

COUNTRIES IN FOCUS:

CYPRUS..... 1

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GDP growth is set to remain resilient and broad-based in FY:25, at 3.0% -- broadly in line with the economy's long-term potential growth -- continuing to outperform the euro area average

ROMANIA 2

A pro-Western PSD-led coalition is on the cards after the December Parliamentary election

Political uncertainty is set to persist, as the Constitutional Court ordered re-run of the Presidential election

Political stability is key condition for much-needed fiscal consolidation to resume and EU funds to flow uninterruptedly

SERBIA 3

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Sticky inflation and underlying risks suggest that monetary policy easing is set to continue in the period ahead, but at a much more cautious pace than before

APPENDIX:

DETAILED MACROECONOMIC DATA 4

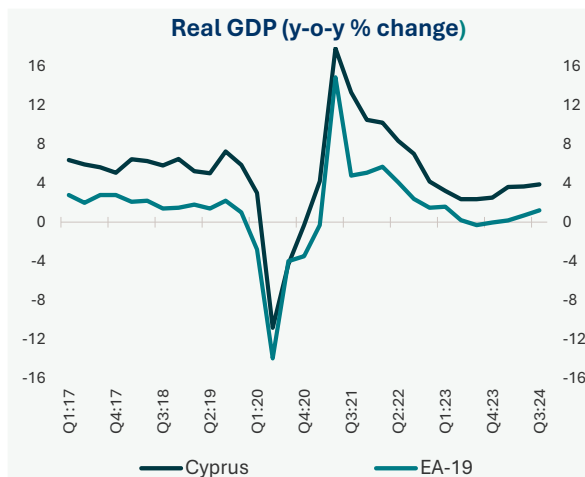
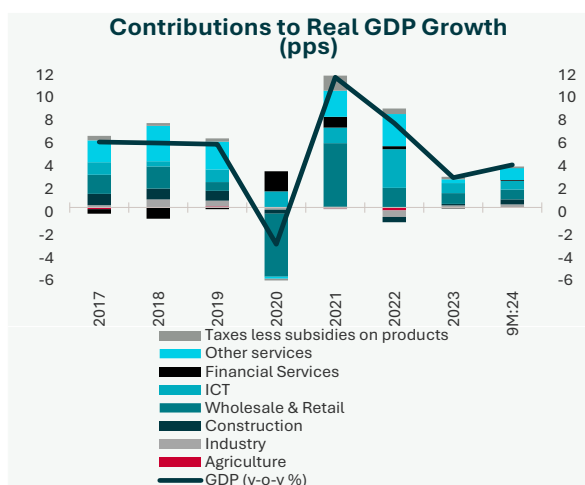
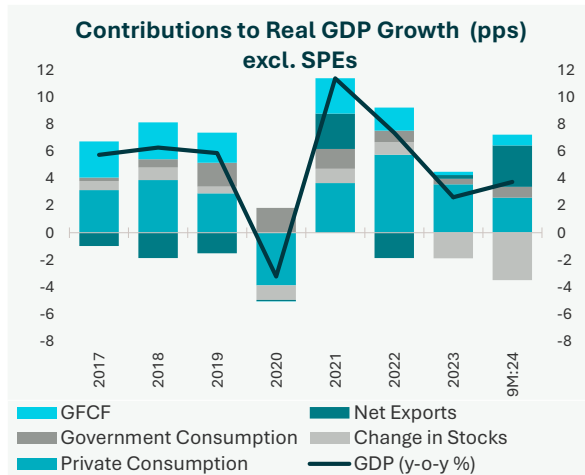
REGIONAL SNAPSHOT:

MACROECONOMIC INDICATORS 7

FINANCIAL MARKETS..... 8

Cyprus

BBB+ / A3 / A- (S&P / Moody's / Fitch)



	9 Dec.	3-M F	6-M F	12-M F
1-M EURIBOR (%)	2.9	2.4	2.1	2.0
EUR/USD	1.06	1.08	1.09	1.10
Sov. Spread (2028, bps)	77	75	70	65

	9 Dec.	1-W %	YTD %	2-Y %
CSE 100	213	0.9	56.5	139.1

	2022	2023	2024F	2025F	2026F
Real GDP Growth (%)	7.4	2.6	3.7	3.0	3.1
Inflation (eop, %)	7.9	1.6	2.3	1.9	1.9
Cur. Acct. Bal. (% GDP)	-5.4	-9.5	-6.8	-5.7	-5.2
Fiscal Bal. (% GDP)	2.6	2.0	3.5	3.0	2.8

Sources: Reuters, Cystat & NBG estimates

Despite external headwinds, economic growth strengthened markedly this year -- by far exceeding initial expectations as well as the euro area average -- on strong export performance. Latest data showed GDP growth accelerating to 3.7% y-o-y in 9M:24 -- markedly outperforming the euro area average of 0.7% -- from 2.6% in FY:23, mainly on strong services (tourism & other services) exports and their positive spillover to the economy, reflecting the economy's growing diversification.

Specifically, the tourism sector (accounting for c. 16.0% of GDP in FY:23) remained resilient, recovering to pre-pandemic levels this year, despite the year-long conflict in Gaza (which affected arrivals from Israel, Cyprus' 2nd most important source country, yet less than initially expected). Moreover, non-tourism (mainly high value-added ICT and professional, financial & real estate) export services (accounting for c. 12.0% and 25.0% of FY:23 GDP, respectively) continued to grow at a robust pace for a 2nd consecutive year, following the continuing relocation of foreign companies to the island (attracted by authorities' headquartering policy as well as due to migration from Russia, Ukraine and war-affected areas in the Middle East, including Israel) and the expansion of their activities. The waning impact of sanctions against Russia, which were a drag on the professional services sector's activity throughout FY:23, has also added to the sector's performance this year.

As a result, net exports turned into the main driver of economic expansion in FY:24, more than compensating for moderating -- yet still robust -- growth in private consumption (see below). Note that investment has also strengthened markedly, driven by construction activity, thanks to strong domestic and foreign demand for real estate, with the latter largely associated with the continuing influx of foreign companies and their personnel. The continuation of some large non-residential projects (mainly in the areas of tourism, transport, energy, education and health) did also help. All said, we project full-year GDP growth jumping to 3.7% -- the highest in euro area after Malta, according to the EC's autumn 2024 forecasts -- from 2.6% in FY:23.

GDP growth is set to remain resilient and broad-based in FY:25, at 3.0% -- broadly in line with the economy's long-term potential growth -- continuing to outperform the euro area average. Private consumption should continue growing next year, yet at a slower pace than before, in line with moderating real wage growth (reflecting the impact of consolidation of inflation at lower levels under a largely backward-looking wage setting process) and slowing employment growth following past years' surge (up by a CAGR of c. 4.0% in 2021-23, mainly driven by the inflow of new foreign workers related to business relocations).

At the same time, investment growth is set to firm, in line with faster deployment of projects under the Recovery & Resilience Plan (RRP, with Cyprus having received 31% of total available funds so far -- below the EU average of 42% -- worth 1.1% of its FY:24 GDP, and being eligible for another 2.5% by end-2026), further de-escalation of interest rates, and improving investor sentiment following recent sovereign credit rating upgrades.

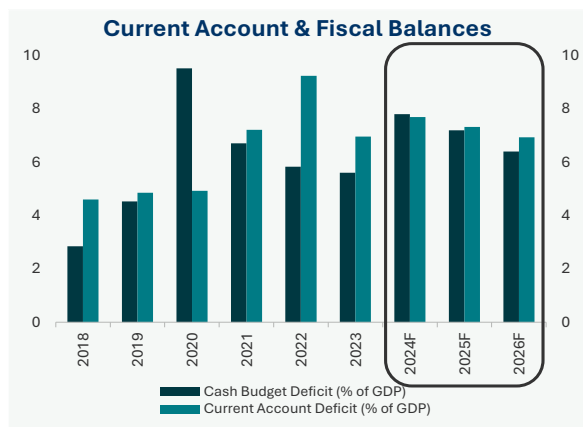
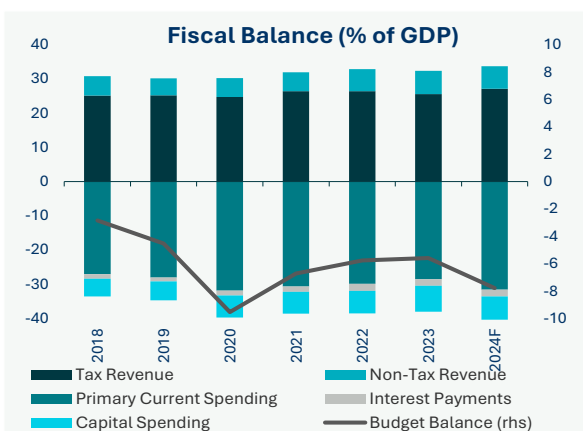
On the other hand, net exports' contribution to real GDP should remain positive, in line with stronger external demand, yet shrink compared with FY:24, reflecting not only solid domestic demand (with a high import content), but also the fading out of favourable effects on growth of exports of services from the inflow and expansion of foreign companies.

All said, we see GDP growth moderating to 3.0% in FY:25, broadly in line with the economy's long-term potential and more than double the euro area average (up 1.3%). The main risk to our forecast could come from a potential escalation of geopolitical tensions in Middle East, which could, in turn, lead to a resurgence in inflation, given Cyprus's high oil dependence, and heighten security concerns, hitting the island's tourism sector.

Romania

BBB- / Baa3 / BBB- (S&P / Moody's / Fitch)

2024 Parliamentary Elections						
Party	Chamber of Deputies			Senate		
	% of Vote		Seats (2024)	% of Vote		Seats (2024)
	2020	2024		2020	2024	
PSD	28.9	22.0	86	29.3	22.3	36
AUR	9.0	18.0	64	9.1	18.3	28
PNL	25.1	13.2	49	25.5	14.3	22
USR	15.3	12.4	40	16.0	12.2	19
S.O.S. Romania	---	7.4	27	---	7.8	12
POT	---	6.5	24	---	6.4	9
UDMR	5.7	6.4	22	5.8	6.4	10
Ethnic Minorities & Others	16.0	14.1	19	14.3	12.3	---
Total	100	100	331	100	100	136



	9 Dec.	3-M F	6-M F	12-M F
1-M ROBOR(%)	5.8	5.4	5.2	4.9
RON/EUR	4.97	5.00	5.02	5.05
Sov. Spread (2029, bps)	248	245	235	220

	9 Dec.	1-W %	YTD %	2-Y %
BET-BK	3,122	2.6	8.1	37.4

	2022	2023	2024F	2025F	2026F
Real GDP Growth (%)	4.0	2.4	1.0	3.0	3.6
Inflation (eop, %)	16.4	6.7	4.9	3.86	3.2
Cur. Acct. Bal. (% GDP)	-9.2	-7.0	-7.7	-7.3	-6.9
Fiscal Bal. (% GDP)	-5.8	-5.6	-7.8	-7.2	-6.4

Sources: Reuters, PEA, BNRO, Ministry of Finance & NBG estimates

A pro-Western PSD-led coalition is on the cards after the December Parliamentary election. Despite seeing its popularity wane, the ruling centre-left PSD topped the polls (see table), followed by the far-right AUR, which more than doubled its result compared from the previous election. Support for the liberal PNL, PSD's partner in the outgoing ruling coalition, continued to ebb away, leaving it 3rd ahead of the centre-right USR. Far-right S.O.S. Romania and POT parties also made substantial electoral gains, while the Hungarian minority party, UDMR was the last to cross the 5.0% threshold and enter the (highly fragmented) Parliament.

In a bid to crowd out the rising far-right, which garnered c. 1/3rd of the vote in the Parliamentary election and whose candidate won the 1st round of the Presidential election -- with the latter, however, having been later annulled (see below) -- major mainstream parties, namely the PSD, the PNL, the USD and the UDMR along with representatives of other ethnic minorities, agreed to form a coalition, vowing to keep the country on its EU path and secure much-needed policy continuity. The coalition holds a majority in Parliament and should be able to elect a PM from among its own ranks. Despite the frictions between the PSD and the PNL under the outgoing ruling coalition, we expect the new grand coalition to be quite stable, given the stakes and the challenges lying ahead (see below).

Political uncertainty is set to persist, as the Constitutional Court (CC) ordered re-run of the Presidential election. Little-known, independent ultra-nationalist and pro-Russian candidate, C. Georgescu, was the surprise frontrunner of the 1st round of the Presidential election (with 22.9% of the vote) ahead of E. Lasconi, leader of the USR, and outgoing PM, M. Ciolacu, leader of the PSD. However, the result of the election was annulled by the CC after intelligence information showed that Georgescu benefitted from a "coordinated campaign on social media sponsored by a state actor from abroad". As a result, the whole process will have to restart, with incumbent President, K. Iohannis, suggesting that it would be the next Government the one to carry out the task (most likely in March/April).

Political stability is key condition for much-needed fiscal consolidation to resume and EU funds to flow uninterrupted. Amid a busy election year, fiscal consolidation was reversed, with the cash budget deficit projected to widen to a sizeable 7.8% of GDP from 5.6% in FY:23. A (typical) pre-election spending spree (including targeted public sector wage hikes) and the reform of the pension system (involving 2 rounds of pension hikes) were the main drivers behind this deterioration.

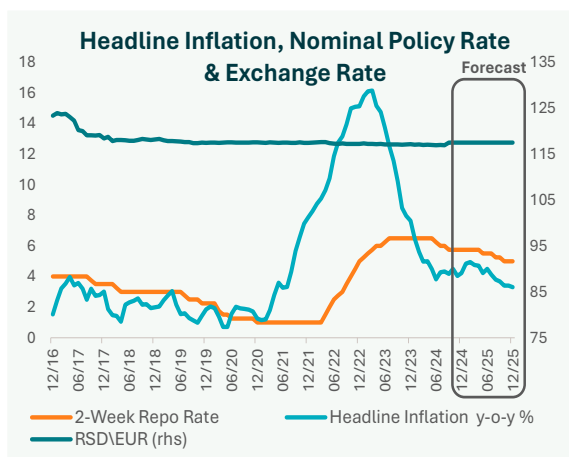
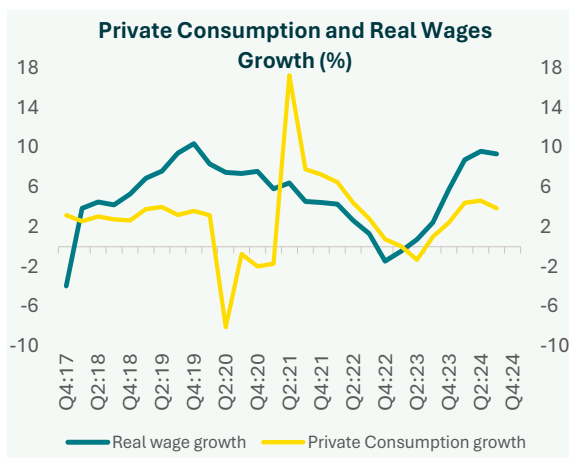
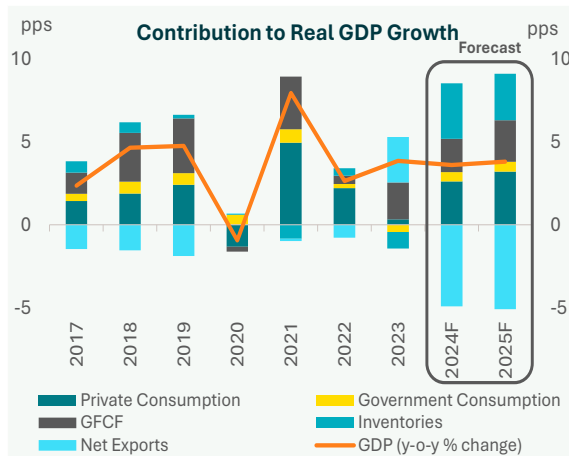
Looking ahead, the re-introduction of the bloc's (more realistic and flexible than before) fiscal rules, together with the need to deliver on the fiscal reforms associated with the country's RRF plan should help authorities to put public finances on a sustainable path. Besides capping (rigid) budget expenditure, efforts would most likely need to focus on broadening the weak tax base (2nd lowest in the EU), through (political costly) reforms.

Still, we expect authorities to exhaust the full 7-year adjustment period provided by the new rules to bring the budget deficit below the 3.0% of GDP threshold. Note that authorities have yet to unveil a budget for next year, meaning that it is unlikely to see much improvement next year. During the adjustment period, public debt is set to continue its upward trend, without, however, exceeding much the 60.0% of GDP threshold.

Fiscal consolidation should also help unwind external imbalances, which have been building up at a fast pace since after the pandemic (see table). Importantly, despite the large current account deficits, FX reserves' accumulation has been uninterrupted, thanks to sizeable EU capital transfers. Note that Romania is one of the largest beneficiaries of EU funding, being eligible for c. EUR 50bn (equivalent to 15.5% of its FY:23 GDP) in 2021-27.

Serbia

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



	9 Dec.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	4.6	4.6	4.4	4.0
RSD/EUR	116.9	117.0	117.1	117.3
Sov. Spread (2029, bps)	189	185	180	170

	9 Dec.	1-W %	YTD %	2-Y %
BELEX-15	1,143	-0.3	30.5	40.8

	2022	2023	2024F	2025F	2026F
Real GDP Growth (%)	2.6	3.8	3.6	3.8	4.3
Inflation (eop, %)	15.1	7.6	4.2	3.3	3.1
Cur. Acct. Bal. (% GDP)	-6.6	-2.3	-3.8	-4.3	-4.6
Fiscal Bal. (% GDP)	-3.0	-2.1	-2.8	-3.0	-3.0

Sources: Reuters, NBS, OPBC & NBG estimates

The economy is projected to see another robust growth rate in FY:24 (up 3.6%, following 3.8% in FY:23), driven by solid domestic demand.

Latest data showed an abrupt moderation in the annual pace of economic expansion, to 3.1% in Q3:24 from an average of 4.5% in H1:24. A closer look to the GDP breakdown suggests that this (temporary) deterioration came from net exports, as domestic demand continued to grow at a robust pace. Indeed, growth in private consumption remained solid (at c. 4.0%, above the pre-pandemic average of c. 2.5%), underpinned by nearly double-digit real *ex-post* wage growth and record-low unemployment rate. At the same time, fixed investment continued to grow at very high single-digit rates and stock-rebuilding rebounded. However, strong domestic demand (with a large import content), along with sluggish growth in the EU, Serbia's major trading partners, and the elimination of a favorable base effect from the resumption of domestic energy production meant that net exports shaved an even larger chunk off overall GDP growth in Q3:24. Based on available information from leading indicators, the picture is unlikely to be significantly altered in Q4:24, with full-year economic growth projected at 3.6%.

GDP growth is seen firming slightly to 3.8% in FY:25, close to the economy's long-term potential. Improving consumer confidence along with tight labour market conditions should foster private consumption growth. Indeed, real wages should keep growing next year, albeit at a slower pace, thanks to a loose incomes policy (with the minimum wage due to rise by c. 14.0% in January '25) and its spillover to the private sector. At the same time, following deployment of the massive state-sponsored EXPO 2027 plan, fixed investment is expected to progressively increase its contribution to GDP growth. Importantly, private investment is also expected to strengthen, fueled, *inter alia*, by improving business and investor confidence, in the wake of Serbia's achievement of investment grade status and the extension of the engagement with the IMF (through a new non-financing 36-month (PCI) arrangement, starting in 2025). Worryingly, despite stronger economic growth in the EU, net exports should remain a large drag on overall growth in the period ahead, in line with solid private consumption and the launch of the new investment cycle.

All said, GDP growth is seen accelerating to 3.8% y-o-y in FY:25, a tad lower than the economy's long-term potential of c. 4.0%. Should delays in executing the EXPO 2027 investment plan arise, economic growth could come in lower-than-projected. In the longer term, slower-than-envisaged growth in the EU, especially in the event of levy of tariffs by the US, could affect the economy's growth trajectory.

Sticky inflation and underlying risks suggest that monetary policy easing is set to continue in the period ahead, but at a much more cautious pace than before. The rapid disinflation process which allowed NBS to cut its key policy rate by 75bps, to 5.75%, between June and September appears to have stalled lately, with the headline figure coming in at 4.5% y-o-y -- which is the upper bound of the NBS's target range -- in October, up from 4.2% in September and 4.3% in July-August. Higher volatile food prices, due to the summer drought, along with sticky core inflation (fluctuating in the 5.0-6.0% range over the past 11 months), on the back, *inter alia*, of rapid nominal wage growth and price inertia, have been the main factors behind this alarming performance. The latter, together with elevated uncertainty, due to ongoing geopolitical tensions, and widening external imbalances (with the current account deficit projected to jump to c. 5.0% in FY:25 from c. 4.0% in FY:24) cannot but prompt the NBS to proceed more cautiously with further easing, given, *inter alia*, the large liquidity surplus in the money market. As a result, we see the NBS lowering its key policy rate by a modest 75 bps, to 5.0% by end-2025.

DETAILED MACROECONOMIC DATA

CYPRUS					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	25,680	29,416	31,340	33,239	34,740
GDP per capita (EUR)	28.522	32.229	33.804	35,498	36,733
GDP growth (real, %)	11.4	7.4	2.6	3.7	3.0
Unemployment rate (% aop)	7.1	6.2	5.8	5.1	4.9
Prices and Banking					
Inflation (% eop)	4.8	7.9	1.6	2.3	1.9
Inflation (% aop)	2.4	8.4	3.6	1.8	1.5
Loans to the Private Sector (% change, eop)	-5.0	-12.1	-5.0		
Customer Deposits (% change, eop)	5.4	2.9	-0.6		
Loans to the Private Sector (% of GDP)	106.9	82.0	73.1		
Retail Loans (% of GDP)	47.6	39.0	35.6		
Corporate Loans (% of GDP)	59.3	43.0	37.5		
Customer Deposits (% of GDP)	160.0	151.8	141.7		
Loans to Private Sector (% of Deposits)	63.2	54.0	51.6		
Foreign Currency Loans (% of Total Loans)	---	---	---		
External Accounts					
Merchandise exports (EUR million)	3,745	5,027	4,340	4,456	4,586
Merchandise imports (EUR million)	8,087	10,802	11,545	11,114	11,564
Trade balance (EUR million)	-4,342	-5,775	-7,204	-6,657	-6,978
Trade balance (% of GDP)	-16.9	-19.6	-23.0	-20.0	-20.1
Current account balance (EUR million)	-1,379	-1,584	-2,966	-2,245	-1,971
Current account balance (% of GDP)	-5.4	-5.4	-9.5	-6.8	-5.7
Net FDI (EUR million)	0,855	7,978	6,568	8,210	9,442
Net FDI (% of GDP)	3.3	27.1	21.0	24.7	27.2
International reserves (EUR million)	---	---	---	---	---
International reserves (Months ^a)	---	---	---	---	---
Public Finance					
Primary balance ^b (% of GDP)	0.1	4.0	3.3	4.8	4.4
Fiscal balance ^b (% of GDP)	-1.6	2.6	2.0	3.5	3.0
Gross public debt (% of GDP)	96.3	80.8	73.5	69.3	64.2
External Debt					
Gross external debt (EUR million)	255,284	258,424	259,577	261,077	259,577
Gross external debt (% of GDP)	994.1	878.5	828.3	785.4	747.2
External debt service (EUR million)	---	---	---	---	---
External debt service (% of reserves)	---	---	---	---	---
External debt service (% of exports)	---	---	---	---	---
Financial Markets					
Policy rate (ECB deposit facility rate, % eop)	-0.5	2.0	4.0	3.3	2.5
Policy rate (ECB deposit facility rate, % aop)	-0.5	0.2	3.4	3.8	2.7
10-Y T-bill rate (% eop)	0.7	4.2	3.2	3.1	3.0
Exchange rate: USD (eop)	1.137	1.070	1.104	1.110	1.130
Exchange rate: USD (aop)	1.183	1.053	1.081	1.090	1.120

f: NBG forecasts; a: months of imports of GNFS; b: cash basis

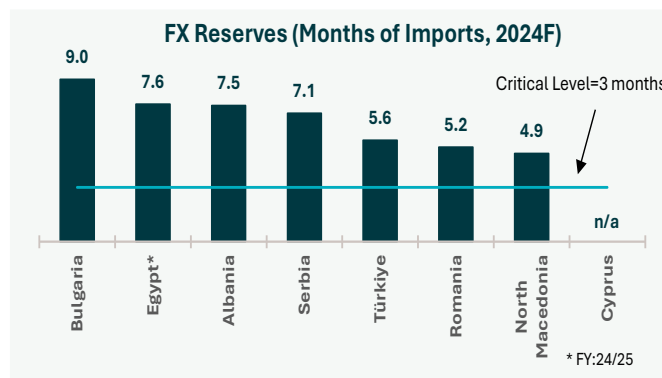
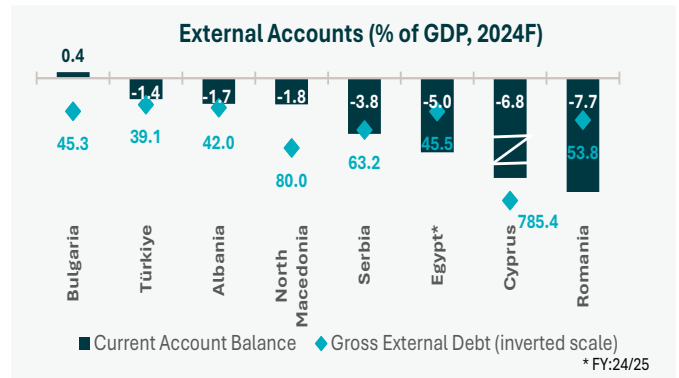
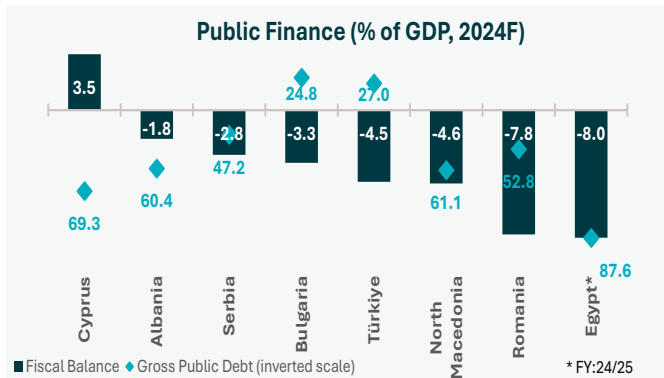
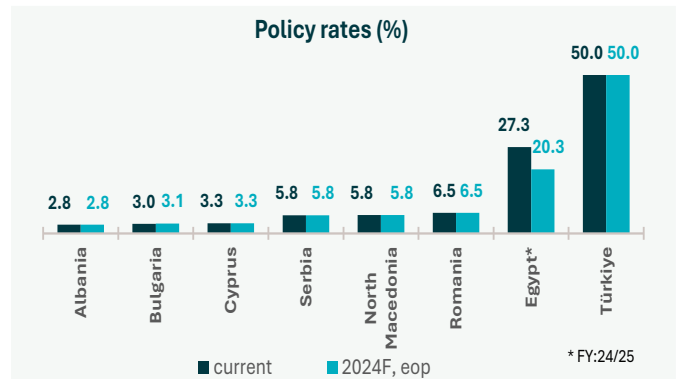
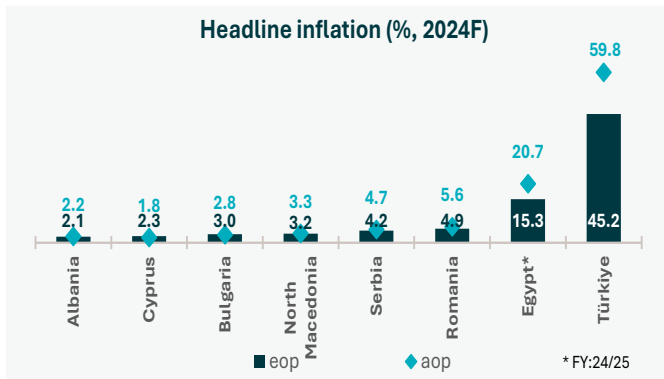
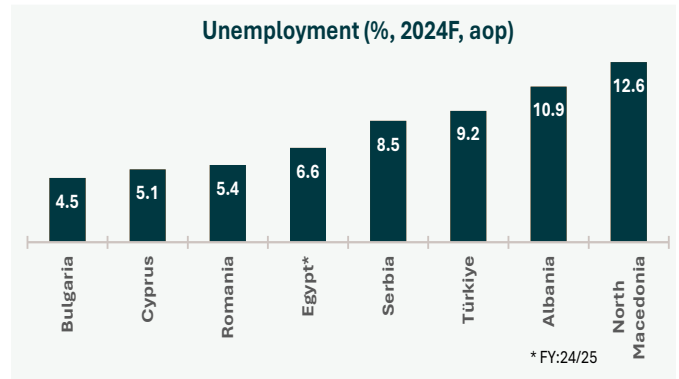
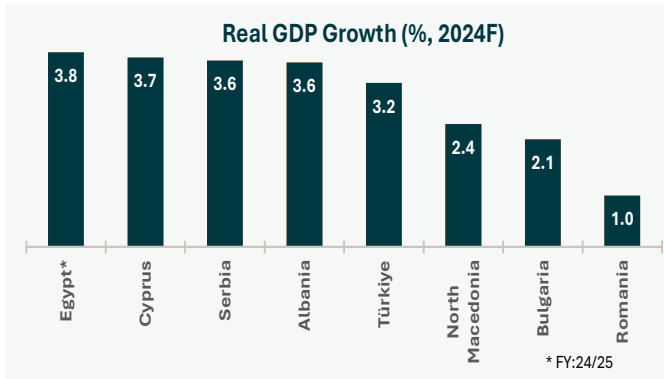
ROMANIA					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	242,387	281,971	324,552	343,239	364,816
GDP per capita (EUR)	12,623	14,808	17,032	18,119	19,372
GDP growth (real, %)	5.5	4.0	2.4	1.0	3.0
Unemployment rate(ILO definition, %, aop)	5.6	5.6	5.5	5.4	5.3
Prices and Banking					
Inflation (% eop)	8.2	16.4	6.7	4.9	3.8
Inflation (% aop)	5.0	13.7	10.5	5.6	4.0
Loans to the Private Sector (% change, eop)	14.3	11.2	5.9		
Customer Deposits (% change, eop)	13.7	6.7	12.9		
Loans to the Private Sector (% of GDP)	26.3	25.0	23.0		
Retail Loans (% of GDP)	13.8	12.2	10.8		
Corporate Loans (% of GDP)	12.4	12.8	12.1		
Customer Deposits (% of GDP)	38.6	35.0	34.5		
Loans to Private Sector (% of Deposits)	68.0	71.6	66.7		
Foreign Currency Loans (% of Total Loans)	26.5	29.9	29.9		
External Accounts					
Merchandise exports (EUR million)	70,194	86,015	86,542	87,355	92,428
Merchandise imports (EUR million)	93,317	118,065	115,519	119,554	126,140
Trade balance (EUR million)	-23,123	-32,050	-28,977	-32,199	-33,712
Trade balance (% of GDP)	-9.5	-11.4	-8.9	-9.4	-9.2
Current account balance (EUR million)	-17,474	-26,041	-22,603	-26,413	-26,710
Current account balance (% of GDP)	-7.2	-9.2	-7.0	-7.7	-7.3
Net FDI (EUR million)	8,820	8,806	6,364	6,841	7,183
Net FDI (% of GDP)	3.6	3.1	2.0	2.0	2.0
International reserves (EUR million)	40,475	46,636	59,770	64,198	66,171
International reserves (Months ^a)	4.3	3.9	5.1	5.2	5.1
Public Finance					
Primary balance (% of GDP)	-5.2	-3.7	-3.7	-5.8	-5.3
Fiscal balance (% of GDP)	-6.7	-5.8	-5.6	-7.8	-7.2
Gross public debt ^b (% of GDP)	48.0	47.7	48.5	52.8	56.5
External Debt					
Gross external debt (EUR million)	136,585	143,886	168,335	184,662	195,177
Gross external debt (% of GDP)	56.3	51.0	51.9	53.8	53.5
External debt service (EUR million)	16,702	21,991	22,702	23,500	24,000
External debt service (% of reserves)	41.3	47.2	38.0	36.6	36.3
External debt service (% of exports)	17.0	17.9	18.0	18.4	17.7
Financial Markets					
Policy rate (1-w repo rate, %, eop)	1.8	6.8	7.0	6.5	5.5
Policy rate (1-w repo rate, %, aop)	1.4	4.4	7.0	6.8	5.9
10-Y Bond Yield (% eop)	5.1	8.4	6.3	6.8	6.4
Exchange rate: EUR (eop)	4.946	4.940	4.972	5.000	5.050
Exchange rate: EUR (aop)	4.919	4.928	4.944	4.986	5.025

f: NBG forecasts; a: months of imports of GNFS; b: ESA 2010

SERBIA					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	55,966	63,540	75,258	81,679	88,252
GDP per capita (EUR)	8,189	9,363	11,156	12,157	13,188
GDP growth (real, %)	7.9	2.6	3.8	3.6	3.8
Unemployment rate (% aop)	11.1	9.6	9.4	8.5	8.3
Prices and Banking					
Inflation (% eop)	7.9	15.1	7.6	4.2	3.3
Inflation (% aop)	4.1	11.9	12.5	4.7	4.1
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)	45.2	42.5	36.4		
Retail Loans (% of GDP)	21.9	20.5	18.0		
Corporate Loans (% of GDP)	23.2	22.0	18.4		
Customer Deposits (% of GDP)	52.1	49.2	45.2		
Loans to Private Sector (% of Deposits)	86.7	86.5	80.4		
Foreign Currency Loans (% of Total Loans)	61.1	64.1	64.7		
External Accounts					
Merchandise exports (EUR million)	21,018	26,928	27,929	29,108	30,503
Merchandise imports (EUR million)	27,038	36,292	34,551	36,628	38,925
Trade balance (EUR million)	-6,020	-9,364	-6,622	-7,520	-8,422
Trade balance (% of GDP)	-10.8	-14.7	-8.8	-9.2	-9.5
Current account balance (EUR million)	-2,266	-4,162	-1,766	-3,069	-3,753
Current account balance (% of GDP)	-4.0	-6.6	-2.3	-3.8	-4.3
Net FDI (EUR million)	3,657	4,328	4,221	4,517	4,788
Net FDI (% of GDP)	6.5	6.8	5.6	5.5	5.4
International reserves (EUR million)	16,455	19,416	24,909	28,107	30,142
International reserves (Months ^a)	5.9	5.2	6.7	7.1	7.1
Public Finance					
Primary balance (% of GDP)	-2.3	-1.6	-0.4	-0.9	-0.8
Fiscal balance (% of GDP)	-3.9	-3.0	-2.1	-2.8	-3.0
Central Government debt (% of GDP)	53.8	52.4	48.0	47.2	46.9
External Debt					
Gross external debt (EUR million)	36,488	41,895	45,378	51,621	55,246
Gross external debt (% of GDP)	65.2	65.9	60.3	63.2	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	22.4	15.9
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	5.8	5.0
Policy rate (2-w repo rate, % aop)	1.0	2.6	6.1	6.1	5.4
10-Y T-bill rate (% eop)	4.1	7.3	6.2	5.8	5.3
Exchange rate: EUR (eop)	117.5	117.2	117.2	117.0	117.3
Exchange rate: EUR (aop)	117.5	117.4	117.2	117.1	117.1

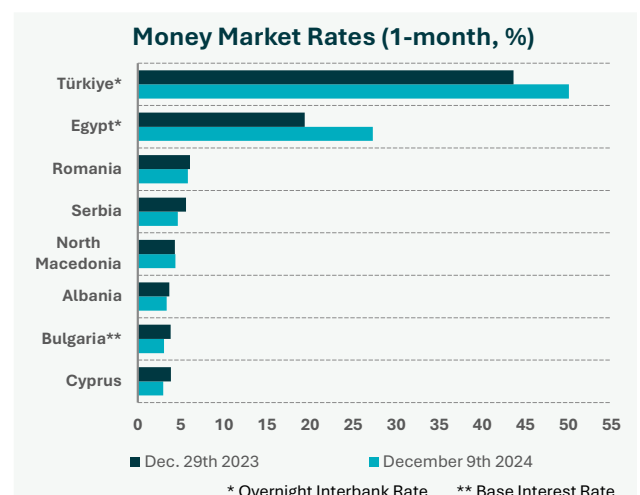
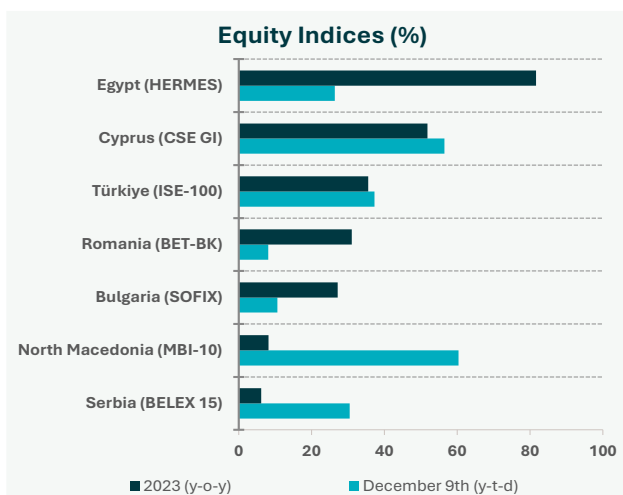
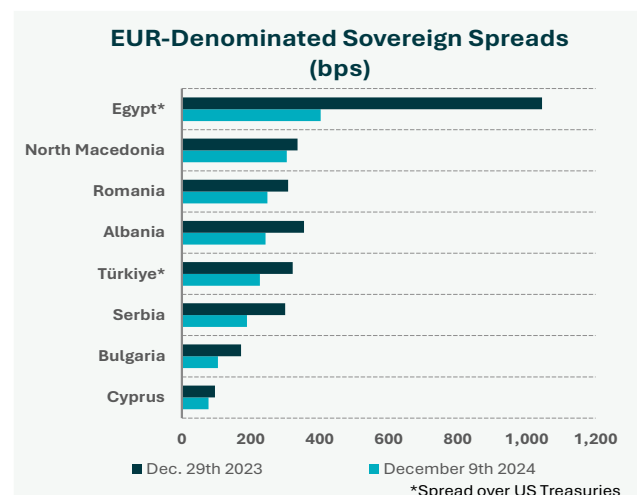
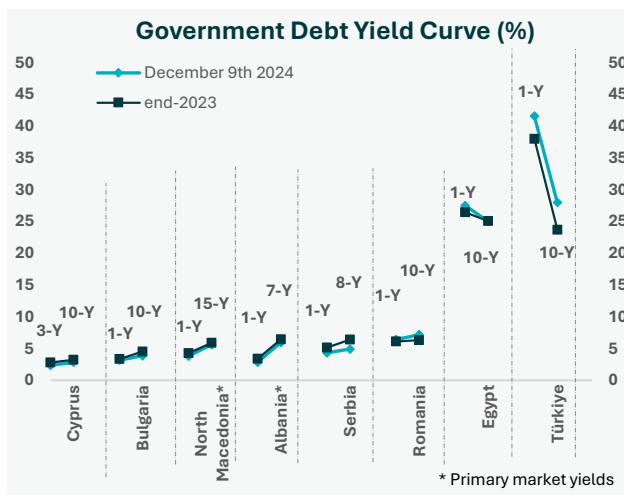
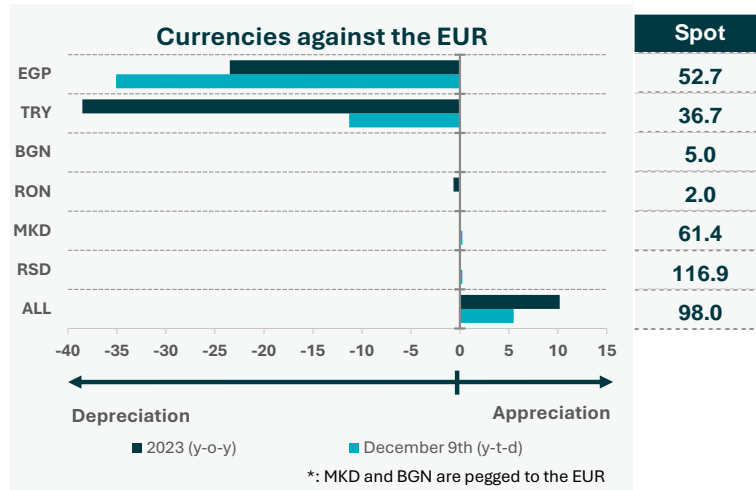
f: NBG forecasts; a: months of imports of GNFS

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBS estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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