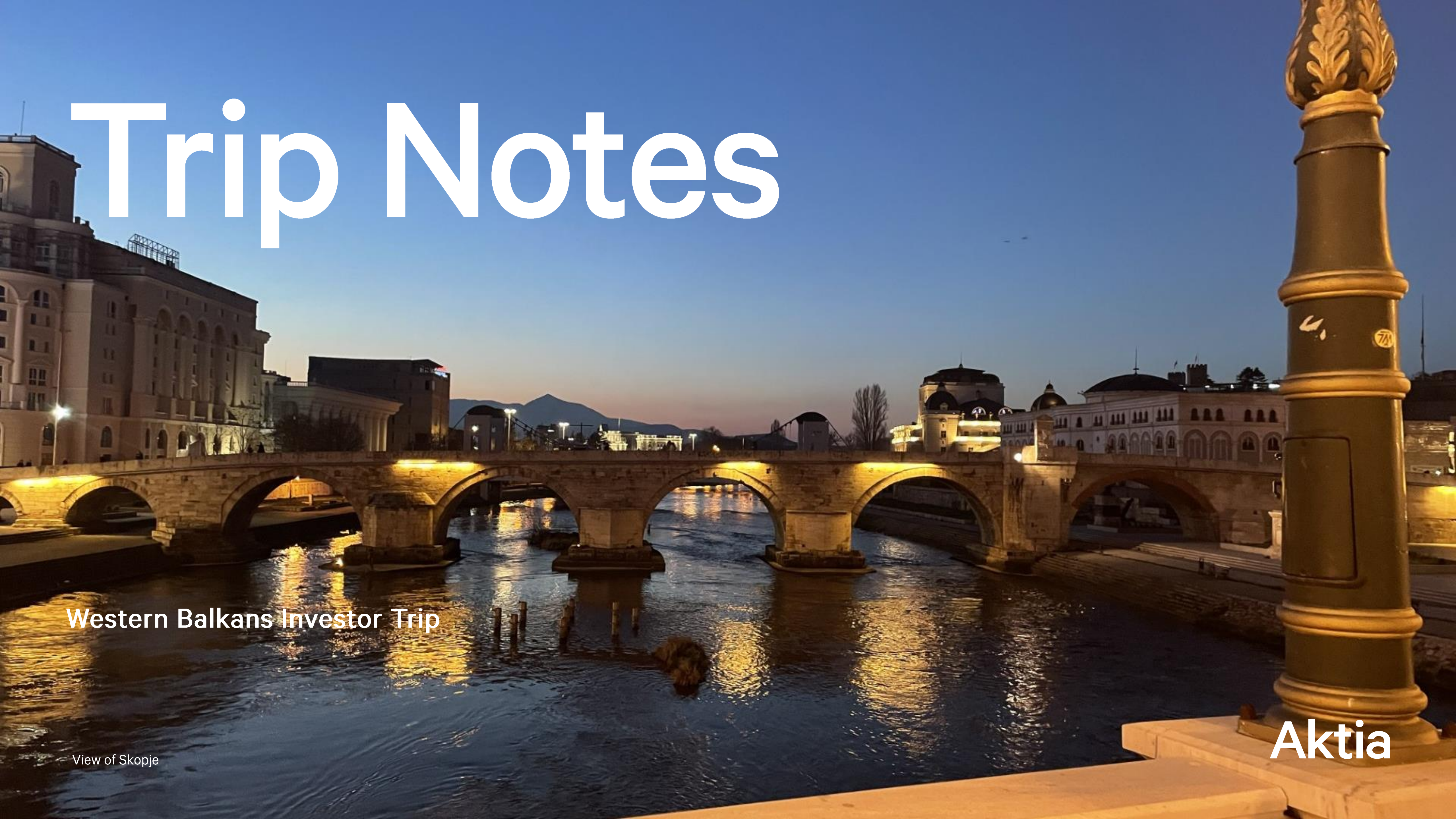
Trip Notes

Western Balkans Investor Trip



View of Skopje

Aktia

Summary

- We visited four countries in the Western Balkans region, Albania, Montenegro, Serbia and North Macedonia.
- This was a follow-up country trip to the corresponding on we did in March 2024.
- The main topics of discussions during the trip were domestic politics, fiscal strategy and EU accession.
- The overall macro picture continues to be relatively stable in all of the four countries. Albania and Montenegro continue to be highly tourism driven economies while Serbia and North Macedonia have more exposure to manufacturing sectors. Infrastructure investments also supporting the underlying growth picture. A common source of risk is the overall exposure to growth in the rest of Europe (especially Germany).

View of Albanian countryside near Shkodër

Albania

Similarly to the year before, the first stop of the trip was in Tirana, Albania. The country is in the middle of a massive tourism boom, enjoying solid economic growth and seeing a stable appreciation of its currency.

The political landscape in Albania has been relatively stable the last 10 years, with the Socialist Party forming a government headed by Edi Rama since 2013. The country is going into general elections in May 2025, with the re-election of the current government as a probable scenario. There has however, been some recent corruption related arrests of leading Socialist Party figures which could dent voting intentions. On the other hand, the opposition parties are weak and suffer from similar corruption related issues.

Relative to our country visit in 2024, the Albanian EU accession by 2030 was seen, on the margin, as somewhat more realistic. The Albanian steps taken on judicial and corruption reform are key for this project, but corruption still remains a large issue in the country. Along with Montenegro, Albania was however seen as the most probable country to see EU accession within 5 years.

The Albanian economy has seen stable GDP growth around 3-4 percent per year over the last 10 years, excluding the Covid related recession in 2020 and consequent rebound in 2021. For 2025 growth is expected to continue hovering around 4 pct in real terms, slightly above the consensus estimates of potential growth at around 3.5 percent. Growth is driven mainly by the tourism and construction sectors. Tourists have flocked to Albania during the last years with the number of tourists reaching almost 12 million in 2024, a near doubling during the last five years and 15% more than in 2023. Mainly driven by the increased demand from the tourism sector, the construction sector also grew around 5% during 2025. Construction is also supported by the constant inflow of remittances, which partly are directed to real estate investments. GDP per capita is still quite low, only approximately 25 percent of the EU average.

Inflation has been low, around two percent, despite wages rising quite strongly during 2024. The central bank initiated rate cuts during 2024, with the current monetary policy rate at 2.75 percent. The Albanian currency, lek, has continued to appreciate which has contributed to the subdued inflationary development. As noted already during our visit in 2024, the currency

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Albania

appreciation has led to decreased competitiveness of export products such as agriculture. The central bank of Albania, which has continued to grow its FX reserves (EUR 6.3bn 01/2025), has made some interventions in the FX market to control the Lek appreciation but still maintains its strategy to hold 7-8 months of imports as FX reserves.

On the fiscal side, the Albanian government recorded the lowest fiscal deficit during the last 30 years in 2024. The deficit came out at 0.7 percent of GDP, clearly below the budgeted deficit of 2.4 percent. The main driver of this was less government investments than budgeted, which has become somewhat of a trend during the last few years. Underspending of capital expenditure plans could be negative for longer term growth potential. Medium term fiscal deficits are expected to be in the range of 1.5-1.6 percent of GDP. Although the government has been able to increase revenue collection through VAT and excise tax collection, expenditure pressures are quite high due to large wage increases driven by a tight labor market. Potential to increase revenues exist but rely on successful abolishment of tax exemptions and increasing tax compliance.

On the back of favourable fiscal dynamics, government debt has been on a decreasing trajectory with gross debt standing around 55% at the end of 2024. We gathered that the debt management office intends to increase the share of local, lek denominated, debt issuance in the coming years. However, the local market remains accessible only through local banks or a specific custodian bank, limiting the interest of foreign investors.

Albania's greatest problem in terms of long-term growth, remains the continued decline in its population. Projections estimate that the population will decline by 15% over the coming 10 years, worsening for example the age dependency ratio outlook even further. Population decline and emigration is already emerging as a general lack of labor in the country. This could turn into a constraint for the continued growth of tourism, which is labor intensive. In addition, wage increases have been relatively aggressive during recent years, decreasing the appetite for manufacturing related FDI flows.

Our View: Our Emerging Markets Hard Currency strategy currently holds a ~2.5 percent position in Albanian EUR denominated sovereign debt. Albania is not included in the benchmark of the fund. We continue to view Albania's progress on the fiscal front and continued implementation of reforms as positive, while the demographic picture is clearly a long-term challenge. If the Albanian Debt Management Office was to issue a LEK-denominated Global Bond we would consider investing from our Frontier strategy.

	2025F	**2024F**	**2023**	**2022**	**2021**	**2011 - 2019**
Real GDP (% annual percent change)	3.4%	3.3%	3.5%	4.9%	8.9%	2.5%
Inflation (% annual percent change)	2.4%	2.2%	4.8%	6.7%	2.0%	2.0%
Overall Fiscal Balance (% of GDP)	-2.6%	-2.2%	-1.4%	-3.7%	-4.6%	-3.1%
Government Debt (% of GDP)	57.0%	58.3%	59.8%	65.5%	75.2%	68.9%
Current Account (% of GDP)	-1.0%	-0.8%	-1.2%	-5.9%	-7.7%	-9.0%

Aktia, IMF and Macrobond

Montenegro

Montenegro seemed to have come furthest in its EU ambitions of the four countries visited during the week. The governments strong ambition is to complete all chapters linked to the EU accession by end of 2026. Any EU membership-related laws that need to pass in parliament should be approved swiftly, given that the government holds close to an absolute majority in the current parliament. Progress on the EU accession front was confirmed by most speakers during our visit, making a 2030 EU accession very likely.

Growth is expected to hover in the 3.5-4 percent range for the coming years. Montenegro has relied on stable growth in tourism during the latest years, but this trend stagnated in 2024 with growth in tourism moderating to around 1 percent. To maintain growth within tourism sector, which makes up 30 percent of GDP in Montenegro, the country needs more infrastructure to increase tourism capacity. Given that the current governments revenue strategy has been tilted towards VAT and excise tax collection, a continued growth in the tourism sector is key for government finances. Energy production and becoming a regional energy exporter is another high priority growth initiative. The country intends to expand renewable energy and especially hydropower production during the coming years.

In terms of government fiscals, the 2024 figure came out at 3.1 percent deficit while for 2025 estimate vary in the range of 3.5-4.0 percent and 2026-2027 at around 3 percent. While revenue collection relies heavily on the development of the tourism sector, removal of the informal economy and broadening of the tax base, expenditures are pressured by significant wages hikes within the public sector. As noted also during our previous trip in 2024, the government sector has become somewhat bloated during recent years. Government debt is currently around 62% and seen to be on a stable trajectory for the coming years.

Montenegro continues to run a large current account deficit of approximately 17 percent of GDP, due to large imports of consumption goods and investments. Inflation has however been decreasing since the peak in 2022 and was around 4.2 percent in 2024, helped by the use of the euro as its currency.

Our View: Our Emerging Markets Hard Currency strategy currently holds an ~2 percent position in Montenegro. Risk premiums on Montenegro's bonds are tight, both relative to its regional peers and rating (B+/BB-). On the other hand we Montenegro is less exposed to global risk factors and serves as a diversifying element to our portfolio.

	2025F	2024F	2023	2022	2021	2011 - 2019
Real GDP (% annual percent change)	3.7%	3.7%	6.0%	6.4%	13.0%	2.9%
Inflation (% annual percent change)	3.7%	4.2%	8.6%	13.1%	2.4%	1.7%
Overall Fiscal Balance (% of GDP)	-4.5%	-3.1%	0.8%	-4.1%	-1.7%	-5.0%
Government Debt (% of GDP)	59.5%	62.2%	61.5%	70.6%	85.6%	64.4%
Current Account (% of GDP)	-14.0%	-14.5%	-11.6%	-12.9%	-9.2%	-14.3%

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Serbia

Serbia continues to exhibit some of the strongest fiscal and macro economic developments in the region, while both the geopolitical and political risks remain elevated with student protest dominating headlines recently.

The Serbian economy grew by just below 4 percent in 2024 and this is expected to accelerate to around 4.5 percent in 2025. Primary growth drivers are increased domestic demand supported by both wage and pension hikes and investments mainly focused on infrastructure related to the Expo 2027 project. Real wages grew by nine percent in 2024 and are expected to moderate to 6-7 percent during 2025, while the Expo 2027 related infrastructure investments are expected to total EUR 18 bn, roughly 20% of GDP. The Serbian fiscal policy and reform agenda is supported by the IMF Policy Coordination Instrument (PCI) and so far the government has successfully implemented the needed measures. For 2024 the fiscal deficit was recorded at 2.2 percent (vs initial estimate of 3 percent) and based on the PCI commitment the deficit should not exceed 3 percent during the current and following two years.

Serbia has been running a consistent current account (CA) deficit (6.3% in 2024) during recent years, mainly due to imports of consumer goods and investments (Expo 2027). The normalized CA deficit is expected to be around 4 percent of GDP once the Expo project is done. The Serbian dinar has however been stable or even slightly appreciating, thanks to Serbia

Serbia

continuing to attract large FDI inflows (~EUR 5bn in 2024, 69% of all FDI in the Balkan region). In addition, Serbian FX reserves have risen to an impressive ~EUR 29 bn by the end of February 2025 (EOY 2024 GDP was EUR 82bn). In addition, the government cash position is generous (6% of GDP) while government debt / GDP was 47.2% at the end of 2024 and expected to remain there over the coming years.

Serbian politics and geopolitics continue to dominate headlines and cast a shadow over the strong economic fundamentals of the country. Most recently, student driven protests have created negative headlines ever since the tragic accident at the Novi Sad railway station on the 1st of November 2024. Following massive protests, despite prosecution of responsible ministers, the Serbian PM Milos Vucevic announced his resignation in January 2025 and this was formally approved in March. Consequently, the country now faces new elections unless a new government can be formed by mid-April. The protest and heightened political risk have recently also been quoted as the reason for Serbia's credit rating not being upgraded by Fitch.

In addition to the murky domestic political situation, another source of negative headlines has been the possible US sanctions imposed on Serbia's only oil refinery company NIS. Failure to resolve the situation risks Serbia being cut from receiving crude oil supply (mainly from Croatian Janafs pipelines). The issue lies in NIS ownership structure, where Russian Gazprom and Gazprom Neft are the majority shareholders alongside a ~30 percent stake held by the Serbian state.

Our View: Our Emerging Markets Hard Currency strategy currently holds an ~2.5 percent position in Serbia. Without any further negative domestic turmoil, Serbia is likely to receive another IG credit rating during 2025. Serbian risk premiums already are, to a large extent, pricing in a further rating upgrade. Our Frontier strategy is currently not invested in Serbia due to lowish nominal yields.

	2025F	2024F	2023	2022	2021	2011 - 2019
Real GDP (% annual percent change)	4.1%	3.9%	2.5%	2.6%	7.7%	2.1%
Inflation (% annual percent change)	3.6%	4.5%	12.4%	12.0%	4.1%	4.2%
Overall Fiscal Balance (% of GDP)	-2.3%	-2.6%	-1.3%	-0.1%	-3.3%	-2.6%
Government Debt (% of GDP)	47.4%	48.6%	48.9%	53.5%	56.2%	57.8%
Current Account (% of GDP)	-4.8%	-4.2%	-2.6%	-6.9%	-4.3%	-6.0%

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North Macedonia

The final leg of our trip took us to Skopje where a week of national mourning was evident on the streets. A tragic nightclub fire in the city of Kocani caused the death of almost 60 people during the previous weekend. While the parallels between the Kocani fire and the accident in Novi Sad, Serbia in terms of potential corrupt procedures relating to permits and oversight were discussed, the potential for widespread protests affecting the political situation in the country were downplayed. The current government which took control in the summer of 2024 is still enjoying fairly good popularity and has been successfully cracking down on corruption since taking office.

The macro economic developments were in line with the rest of the region during 2024. GDP grew approximately 3 percent and is expected to accelerate modestly during 2025. Growth is underpinned by continued FDI flow and government led capital investment plans, mainly related to the EU corridor 8 and 10 infrastructure projects. Growth related sources of uncertainty are mainly concentrated around the future of continued FDI flow from (mainly) German automotive companies and the long-term issues surrounding the bleak demographic outlook. Over the medium term, FDI is expected to stay at a level of approximately 4 percent / GDP.

The new governments fiscal execution has, so far, been rather soft relative to its 2025-2029 strategy targeting reduced deficits and debt levels. The 2024 fiscal deficit came out at above 4.5 percent and is expected to stay around 4 percent in 2025. Expenditure pressures are high in both pensions and public sector wages while increase revenue collection relies on increased tax compliance, reduced informality and improved digitalization of services. Question marks remain about the ability to reach the Maastricht criteria (3% deficit / 60% debt) by the end of the fiscal strategy period. Currently government debt at around 62% of GDP, but accounting for government arrears the figure above 65%.

On a more positive note, inflation is expected to remain under control at around 3-4 percent. In addition, the current account deficit is relatively low at around 2 percent and balanced by both solid FDI and FX reserves of above 25% of GDP.

Our View: Our Emerging Markets Hard Currency strategy currently holds an ~2.2 percent position in North Macedonia. The country is not part of the strategy's benchmark. Risk premiums are the widest in North Macedonia relative to the three other countries, but on a global level relatively tight. Similar to Montenegro, we believe North Macedonia has relatively low exposure to global risk factors and serves as a diversifying element to our portfolio.

	2025F	**2024F**	**2023**	**2022**	**2021**	**2011 - 2019**
Real GDP (% annual percent change)	3.6%	2.2%	1.0%	2.2%	4.5%	2.6%
Inflation (% annual percent change)	2.3%	3.3%	9.4%	14.2%	3.2%	1.4%
Overall Fiscal Balance (% of GDP)	-4.5%	-5.0%	-4.9%	-5.3%	-5.3%	-3.0%
Government Debt (% of GDP)	57.2%	56.4%	54.5%	51.6%	52.8%	36.8%
Current Account (% of GDP)	-2.5%	-2.1%	0.7%	-6.1%	-2.8%	-1.7%

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