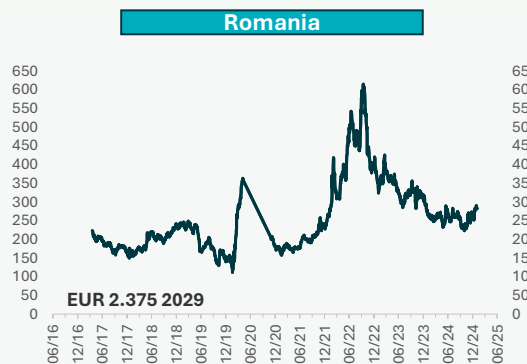


Government Debt Yields (%)

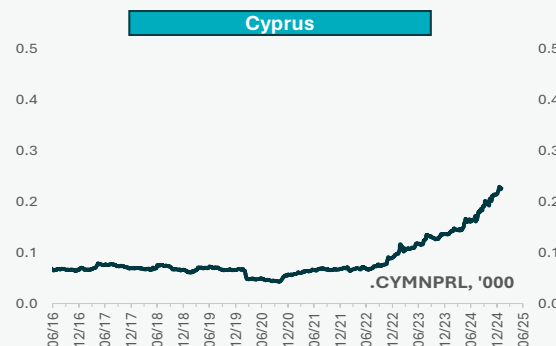
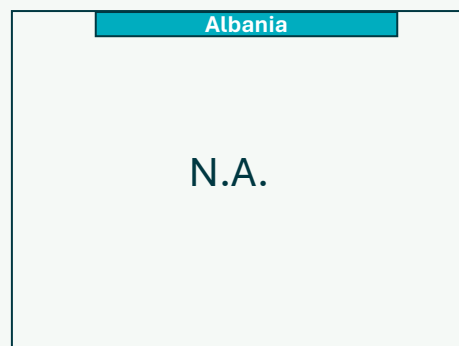
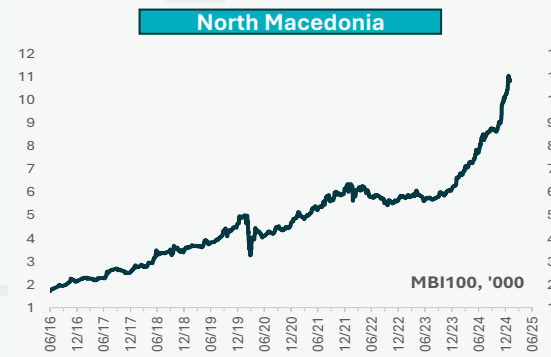
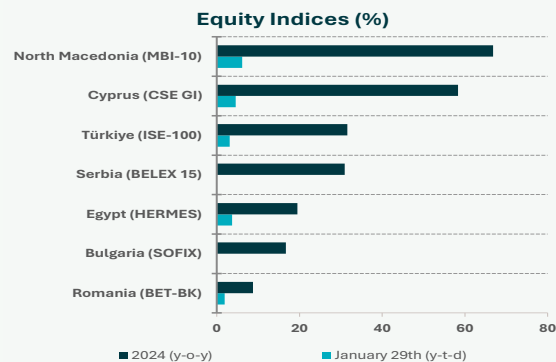
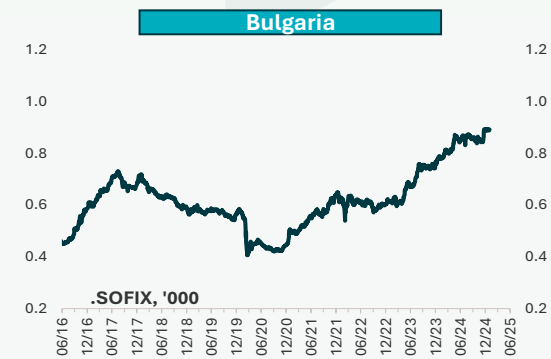
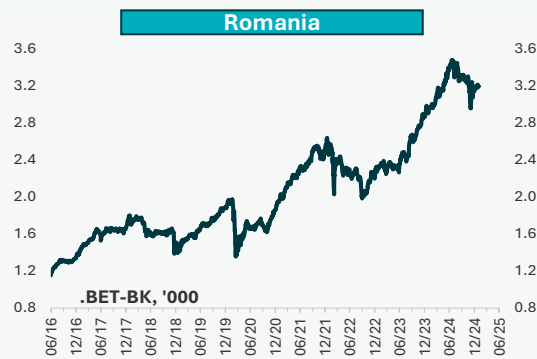
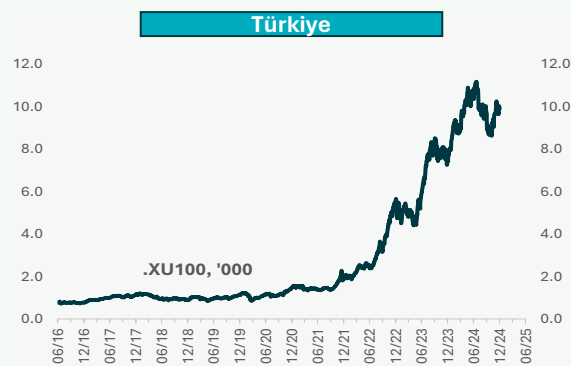
- Government debt yields have been **heading south** in most of the economies under review, in line with moderating inflation and the prospect of lower interest rates
- Reflecting ongoing adjustment, the yield curves of **Türkiye** and **Egypt** remain inverted
- Markets' concerns over the prospect of sustainable fiscal consolidation amid a fragile political environment have sent **Romania**'s bond yields to their highest level in more than 1½ year



- Narrowing interest rate differentials have been driving sovereign spreads **lower** in all the economies under review (barring Romania)



- **Fears of trade war and its ramifications** appear to be **weighing** on most stock markets as of lately, despite easing financing conditions
- Valuations are not much above historical average levels



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 (%)

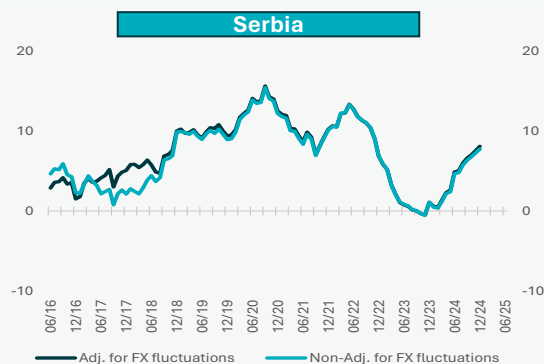
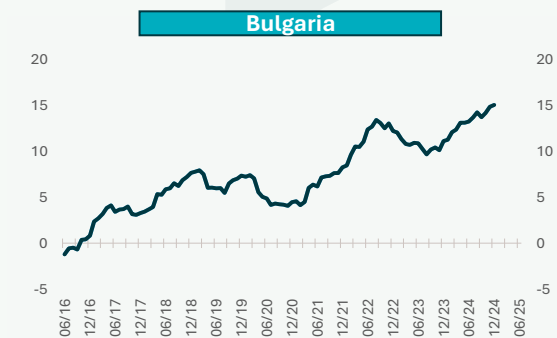
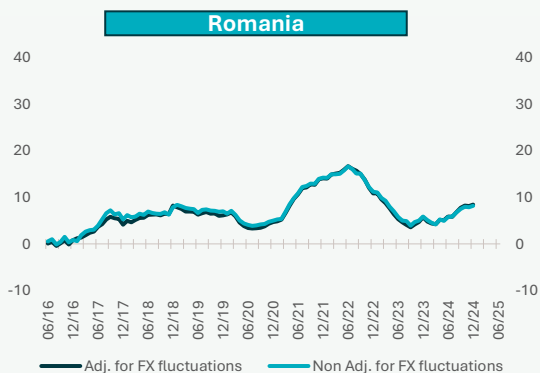
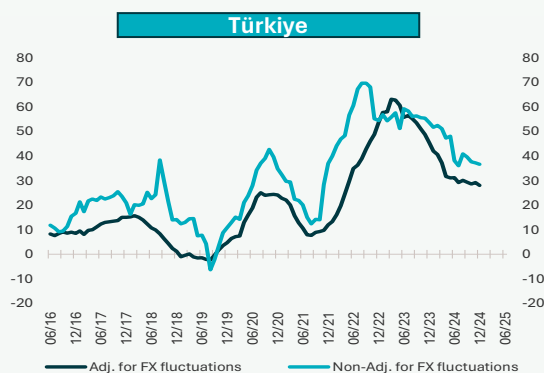
ROAE (%)

CAD ratio (%)

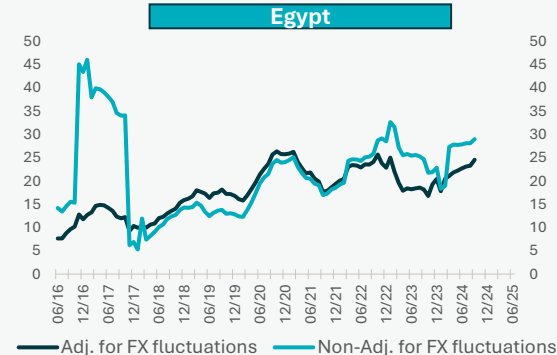
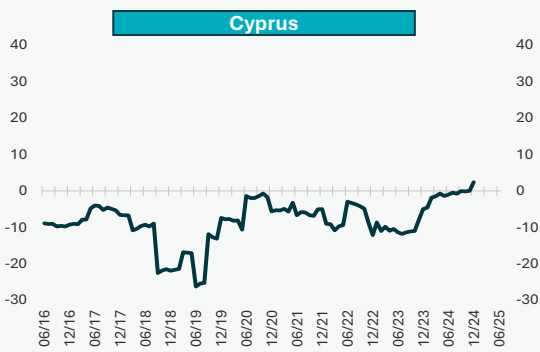
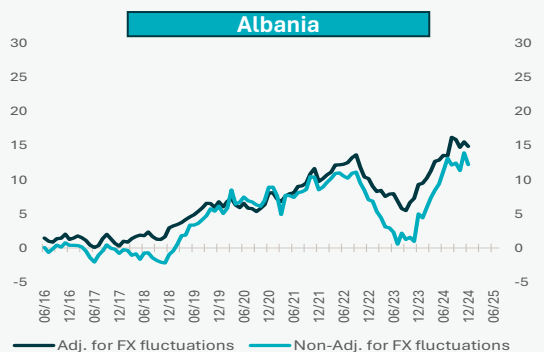
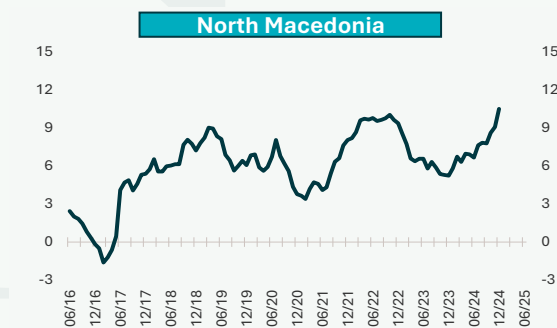
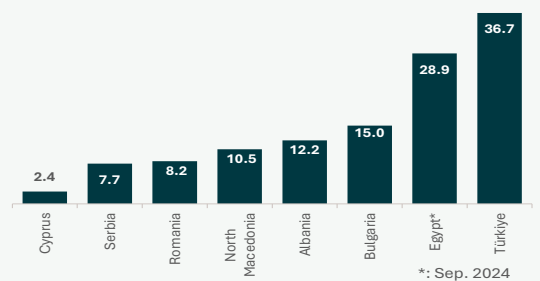
NPL ratio (%)



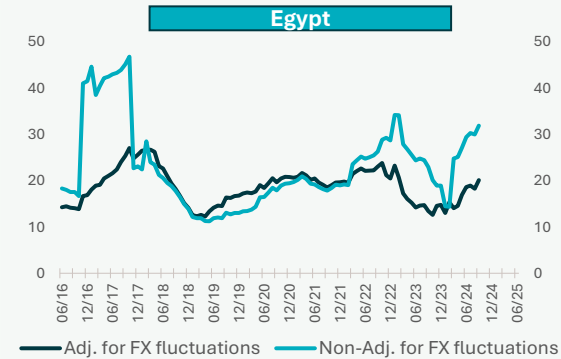
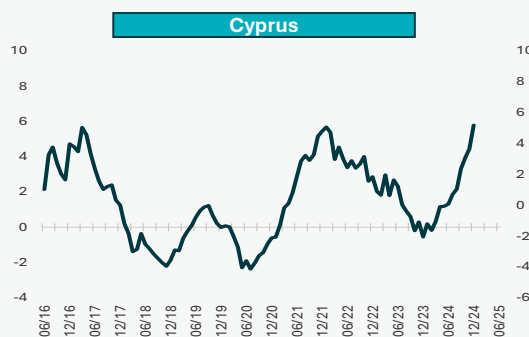
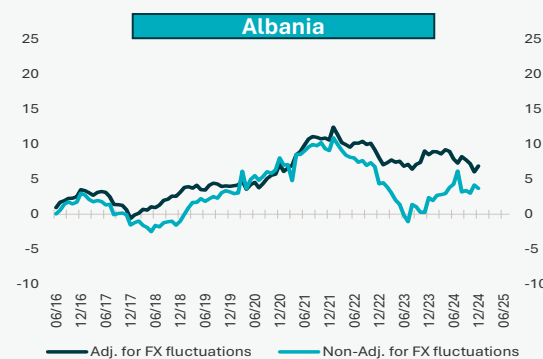
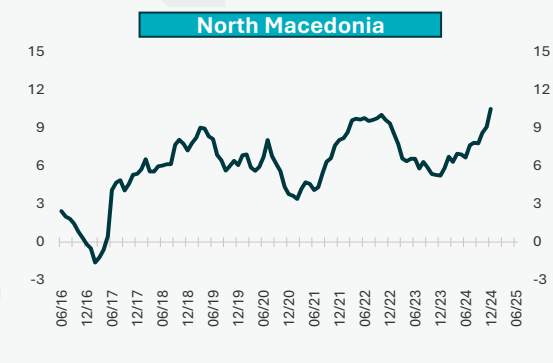
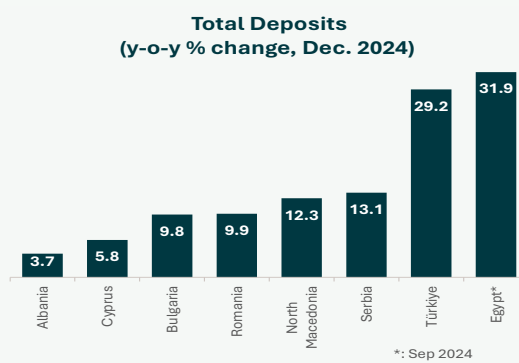
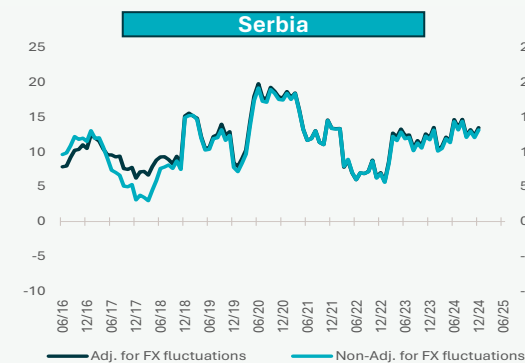
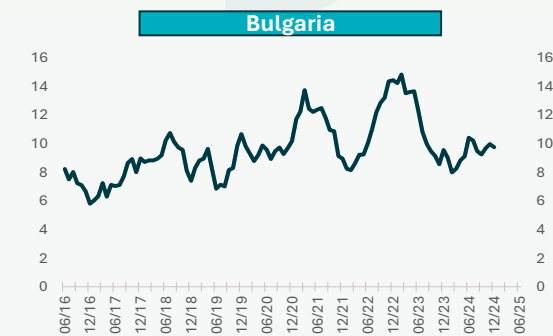
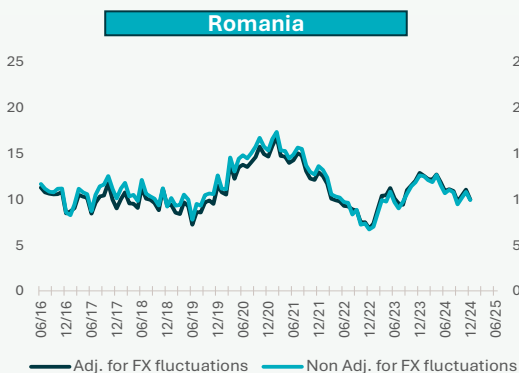
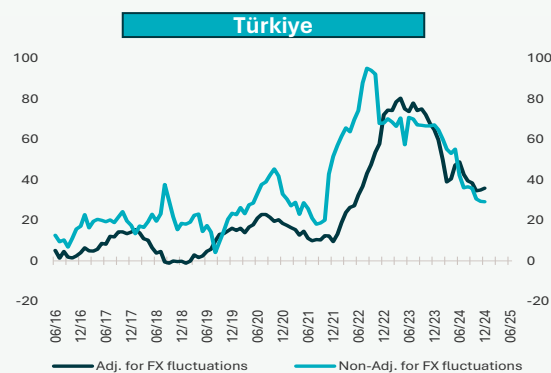
- Signs of revival in credit activity are already evident in most of the countries under review
- Declining interest rates and easing lending standards bode well for further improvement



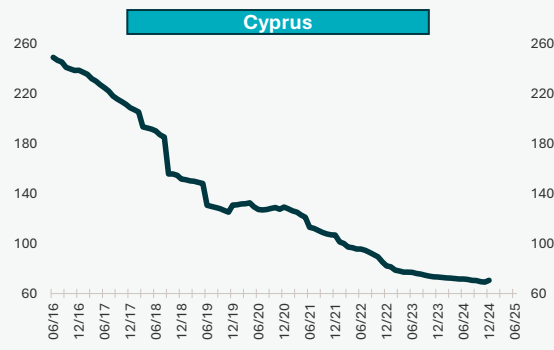
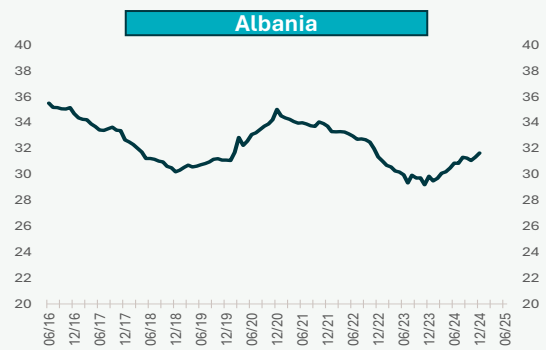
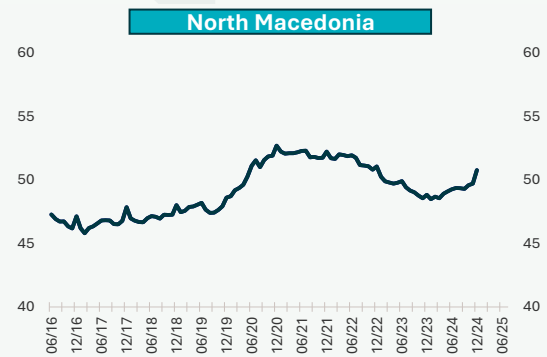
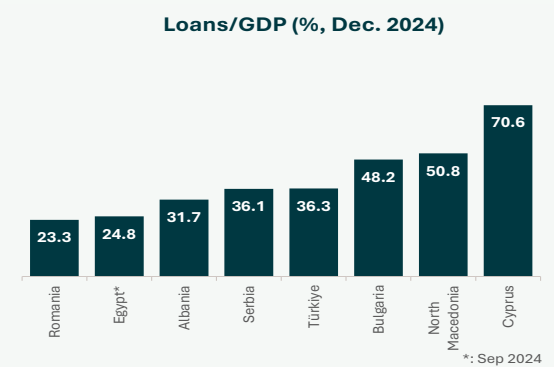
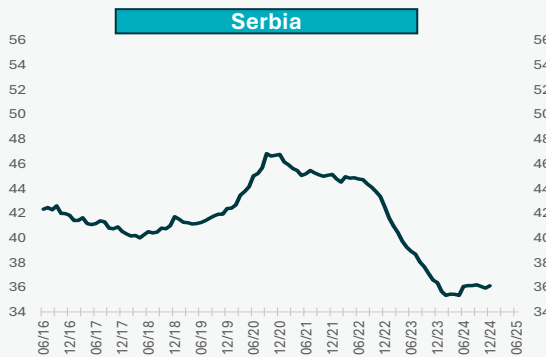
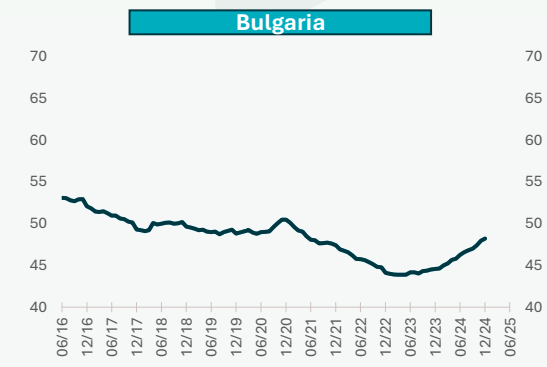
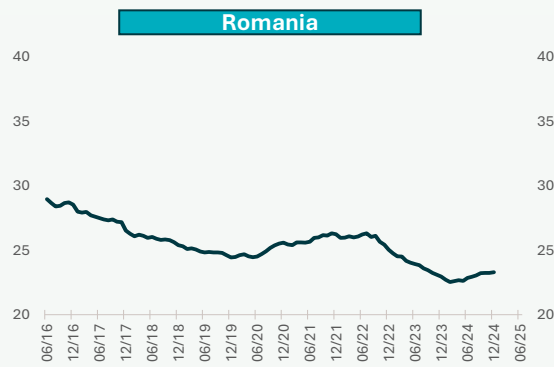
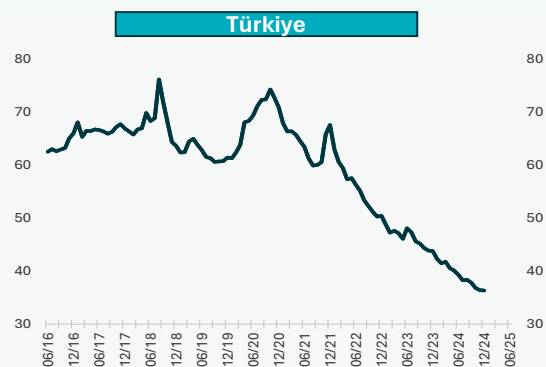
Total Loans
(y-o-y % change, Dec. 2024)



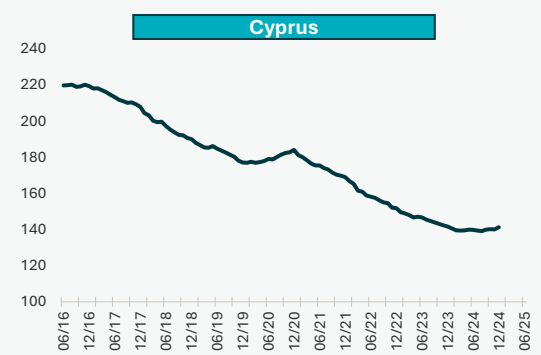
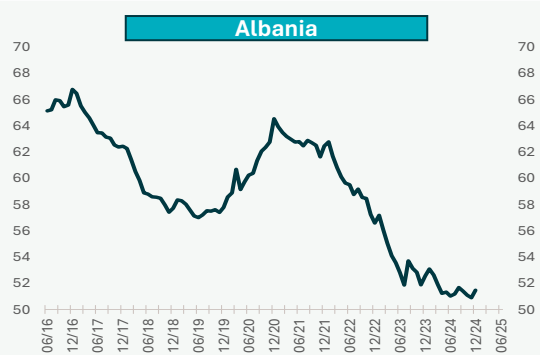
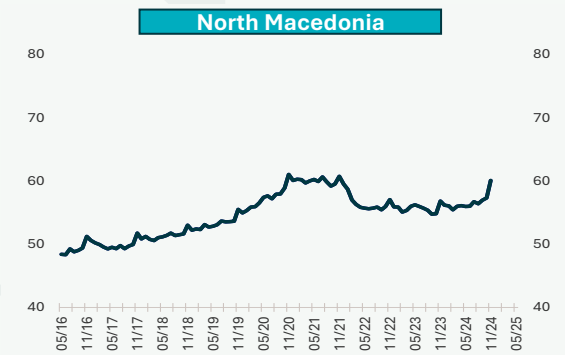
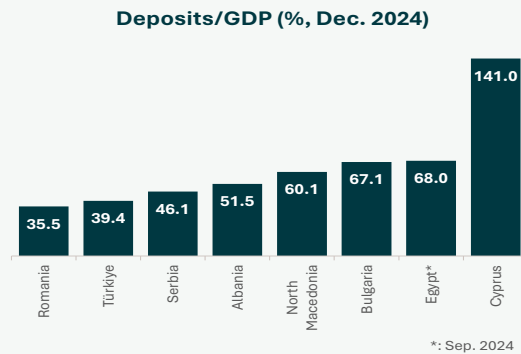
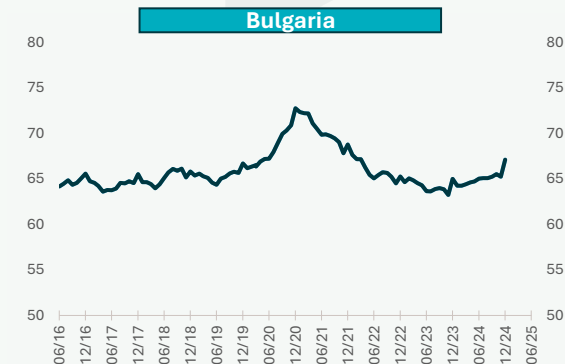
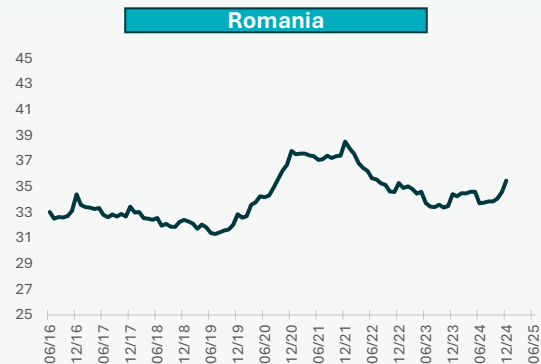
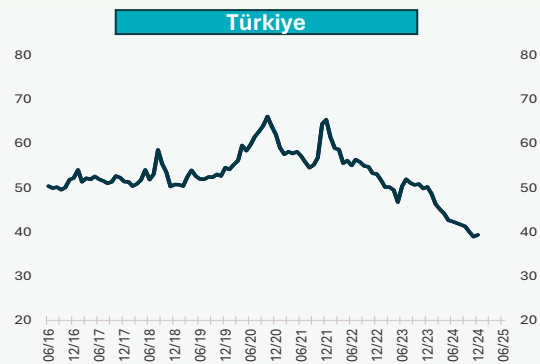
- Deposit growth remains **strong**, following easing of cost-of-living crisis, healthy economic growth and still high real (*ex-post*) deposit interest rates



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

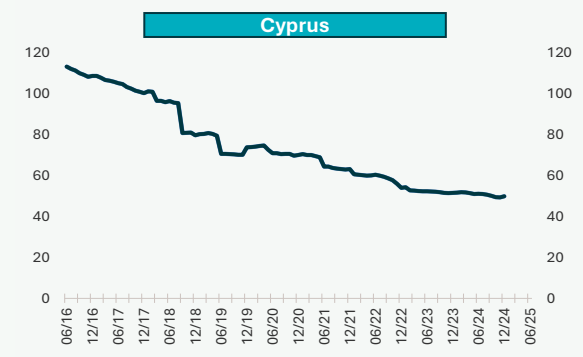
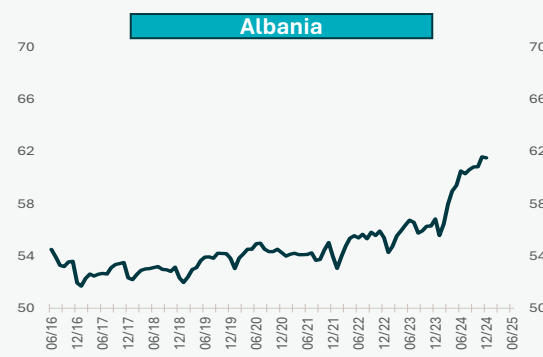
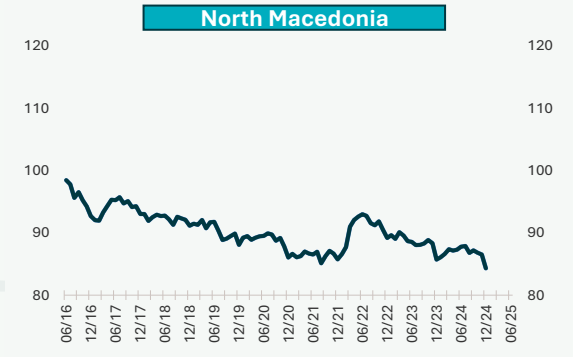
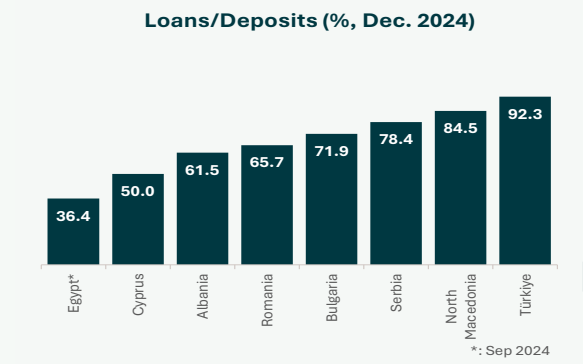
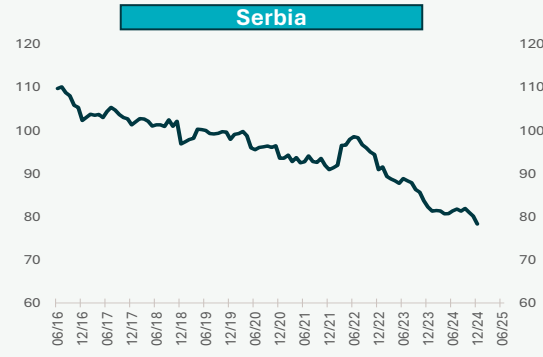
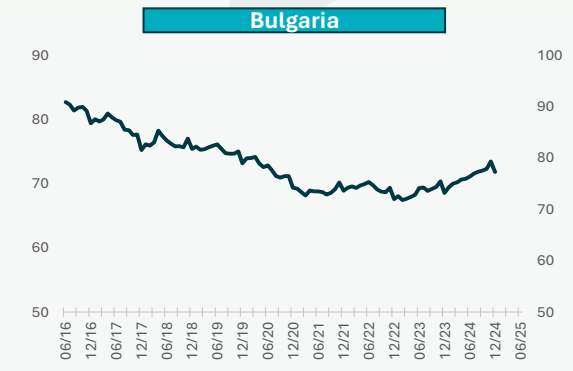
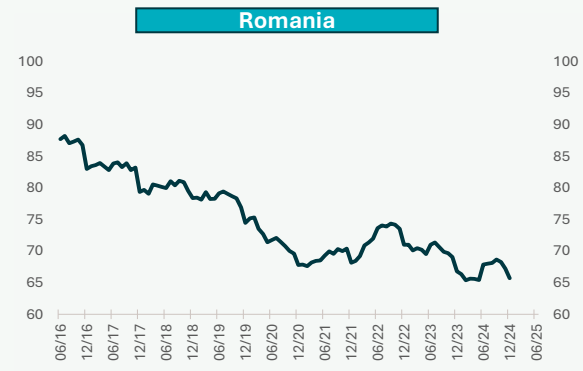
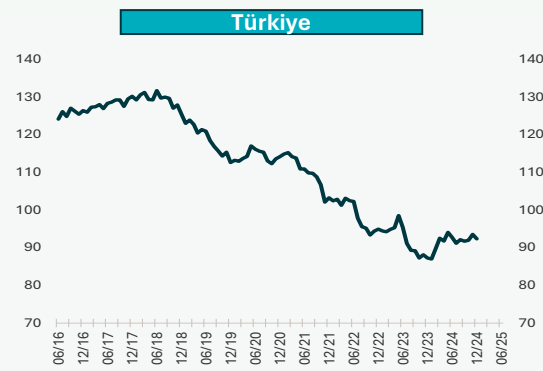


- After having been depleted over the past years, **deposits (as percent of GDP) are picking up** again in most of the economies under review, barring Türkiye and Egypt, which are undergoing economic adjustment, and Albania, where the appreciation of the Lek, amid increased euroization, has been driving deposits down



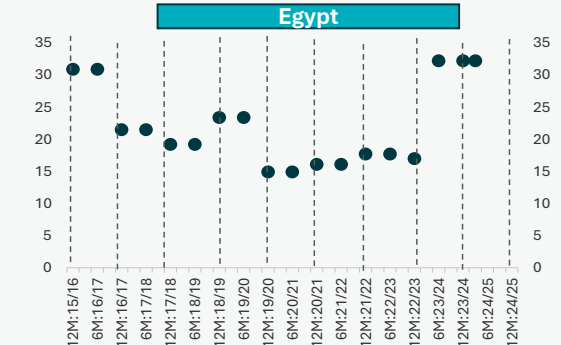
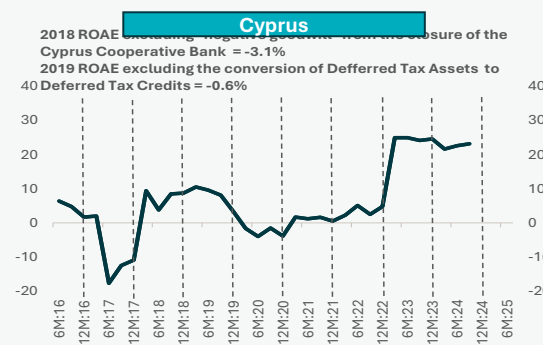
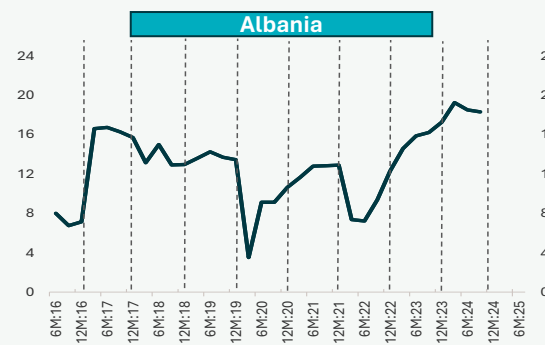
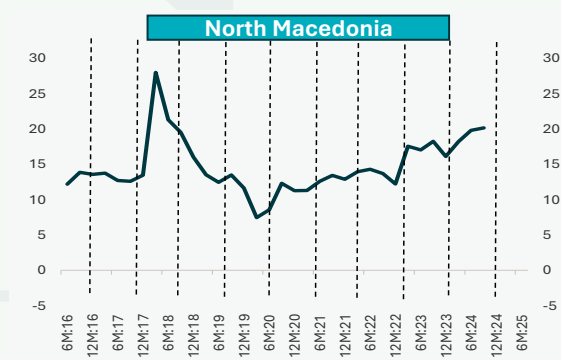
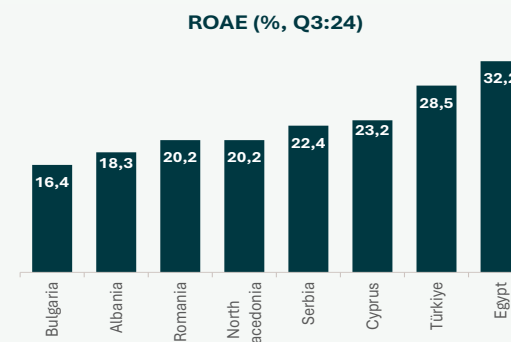
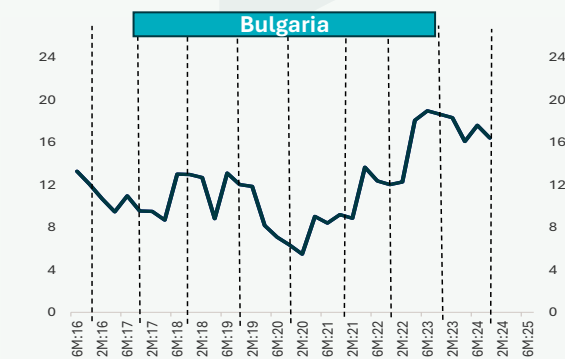
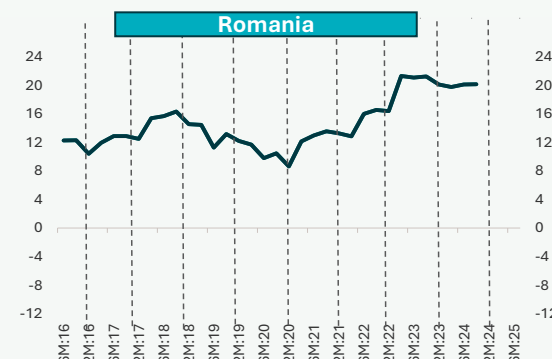
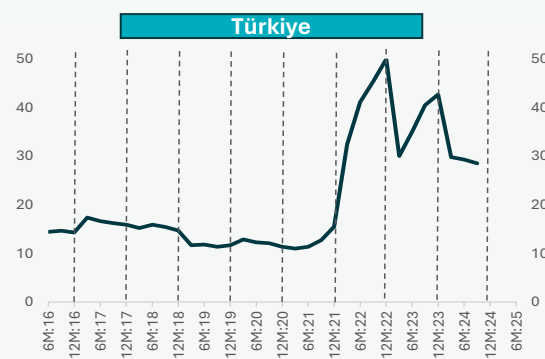
Total loans-to-total deposits ratio (%)

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

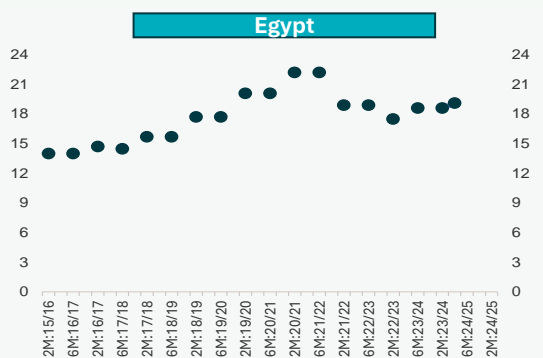
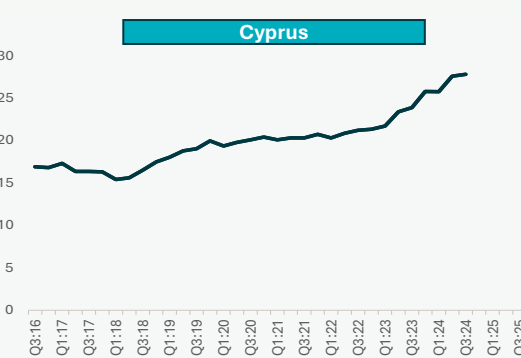
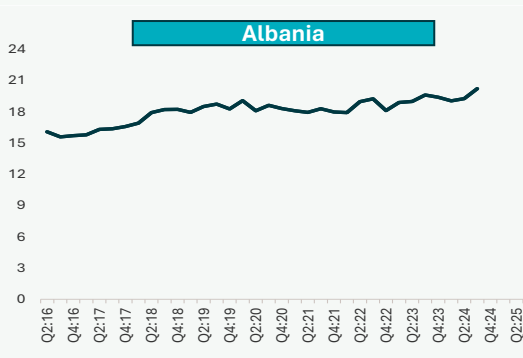
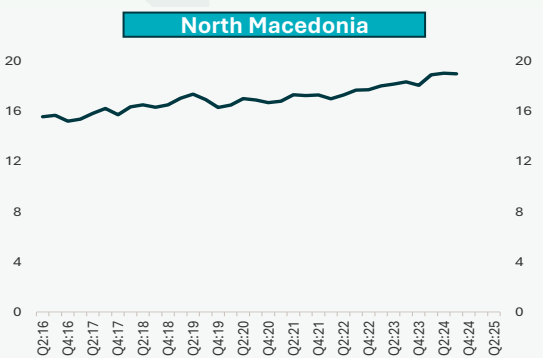
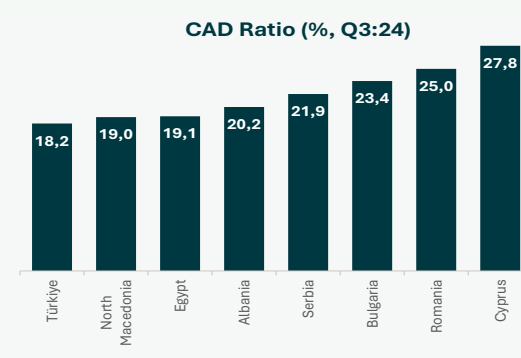
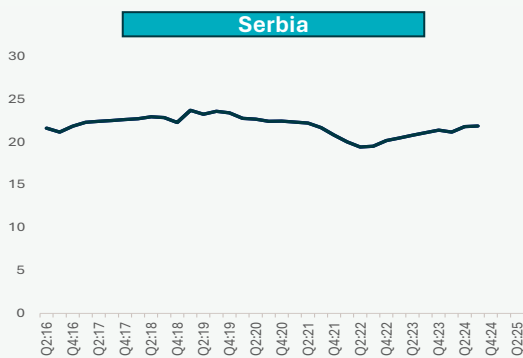
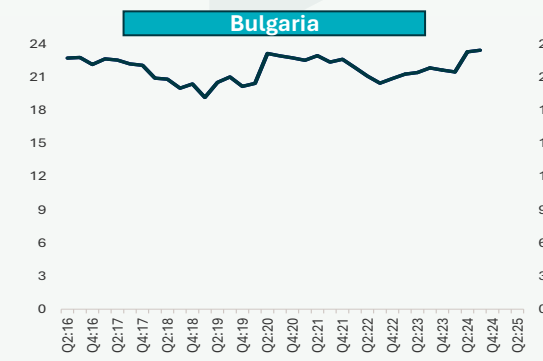
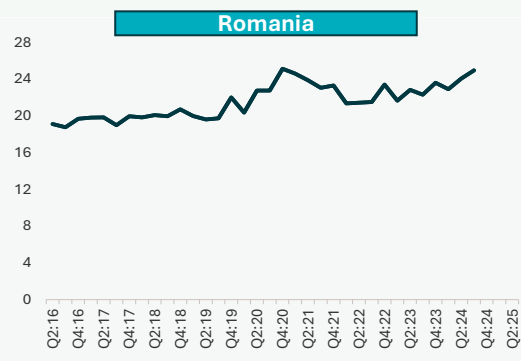
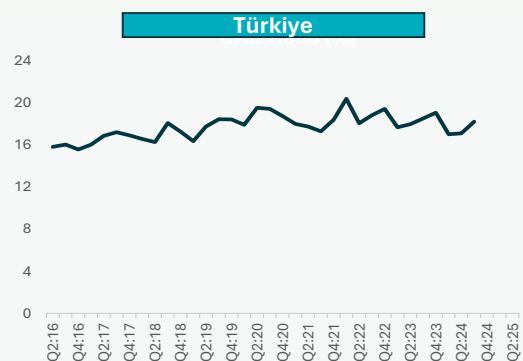


Return-to-average equity ratio (% , cumulative and annual)

- Although interest rates have started to ease, 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, with easing NIM due to be partly compensated by faster expansion in business volumes

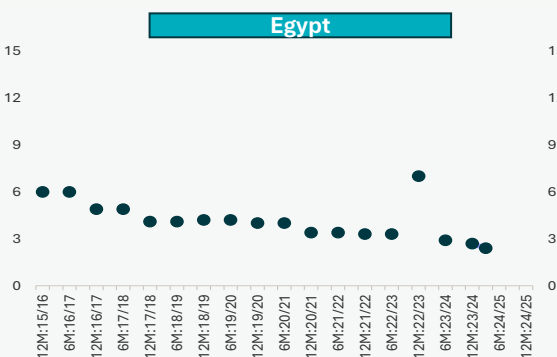
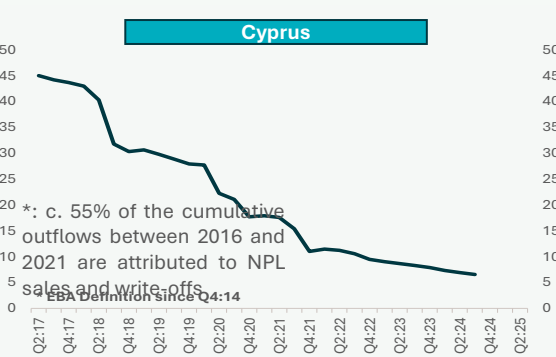
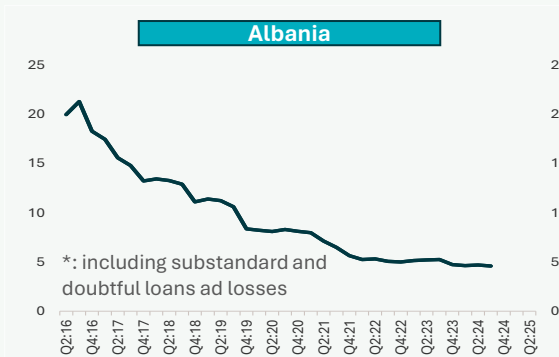
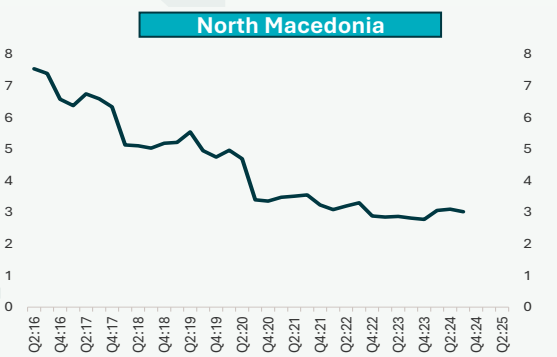
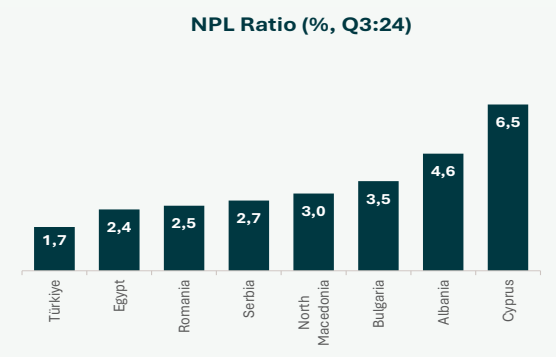
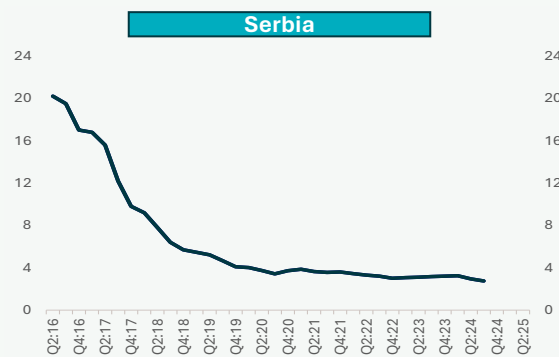
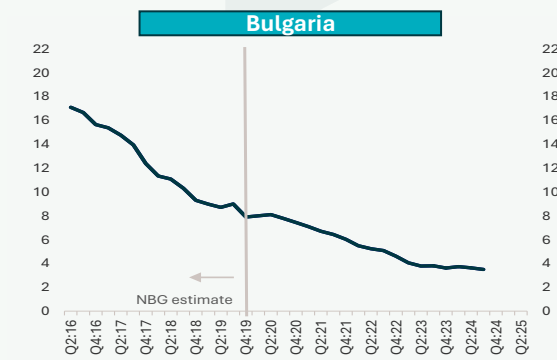
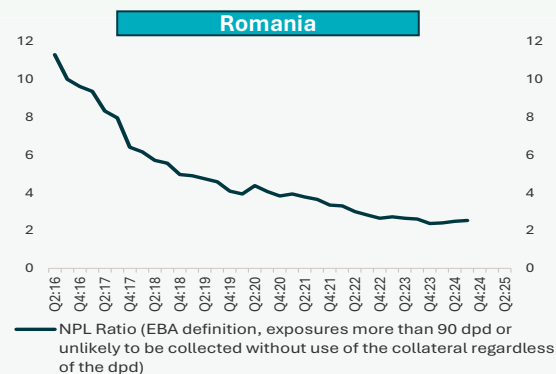
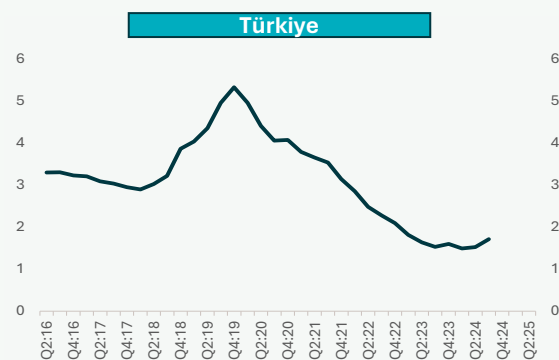


- Banking systems in all countries under review remain **well-capitalised**, suggesting that there is significant headroom to absorb potential losses



Non-performing loans ratio (%)

- Despite the challenges posed by 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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