South-Eastern Europe Economic Review

Good prospects but return to potential growth still elusive

May 2014

In the current issue of our SEE&Egypt Economic Review, we elaborate on our forecasts regarding the macroeconomic performance of the economies we follow, namely Albania, Bulgaria, Cyprus, Romania, Serbia, Egypt and Ukraine. With the exceptions of Ukraine and Egypt which – despite their enormous long-term potential – face acute geopolitical risks and Cyprus, which is showing signs of exceptional compliance with its Economic Adjustment Programme, all countries in the region are expected to register solid growth rates. Nevertheless, the transition to a new growth model – one that is not based on consumption, but on investment and exports – is proving rather challenging, limiting growth to levels substantially below their potential. As a result, economic performance has failed to reach its pre-crisis levels, depressing employment and disposable income. One side effect of depressed consumption was the extreme reliance on the agricultural sector and its weather-related volatility and exports – mainly to the EU. Subdued domestic demand also affected the local banking sectors, keeping deposits low, credit expansion negative and NPLs high.

Cyprus is a special case, where the implementation of the Economic Adjustment Programme and the restructuring of its banking system will keep the economy in recession throughout 2014. Nevertheless, it has to be noted that the Eurogroup welcomed the conclusion of the troika's third review of Cyprus's economic programme, noting that the country's programme remains on track, due to better than expected macroeconomic and fiscal performances. In addition, the ongoing stabilization of the financial sector in Cyprus will pave the way for the second phase of the gradual relaxation of the temporary restrictive measures on transactions.

Finally, Egypt and Ukraine are special cases in so far as the domestic and regional geopolitical environment remains fluid and nebulous. However, we believe that even in these cases there exist stabilizing factors that have the potential to provide a sizable safety cushion. Egypt has been the beneficiary of USD 15bn. of funds and grants from the Arab world, while Ukraine recently arranged for USD 17bn. of funding from the IMF.

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1. Table of Macroeconomic Forecasts

Table of Economic Forecasts								
	Real GDP (% YoY)		Inflation		Fiscal Balance (% GDP)		Current Account Balance (% GDP)	
	2013	2014f	2013	2014f	2013	2014f	2013	2014f
Albania	0.4	1.9	1.9	2.5	-4.7	-5.6	-10.6	-11.0
Bulgaria	0.8	1.9	0.9	1.0	-1.8	-1.9	1.9	0.5
Cyprus	-5.4	-4.2	-0.4	0.5	-5.1	-5.5	-1.9	-6.8
Romania	3.5	2.9	4.0	3.0	-2.5	-2.9	-1.1	-2.0
Serbia	2.5	1.3	7.9	5.1	-4.8	-6.5	-4.8	-4.9
Egypt	2.1	2.2	6.9	10.3	-14.1	-12.5	-2.1	-1.6
Ukraine	0.0	--	-0.3	--	-4.5	--	-9.2	--

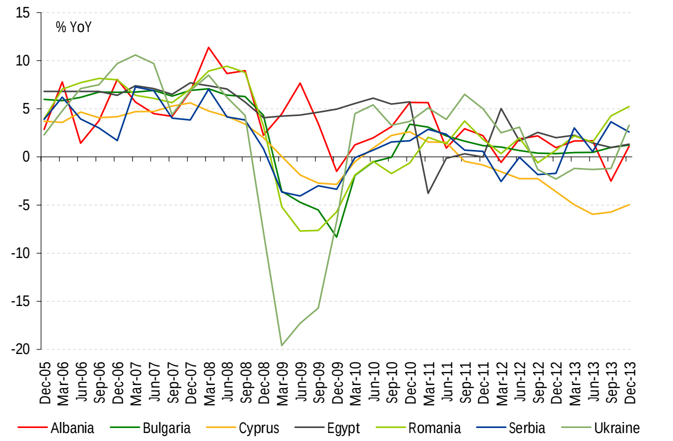
Source: Piraeus Bank Research

2. Macroeconomic Balance Index – The Evolution

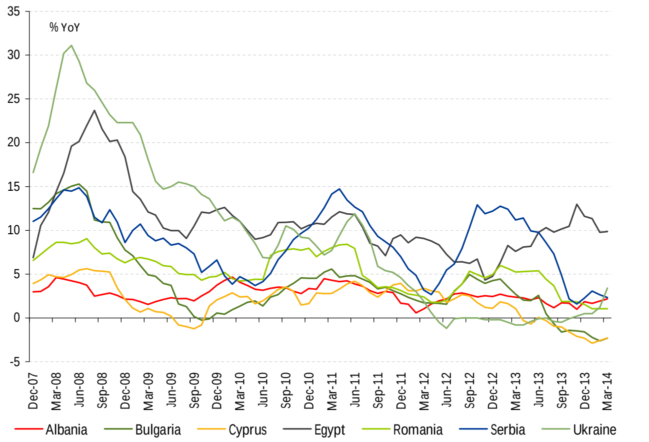
Source: Piraeus Bank Research, National Sources

4. The Snapshot

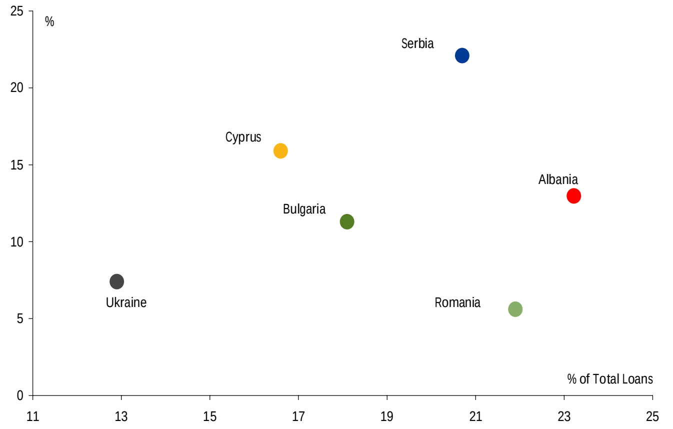
4.1 Real GDP



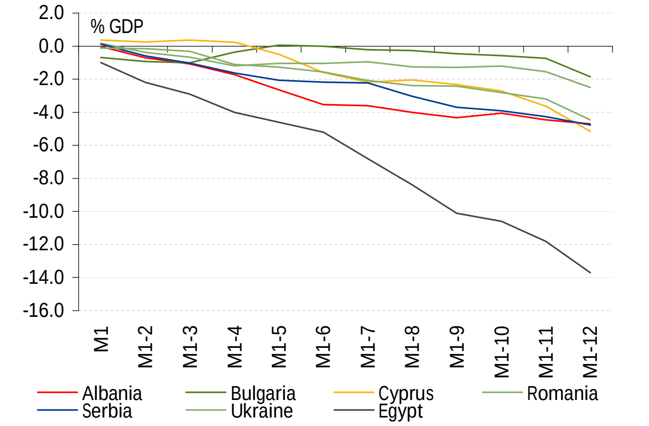
4.2 Inflation



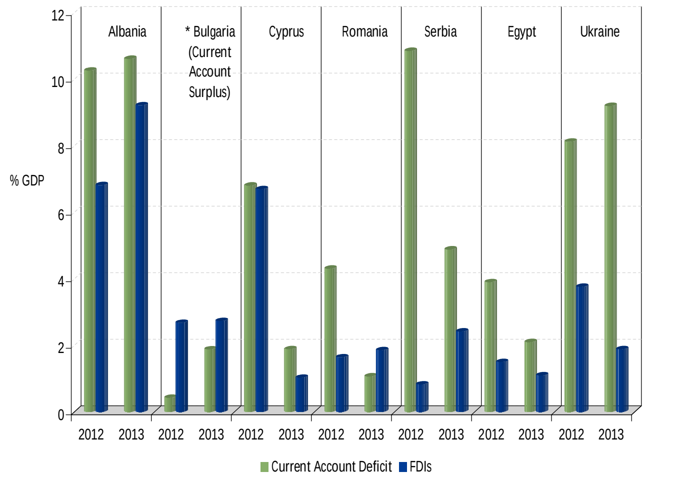
4.3 Non-Performing Loans & Unemployment Rate - 2013



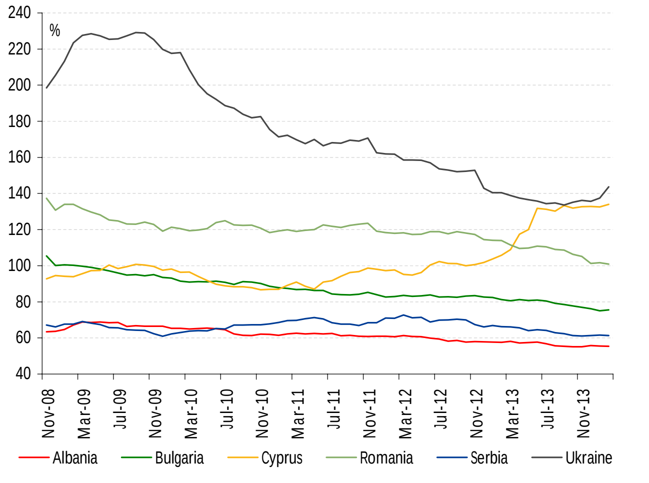
4.4 Fiscal Balance Evolution – 2013



4.5 Current Account Deficit & It's Financing



4.6 Banking Sector Liquidity (Loans/Deposits Ratio)



Source: Piraeus Bank Research, National Sources

5. The Outlook

5.1 Albania

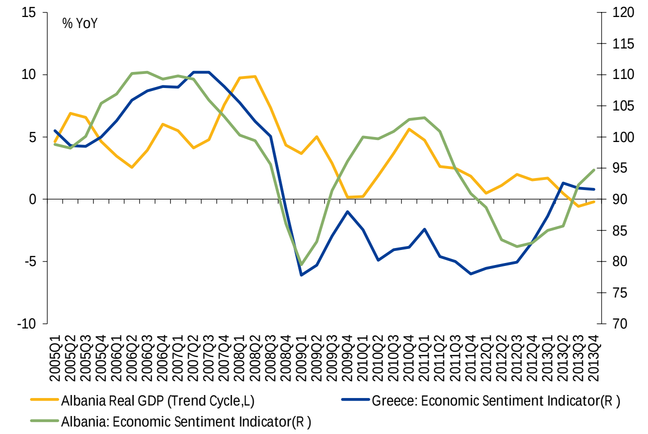
Headwinds tail off as new IMF loan seals reforms

Economic output in 2014 is expected to pick-up to 1.9% YoY from 0.4% in 2013, but the potential output is expected to remain constrained if structural reforms do not progress. Although Albania has been among the top growth performers over the last few years, the contraction in economic activity in Italy and Greece – its main trading partners and source of remittances – has lead to weakened domestic demand. Moreover, the continuing shortages of electricity – a problem that is not expected to be resolved any time soon – took its toll on the Albanian economy last year, as output decelerated and the cost of electricity for households and firms increased. In 2014, the country will have to focus on attracting investment in order to boost the local economy and attempting to disengage from Greece and Italy. However, there is upside potential in Albania's participation in the international Tran Adriatic Gas Pipeline, which is expected to increase employment over the medium-term.

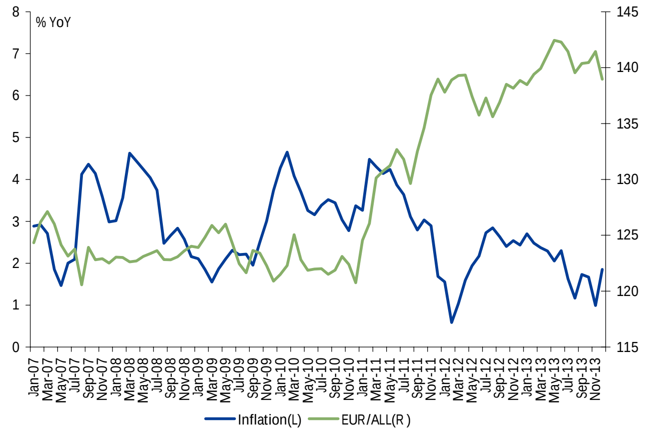
Economic activity in 2013 moderated as real GDP increased by 0.4% YoY from 1.2% in 2012. The main factors driving growth in 2013 were increases in the industry and construction sectors, while the agriculture and services sectors contracted.

We expect inflation to average 2.5% (3.0% +/-1.0%) in 2014, which is within the Bank of Albania's (BoA) target range, with prompt monetary policy providing much-needed macroeconomic stability. Inflation in 2013 remained stable at historic low levels, with just a marginal pick-up in the first months of the year. Inflationary pressures originating from the supply side have moderated, although there is an upside risk due to the electricity supply shortage that the country faces. In 2013, inflation moderated to 1.9% compared to 2.0% in 2012. The BoA has followed an easing monetary policy since 2013 by cutting its key policy interest rate to the historic low of 2.75% at the latest monetary policy meeting in February and has kept it at that level since then. We expect the BoA to further cut the key policy rate, keeping interest rates at historic low levels.

5.1.1 Real GDP & Economic Sentiment Indicator in Greece & Italy



5.1.2 Inflation & EUR/ALL FX Rate



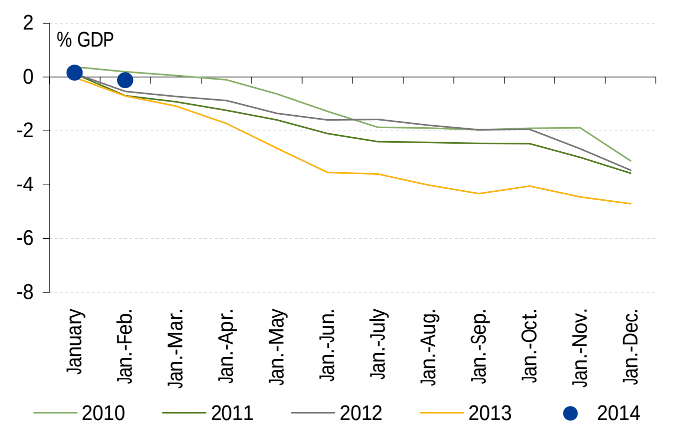
Source: Piraeus Bank Research, National Sources

The fiscal sector remains in a fragile state, as the fiscal deficit has stalled and government arrears are increasing, leading to high financial risks. We anticipate that the fiscal deficit will widen in 2014 – before shrinking in the following year – to 5.6% of GDP from 4.7% in 2013. There is an upside risk in our scenario: the new SBA loan from the International Monetary Fund (IMF) of EUR 330.9mn. The purpose of this loan is to pay government arrears to the private sector, strengthen the fiscal sector, ensure the sustainability of public debt and place the economy on a stable growth path over the medium term. The government, in cooperation with the BoA and the IMF, is already attempting to record all government arrears in order to initiate the repayment process.

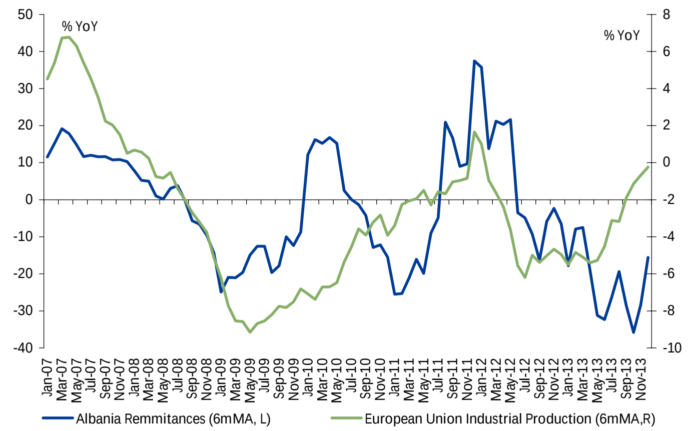
The current account deficit is expected to widen further in 2014, while we anticipate an improvement in its financing as the flow of remittances last year was severely affected by the economic recession in Italy and Greece. The combination of low domestic savings and the subdued export sector, especially energy exports, limit the current account balance. We anticipate that the current account deficit will widen to 11.0% of GDP in 2014 from 10.6% in 2013. In 2013, the current account deficit widened to 10.6% of the expected annual GDP compared to 10.3% in 2012. Specifically, the deficit in the trade balance declined to 17.9% of GDP in 2013 from 20.9% in 2012. Further, we observe a moderation in a few of the balance of payments sectors, as the transfers surplus in 2013 stood at 7.3% of GDP from 9.2% in 2012 and the services surplus declined to 0.1% from 2.2% over the same years. However, in 2013 the services deficit narrowed to 0.1% of GDP compared to 0.7% in the previous year. Net FDIs improved to 9.2% of GDP in 2013 compared to 6.8% for 2012.

Capital adequacy ratios are high, with adequate liquidity for the local banking sector, but the NPL ratio is a cause for concern. The local financial system remains stable, while liquidity is improving amidst the previous and expected future cuts in interest rates. The loans to deposits ratio dropped to 55.8% in 2013 compared to 57.9% in 2012, remaining relatively low. Additionally, in 2013 the capital adequacy ratio increased further to 18.0% from 16.2% in 2012, while the NPLs (substandard, doubtful and loss loans) ratio increased to 23.2% from 22.8% for the same years. However, an anticipated stabilising factor is the new measures taken by the government in conjunction with the IMF in order to tackle the increasing NPLs. Specifically, two of the most drastic measures are the write off of loans that are classified as lost for three consecutive years and the repayment of government loans that were until now in arrears. The latter is expected to provide additional stability and liquidity in the banking sector.

5.1.3 Fiscal Balance



5.1.4 Remittances in Albania & Industrial Production the in European Union



Source: Piraeus Bank Research, National Sources

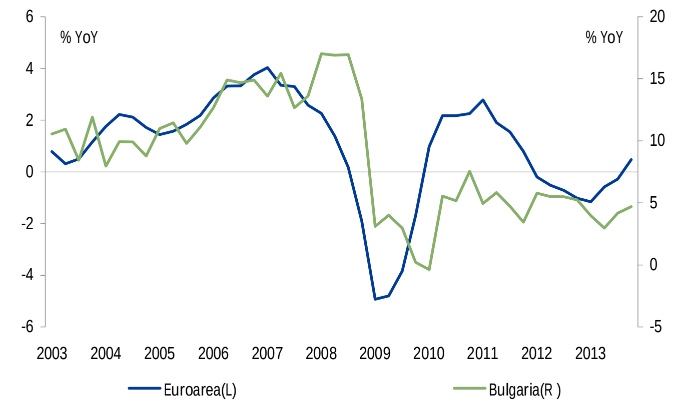
Albania Economic Indicators							
	2011	2012	2013	2014f	Q2 2013	Q3 2013	Q4 2013
			% YoY				
Real GDP	2.8	1.2	0.4	1.9	1.7	-2.5	1.1
Unemployment Rate (avg)	13.4	13.0	13.0	--	12.8	12.8	13.5
Retail Trade (avg)	-3.7	-0.7	5.3	--	6.4	2.8	0.5
Inflation (avg)	3.5	2.0	1.9	2.5	2.2	1.5	1.5
Monetary Policy Rate (eop)	4.75	4.0	3.0	--	3.75	3.5	3.0
EUR/ALL (avg)	140.4	139.0	140.3	--	140.7	140.3	140.4
			% GDP				
Fiscal Balance	-3.6	-3.5	-4.7	-5.6	-3.5	-4.3	-4.7
Current Account Balance	-13.4	-10.3	-10.6	-11.0	-3.1	-2.2	-3.0
Albania Banking Indicators							
			% YoY				
Loans to the Private Sector	10.4	1.5	-1.5	0.0	0.2	-2.6	-1.5
Business Loans	15.4	1.8	-2.0	--	-0.5	-3.7	-2.0
Household Loans	-0.2	0.5	0.0	--	2.4	0.4	0.0
Deposits to the Private Sector	12.2	6.8	2.2	4.4	4.1	3.2	2.2
Source: Piraeus Bank Research, National Sources							

5.2 Bulgaria

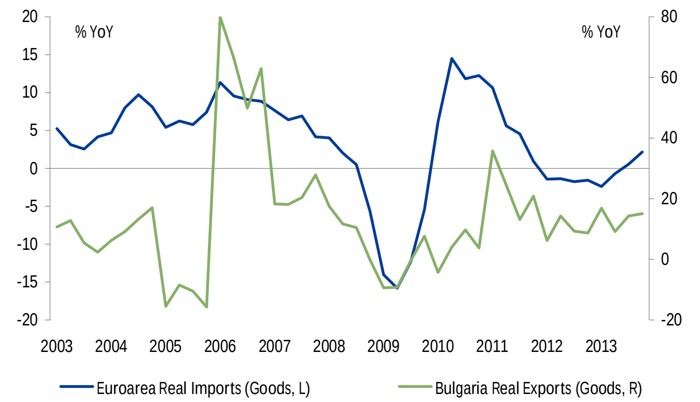
Slow but stable economic activity

Last year was bumpy for the Bulgarian economy, as during the first half of 2013 the GDP growth rate was marginally positive, amid political turbulence and social unrest. Recovery during the second half of 2013 was driven by buoyant exports and surging public expenditures. As a result, the GDP growth rate accelerated slightly to 0.8% from 0.6% in 2012. For 2014, we estimate that it will further accelerate to 1.9%, as the economic recovery is expected to be more broad based.

5.2.1 Real GDP



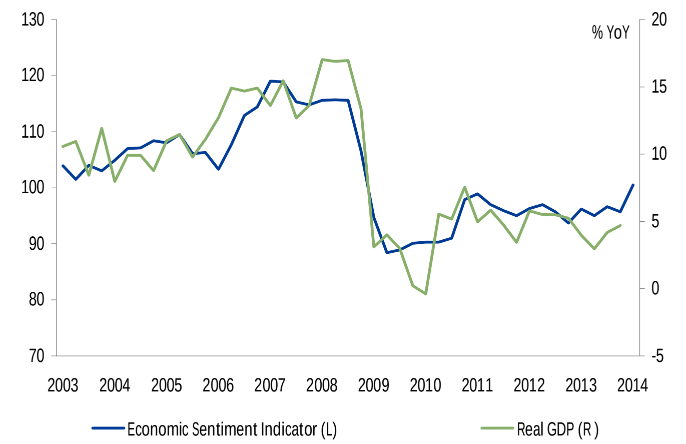
5.2.2 Real Exports and Euroarea Imports



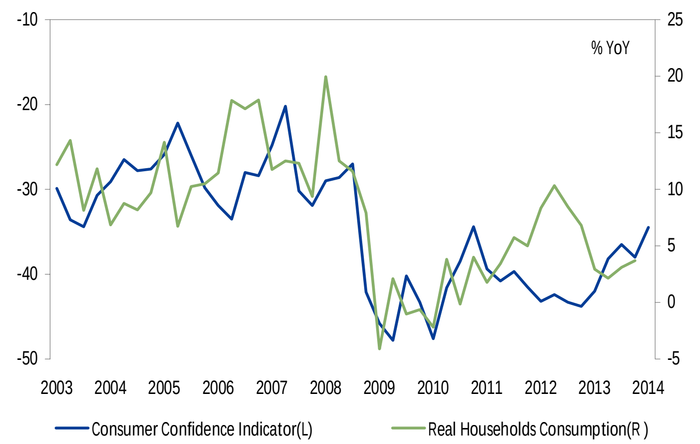
Source: Piraeus Bank Research, National Sources, Eurostat

More specifically, private domestic demand is anticipated to enhance the export-driven growth momentum. In more detail, private consumption will be supported by the augmented real disposable income, as the growth in wages and pensions in an environment of very low inflation bolsters the purchasing power of households. Moreover, investment spending is expected to improve. Better EU funds absorption and the downward trend in lending interest rates will result in more supportive lending conditions and credit availability.

5.2.3 Real GDP & Leading Indicator



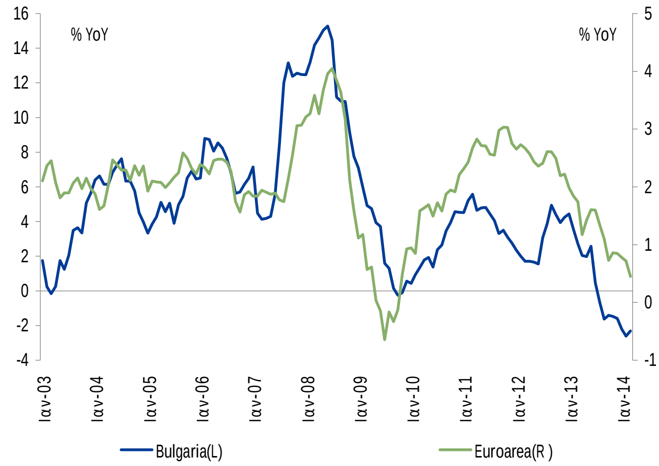
5.2.4 Real Private Consumption & Leading Indicator



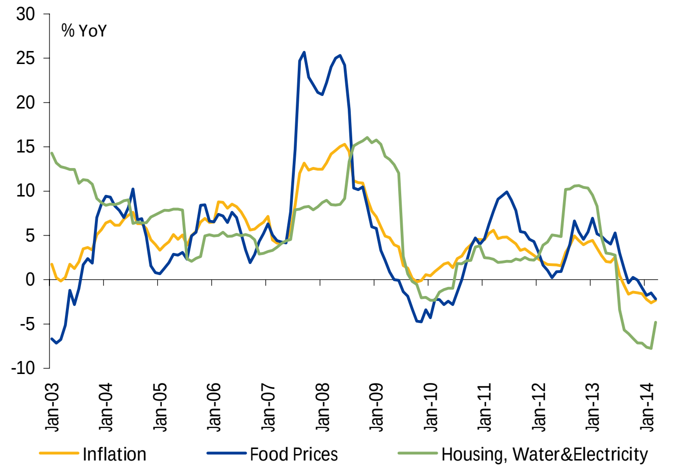
Source: Piraeus Bank Research, National Sources, Eurostat

The Bulgarian economy has been on a deflationary path since September 2013. Reduction in the administratively set energy prices and a strong harvest (leading to lower food prices) made prices trend sharply downward. Moreover, there is a sizable amount of slack in the economy, as after the 2008–2009 crisis, it has been operating below its potential level (as reflected by the high unemployment rate), causing subdued demand. Indicatively, inflation in 2013 averaged 0.9% from 3.0% in 2012, as most of the consumer price index constituents either declined or slowed down in 2013.

5.2.4 Inflation



5.2.5 CPI, Food & Energy Prices



Source: Piraeus Bank Research, National Sources, Eurostat

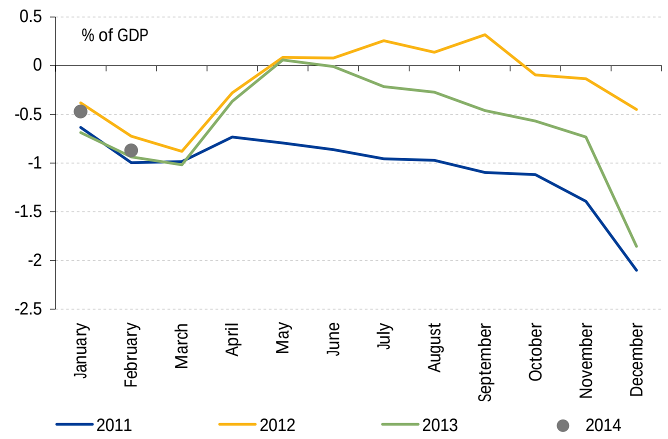
The statistical base effect is expected to fade, which combined with the recovery in private domestic demand will push inflation into positive territory during the second half of 2014. Deflation constitutes a significant downside risk for our macroeconomic scenario. We judge that current deflationary pressure is a temporary phenomenon (i.e. small risk of a self-fulfilling deflationary spiral), while very low inflation rate is going to stay, probably for an extended period, especially in association with Euro area price dynamics.

Despite these significant one-off events (reduction in the administratively set energy prices and strong harvest), which caused the ongoing negative price dynamics, there is indeed limited space to absorb another significant negative shock. Deflation or even very low inflation rate can also be problematic for financially distressed borrowers, as it implies higher real value of debt, while rising real interest rates and the relative stickiness of nominal wages weigh down the pace of an already slow economic recovery.

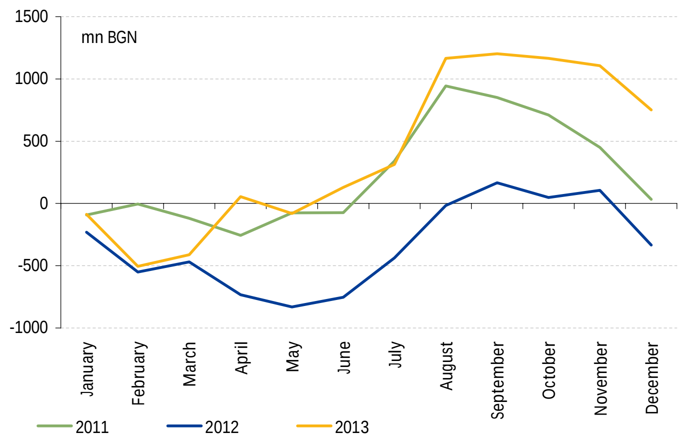
The budget deficit increased from 0.5% in 2012 to 1.8% in 2013, due to the anaemic patch in the economic recovery and increased spending on social expenditure. For 2014, the budget deficit is anticipated to remain at almost the same level. Despite the fact that the expected broad-based economic recovery favours budget balance, the governmental coalition will probably continue social expenditure. We estimate that the governmental coalition will probably maintain a neutral fiscal stance during 2014 and 2015.

Exports are expected to remain relatively strong due to the EU economic recovery. On the other hand, the rebound in private domestic demand will drive imports up, leading to a wider trade deficit, which together with the widening deficit in the income account are expected to shrink the current account surplus to 0.5% of GDP. In 2013, the current account balance recorded a surplus of 1.9% of GDP compared to a deficit of 0.4% in 2012 due to the moderation in the trade deficit to 5.9% from 8.7% for the same years. The current account balance was financed adequately as net FDIs stood at 2.7% of GDP in 2013 from 2.7% in 2012.

5.2.5 Fiscal Balance Evolution



5.2.6 Current Account Balance Evolution



Source: Piraeus Bank Research, National Sources, Eurostat

Bulgaria has made considerable progress in recent years. Policymakers maintained the painstaking discipline required under the currency board arrangement, while the large current account turned into a surplus, maintaining confidence. However, the unemployment rate rose and the labour market has remained quite weak. The working age population continues to decline, due to the ageing of the population and exacerbated by emigration, undermining potential growth.

Bulgaria Economic Indicators							
	2011	2012	2013	2014f	Q2 2013	Q3 2013	Q4 2013
			% YoY				
GDP	2.0	0.6	0.8	1.9	0.5	1.0	1.2
Final Consumption	1.7	2.7	-1.2	2.0	-0.9	-1.5	-1.6
Gross Fixed Capital Formation	-5.0	4.2	-1.2	3.0	-4.6	-0.4	2.5
Exports of G&S	12.2	-0.6	8.9	7.0	4.5	10.7	9.6
Imports of G&S	9.0	3.1	5.7	5.5	1.9	7.4	6.9
Industrial Production	6.0	-0.2	0.0	3.0	-4.7	0.1	2.8
Retail Sales	0.5	5.4	2.9	--	1.9	5.9	6.7
Unemployment Rate	10.4	11.4	11.8	11.5	10.9	10.8	11.5
Inflation (avg)	4.2	3.0	0.9	1.0	2.2	-0.6	-1.5
			% of GDP				
Current Account Balance	0.1	-0.4	1.9	0.5	0.3	3.0	1.9
Fiscal Balance	-2.1	-0.4	-1.9	-1.9	0.0	-0.5	-1.9
Public Debt	16.3	18.4	18.9	--	18.1	17.4	18.9
External Debt	94.3	94.6	93.5	--	94.3	93.7	93.5
EUR/BGN (avg)				1.95583			
USD/BGN (avg)	1.51	1.48	1.42	--	1.50	1.45	1.42
Bulgaria Banking Indicators							
			% YoY				
Private Sector Credit	3.2	2.8	0.0	1.5	1.0	0.7	0.0
Firms	5.4	5.0	0.1	--	2.0	1.4	0.1
Households & NPISHs	-0.4	-1.0	-0.2	--	-0.9	-0.6	-0.2
Private Sector Deposits	9.0	4.5	8.4	1.2	4.6	5.8	8.4

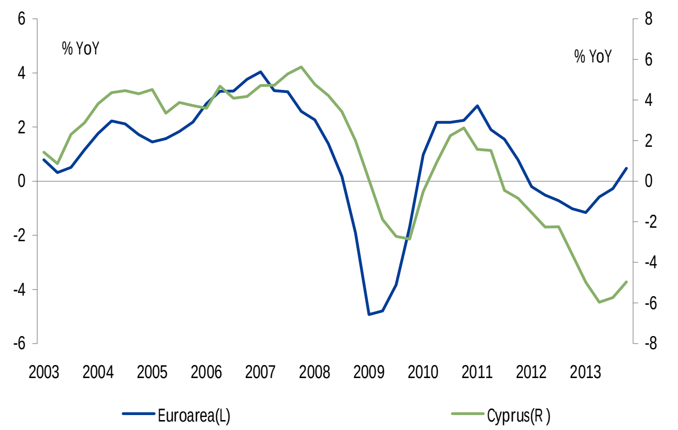
Source: Piraeus Bank Research, National Sources

5.3 Cyprus

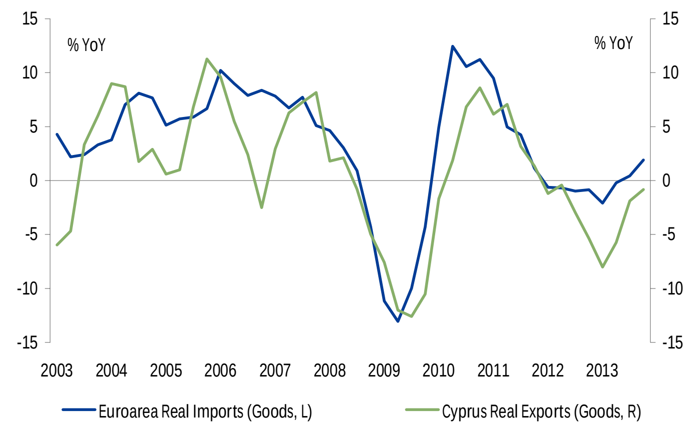
The Top Student!

Real GDP contacted by 5.4% in 2013, a significantly lower figure than had been expected, due to the resilience of tourism and other service sectors. For 2014, we expect that real GDP will continue to shrink, but at a smaller rate (-4.2%), as exports will benefit from the EU economic recovery and domestic demand is also projected to shrink at a smaller rate.

5.3.1 Real GDP



5.3.2 Real Exports & Euroarea Imports

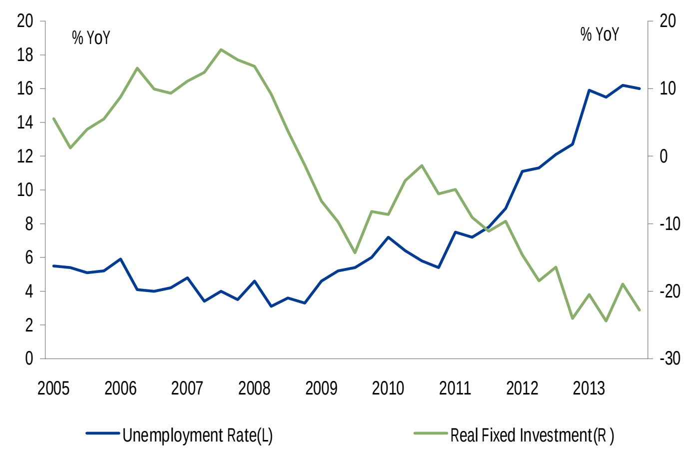


Source: Piraeus Bank Research, National Sources, Eurostat

More specifically, investment is anticipated to continue to contract at a slower rate (-20% or maybe less) than the very high rate of 2013 (-34%), which caused soaring unemployment, as in the case of Greece. Additionally, substantial adjustment in prices and wages will probably lessen the private consumption contraction rate. Certainly, prolonged tight credit supply conditions, gradual deleveraging in both the public and private sectors, deteriorating labour market conditions and downward wage adjustments constitute significant downside risks. However, the structural reforms that the country is currently undertaking under the Memorandum of Understanding decrease disposable income, but are expected to attract further investments and place the country on a stable path to recovery.

5.3.3 Real Fixed Investment

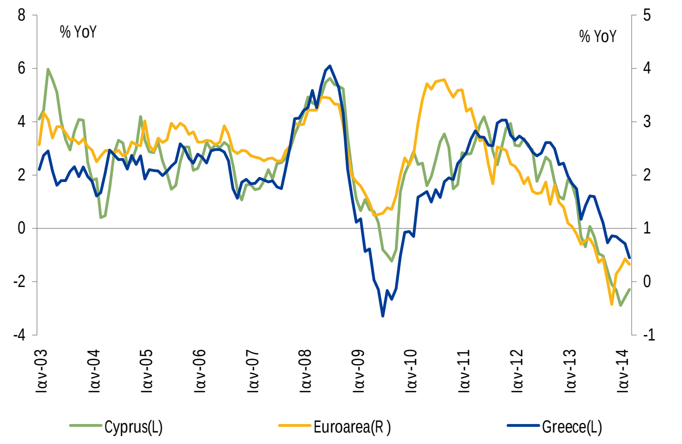
5.3.4 Real Fixed Investment & Unemployment Rate



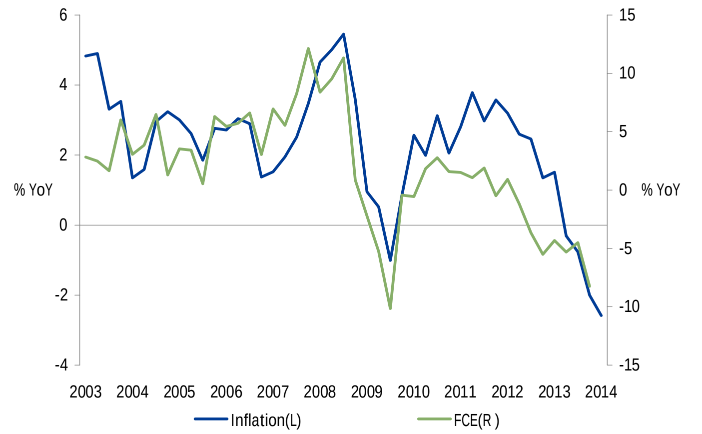
Source: Piraeus Bank Research, National Sources, Eurostat

Faltering domestic demand, a widening output gap and downward price dynamics in the Eurozone will keep the inflation rate at a marginally positive level (0.3%) during 2014. In 2013, the country faced a deflationary trend as the consumer price index declined on average by 0.4% from 2.4% in 2012 because most of the consumer price index constituents either declined or slowed down in 2013.

5.3.5 Inflation



5.3.6 Inflation & FCE



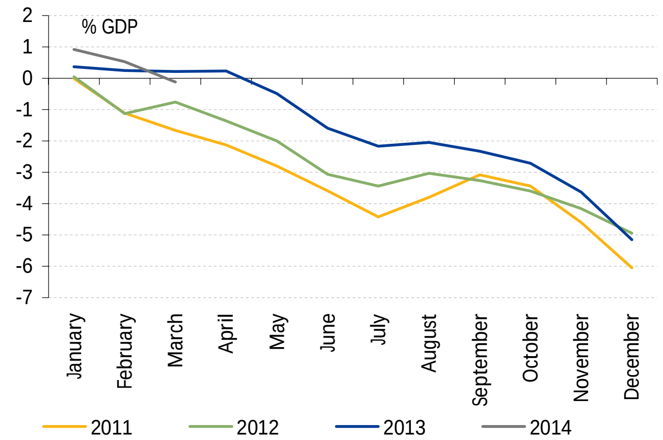
Source: Piraeus Bank Research, National Sources, Eurostat

Due to the milder recession, the fiscal deficit during 2013 was better than had been projected earlier. However, it is expected to widen slightly, as revenues will fall. Indicatively, the fiscal deficit in 2013 was 5.1% of GDP from 5.2% in the previous year, as both revenues and expenditures contracted. Declining wages and increasing unemployment are expected to result in lower revenues from direct taxes, while a further contraction in private consumption will lead to lower revenues from indirect taxes too. On the other hand, further reductions in public sector expenditure are anticipated to counterbalance the increase in social transfers, caused by deteriorating labour market.

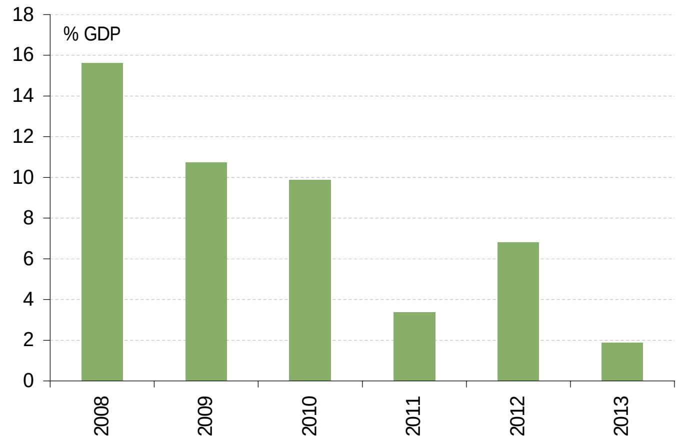
In its latest meetings, the Eurogroup welcomed the conclusions of the troika's third review of Cyprus's economic program, noting that the country's program remains on track, due to better than expected macroeconomic and fiscal performances. In addition, the ongoing stabilization of the financial sector in Cyprus will pave the way for the second phase of the gradual relaxation of the temporary restrictive measures on transactions. Indicatively, on March 28th the Central Bank of Cyprus (CBC) and the Ministry of Finance (MoF) further eased the temporary restriction measures. According to the announcement, the relaxation is a result of achieving the milestones set out in the roadmap and the overall stabilization and restoration of confidence in the banking system. These positive developments, have paved the way for the international rating agencies to revise upwards Cyprus' sovereign rating during 2014. While, a cornerstone development is the government's decision to issue a six-year retail savings bond with an average 4.1% coupon (if the bond holder keeps it to maturity), signalling the country's intention to return to international markets.

Declining domestic demand will further shrink imports (but at a lower rate than in 2013), while the EU economic recovery will limit the reduction in exports to a very low rate. Therefore, the trade balance will improve further, resulting in a small current account surplus (almost 1% of GDP). For 2013, the current account deficit contracted to 1.9% of GDP from 6.8% in 2013, as the trade deficit was 17.9% from 21.6% in the same years.

5.3.7 Fiscal Balance Evolution



5.3.8 Current Account Balance Evolution



Source: Piraeus Bank Research, National Sources, Eurostat

Cyprus Economic Indicators							
	2011	2012	2013	2014f	Q2 2013	Q3 2013	Q4 2013
			% YoY				
GDP	0.4	-2.4	-5.4	-4.2	-6.0	-5.7	-5.0
Final Consumption	1.0	-2.4	-5.6	-5.0	-5.3	-4.5	-8.2
Investment	-12.0	-11.0	-34.5	-20.0	-56.9	-41.3	-14.6
Exports of G&S	4.4	-2.5	-4.2	-1.0	-5.7	-1.9	-0.8
Imports of G&S	-0.2	-5.4	-14.1	-11.0	-20.9	-12.7	-10.3
Industrial Production	-7.7	-9.7	-12.4	--	-13.5	-9.7	-10.6
Retail Sales	-0.8	-3.8	-6.8	--	-8.9	-5.1	-3.0
Unemployment Rate	7.9	11.8	15.9	18.0	15.5	16.2	16.0
Inflation (avg)	3.3	2.4	-0.4	0.5	-0.3	-0.8	-2.0
			% of GDP				
Current Account Balance	-3.4	-6.8	-1.9	1.0	1.5	1.3	-1.6
Fiscal Balance	-6.1	-4.9	-5.1	-5.5	-1.6	-2.3	-5.2
Public Debt	71.1	85.8	--	--	102.9	112.0	--
Cyprus Banking Indicators							
			% YoY				
Credit to the Private Sector	11.4	5.5	-12.1	-8.0	-3.5	-10.7	-12.1
Private Sector Deposits	-2.3	1.7	-22.4	-4.2	-18.3	-22.2	-22.4
Residents	-4.1	-1.0	-14.6	--	-12.3	-14.7	-14.6
EA Residents	31.8	-0.9	-52.4	--	-47.9	-49.3	-52.4
Rest of the World	-5.0	8.0	-30.6	--	-21.9	-29.7	-30.6

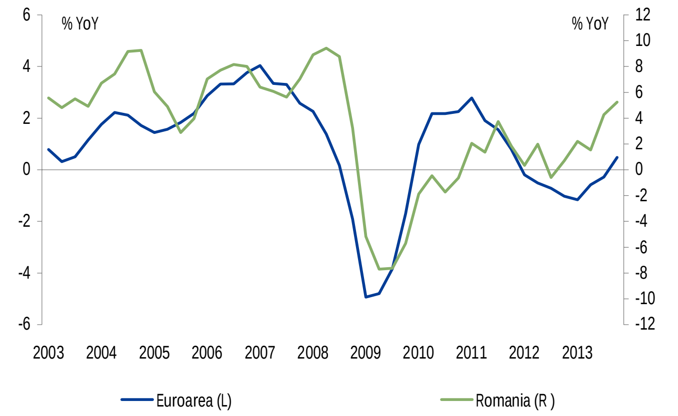
Source: Piraeus Bank Research, National Sources

5.4 Romania

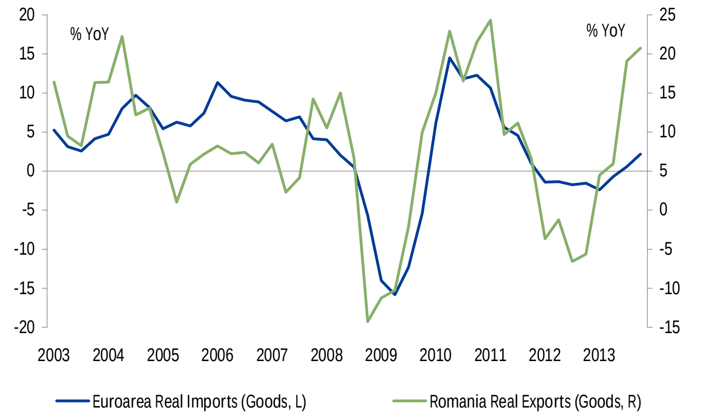
The Outperformer!

Strong exports and an abundant agricultural harvest boosted the GDP growth rate to nearly 5% during the second half of 2013, from less than 2% during the first half of the year. As a result, the full year growth rate accelerated to 3.5% from 0.6% in 2012. For 2014, we estimate that it will decelerate to 2.9%, as stronger domestic demand is expected to partially counterbalance the weaker agricultural production and net exports effect.

5.4.1 Real GDP



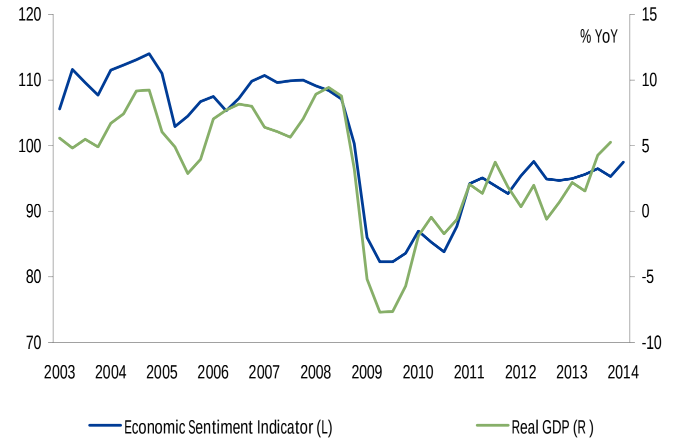
5.4.2 Real Exports & Euroarea Imports



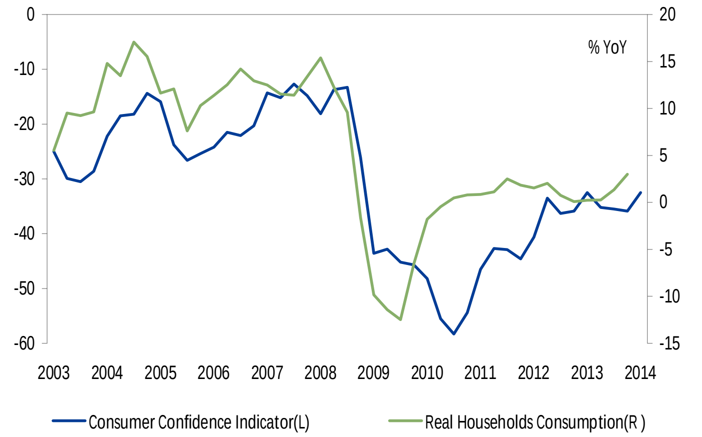
Source: Piraeus Bank Research, National Sources, Eurostat

Excluding the agricultural sector, the GDP growth rate is anticipated to accelerate. Investment is expected to regain momentum, supported by better absorption of EU funds, as major infrastructure projects gain traction. Moreover, private consumption is anticipated to accelerate, as employment grows and real wages are expected to be enhanced in 2014.

5.4.3 Real GDP & Leading Indicator



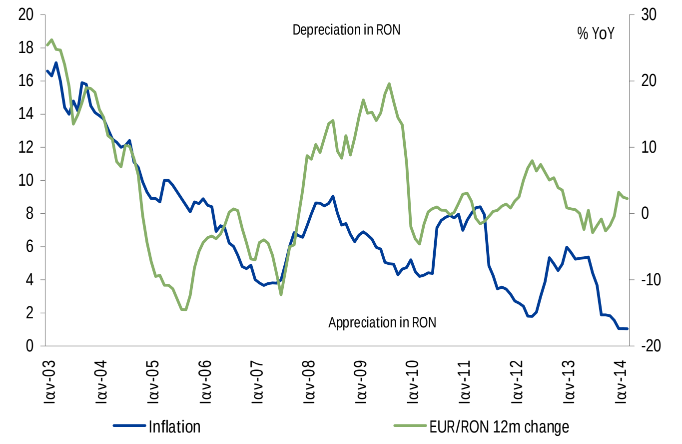
5.4.4 Real Private Consumption & Leading Indicator



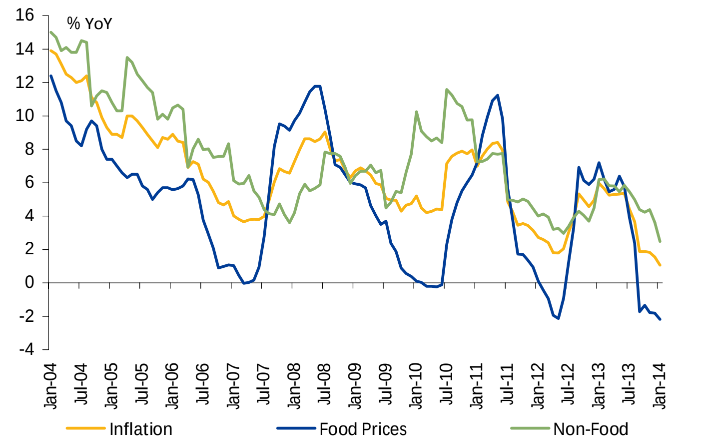
Source: Piraeus Bank Research, National Sources, Eurostat

Inflation has fallen to historically low levels in the last five months, as a result of the abundant agricultural harvest and the reduction in VAT on bread and bakery products, applied in September 2013. Inflation in 2013 averaged 4.2% from 3.3% in 2012. The inflation rate is expected to decelerate during 2014, but to restrained degree, as an excise hike is imposed on fuel prices in April. Furthermore, the base effect in food prices from July onwards is expected to fade and consequently increase the inflation rate.

5.4.5 Inflation & EUR/RON Rate



5.4.6 CPI, Food & Non-Food Prices



Source: Piraeus Bank Research, National Sources, Eurostat

The low inflation rate and EUR/RON stability have led the central bank to cut its key policy interest rate aggressively, by 175 basis points (from 5.25% to 3.50%) since July 2013. Additionally, the central bank has also reduced the minimum reserve requirements on RON deposits by 300 basis points (from 15% to 12%) and on foreign currency deposits by 200 basis points (from 20% to 18%).

We estimate that the central bank will further relax its monetary policy during the first half of 2014 (since the inflation rate is lower than the target), so as to facilitate credit growth. During the second half of 2014, the central bank is expected to keep its monetary policy on hold and will not proceed on further relaxation, as the inflation rate is expected to rise and probably surpass the target.

The NBR will keep excess liquidity in the market, as long as the RON does not come under depreciation pressure. It will try to advance resilience amid the consequences of the Ukraine crisis and the Fed's exit from QE. Under these circumstances, exchange rate stability remains very important for FX borrowers (almost 70% of loans) and consequently the development of the NPLs.

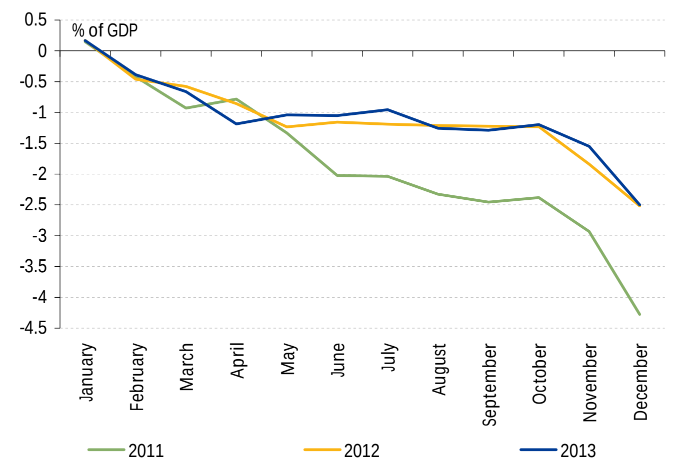
With public spending slippages likely, due to the impending elections, it will be difficult to keep the budget deficit below 3.0%. The indexation of pensions required by law, increase in public sector salaries, reduction in social security contributions for employers, VAT cuts for some other food staples like meat (following the VAT cut for bread) and higher co-financing spending for better EU funds absorption are expected to widen the budget deficit. On the other hand, the excise hike in fuel prices in April, the gradual change in the structure of economic growth from agriculture and net exports to domestic demand and better EU funds absorption are anticipated to be advantageous for the budget balance. The fiscal deficit in 2013 was 2.5% of GDP recording no change from 2012, while revenues declined to 31.7% from 32.9% in the same years. Public spending moderated to 34.2% of GDP in 2013 from 35.4% in 2012.

Romania has made considerable progress in recent years. Long stranding macroeconomic imbalances and fiscal improvidence have diminished, while the outlook has also improved as a result of the gradual Euro area recovery. However, political uncertainty has heightened and seems to be lingering. The recent collapse of the ruling coalition has intensified political pressure ahead of the presidential elections (scheduled for November).

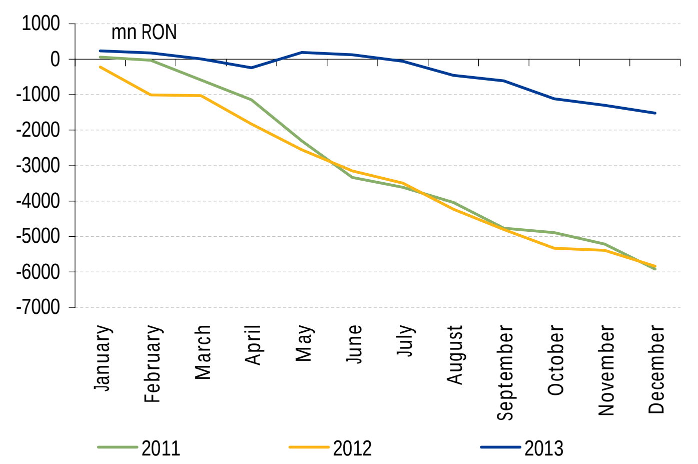
The new coalition consisting of the PSD, the Hungarian minority party and other independent MPs appears to be faltering. Political pressure to boost spending is likely to intensify ahead of the presidential elections, while the government's commitment to remain in compliance with the EU's EDP and the IMF's SBA will require a substantial effort from the new governmental coalition, in order to satisfy and effectively balance these two conflicting pressures.

The trade balance is expected to post little change, as the widening surplus for services will be offset by the anticipated pick-up in imports of goods, due to higher domestic demand. Moreover, further reduction in the current account deficit will be very difficult to achieved due to a widening deficit in the income account. Additionally, a larger interest payment for the foreign holdings of bonds is needed. Therefore, we expect the current account deficit to widen to almost 2% of GDP. In 2013, the current account deficit narrowed to 1.1% of GDP from 4.3% in 2012, as the trade deficit declined correspondingly.

5.4.7 Fiscal Balance Evolution



5.4.8 Current Account Balance Evolution



Source: Piraeus Bank Research, National Sources, Eurostat

Romania Economic Indicators							
	2011	2012	2013	2014f	Q2 2013	Q3 2013	Q4 2013
			% YoY				
GDP	2.2	0.6	3.3	2.9	1.5	4.3	5.2
Final Consumption	1.3	1.3	0.9	2.0	-0.3	0.4	3.0
Investment	6.8	4.1	-3.9	3.0	-2.6	-3.4	-3.3
Exports of G&S	12.0	-1.7	13.1	10.0	7.8	19.3	18.1
Imports of G&S	10.6	-0.4	2.1	5.5	-3.2	6.2	5.2
Industrial Production	7.6	2.5	7.6	5.0	5.4	8.3	10.5
Retail Sales	-1.0	4.0	0.6	--	-1.3	0.0	3.2
Unemployment Rate	5.4	5.1	5.3	5.5	5.0	4.9	5.6
Inflation (avg)	5.8	3.3	4.0	3.0	5.3	3.3	1.8
Monetary Policy Rate (eop)	6.0	5.25	4.0	--	5.25	4.50	4.0
EUR/RON Spot Rate (avg)	4.24	4.46	4.42	--	4.40	4.44	4.45
			% of GDP				
Current Account Balance	-4.5	-4.3	-1.1	-2.0	0.1	-0.4	-1.1
Fiscal Balance	-4.3	-2.5	-2.5	-2.9	-1.1	-1.3	-2.5
Public Debt	40.1	41.0	42.3	--	40.3	41.4	42.3
Romania Banking Indicators							
			% YoY				
Private Sector Credit	6.2	1.3	-3.3	-0.5	-1.3	-3.3	-3.3
Firms	10.3	5.2	-5.1	--	-1.3	-4.2	-5.1
Households & NPISHs	2.1	0.2	-1.2	--	-1.2	-2.3	-1.2
Private Sector Deposits	5.6	5.3	9.3	5.2	5.8	5.7	9.3

Source: Piraeus Bank Research, National Sources

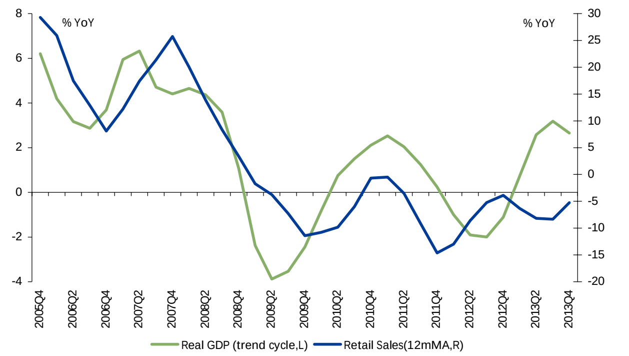
5.5 Serbia

One swallow does make a summer

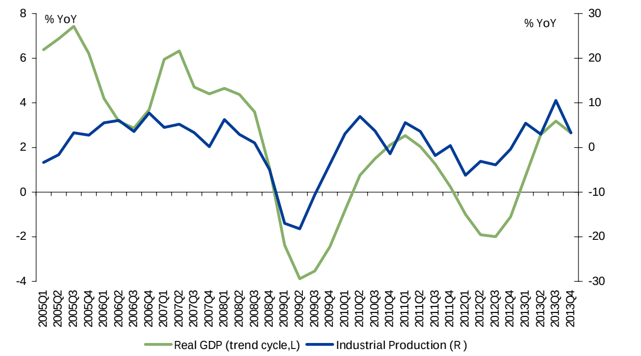
Serbia's economic output in 2014 is expected to slow to 1.3% YoY according to our estimates from 2.5% in 2013. We expect economic activity to continue to grow, but at a slower pace in the current year fuelled by exports, the expected economic recovery in the European Union, industrial production and a marginal recovery in retail sales in the domestic market. Additionally, the high base effect from last year's economic performance will moderate economic activity in 2014. The Fiat factory played a crucial role in the previous year with regards not only to production and exports, but also to a significant improvement in the investment climate and a boost in employment bringing the unemployment rate down to 22.0% in 2014. An increasing number of foreign firms are relocating their production to Serbia, due to the low operating costs, while the country's official accession talks in 2014 is a positive factor. Finally, the non-scheduled presidential elections in March, appointed a new president who vows to proceed with the necessary structural reforms.

In 2013, real GDP recovered significantly, posting growth of 2.5% YoY from a contraction of 1.5% in 2012 due to an increase in exports, improvement in the agricultural season, lower passing through effects of the European debt crisis and marginally improved domestic and external demand. The unemployment rate declined to the lowest level of the last three years in 2013H2 to 20.1%, while in 2013 the rate fell to 22.1% from 24.0% in 2012. Additionally, the leading indicators point to a recovery in economic activity, as industrial production continues to post positive growth figures in 2014, while retail trade has shown signs of recovery since October 2013, signalling an upturn in domestic demand and private consumption.

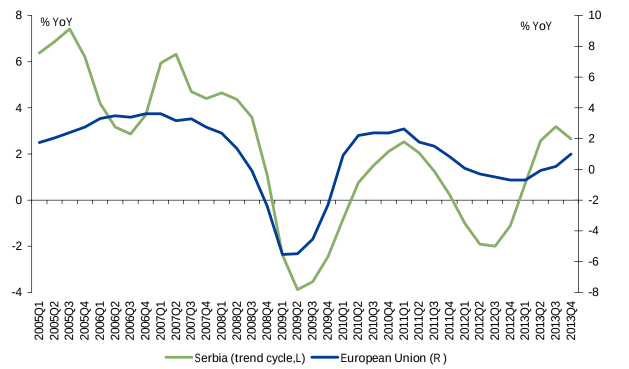
5.5.1 Real GDP & Retail Sales



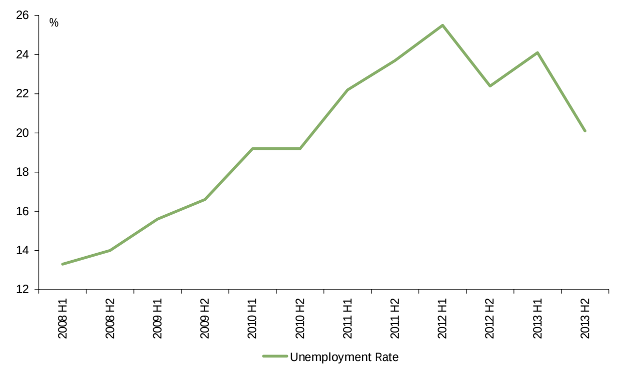
5.5.2 Real GDP & Industrial Production



5.5.3 Real GDP



5.5.4 Unemployment Rate

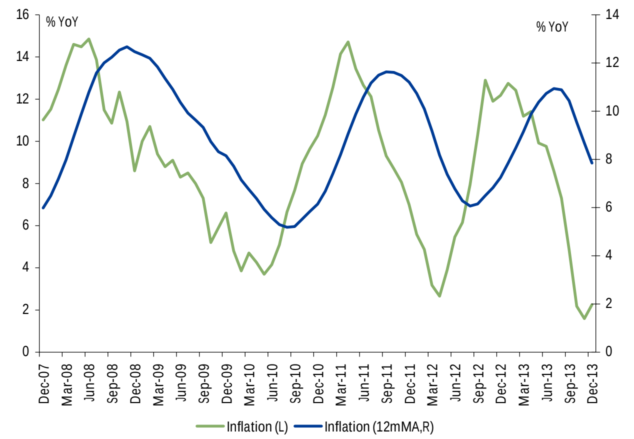


Source: Piraeus Bank Research, National Sources

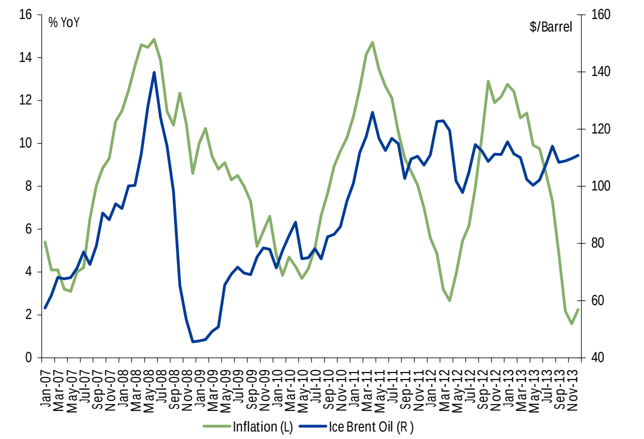
We anticipate that inflation will remain within the National Bank of Serbia's (NBS) target tolerance band in 2014 (4.0% +/- 1.0%), at 5.1% from 7.9% in 2013. The main driving factors of the slow down in inflationary pressures are the high base effect from the previous year and the deflationary trend in food prices since October 2013 that will take some time to return to positive figures. The devaluation of the local currency against the euro will add some pressures to prices; however the stabilisation of oil prices and the prompt monetary policy by the NBS will counterbalance the latter. In 2013, average inflation reached 7.9% from 7.3% in the previous year, mainly due to an increase in food and housing & water prices.

The National Bank of Serbia (NBS) continued its easing of monetary policy, as since February last year the key policy rate has been cut by 225bps to 9.5% in March 2014. The current easing monetary policy aims to address economic activity and avoid any passing though of the volatility in international financial markets.

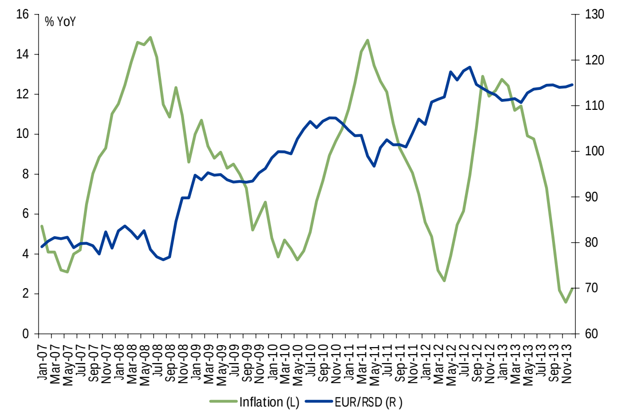
5.5.5 Inflation



5.5.6 Inflation & Brent Oil



5.5.7 Inflation & EUR/RSD Rate



5.5.8 Inflation & NBS Key Policy Rate

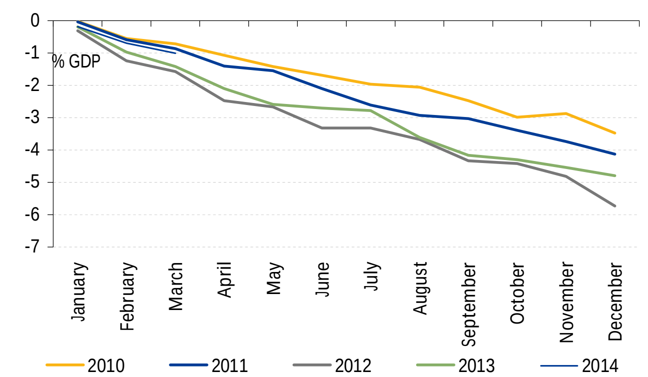
Source: Piraeus Bank Research, National Sources

The fiscal sector remains extremely volatile, as the debt service increases and public debt has increased to over 60% of GDP in 2013. For 2014, we expect the fiscal slippage to continue and the fiscal deficit to widen to 6.5% of GDP. Interest payments are a significant levy for the government. However, on March 6 the government signed a ten-year loan agreement with the United Arab Emirates of USD 1bn at a fixed interest rate of 2.0%. The purpose of this loan is the repayment of old debt with much higher interest rates. The previous and newly-elected government maintained the fiscal consolidation necessaary to narrow the fiscal deficit, mainly by increasing taxation and reducing expenditures.

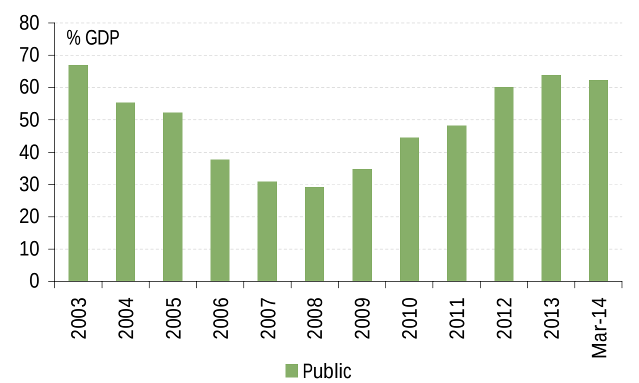
The external sector imbalances have somewhat declined, as the current account deficit in 2013 posted single digit figures narrowing to 4.9% of the expected annual GDP. For 2014, we anticipate the current account balance will remain in single digits, at 4.9% of GDP, as we expect production at the Fiat and other factories to keep export activity elevated. Current account financing improved in 2013 following the squeeze in the previous year, as net FDIs improved to 2.4% of GDP in 2013 from 0.8% in 2012. However, the RSD devaluation in 2013 has led the NBS to intervene in the interbank FX market, increasing the necessity of a new SBA with the IMF to support foreign exchange reserves and RSD stability.

The NPL ratio worsened in 2013Q4 to 21.4% from 18.6% in 2012; however the capital adequacy ratio remains at high levels, as the banking sector shows resilience. The sector remains well-capitalized and stable as the Tier I capital adequacy ratio in 2013Q4 increased to 19.3% from 19.0% in 2012. Liquidity remains at adequate levels, as in 2013 the loans to deposit ratio was 61.4% compared to 66.1% in the previous year.

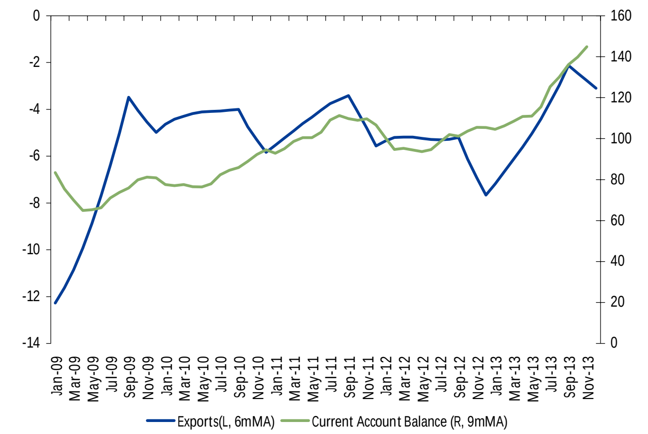
5.5.9 Fiscal Balance Evolution



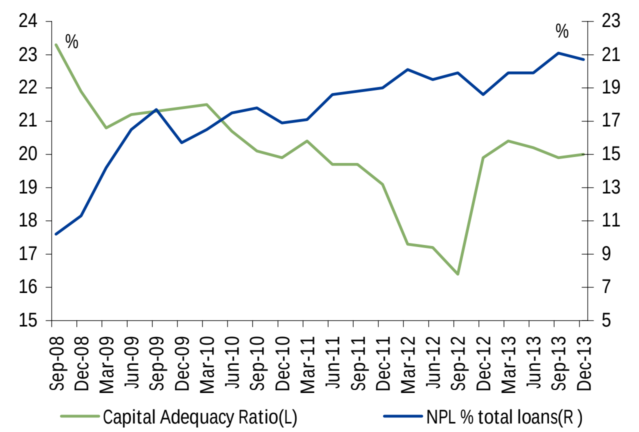
5.5.10 Public Debt Evolution



5.5.11 Current Account Balance & Exports



5.5.12 Banking Liquidity & NPLs



Source: Piraeus Bank Research, National Sources

Serbia Economic Indicators							
	2011	2012	2013	2014f	Q2 2013	Q3 2013	Q4 2013
			% YoY				
Real GDP	1.6	-1.5	2.5	1.3	0.5	3.8	2.7
Unemployment Rate (avg)	23.0	24.0	22.1	22.0	24.1	--	20.1
Industrial Production (avg)	1.9	-3.4	5.6	--	3.0	10.5	3.3
Retail Trade (avg)	-14.6	-3.9	-5.3	--	-5.2	-5.7	1.3
Inflation (avg)	11.2	7.3	7.9	5.1	10.4	6.9	2.0
Monetary Policy Rate (eop)	9.75	11.25	9.50	--	11.0	11.0	9.5
EUR/RSD (avg)	102.0	113.0	113.1	--	112.1	114.2	114.3
			% GDP				
Fiscal Balance	-4.9	-6.4	-4.8	-6.5	-2.2	-3.7	-4.8
Public Debt	48.2	60.2	63.8	--	--	--	--
Current Account Balance	-9.1	-10.9	-4.9	-4.9	-2.8	-3.3	-4.9
Serbia Banking Indicators							
			% YoY				
Loans to the Private Sector	6.1	9.4	-4.5	-2.0	-0.7	-4.9	-4.5
Business Loans	5.8	10.0	-9.5	--	-2.2	-9.2	-9.5
Household Loans	5.4	8.5	3.2	--	1.9	2.6	3.2
Deposits to the Private Sector	5.1	13.3	4.7	4.9	7.6	7.2	4.7

Source: Piraeus Bank Research, National Sources

3.6 Egypt

The GCC to the rescue

The economy has been suffering for the past two years from socio-political shocks, resulting in a deceleration in economic activity. For the Fiscal Year (FY) 2012/13, real GDP increased by 2.1% YoY from 2.2% in FY 2011/12. Following July's coup d'etat, the country suffered increasing risks of financing and shortage of external reserves. In the FY 2012/13, the main growth driver was final consumption, while net exports and investments contributed negatively to real GDP. As the country's fiscal finances continue to deteriorate, we expect that economic activity in the current year will remain constrained. However, on the upside, the recent financial aid that the country received from the Arab world is expected to boost economic activity. Real GDP is expected to increase by 2.2% in the current FY 2013/14 from 2.1% in the previous year. The government must also deal with the increasing unemployment rate and the contracting GDP per capita, while improving living conditions.

Inflationary pressures have decelerated over the last year; however, prices remain at relatively high levels with fears of acceleration in the coming months due to passing through effects from the easing monetary policy and the increase in public sector wages. Hence, we expect inflation in the FY 2013/14 to increase to 10.3% from 6.9% in FY 2012/13, as both the headline and core inflation rates are elevated in the first nine months of the current year. The Central Bank of Egypt (CBE) cut the overnight deposit and lending rates to 8.25% and 9.25% respectively in December following the easing cycle from mid-2013.

The fiscal deficit widened significantly in the previous FY 2012/13 to 14.1% of GDP. However the financial aid from the Arab world of USD 15.0bn to the country will allow the government to finance the fiscal deficit in the current FY. Additionally, the government will have to undertake structural reforms, allowing a better distribution of budget funds. Therefore, we expect the fiscal balance to moderate in FY 2013/14 to 12.5% of the expected annual GDP.

In the external sector, the current account deficit narrowed in FY 2012/13 to 2.1% of GDP from 3.9% in FY 2011/12, while the country faced significant challenges with regards to its financing and declining foreign exchange reserves. This has stabilized in recent months, improving our outlook for the current account balance in the FY 2013/14 to a deficit of 1.6% of GDP.

Egypt Economic Indicators				
	2010/11	2011/12	2012/13	2013/14f
	% YoY			
Real GDP	1.9	2.2	2.1	2.2
Unemployment Rate (avg)	9.0	12.0	12.7	--
Inflation (avg)	11.1	8.7	6.9	10.3
Monetary Policy Rate (eop)	9.0	9.75	10.25	--
USD/EGP	5.9	6.0	6.5	--
	% GDP			
Fiscal Balance	9.8	10.7	14.1	-12.5
Public Debt	52	58.1	66.9	--
Current Account Balance	-4.1	-4.3	0.1	-1.6
Egypt Banking Indicators				
	% YoY			
Loans to the Private Sector	1.6	8.8	8.4	14.0
Deposits to the Private Sector	7.7	7.1	17.2	13.3

Source: Piraeus Bank Research, National Sources

3.7 Ukraine

Clash of the Titans – and Ukraine in the middle

In our 2013 forecasts, published in 2013Q1, the main theme that dominated our analysis was the stability of the currency peg of the Ukrainian Hryvnia against the USD and the increasing risks. One year later, the country has entered into a vicious circle of continuous socio-political turmoil, internal conflicts and a bitter dispute with Russia. At this point, given the unprecedented nature of developments in the country, it is extremely difficult to even attempt to simulate any macroeconomic scenario. However, the leading indicators of the economy and the possible loss of a region, such as Crimea, from the country point towards a severe contraction in 2014. The country plunged into recession in the first nine months of the previous year, as the lack of competitiveness continued and exports stagnated. In 2013Q4, we note an increase in the real GDP of 3.3% from a contraction of 2.3% in 2012Q4, but this can be attributed to the financial assistance from Russia that helped boost activity in the last quarter. In 2013, real GDP remained unchanged compared to the previous year from an increase of 0.5% in 2012.

The domestic unrest that began in November last year has created turmoil in international relations. In the last few months, the three major rating agencies downgraded Ukraine's sovereign credit rating, noting the increasing political uncertainty. A key challenge the country will have to face, apart from the socio-political upheaval is the service of debt and the depreciation of the Ukrainian currency against the dollar. In February, the country had to abandon the peg of the Ukrainian Hryvnia – which was already overvalued – against the USD causing a 37.1% year-to-date depreciation (until April 24th). We estimate that this depreciation will lead to a widening of the current account balance and an increase in inflationary pressures.

On March 27th, the IMF announced a staff level agreement with Ukraine for a two-year financial assistance program of USD 17.01bn. In its statement, the IMF estimates that the total financial support from the international community will amount to USD 27bn. The main priority is to restore stability at the macroeconomic level and in the fiscal and banking sectors. However, this program coincides with an increase in gas prices for the country, which had enjoyed lower prices due to the previous close relations with Russia, and additional structural changes. Further, the widening fiscal deficit, public debt and government arrears are expected to moderate should the IMF program be implemented.

Ukraine Economic Indicators						
	2011	2012	2013	Q2 2013	Q3 2013	Q4 2013
		% YoY				
Real GDP	5.2	0.3	0.0	-1.3	-1.2	3.3
Inflation (avg)	8.0	0.6	-0.3	-0.4	-0.3	0.2
Monetary Policy Rate (eop)	7.75	7.5	6.5	7.0	6.5	6.5
		% GDP				
Fiscal Balance	-1.8	-3.6	-4.4	-4.3	-3.2	-4.4
Current Account Balance	-6.3	-8.1	-9.2	-3.0	-6.4	-9.2
USD/UAH (avg.)	8.0	8.1	8.2	8.1	8.1	8.2
Ukraine Banking Indicators						
		% YoY				
Loans to the Private Sector	9.6	2.0	11.8	4.8	7.0	11.8
Deposits to the Private Sector	18.3	16.1	17.8	21.2	21.8	17.8

Source: Piraeus Bank Research, National Sources

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