



National Bank of Greece has released the September 2006 issue of **South Eastern Europe and Mediterranean Emerging Market Economies Bulletin**. This issue is a special edition devoted to the banking sectors of Albania, Bulgaria, Cyprus, Egypt, FYROM, Romania, Serbia, and Turkey.

All of the countries covered by NBG Emerging Markets face very similar challenges as regards their macro cum banking environment. First, the successful implementation of ambitious reform efforts, with Egypt being an exception as it is at the beginning of their reform phase, are experiencing robust output growth.

Second, the much improved economic climate, in combination with renewed confidence in a restructured and mostly foreign-owned banking system, has resulted in a very rapid credit expansion especially in the little penetrated retail sector. In Bulgaria, Romania and Serbia, the authorities have felt the need to impose constraints on credit as the current account deficits in these countries have reached levels near 10 per cent of GDP, though admittedly these external gaps are, for the most part, covered by FDI. Only in Bulgaria do these constraints appear to have been effective – the country with a penetration level some 70 per cent higher than in the other two countries.

| Real GDP Growth (%) |      |      |       |
|---------------------|------|------|-------|
|                     | 2004 | 2005 | 2006F |
| Albania             | 6.7  | 5.5  | 5.2   |
| Bulgaria            | 5.7  | 5.5  | 5.8   |
| Cyprus              | 3.8  | 3.8  | 3.7   |
| Egypt **            | 4.2  | 5.0  | 5.8   |
| FYROM               | 2.9  | 4.0  | 4.2   |
| Romania             | 8.4  | 4.1  | 6.2   |
| Serbia              | 7.5  | 6.3  | 6.1   |
| Turkey              | 8.9  | 7.4  | 5.8   |

F: NBG Forecasts, \*\* Fiscal year ending on June 30<sup>th</sup>

| Current Account Balance (% of GDP) |       |       |       |
|------------------------------------|-------|-------|-------|
|                                    | 2004  | 2005  | 2006F |
| Albania                            | -5.4  | -6.7  | -7.4  |
| Bulgaria                           | -5.8  | -11.3 | -14.0 |
| Cyprus                             | -5.7  | -5.8  | -5.6  |
| Egypt **                           | 4.3   | 3.1   | 1.6   |
| FYROM                              | -9.2  | -2.7  | -3.8  |
| Romania                            | -8.4  | -8.7  | -9.5  |
| Serbia                             | -15.4 | -9.3  | -9.8  |
| Turkey                             | -5.2  | -6.2  | -6.6  |

F: NBG Forecasts, \*\* Fiscal year ending on June 30<sup>th</sup>

| Share in Assets of Foreign to Total Banks* (%) |      |      |      |
|--|------|------|------|
|  | 2003 | 2004 | 2005 |
| Albania  | 48.1 | ---  | ---  |
| Bulgaria                                       | 80.8 | 78.6 | 79.4 |
| Cyprus   | 12.7 | 12.6 | 12.7 |
| Egypt**  | ---  | ---  | ---  |
| FYROM  | 46.9 | 47.3 | 49.4 |
| Romania  | 50.6 | 53.6 | 54.7 |
| Serbia   | 38.4 | 55.6 | 66.0 |
| Turkey   | 2.9  | 3.4  | 5.2  |

\* Weighted average for three or four largest banks

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

| Private Sector Lending Growth (%) |      |      |       |
|-----------------------------------|------|------|-------|
|                                   | 2004 | 2005 | 2006* |
| Albania                           | 37.0 | 74.9 | 59.9  |
| Bulgaria                          | 49.1 | 35.3 | 23.6  |
| Cyprus                            | 7.5  | 6.8  | 16.9  |
| Egypt **                          | 4.5  | 3.6  | 8.6   |
| FYROM                             | 25.5 | 20.8 | 27.6  |
| Romania                           | 40.7 | 50.7 | 59.3  |
| Serbia                            | 56.9 | 52.6 | 57.3  |
| Turkey                            | 54.4 | 53.5 | 57.1  |

\* June 2006, \*\* Fiscal year ending on June 30<sup>th</sup>

| Private Sector Lending/GDP (%) |       |       |       |
|--------------------------------|-------|-------|-------|
|                                | 2004  | 2005  | 2006* |
| Albania                        | 9.0   | 14.6  | 17.5  |
| Bulgaria                       | 34.5  | 42.5  | 43.1  |
| Cyprus                         | 124.0 | 123.7 | 133.2 |
| Egypt **                       | 53.4  | 48.2  | 47.1  |
| FYROM                          | 21.8  | 25.1  | 27.6  |
| Romania                        | 14.5  | 18.8  | 22.5  |
| Serbia                         | 18.9  | 23.4  | 25.1  |
| Turkey                         | 18.4  | 24.7  | 29.1  |

\* June 2006, \*\* Fiscal year ending on June 30<sup>th</sup>

| LC Deposits / Total Deposits (%) |      |      |       |
|----------------------------------|------|------|-------|
|                                  | 2004 | 2005 | 2006* |
| <b>Albania</b>                   | 68.8 | 65.2 | 64.0  |
| <b>Bulgaria</b>                  | 52.3 | 52.9 | 50.7  |
| <b>Cyprus</b>                    | 62.5 | 54.9 | 54.4  |
| <b>Egypt **</b>                  | 67.8 | 72.4 | 71.6  |
| <b>FYROM</b>                     | 44.7 | 43.5 | - - - |
| <b>Romania</b>                   | 60.1 | 67.8 | 68.9  |
| <b>Serbia</b>                    | 31.4 | 29.7 | 27.9  |
| <b>Turkey</b>                    | 52.1 | 60.6 | 60.7  |

\* June 2006 \*\* Fiscal year ending on June 30<sup>th</sup>

Third, confidence in the banking system, as expressed in the share of local currency deposits to total sector deposits has increased in most countries, though this ratio rarely exceeds 60-70 per cent, however, with loan growth experiencing an even faster expansion, liquidity shortages are appearing in several countries (Bulgaria, Romania, Serbia and Turkey), putting banks with large market shares in local currency deposits at a comparative advantage. An exception to this trend is Serbia, where euroisation of the economy continues, with the local currency share of deposits falling below 30 per cent in June 2006.

| LC Loans/LC Deposits (%) |       |       |       |
|--------------------------|-------|-------|-------|
|                          | 2004  | 2005  | 2006* |
| <b>Albania</b>           | 5.6   | 11.6  | 15.5  |
| <b>Bulgaria</b>          | 96.3  | 99.9  | 106.4 |
| <b>Cyprus</b>            | 95.7  | 92.8  | 95.6  |
| <b>Egypt **</b>          | 76.1  | 65.6  | 63.6  |
| <b>FYROM</b>             | 126.4 | 123.3 | - - - |
| <b>Romania</b>           | 45.1  | 54.0  | 71.0  |
| <b>Serbia</b>            | 178.8 | 205.0 | 233.3 |
| <b>Turkey</b>            | 70.0  | 84.1  | 92.3  |

\* June 2006, \*\* Fiscal year ending on June 30<sup>th</sup>

Fourth, the aggressive entry of foreign banks into these markets has increased competition significantly, resulting in a sharp compression in spreads, especially notable in Romania and Turkey, albeit from high levels, but also in Bulgaria, Cyprus. However, the NIM has been much less affected due to the improved asset mix, with loans, especially retail loans, replacing securities on balance sheets. Indeed, the NIM has only declined in

Romania and Turkey, but again from relatively high levels, and remaining above those in other countries of the region.

| Local Currency Lending-Deposit Interest Rate Spread (%) |      |      |       |
|---|------|------|-------|
|   | 2004 | 2005 | 2006* |
| <b>Albania</b>  | 4.3  | 7.7  | 7.3   |
| <b>Bulgaria</b>   | 6.2  | 5.2  | 5.1   |
| <b>Cyprus</b>   | 3.7  | 3.3  | 3.1   |
| <b>Egypt **</b>   | 5.4  | 5.6  | 5.3   |
| <b>FYROM</b>  | 6.0  | 5.7  | 6.8   |
| <b>Romania</b>  | 14.5 | 13.0 | 9.7   |
| <b>Serbia</b>   | 11.2 | 10.7 | 11.5  |
| <b>Turkey</b>   | 15.4 | 9.6  | - - - |

\* June 2006 \*\* Fiscal year ending on June 30<sup>th</sup>

| Net Interest Margin* (%) |      |      |      |
|--------------------------|------|------|------|
|                          | 2003 | 2004 | 2005 |
| <b>Albania</b>           | 3.2  | 3.3  | 3.7  |
| <b>Bulgaria</b>          | 5.1  | 6.2  | 6.4  |
| <b>Cyprus</b>            | 2.6  | 2.8  | 2.7  |
| <b>Egypt**</b>           | 1.3  | 1.5  | 1.7  |
| <b>FYROM</b>             | 4.3  | 4.4  | 4.9  |
| <b>Romania</b>           | 6.7  | 7.4  | 5.5  |
| <b>Serbia</b>            | 5.3  | 4.7  | 4.8  |
| <b>Turkey</b>            | 8.2  | 7.9  | 6.7  |

\* Weighted average for three or four largest banks  
\*\* Fiscal year ending on June 30<sup>th</sup>

Fifth, the rapid loan growth and the higher loan penetration rates are leading to higher provisions, albeit from relatively low levels in most countries. Only in the countries with a heavy stock of NPLs remaining from financial crises are provision levels high (e.g. FYROM and Serbia).

| Provisions / Average Total Loans* (%) |       |      |      |
|---------------------------------------|-------|------|------|
|                                       | 2003  | 2004 | 2005 |
| <b>Albania</b>                        | - - - | 0.3  | 0.8  |
| <b>Bulgaria</b>                       | - - - | 0.8  | 1.4  |
| <b>Cyprus</b>                         | 2.0   | 1.6  | 1.3  |
| <b>Egypt**</b>                        | 3.1   | 2.5  | 3.1  |
| <b>FYROM</b>                          | 2.6   | 2.8  | 3.8  |
| <b>Romania</b>                        | 0.8   | 1.7  | 1.4  |
| <b>Serbia</b>                         | 2.6   | 4.2  | 5.8  |
| <b>Turkey</b>                         | 1.5   | 3.1  | 3.2  |

\* Weighted average for three or four largest banks  
\*\* Fiscal year ending on June 30<sup>th</sup>

| <b>ROAE (%)</b> |             |             |             |
|-----------------|-------------|-------------|-------------|
|                 | <b>2003</b> | <b>2004</b> | <b>2005</b> |
| <b>Albania</b>  | 19.5        | 21.3        | 22.4        |
| <b>Bulgaria</b> | 15.0        | 16.8        | 18.9        |
| <b>Cyprus</b>   | -5.8        | 4.3         | 9.5         |
| <b>Egypt **</b> | 8.9         | 9.8         | 10.7        |
| <b>FYROM</b>    | 2.3         | 6.2         | 8.8         |
| <b>Romania</b>  | 17.6        | 18.0        | 14.9        |
| <b>Serbia</b>   | -1.5        | -5.4        | 6.5         |
| <b>Turkey</b>   | 16.0        | 15.8        | 12.4        |

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

| <b>Cost to Income Ratio* (%)</b> |             |             |             |
|----------------------------------|-------------|-------------|-------------|
|                                  | <b>2003</b> | <b>2004</b> | <b>2005</b> |
| <b>Albania</b>                   | 43.0        | 49.8        | 53.8        |
| <b>Bulgaria</b>                  | 52.2        | 50.0        | 43.3        |
| <b>Cyprus</b>                    | 68.0        | 63.9        | 59.4        |
| <b>Egypt**</b>                   | 38.7        | 34.3        | 34.2        |
| <b>FYROM</b>                     | 63.6        | 61.6        | 57.9        |
| <b>Romania</b>                   | 68.7        | 59.3        | 61.2        |
| <b>Serbia</b>                    | 51.2        | 55.6        | 55.3        |
| <b>Turkey</b>                    | 54.6        | 50.0        | 48.6        |

\* Weighted average for three or four largest banks  
\*\* Fiscal year ending on June 30<sup>th</sup>

Sixth, this benign environment has led to significant increases in bank profitability in all of these countries, Romania being the only exception, but again from a relatively high level (please note that the results in Turkey are biased by the large but exceptional provisions of one bank, without which sector ROE would have exceeded 20 per cent, among the highest in the region). This trend should continue in the coming years as the asset mix continues to improve, reverse currency substitution shifts lending to high spread local currency lending, and spread compression slows. Profits will also be supported by the low cost base in these countries.

South Eastern Europe & Mediterranean Emerging Market Economies Bulletin can be viewed at: <http://www.nbg.gr/publications/bulletin.html>