

COUNTRIES IN FOCUS:

TÜRKIYE1

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TRY appears to be winning back investors' confidence

Türkiye braces for a soft landing, as tightening financing conditions take hold and public purse strings tighten

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Monetary policy is envisaged to remain cautious, given inflation risks and ample liquidity in the banking system

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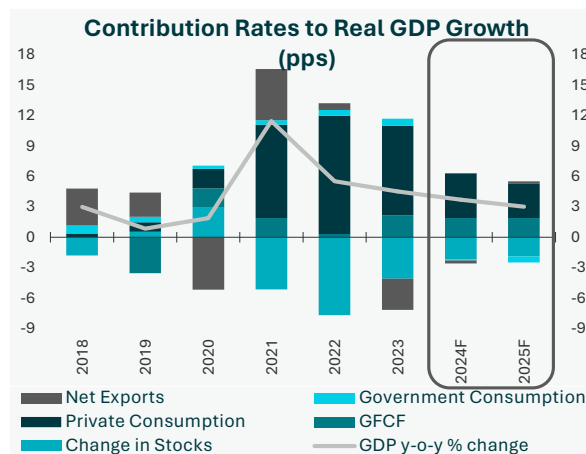
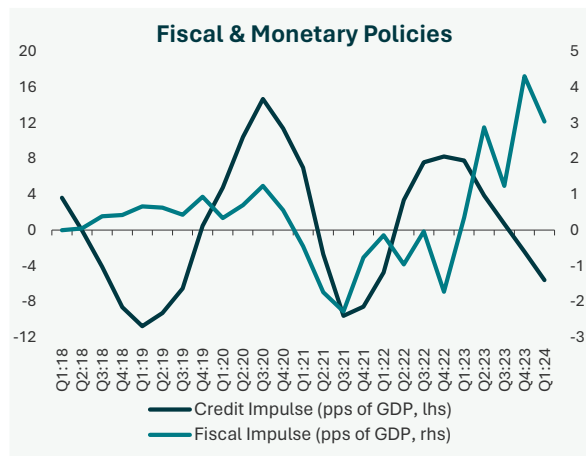
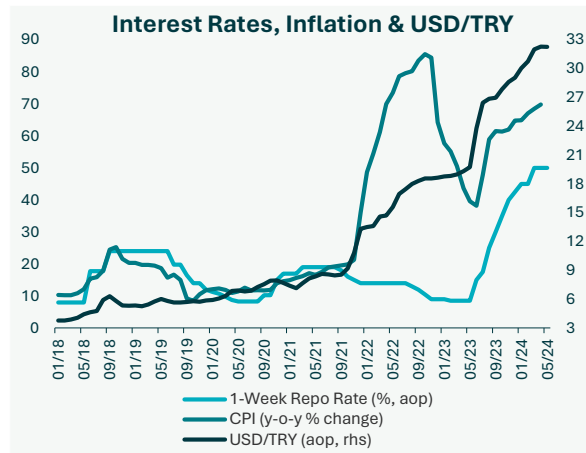
Albania emerges as Europe's fastest-growing tourism destination, with the sector's share to GDP reaching an estimated whopping 28.0% in FY:23 from 21.6% in FY:22

Albania has been receiving not only a growing number of tourists from neighbouring countries and vacationing emigrants, but also (higher-spending) EU tourists (especially from Italy) attracted by its low prices

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Türkiye

B / B3 / B+ (S&P/ Moody's / Fitch)



	27 May	3-M F	6-M F	12-M F
O/N TLREF (%)	53.0	53.0	50.0	35.0
TRY/USD	32.1	33.3	34.6	36.0
Sov. Spread (2030, bps)	280	270	260	220

	27 May	1-W %	YTD %	2-Y %
ISE 100	10,657	-0.8	42.7	337.0

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	11.4	5.5	4.5	3.6	3.0
Inflation (eop, %)	36.1	64.3	64.2	41.0	22.0
Cur. Acct. Bal. (% GDP)	-0.9	-5.4	-4.1	-2.4	-2.2
Fiscal Bal. (% GDP)	-2.6	-0.9	-5.2	-5.2	-3.6

Sources: Reuters, CBRT, BDDK, Turkstat & NBS estimates

In light of stubbornly high inflation, the CBRT is set to maintain its tightening bias until late-2024. Recall that, in a bid to address external imbalances and restore investor confidence, which had been shaken by previous unconventional policies trapping the economy into a vicious cycle of weakening TRY and high inflation, the CBRT raised its key rate by a whopping 4,150 bps between June '23 and March '24. The reversal in rates has been complemented by credit and quantitative tightening measures (such as imposition of lending growth caps and hikes in banks' required reserves), as well as a roll-back of macro-prudential regulations stemming dollarization, including the FX-protected deposit scheme and banks' TRY-denominated securities maintenance requirements.

Still, inflation has yet to show signs of sustained easing (see chart), currently standing at a 1½-year high of c. 70% y-o-y, despite favourable global commodity prices. The weaker TRY along with loose fiscal and incomes policies (note that minimum wage, whose level traditionally impacts the entire wage distribution, has doubled compared with a year ago) have been key factors behind this disappointing performance.

Considering the still deeply negative real policy rate (c. -12% in ex-post terms) and the size of the monetary stimulus injected into the economy (note that credit card lending is still growing at a pace of over 100% y-o-y), authorities still have a long way to go before Türkiye's external imbalances get effectively unwind and inflation gets under control.

TRY appears to be winning back investors' confidence Depreciation pressures on the TRY eased in the wake of the turnaround in monetary policy in June, eventually reversing following completion of the election cycle in March (with latter perceived to be significantly reducing political noise -- recall President Erdoğan's track record of populist policy shifts). Indeed, deposit dollarization has been decreasing and foreign investors are returning to Türkiye's asset markets. Note, however, that the need to rebuild FX reserves and stem further appreciation of the TRY in real terms (with CPI-based RRER having increased by more than 20% over the past 9 months) implies injection of additional TRY liquidity into the market, which also needs to be sterilized before fueling inflationary pressures.

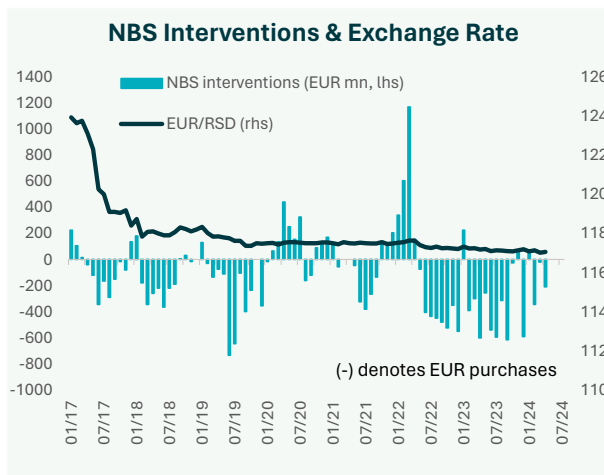
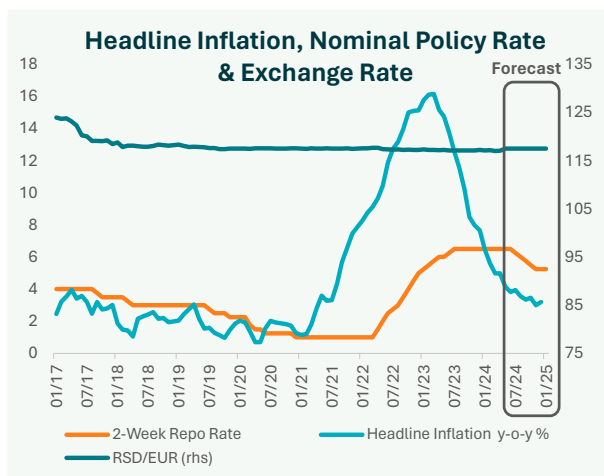
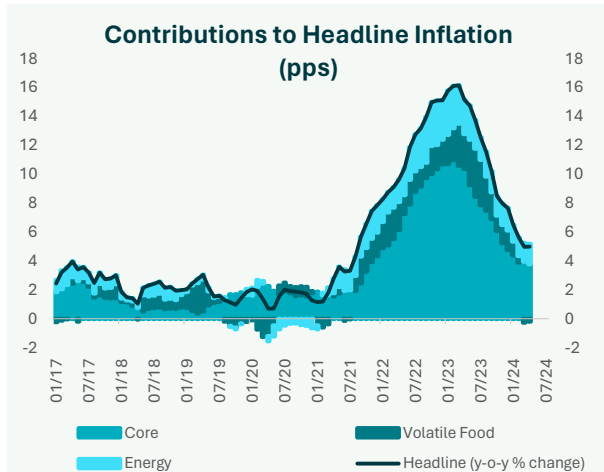
All said, assuming no shock in global commodity prices and a gradual anchoring in inflation expectations, we see authorities cautiously abandoning their tightening bias only towards the end of the year, when inflation is projected to have embarked on a downward trend.

Türkiye braces for a soft landing, as tightening financing conditions take hold and public purse strings tighten. With elections behind us, the Government is set to tighten its fiscal stance, complementing the CBRT's efforts to recalibrate the economy. Indeed, following a significant fiscal slippage in Q1:24, the Minister of Finance announced discretionary spending cuts to reign in the budget deficit.

Against this backdrop, GDP growth is set to slow down gradually on weaker private consumption (with the latter -- albeit having lost some steam -- estimated to be still expanding at nearly double-digit rates, despite the labour market showing signs of cooling-down). Gross fixed capital formation should also decelerate, due to tighter financing conditions and the impact of the weak TRY on corporates' balance sheets, on the one hand, and the fading of the (favourable) base effect from post-earthquake reconstruction activity, on the other hand. Importantly, with domestic and external demand gradually decoupling, net exports should start adding to growth, despite the appreciation of the TRY in REER terms. All said, we see GDP growth easing to 3.6% in FY:24 and 3.0% in FY:25 from 4.5% in FY:23, but with a more balanced structure. Note that the high indebtedness of the private sector (amounting to c. 185% of GDP, with over 40% of which being FX-denominated) poses a threat to macro-financial stability.

Serbia

BB+ / Ba2 / BB+ (S&P / Moody's / Fitch)



	27 May	3-M F	6-M F	12-M F
1-m BELIBOR (%)	5.6	5.4	5.0	4.6
RSD/EUR	117.1	117.5	117.5	117.5
Sov. Spread (2029, bps)	235	225	215	190

	27 May	1-W %	YTD %	2-Y %
BELEX-15	1,001	1.6	14.3	22.2

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	7.7	2.5	2.5	3.9	3.6
Inflation (eop, %)	7.9	15.1	7.6	3.2	3.2
Cur. Acct. Bal. (% GDP)	-4.2	-6.9	-2.6	-3.5	-3.5
Fiscal Bal. (% GDP)	-4.1	-3.2	-2.2	-2.0	-1.5

Sources: Reuters, NBS, OPBC & NBG estimates

Against the backdrop of restrictive monetary policy, disinflation continues, but at a slow pace, reflecting fading favourable base effects. Headline inflation slowed further down to 5.0% y-o-y in April from 7.6% at end-2023 and its peak of 16.2% in March '23. Focusing on y-t-d developments, the main driver behind this performance was the sharp drop in volatile food prices (down 1.7% y-o-y in April '24 against an increase of 14.4% in December '23), mainly reflecting lower production costs and favorable seasonal agricultural developments. Moreover, core inflation (which excludes volatile food and energy prices) continued to moderate, but at a slow pace (reaching 5.2% y-o-y in April against 6.4% at end-2023), in line with tight monetary policy conditions, softer cost-push pressures and lower imported inflation. On the other hand, following fading of favourable base effects from lower global energy prices, domestic energy inflation has eased only marginally since the beginning of the year.

Headline inflation is set to ultimately consolidate within the NBS's target range (of 3±1.5%) in H2:24.

Core inflation is set to continue its downward course, driven, inter alia, by subsiding inflation expectations and lower imported price pressures. This will help more than offset an envisaged modest pick-up in energy inflation, on the back of IMF-mandated changes in domestic energy pricing mechanism, and eventual normalization in volatile food inflation. All said, we see headline inflation abating to 3.2% y-o-y at end-2024, with average inflation retreating to 4.2% in FY:24 from 12.5% in FY:23, still higher than in the pre-pandemic period (less than 2.0%).

Risks to our forecast are tilted to the upside, reflecting strong nominal wage growth (in double-digit territory since late-2021), on the back of tightening labour market conditions and a loose incomes policy and its spillover to the private sector, and potential repercussions from ongoing geopolitical tensions.

Monetary policy is envisaged to remain cautious, given inflation risks and ample liquidity in the banking system.

Recall that in a bid to tackle soaring inflation, the NBS raised its key policy and deposit facility rates by 550 bps and 525 bps between April '22 and July '23, respectively, to 6.5% and 5.25%, while hiking banks' required reserve requirements (September '23). Note that the deposit facility rate appears to be more relevant in the context of the system's large liquidity surplus, as suggested by money market rates stuck at the lower bound of the NBS's interest rate corridor and increased (in terms of volume) open market operations.

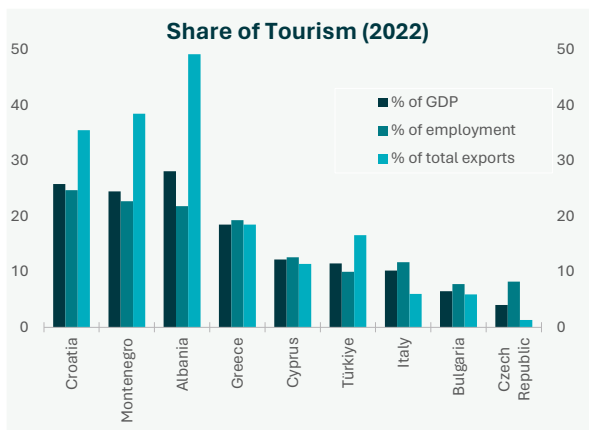
Excess liquidity in the system has been largely fueled by significant net FX inflows, reflecting not only robust foreign direct (FDI) and portfolio investment (incl. c. EUR 1.5 bn Eurobond-issuance at early-2023), but also a narrowing energy balance deficit (on the back of lower global energy prices and a recovery in domestic electricity production).

With the view to maintain the dinar's (RSD) *de-facto* peg with the EUR and contain external competitiveness losses, the NBS has been sterilizing these inflows through FX interventions, having bought a whopping net total of EUR 7.7bn since mid-2022 (equivalent to more than 11.0% of its FY:23 GDP, see chart). As a result, the central bank's foreign exchange reserves surged to a record-high of EUR 25.1bn in April '24 from EUR 14.8 bn in mid-2022, covering more than 6½ months of imports of GNFS and c. 28 times Serbia's short-term external debt.

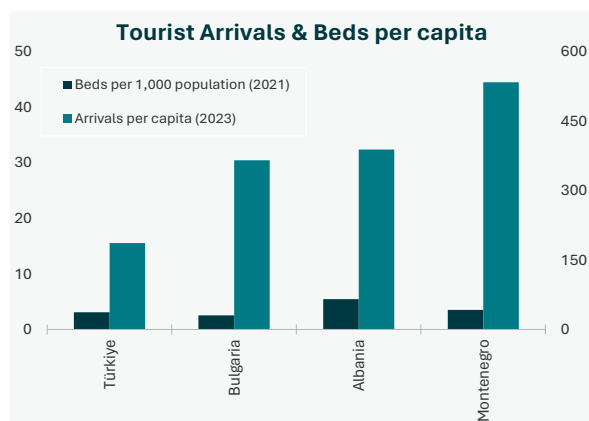
Given upside risks to inflation and the large liquidity surplus in the market, the central bank is expected to remain cautious in the period ahead. As a result, assuming broadly steady net FX inflows, we see an elongated and conservative monetary policy easing cycle, with the NBS lowering its key policy rate by a modest 175 bps to 4.75% by end-2025.

Albania

BB- / B1 / NR (S&P / Moody's / Fitch)



Source: World Travel & Tourism Council, NBG estimates for Albania in FY:23



Source: UNWTO, WB & NBG calculations

	27 May	3-M F	6-M F	12-M F
1-M TRIBOR (%)	3.6	3.6	3.6	4.0
ALL/EUR	100.2	101.4	102.6	103.0
Sov. Spread (2031, bps)	260	250	240	210

	27 May	1-W %	YTD %	2-Y %
Stock Market	---	---	---	---

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	8.9	4.9	3.4	3.6	3.6
Inflation (eop, %)	3.7	7.4	4.0	2.5	3.0
Cur. Acct. Bal. (% GDP)	-7.7	-5.9	-0.9	-1.4	-1.9
Fiscal Bal. (% GDP)	-4.6	-3.7	-1.3	-2.0	-2.0

Sources: Reuters, WEF, WTTC, UNWTO, WB, Ministry of Tourism & NBG estimates

Albania emerges as Europe's fastest-growing tourism destination, with the sector's share to GDP reaching an estimated whopping 28.0% in FY:23 from 21.6% in FY:22. Tourist arrivals to Albania increased, for a second successive year in FY:23, at a robust pace of 34.6%, to a record-high 10.2mn -- well above pre-pandemic levels. Unsurprisingly, against the backdrop, *inter alia*, of still high inflation and Lek appreciation, exports of tourism services, as recorded in the balance of payments, rose at an even stronger pace of 47% in EUR terms, reaching 19.6% of GDP in FY:23, up from 15.8% of GDP in FY:22. Note that the figures are likely underestimated, due to the relatively high level of informality in the sector.

Albania has been receiving not only a growing number of tourists from neighbouring countries and vacationing emigrants, but also (higher-spending) EU tourists (especially from Italy) attracted by its low prices.

The sector's outstanding performance came on the back of increased arrivals from (lower-spending) regional countries with a significant presence of ethnic-Albanian population, especially landlocked Kosovo (up 66.6%, accounting for 43.3% of total arrivals in FY:23) and, to a much lesser extent, North Macedonia (up 9.9%, accounting for 7.3% of total arrivals).

Being home to a large Albanian diaspora, Italy and Greece also added markedly to this performance (up 55.7% and 37.9%, respectively, accounting for 9.4% and 6.6% of total arrivals). In the same vein, a significant increase in arrivals from other (high-income) EU countries (up 56%, accounting for 10.8% of total arrivals), was also reported in FY:23.

Although there are no official figures, we estimate that a non-negligible share of these inflows, especially from Italy, are not related to the Albanian diaspora. Indeed, non-resident stays surged in FY:23 (up 56.8%), albeit from a very low base, highlighting Albania's attractiveness as an alternative cheap regional tourist destination for European travellers, who saw their disposable income getting squeezed last year. In fact, according to the World Economic Forum's Travel & Tourism Development Index (WEF TTDI, 2022), Albania ranks 30th among 117 countries in the Price Competitiveness sub-index, scoring significantly better than other tourism-reliant regional economies.

Note that the capacity of the domestic tourism sector has expanded markedly over the past years (with the number of hotels having increased more than tenfold between 2000 and 2023), driven, *inter alia*, by large tourism related FDI projects.

Importantly, the Government's initiative to upgrade the country's infrastructure (including ports, airports and roads in coastal areas) has been a key factor fostering growth in the sector, with Albania ranking 24th in the WEF's "Prioritization of Travel and Tourism" pillar, which assess "the extent to which the government and investors actively promote and invest in the development of the T&T sector".

All said, Albania has turned out to be one of the most tourism-dependent countries in Southern Europe (see chart), with the sector estimated to account for 28.0% of the country's GDP (up from 21.6% in FY:22), while employing a similar share of workers, generating almost 50% of total exports. At the same time, the surge in tourism receipts has resulted in a structural decline of the current account deficit to just 33% of its long-term historical average, while driving an appreciation of the Lek. Albeit more diversified than before, the economy, nonetheless, is now much more reliant to external demand and more vulnerable to external shocks.

Looking ahead, the sector has much more potential to grow (see chart). Such growth is conditional, however, on closing the large infrastructure gap (with Albania ranking just 71st at the WEF's "Infrastructure" sub-index), reforming the labour market to dissuade workers from leaving the country and further progressing with fight against corruption & organized crime to increase the country's attractiveness as a safe destination.

DETAILED MACROECONOMIC DATA

TÜRKİYE					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (USD million)	816,582	905,789	1,105,009	1,305,472	1,486,153
GDP per capita (USD)	9,643	10,621	12,809	14,965	16,852
GDP growth (real, %)	11.4	5.5	4.5	3.6	3.0
Unemployment rate (% aop)	12.0	10.5	9.4	9.6	10.0
Prices and Banking					
Inflation (% eop)	36.1	64.3	64.2	41.0	22.0
Inflation (% aop)	19.3	71.6	53.1	57.0	26.6
Loans to the Private Sector (% change, eop)	37.0	54.5	53.7		
Customer Deposits (% change, eop)	51.5	68.0	67.1		
Loans to the Private Sector (% of GDP)	67.5	50.4	44.3		
Retail Loans (% of GDP)	14.4	11.2	11.3		
Corporate Loans (% of GDP)	53.1	39.2	33.0		
Customer Deposits (% of GDP)	65.4	53.1	50.7		
Loans to Private Sector (% of Cust. Deposits)	103.2	94.9	87.3		
Foreign Currency Loans (% of Total Loans)	42.2	32.6	32.5		
External Accounts					
Merchandise exports (USD million)	224,673	253,352	250,833	269,979	289,396
Merchandise imports (USD million)	253,994	342,952	337,718	346,562	369,883
Trade balance (USD million)	-29,321	-89,600	-86,885	-76,582	80,487
Trade balance (% of GDP)	-3.6	-9.9	-7.9	-5.9	-5.4
Current account balance (USD million)	-7,398	-49,085	-45,513	-31,316	-33,381
Current account balance (% of GDP)	-0.9	-5.4	-4.1	-2.4	-2.2
Net FDI (USD million)	6,444	8,731	4,665	2,099	3,149
Net FDI (% of GDP)	0.8	1.0	0.4	0.2	0.2
International reserves (USD million)	111,181	128,736	140,884	150,000	165,000
International reserves (Months ^a)	4.7	3.3	5.0	5.0	5.0
Public Finance					
Primary balance (% of GDP)	-0.2	1.1	-2.7	-2.2	-0.7
Fiscal balance (% of GDP)	-2.6	-0.9	-5.2	-5.2	-3.6
Gross public debt (% of GDP)	40.4	30.8	33.0	34.0	34.0
External Debt					
Gross external debt (USD million)	436,381	457,952	499,885	515,000	530,000
Gross external debt (% of GDP)	53.4	50.6	45.2	39.4	35.7
External debt service (USD million)	74,954	67,079	75,000	80,000	85,000
External debt service (% of reserves)	67.4	52.1	53.2	53.3	51.5
External debt service (% of exports)	27.8	21.2	23.9	23.7	23.5
Financial Markets					
Policy rate (Effective funding rate, % eop)	14.0	9.0	42.5	47.5	25.0
Policy rate (Effective funding rate, % aop)	17.6	12.6	20.7	49.0	30.9
10-Y T-bill rate (% eop)	23.1	9.9	23.7	26.0	21.0
Exchange rate: USD (eop)	13.32	18.69	29.48	36.00	39.00
Exchange rate: USD (aop)	8.89	16.57	23.78	32.74	37.50

f: NBG forecasts; a: months of imports of GNFS

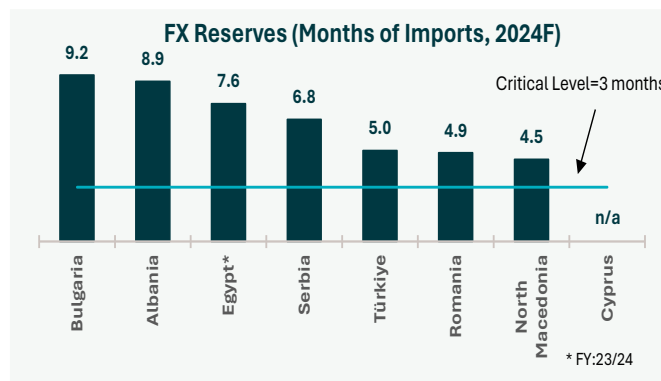
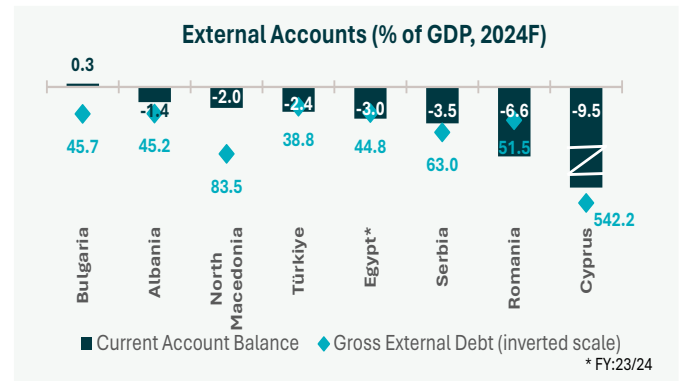
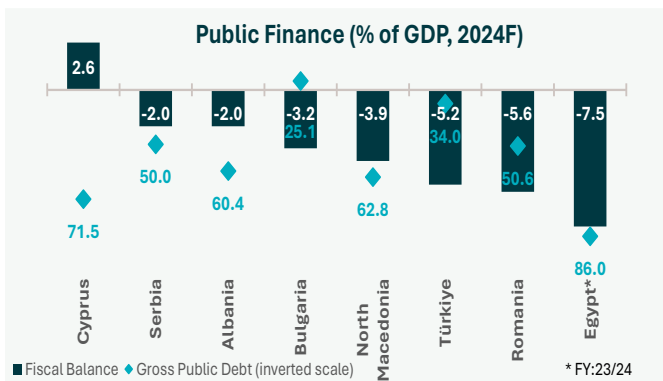
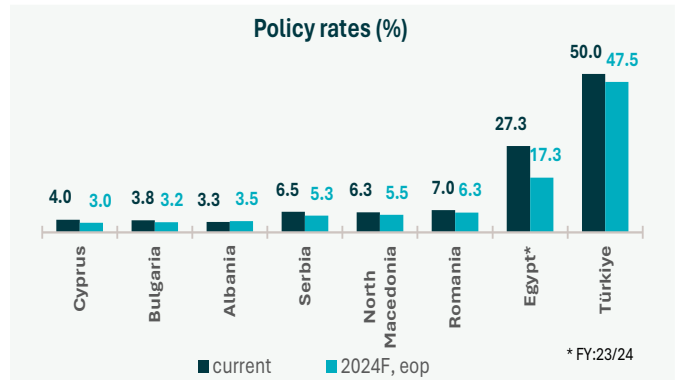
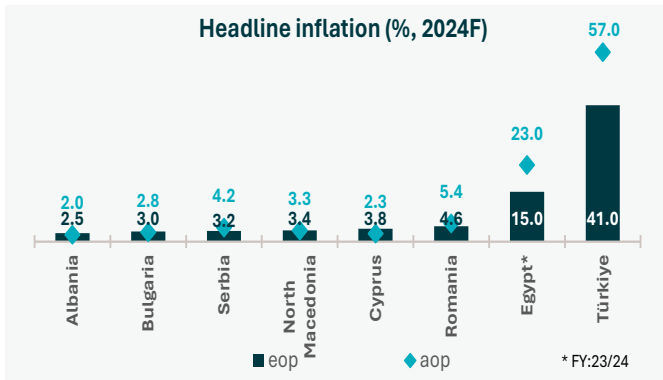
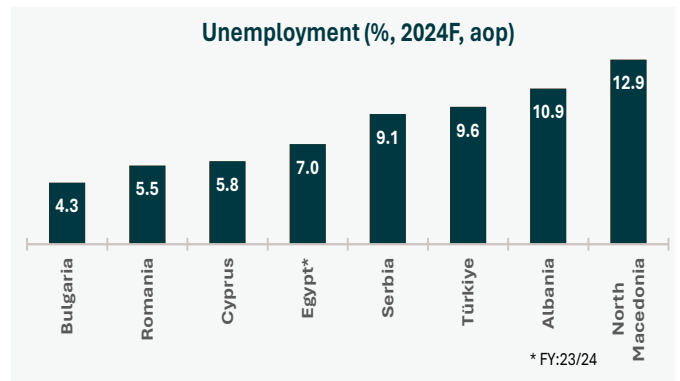
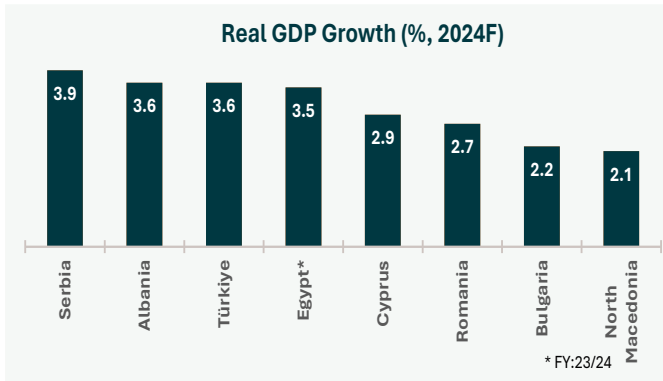
SERBIA					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	53,379	60,463	69,563	75,283	80,592
GDP per capita (EUR)	7,810	8,909	10,312	11,205	12,043
GDP growth (real, %)	7.7	2.5	2.5	3.9	3.6
Unemployment rate (% aop)	11.2	9.6	9.5	9.1	8.8
Prices and Banking					
Inflation (% eop)	7.9	15.1	7.6	3.2	3.2
Inflation (% aop)	4.1	11.9	12.5	4.2	3.5
Loans to the Private Sector (% change, eop)	10.1	6.9	1.1		
Customer Deposits (% change, eop)	13.3	6.9	11.7		
Loans to the Private Sector (% of GDP)	47.3	44.7	39.4		
Retail Loans (% of GDP)	21.9	20.5	18.0		
Corporate Loans (% of GDP)	25.4	24.2	21.3		
Customer Deposits (% of GDP)	52.1	49.2	46.6		
Loans to Private Sector (% of Deposits)	90.9	90.8	84.5		
Foreign Currency Loans (% of Total Loans)	61.1	64.1	64.7		
External Accounts					
Merchandise exports (EUR million)	21,018	26,928	27,930	28,759	30,032
Merchandise imports (EUR million)	27,038	36,292	34,534	36,169	37,913
Trade balance (EUR million)	-6,020	-9,364	-6,604	-7,409	-7,881
Trade balance (% of GDP)	-11.3	-15.5	-9.5	-9.8	-9.8
Current account balance (EUR million)	-2,266	-4,162	-1,810	-2,601	-2,810
Current account balance (% of GDP)	-4.2	-6.9	-2.6	-3.5	-3.5
Net FDI (EUR million)	3,657	4,328	4,220	4,515	4,741
Net FDI (% of GDP)	6.9	7.2	6.1	6.0	5.9
International reserves (EUR million)	16,455	19,416	24,909	26,573	28,254
International reserves (Months ^a)	5.9	5.2	6.7	6.8	6.8
Public Finance					
Primary balance (% of GDP)	-2.4	-1.7	-0.4	-0.3	0.2
Fiscal balance (% of GDP)	-4.1	-3.2	-2.2	-2.0	-1.5
Central Government debt (% of GDP)	56.5	55.1	52.0	50.0	48.0
External Debt					
Gross external debt (EUR million)	36,488	41,895	45,378	47,428	50,451
Gross external debt (% of GDP)	68.4	69.3	65.2	63.0	62.6
External debt service (EUR million)	6,000	5,300	5,500	6,300	4,800
External debt service (% of reserves)	36.5	27.3	22.1	23.7	17.0
External debt service (% of exports)	20.8	13.9	13.4	14.7	10.6
Financial Markets					
Policy rate (2-w repo rate, % eop)	1.0	5.0	6.5	5.3	4.8
Policy rate (2-w repo rate, % aop)	1.0	2.6	6.1	6.1	4.9
10-Y T-bill rate (% eop)	4.1	7.3	6.2	5.8	5.4
Exchange rate: EUR (eop)	117.5	117.2	117.2	117.2	117.5
Exchange rate: EUR (aop)	117.5	117.4	117.2	117.2	117.4

f: NBG forecasts; a: months of imports of GNFS

ALBANIA					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	15,185	18,020	21,329	23,758	25,366
GDP per capita (EUR)	5,401	6,454	7,678	8,569	9,168
GDP growth (real, %)	8.9	4.9	3.4	3.6	3.6
Unemployment rate (% aop)	12.1	11.3	11.2	10.9	10.5
Prices and Banking					
Inflation (% eop)	3.7	7.4	4.0	2.5	3.0
Inflation (% aop)	2.0	6.7	4.8	2.0	3.5
Loans to the Private Sector (% change, eop)	8.5	7.1	5.0		
Customer Deposits (% change, eop)	9.1	4.4	2.4		
Loans to the Private Sector (% of GDP)	33.9	31.5	30.6		
Retail Loans (% of GDP)	12.6	12.3	12.4		
Corporate Loans (% of GDP)	21.3	19.3	18.2		
Customer Deposits (% of GDP)	62.8	56.9	53.9		
Loans to Private Sector (% of Deposits)	54.0	55.4	56.8		
Foreign Currency Loans (% of Total Loans)	47.6	48.2	43.3		
External Accounts					
Merchandise exports (EUR million)	1,265	1,933	1,836	1,809	1,827
Merchandise imports (EUR million)	5,094	6,201	6,376	6,982	7,505
Trade balance (EUR million)	-3,829	-4,269	-4,540	-5,173	-5,679
Trade balance (% of GDP)	-25.2	-23.7	-21.3	-21.8	-22.4
Current account balance (EUR million)	-1,166	-1,063	-0,191	-0,344	-0,483
Current account balance (% of GDP)	-7.7	-5.9	-0.9	-1.4	-1.9
Net FDI (EUR million)	0,990	1,190	1,247	1,279	1,323
Net FDI (% of GDP)	6.5	6.6	5.8	5.4	5.2
International reserves (EUR million)	4,972	4,952	5,847	6,956	7,997
International reserves (Months ^a)	8.8	6.9	7.3	8.9	9.5
Public Finance					
Primary balance (% of GDP)	-2.7	-1.8	0.7	-0.1	-0.2
Fiscal balance (% of GDP)	-4.6	-3.7	-1.3	-2.0	-2.0
Gross public debt (% of GDP)	75.2	65.5	61.1	60.4	60.2
External Debt					
Gross external debt (EUR million)	9,755	9,766	10,147	10,747	11,347
Gross external debt (% of GDP)	64.2	54.2	47.6	45.2	44.7
External debt service (EUR million)	0,306	0,328	0,352	0,380	0,380
External debt service (% of reserves)	6.1	6.6	6.0	5.5	4.8
External debt service (% of exports)	4.9	3.5	3.9	4.3	4.2
Financial Markets					
Policy rate (1-week repo rate, %, eop)	0.5	2.8	3.3	3.5	3.5
Policy rate (1-week repo rate, %, aop)	0.5	1.5	3.0	3.3	3.5
1-Y T-bill rate ^b (% eop)	1.6	5.5	3.8	4.7	4.5
Exchange rate: EUR (eop)	120.6	114.0	103.4	103.0	103.0
Exchange rate: EUR (aop)	122.2	118.7	108.4	102.5	102.5

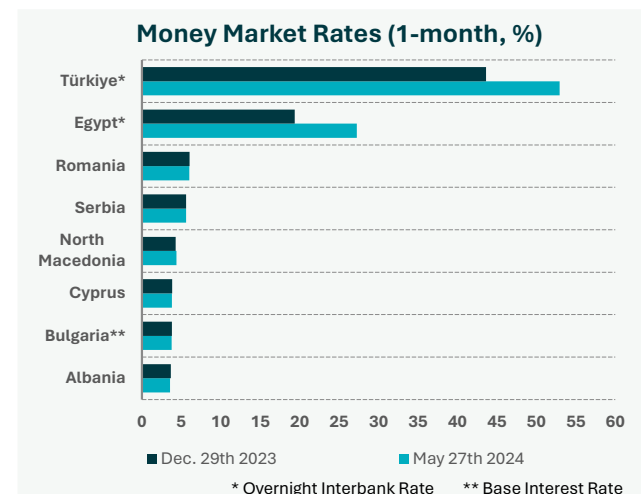
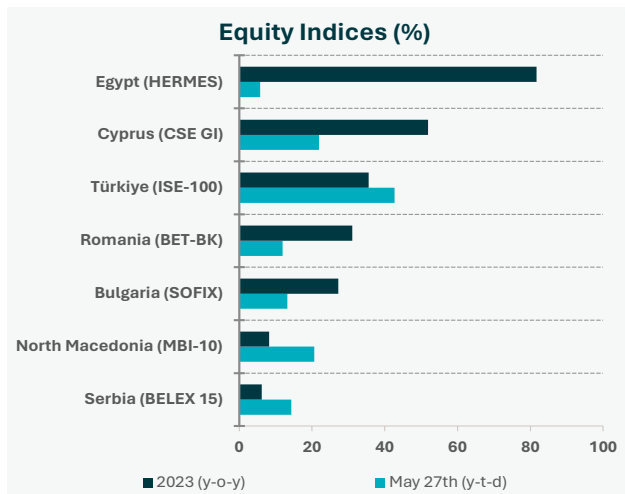
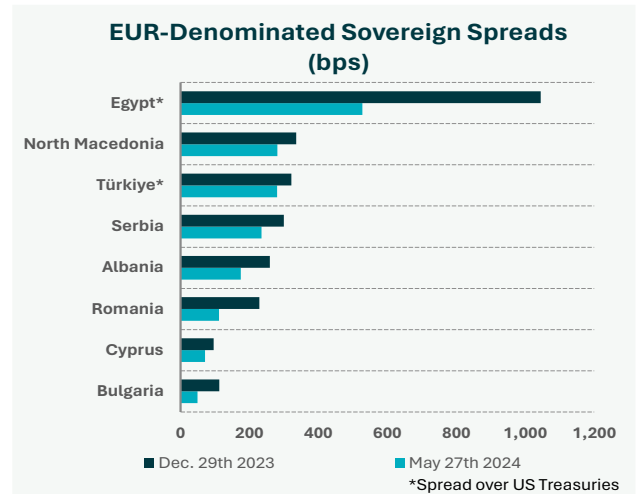
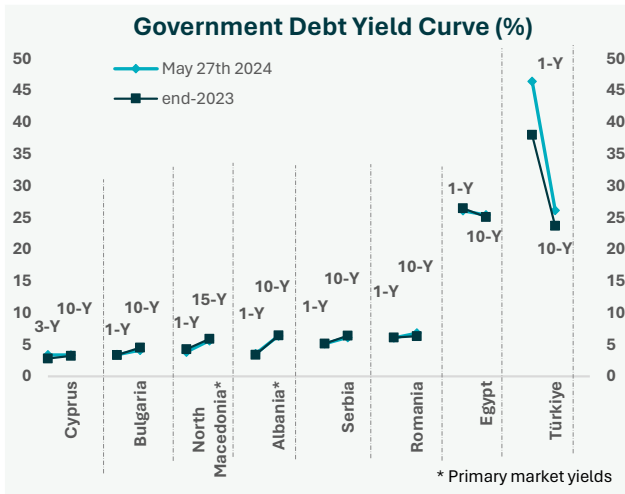
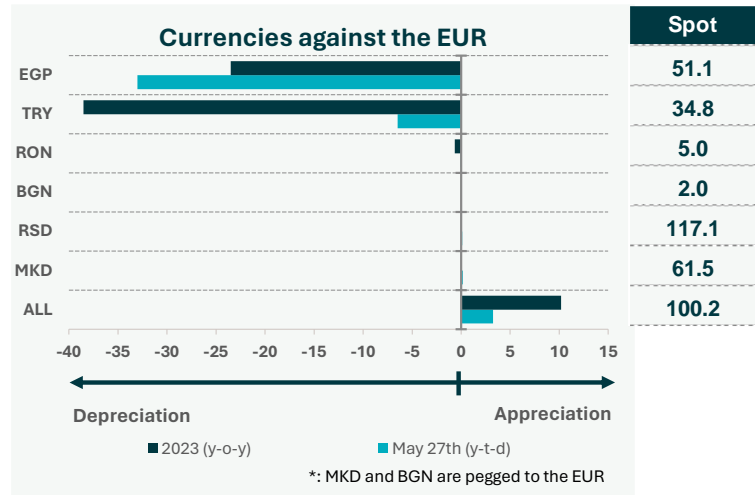
f: NBG forecasts; a: months of imports of GNFS; b: primary market

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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