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The real estate market is set to eventually cool down, albeit moderately, on slowing external and domestic demand and strengthened construction activity

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REGIONAL SNAPSHOT:

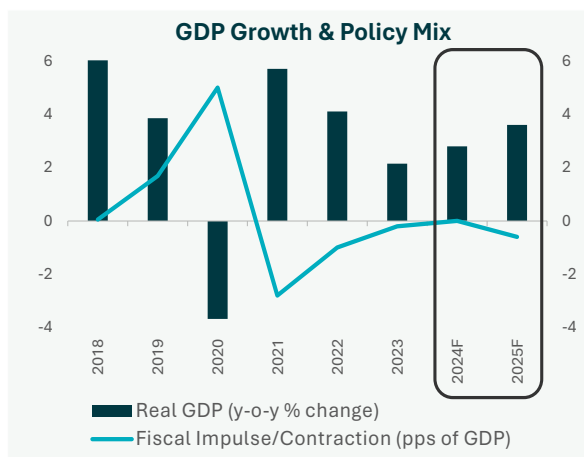
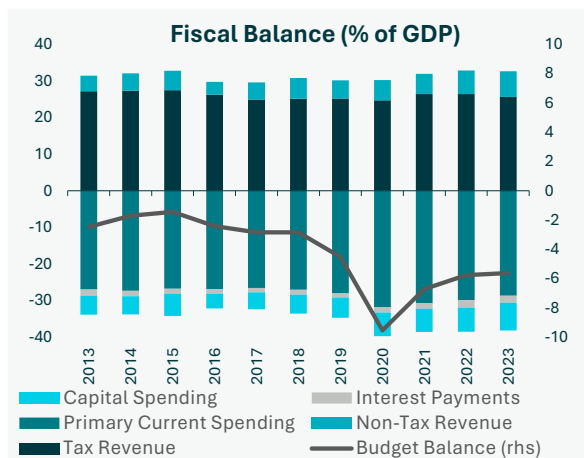
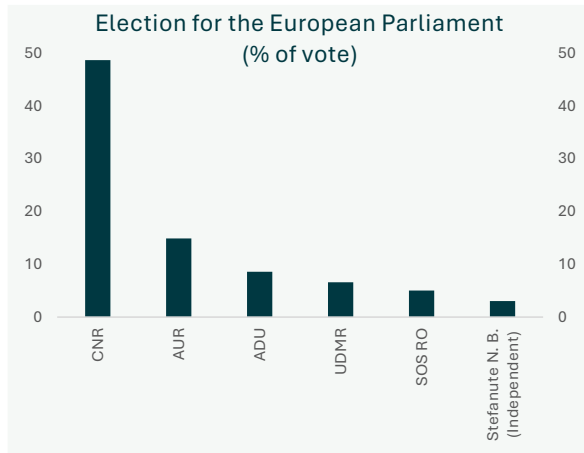
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Romania

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



	10 June	3-M F	6-M F	12-M F
1-M ROBOR(%)	6.0	5.7	5.5	4.9
RON/EUR	4.97	5.00	5.02	5.03
Sov. Spread (2029, bps)	249	250	245	230

	10 June	1-W %	YTD%	2-Y %
BET-BK	3,302	1.7	14.4	44.0

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	5.7	4.1	2.1	2.6	3.6
Inflation (eop, %)	8.2	16.4	6.7	4.2	3.8
Cur. Acct. Bal. (% GDP)	-7.2	-9.2	-7.0	-6.6	-6.2
Fiscal Bal. (% GDP)	-6.7	-5.8	-5.6	-5.6	-5.0

Sources: Reuters, Ministry of Finance, INSEE & NBG estimates

The ruling National Coalition for Romania (NCR) is in strong position ahead of December Parliamentary election, following landslide victory in the June election for the European Parliament (EP). The NCR, comprising the centre-left PSD and the centre-right PNL, ran on a joint list, garnering a massive 48.7% of the vote and securing 19 out of 33 EP seats. The rising right-wing nationalist Alliance for the Union of Romanians (AUR) came in 2nd but far behind, with 14.9% of the vote and 6 seats, followed by the United Right Alliance, comprising the USR, PMP and Forta Dreptei parties, with 8.6% of the vote and 3 seats, the Hungarian-minority party, UDMR, with 6.6% of the vote and 2 seats, and the pro-Russia SOS Romania, with 5.0% of the vote and 2 seats.

In local elections, which were held along with that for the EP, the two partners ran on separate lists, with the PSD winning c. 35% of the vote for city councils against 28% for the PNL.

Looking ahead, a similar election result to that obtained in the EP election would be more than sufficient to secure the PSD and the PNL an absolute majority in the next Parliament. Recall that the latter teamed up in 2021 to form a Government to replace that of PNL-USR, which collapsed, following defections from the former. Although frictions between the two partners are likely to emerge ahead of the double election, we expect them to eventually stick together (regardless of their yet-to-be-reached decision to run on separate lists or not), ensuring political stability. The UDMR could -- once again -- lend them a helping hand, if needed.

As regards the September Presidential election, the PSD and the PNL will most likely nominate different candidates. Note that incumbent President, K. Iohannis, who is linked to the PNL, is not eligible for a new term.

Political stability is key condition for much-needed fiscal consolidation to resume. Romania is the only EU state currently under the EC's Excessive Deficit Procedure, as its budget deficit has been well above the critical threshold of 3.0% of GDP since prior to the pandemic.

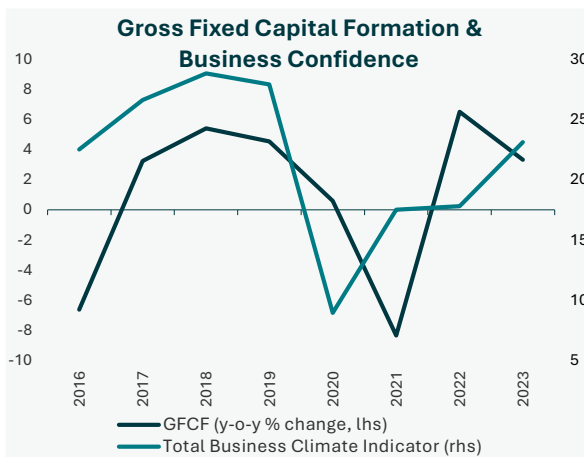
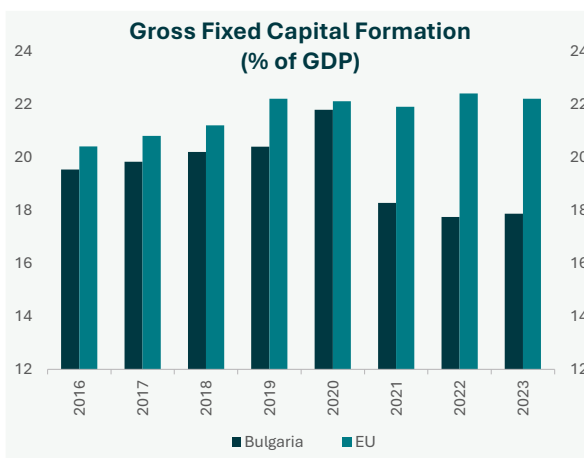
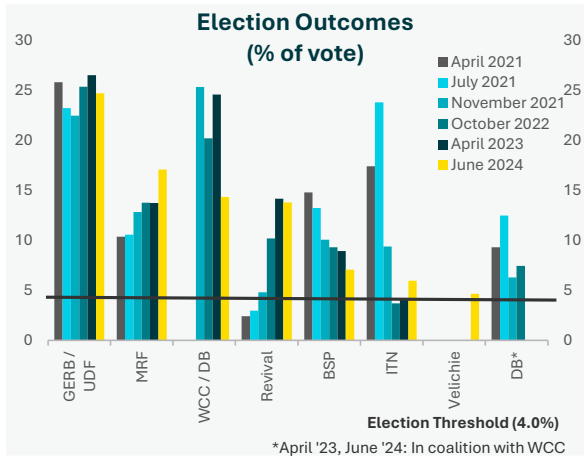
Worryingly, amid a busy election year, fiscal consolidation is unlikely to proceed materially, with the accrual budget deficit projected to narrow slightly to a sizeable 6.2% of GDP. Indeed, the cost of the pension reform (involving 2 rounds of pension hikes, with an annualized impact of c. 1.5% of GDP) would be only partially compensated by higher tax proceeds from the reform of the tax system and the levy of a turnover tax for banks and large companies. On a positive note, by eliminating inconsistencies in pension calculation and gradually raising the retirement age, the new law should lead to savings in the long run, sustaining fiscal consolidation.

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 in the period ahead. Considering budget spending rigidities, efforts would focus mostly on broadening the weak tax base (2nd lowest in the EU). However, given the high political cost associated with tax-based fiscal consolidation, we expect authorities to proceed with such measures only as of early-2025. Still, the budget deficit is unlikely to fall below the 3.0% of GDP mark earlier than 2028. Importantly, albeit rising, public debt is set to remain in check (at c. 53% of GDP at end-2028, below the EU threshold of 60%).

Uninterrupted access to available EU funds is critical to sustaining economic activity and boosting potential growth. The Government has been quite effective in tapping EU funds, helping the economy quickly recover from the pandemic shock and the subsequent energy crisis (with GDP growing by 4.0% in 2021-23, above the EU average of 3.3%). Note that Romania is one of the largest beneficiaries of EU funding, being eligible for a combined c. EUR 50bn (c. 15.5% of its FY:23 GDP) under the RRF and the MFF in 2021-27. Although elections have brought about some delays both in terms of absorbing and using available EU funds, we expect authorities to make up for shortcomings after the completion of the election cycle.

Bulgaria

BBB / Baa2 / BBB (S&P / Moody's / Fitch)



GERB finished 1st in snap Parliamentary election but fell short of absolute majority, seeking now coalition partners to form a Government. The election, the 6th held since April 2021, was called after the 9-month-old ruling coalition, backed by the centre-right GERB (in collaboration with the UDF and the unofficial support of the Turkish-minority party, MRF) and the liberal “We Continue the Change” (WCC, in collaboration with “Democratic Bulgaria”), collapsed in March, following disagreement over rotation of Cabinet seats between the two partners.

As expected, the GERB-UDF topped the polls for a 3rd consecutive election, with 24.7% of the vote and 68 seats in the 240-seat Parliament. The WCC-DB suffered a heavy loss compared with the previous election, slipping into the 3rd position, with 14.3% of the vote (39 seats), likely paying the price for having cooperated with its former feud, the GERB, whose almost decade-long rule was marred by corruption allegations. The MRF came in 2nd, with 17.1% of the vote (47 seats), while the rising nationalist, pro-Russian Revival party was 4th, with 13.8% of the vote (38 seats). The once-mighty centre-left BSP was 5th, with just 7.1% of the vote (19 seats), followed by the populist ITN party, with 6.0% of the vote (16 seats), and the newcomer nationalist, pro-Russian Velichie, with 4.7% of the vote (13 seats).

Voters’ disillusionment, an after-effect, *inter alia*, of the deep fragmentation and polarization of Bulgarian politics, was reflected in the record-low voter turnout of slightly over 30%.

In our view, the most likely scenario for the day after the election is GERB-UDF teaming up with its traditional partner, the MRF, and the ITN to form a Government. Otherwise, the country could head to a new snap election.

Note that GERB’s dominance was also confirmed in the elections for the European Parliament (EP), which were held along with the Parliamentary election, with the GERB winning 5 out of 17 EP seats, followed by the WCC, the Revival and the MRF, each of which secured 3 seats, the BSP with 2 seats and the ITN with 1 seat.

Political stability is key to economic growth. Following a 3-year long period of political uncertainty, during most part of which the country was governed by caretaker cabinets, Bulgaria now needs a stable functioning Government to put the economy back on the track of sustainable growth.

Persistent underinvestment has been a key factor behind recent economic underperformance, with gross fixed investment amounting to c. 18.0% of GDP in 2021-23 against an EU average of over 22.0%. The discrepancy becomes more significant when considering the much lower capital stock in Bulgaria compared with the EU. Indeed, besides delays in EU funds’ absorption, there has been a significant weakening in business confidence (see chart) during that period. To this end, it is imperative that incoming authorities accelerate tapping of EU funds available under the Recovery & Resilience Facility and the Multiannual Financial Framework 2021-27. Note that Bulgaria is one of the largest recipients of EU funds, with total available grant funding by end-2027 amounting to c. 24.0% of its FY:23 GDP.

Other challenges the next Government should deal with include poor demographic trends, due to aging and emigration, and weak governance.

Importantly, the long-standing currency board arrangement and the inclusion of the BGN into the ERM II, a precursor to the adoption of the euro, provide important policy anchors.

Euro adoption to be delayed at least until 2025. Delays in the adoption of necessary legislation and elevated inflation have prompted authorities to defer the target date for euro adoption by 1 year to 2025. Despite coming down at a fast pace, domestic inflation remains well above that of the 3 best performing EU states, with Bulgaria unlikely to meet the price criterion by the deadline of mid-2024 to ensure accession in 2025. Worryingly, there are serious concerns over the prospect of sustainable inflation convergence, considering that prices in Bulgaria currently stand at c. 60% of the euro area average. However, as it was the case with Croatia, competent authorities could show some compromise on ultimate accession.

	10 June	3-M F	6-M F	12-M F
Base Interest Rate (%)	3.8	3.5	3.2	2.8
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2030, bps)	100	100	95	90

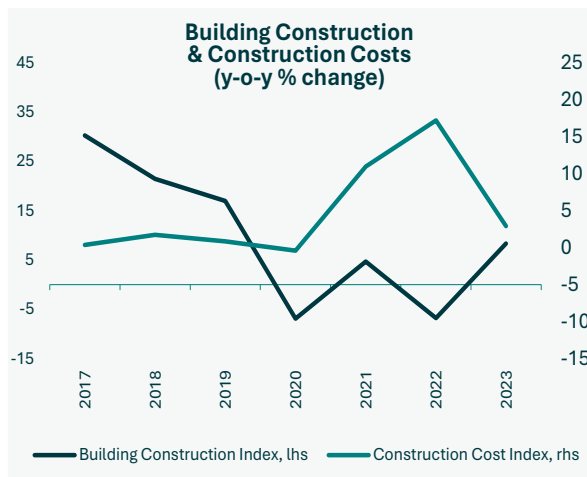
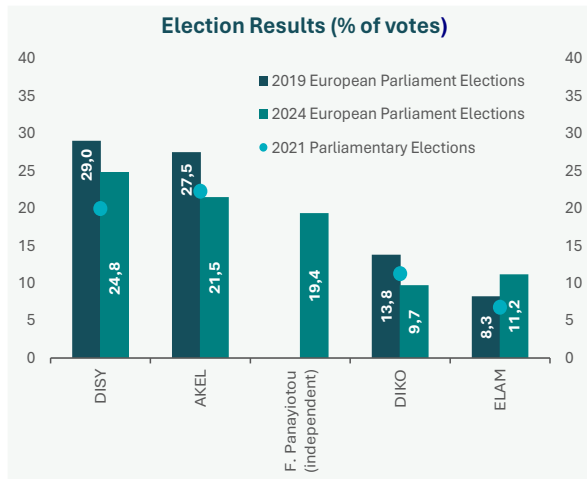
	10 June	1-W %	YTD %	2-Y %
SOFIX	856	-1.1	11.8	38.0

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	7.7	3.9	1.8	2.3	3.3
Inflation (eop, %)	7.8	16.9	4.7	3.0	2.8
Cur. Acct. Bal. (% GDP)	-1.7	-1.4	-0.3	0.3	0.5
Fiscal Bal. (% GDP)	-2.8	-0.8	-3.1	-3.2	-2.6

Sources: Reuters, NBS, OPBC & NBG estimates

Cyprus

BBB / Baa2 / BBB+ (S&P / Moody's / Fitch)



	27 May	3-M F	6-M F	12-M F
1-M EURIBOR (%)	3.7	3.5	3.3	2.5
EUR/USD	1.08	1.09	1.09	1.10
Sov. Spread (2028, bps)	67	70	67	62

	10 June	1-W %	YTD %	2-Y %
CSE 100	161	-1.6	18.4	127.0

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	9.9	5.1	2.5	3.0	2.8
Inflation (eop, %)	4.8	7.9	1.6	3.8	1.9
Cur. Acct. Bal. (% GDP)	-6.1	-7.9	-12.1	-9.5	-8.5
Fiscal Bal. (% GDP)	-1.9	2.4	3.1	2.6	2.4

Sources: Reuters, CBC & NBG estimates

Cyprus' largest political party, the former ruling right-wing DISY, scored a narrow victory in the European Parliamentary (EP) election.

DISY, which has been consistently coming 1st in every EP election since Cyprus' EU accession, garnered 24.8% of the vote this time, retaining its 2 (out of a total of 6) seats. Its main rival, the leftist AKEL, came a close 2nd, with 21.5% of the vote, yet losing 1 of its 2 EP seats -- for the first time since 2004. A political novice, the independent 24-year-old content creator F. Panayiotou, ranked 3rd -- overturning poll predictions -- with a stunning 19.4% of the vote -- well ahead of established political parties -- winning 1 EP seat. The two other parties that managed to secure a seat in the EP were the rising far-right ELAM, with 11.2% of the vote, and the centre-right DIKO, with 9.7% of the vote.

Rebalancing of power away from traditional parties continues. Despite its victory, DISY -- which has been grappling with internal problems since the 2023 presidential election -- saw not only its popularity fall (see chart), but also its lead over AKEL narrow. At the same time, the latter, albeit benefitting from the vote of Turkish Cypriots (adding c. 1.0 pp to the party's election result), has been seeing a gradual drop in voter support, which complicates the prospect of a comeback to power, given its limited ability to come into a coalition government with the other parties of the political spectrum, which are positioned to its right. At the same time, the 3 small parties that officially back President Christodoulides and his Government, namely DIKO, DEPA and EDEK, fared poorly, with EDEK losing its EP seat after 15 years. Recall that Christodoulides is the first President that has been elected without backing from the largest political parties (i.e. DISY -- from which he had earlier broken ranks -- and AKEL).

On the other hand, besides the surprising performance of newcomer F. Panayiotou, who attracted a significant share of new voters, ELAM, was the only party that saw its popularity rise. The latter's electoral strategy was based on capitalizing on rising public discontent over the long-standing migration crisis on the island, while attracting more moderate voters, by nominating high profile politicians.

Importantly, Cyprus's sound institutions, authorities' strong track record of economic policy and reform implementation and broad political consensus on reforms embedded in the country's RRF plan provide an anchor of political stability mitigating the implications of the ongoing rebalancing of political power.

The real estate sector continues to overperform, driven by external demand. Real estate prices continued to grow at a robust pace of 7.7% in FY:23 -- the strongest since FY:09 and among the largest in euro area countries -- following a rise of 5.2% in FY:22 and 1.7% on average in 2017-21. Yet, real estate prices still stand lower than their pre-GFC highs.

This overperformance reflects strong external demand (accounting for 45% of total property sales in FY:23), underpinned by the continued relocation of employees of foreign companies to the island, under Cyprus' headquartering policy, and to a lesser extent, war-related migration from Russia and Ukraine. Despite tight financing conditions, demand from local buyers also remains strong, supported by households' buy-to-let investment strategy and preference to hold physical (rather than financial) assets. In response to solid demand and the drop in construction costs, supply of real estate has started to increase, easing supply bottlenecks.

The real estate market is set to cool down, albeit moderately. Indeed, external demand is seen weakening (as suggested by the drop in property sales to foreign investors in Q4:23 and throughout 4M:24), in line with slowing influx of foreign companies and lower Israeli property purchases. Increased immigration amid regional conflicts poses an upside risk, nonetheless. On the other hand, domestic demand is unlikely to provide a significant boost in years to come, in view of sluggish mortgage lending growth and households' high indebtedness. The correction in construction costs and state measures to support housing supply (including the launch of a "built-to-rent" scheme, which provides for higher building coefficients) should also help real estate price inflation to moderate.

DETAILED MACROECONOMIC DATA

ROMANIA					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	241,737	284,385	324,762	346,554	369,423
GDP per capita (EUR)	12,589	14,935	17,066	18,294	19,617
GDP growth (real, %)	5.7	4.1	2.1	2.6	3.6
Unemployment rate(ILO definition, %, aop)	5.6	5.6	5.5	5.5	5.3
Prices and Banking					
Inflation (% eop)	8.2	16.4	6.7	4.2	3.8
Inflation (% aop)	5.0	13.7	10.5	5.1	3.7
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	24.8	23.0		
Retail Loans (% of GDP)	13.8	12.2	10.8		
Corporate Loans (% of GDP)	12.5	12.6	12.1		
Customer Deposits (% of GDP)	38.6	35.0	34.5		
Loans to Private Sector (% of Deposits)	68.1	71.0	66.6		
Foreign Currency Loans (% of Total Loans)	26.5	29.9	29.9		
External Accounts					
Merchandise exports (EUR million)	70,194	86,015	86,559	91,584	96,904
Merchandise imports (EUR million)	93,317	118,065	115,570	122,903	129,936
Trade balance (EUR million)	-23,123	-32,050	-29,011	-31,319	-33,032
Trade balance (% of GDP)	-9.6	-11.3	-8.9	-9.0	-8.9
Current account balance (EUR million)	-17,474	-26,041	-22,638	-22,872	-23,059
Current account balance (% of GDP)	-7.2	-9.2	-7.0	-6.6	-6.2
Net FDI (EUR million)	8,820	8,806	6,558	6,755	7,092
Net FDI (% of GDP)	3.6	3.1	2.0	1.9	1.9
International reserves (EUR million)	40,475	46,636	59,770	61,652	63,936
International reserves (Months ^a)	4.3	3.9	5.1	4.9	4.8
Public Finance					
Primary balance (% of GDP)	-5.2	-3.7	-3.7	-3.6	-3.0
Fiscal balance (% of GDP)	-6.7	-5.8	-5.6	-5.6	-5.0
Gross public debt ^b (% of GDP)	48.2	47.3	48.5	50.6	52.0
External Debt					
Gross external debt (EUR million)	136,585	143,886	170,083	179,159	187,454
Gross external debt (% of GDP)	56.5	50.6	52.4	51.5	50.5
External debt service (EUR million)	16,702	21,991	21,272	21,500	21,500
External debt service (% of reserves)	41.3	47.2	35.6	34.9	33.6
External debt service (% of exports)	17.0	17.9	16.7	16.0	15.0
Financial Markets					
Policy rate (1-w repo rate, %, eop)	1.8	6.8	7.0	6.3	5.3
Policy rate (1-w repo rate, %, aop)	1.4	4.4	7.0	6.7	5.5
10-Y Bond Yield (% eop)	5.1	8.4	6.3	6.6	6.0
Exchange rate: EUR (eop)	4.946	4.940	4.972	5.020	5.050
Exchange rate: EUR (aop)	4.919	4.928	4.944	4.996	5.035

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

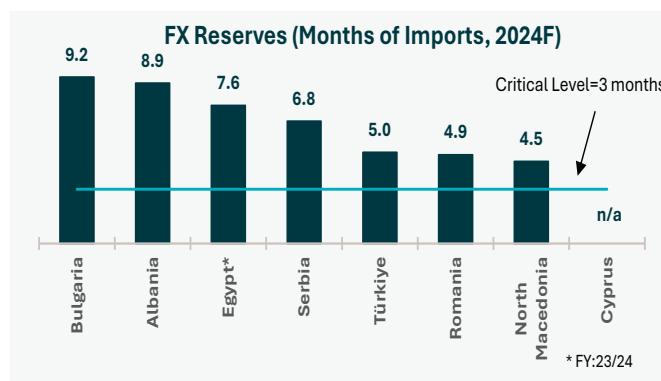
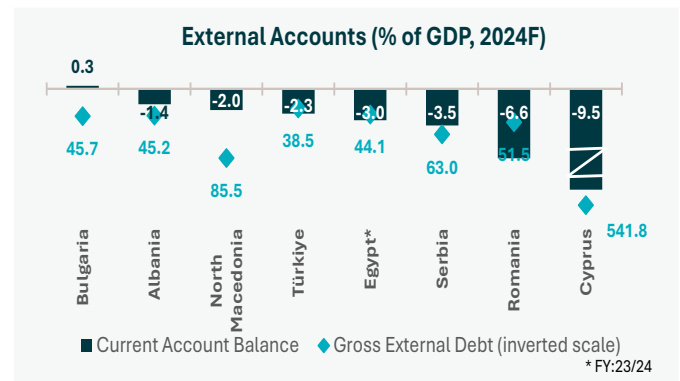
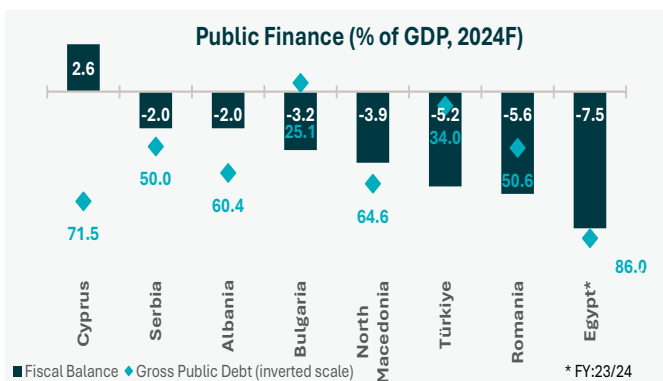
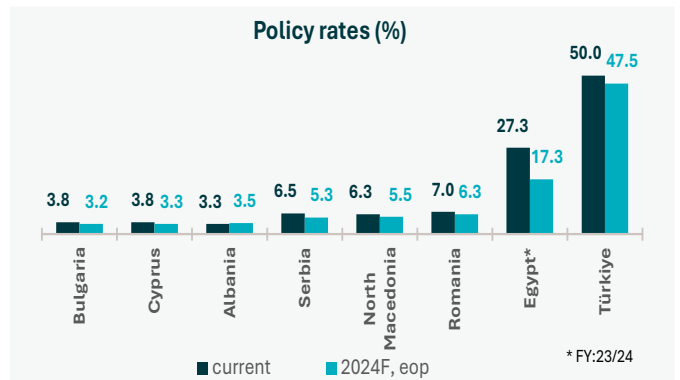
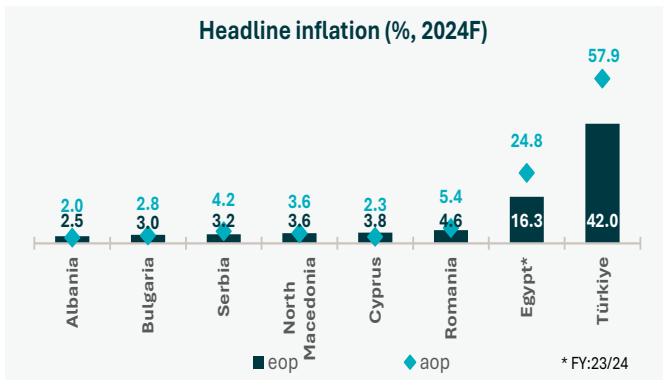
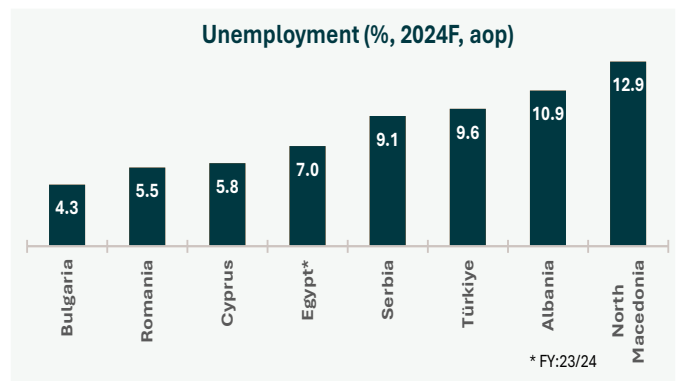
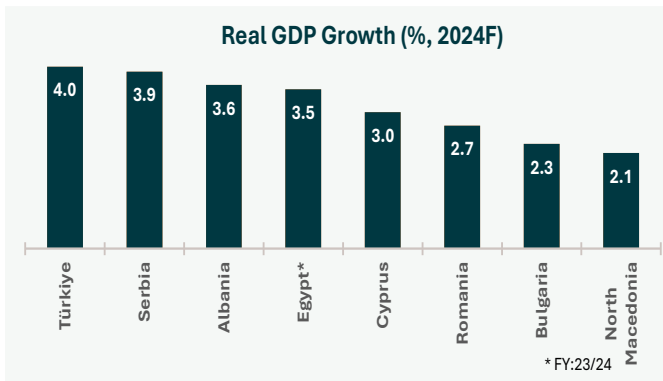
BULGARIA					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	71,059	85,799	93,947	98,702	105,222
GDP per capita (EUR)	10,390	12,621	13,904	14,694	15,761
GDP growth (real, %)	7.7	3.9	1.8	2.3	3.3
Unemployment rate(ILO definition, %, aop)	5.3	4.2	4.3	4.3	4.2
Prices and Banking					
Inflation (% eop)	7.8	16.9	4.7	3.0	2.8
Inflation (% aop)	3.3	15.2	9.6	2.8	3.2
Loans to the Private Sector (% change, eop)	8.3	12.2	11.1		
Customer Deposits (% change, eop)	9.0	14.4	9.6		
Loans to the Private Sector (% of GDP)	47.6	44.3	44.9		
Retail Loans (% of GDP)	20.5	19.5	20.7		
Corporate Loans (% of GDP)	27.1	24.8	24.2		
Customer Deposits (% of GDP)	69.1	65.5	65.5		
Loans to Private Sector (% of Deposits)	69.0	67.6	68.6		
Foreign Currency Loans (% of Total Loans)	28.7	25.7	23.3		
External Accounts					
Merchandise exports (EUR million)	34,405	47,145	43,334	45,097	47,140
Merchandise imports (EUR million)	37,291	52,219	46,962	49,104	51,502
Trade balance (EUR million)	-2,887	-5,074	-3,628	-4,007	-4,362
Trade balance (% of GDP)	-4.1	-5.9	-3.9	-4.1	-4.1
Current account balance (EUR million)	-1,225	-1,200	0,251	0,297	0,504
Current account balance (% of GDP)	-1.7	-1.4	-0.3	0.3	0.5
Net FDI (EUR million)	1,249	2,098	3,066	3,158	3,316
Net FDI (% of GDP)	1.8	2.4	3.3	3.2	3.2
International reserves (EUR million)	34,597	38,424	41,706	43,661	45,981
International reserves (Months ^a)	9.8	7.8	9.2	9.2	9.2
Public Finance					
Primary balance (% of GDP)	-2.4	-0.4	-2.6	-2.8	-2.0
Fiscal balance (% of GDP)	-2.8	-0.8	-3.1	-3.2	-2.6
Gross public debt ^b (% of GDP)	23.9	22.6	23.1	25.1	26.0
External Debt					
Gross external debt (EUR million)	41,317	44,249	45,414	45,107	44,824
Gross external debt (% of GDP)	58.1	51.6	48.3	45.7	42.6
External debt service (EUR million)	7,000	8,200	7,100	7,250	7,500
External debt service (% of reserves)	20.2	21.3	17.0	16.6	16.3
External debt service (% of exports)	16.0	13.8	12.4	12.1	11.9
Financial Markets					
Base Interest Rate (% eop)	0.0	1.3	3.8	3.2	2.4
Base Interest Rate (% aop)	0.0	0.2	2.9	3.5	2.8
10-Y Bond Yield (% eop)	0.7	6.0	4.5	3.9	3.7
Exchange rate: EUR (eop)	1.956	1.956	1.956	1.956	1.956
Exchange rate: EUR (aop)	1.956	1.956	1.956	1.956	1.956

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

CYPRUS					
	2021	2022	2023	2024f	2025f
Real Sector					
Nominal GDP (EUR million)	24,928	27,777	29,807	31,415	33,105
GDP per capita (EUR)	27,687	30,434	32,151	33,549	35,004
GDP growth (real, %)	9.9	5.1	2.5	3.0	2.8
Unemployment rate (% aop)	7.5	6.8	6.1	5.8	5.5
Prices and Banking					
Inflation (% eop)	4.8	7.9	1.6	3.8	1.9
Inflation (% aop)	2.4	8.4	3.6	2.3	2.5
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)	110.1	86.8	76.9		
Retail Loans (% of GDP)	49.0	41.3	37.5		
Corporate Loans (% of GDP)	61.1	45.5	39.4		
Customer Deposits (% of GDP)	174.1	160.7	149.0		
Loans to Private Sector (% of Deposits)	63.2	54.0	51.6		
Foreign Currency Loans (% of Total Loans)	---	---	---		
External Accounts					
Merchandise exports (EUR million)	3,693	4,581	4,346	4,463	4,592
Merchandise imports (EUR million)	8,092	10,555	11,462	11,632	12,111
Trade balance (EUR million)	-4,398	-5,973	-7,115	-7,170	-7,519
Trade balance (% of GDP)	-17.6	-21.5	-23.9	-22.8	-22.7
Current account balance (EUR million)	-1,514	-2,203	-3,607	-2,994	-2,804
Current account balance (% of GDP)	-6.1	-7.9	-12.1	-9.5	-8.5
Net FDI (EUR million)	7,748	8,446	3,749	4,686	5,389
Net FDI (% of GDP)	31.1	30.4	12.6	14.9	16.3
International reserves (EUR million)	---	---	---	---	---
International reserves (Months ^a)	---	---	---	---	---
Public Finance					
Primary balance ^b (% of GDP)	-0.1	3.9	4.5	3.8	3.8
Fiscal balance ^b (% of GDP)	-1.9	2.4	3.1	2.6	2.4
Gross public debt (% of GDP)	99.3	85.6	77.3	71.5	66.0
External Debt					
Gross external debt (EUR million)	172,529	169,326	171,697	170,197	168,697
Gross external debt (% of GDP)	692.1	609.6	576.0	541.8	509.6
External debt service (EUR million)	---	---	---	---	---
External debt service (% of reserves)	---	---	---	---	---
External debt service (% of exports)	---	---	---	---	---
Financial Markets					
Policy rate (ECB refinancing rate, %, eop)	-0.5	2.0	4.0	3.3	2.5
Policy rate (ECB refinancing rate, %, aop)	-0.5	0.2	3.4	3.8	2.7
10-Y T-bill rate (% eop)	0.7	4.2	3.2	3.7	3.7
Exchange rate: USD (eop)	1.137	1.070	1.104	1.090	1.110
Exchange rate: USD (aop)	1.183	1.053	1.081	1.083	1.103

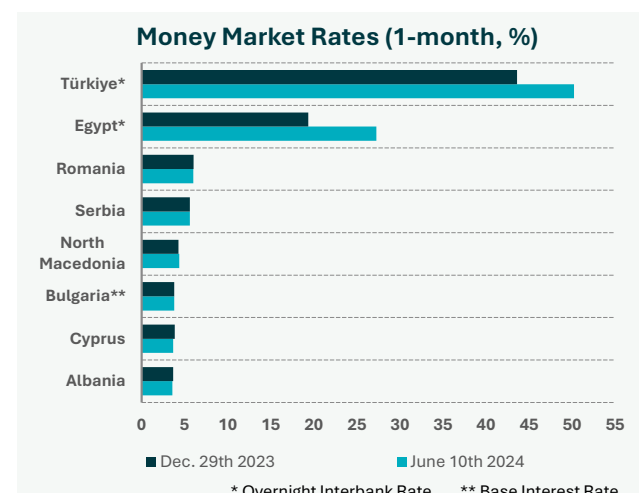
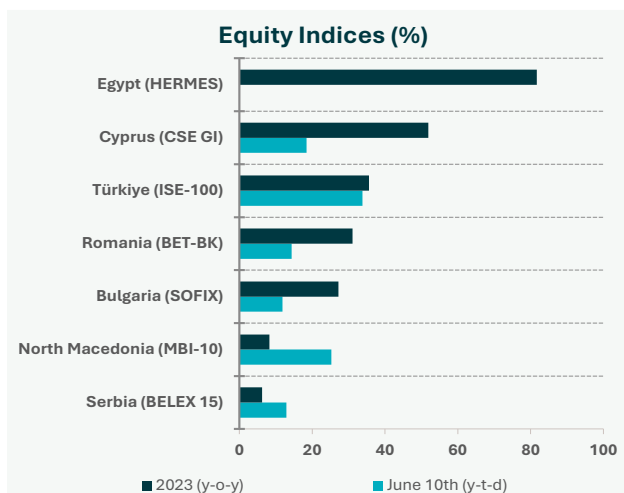
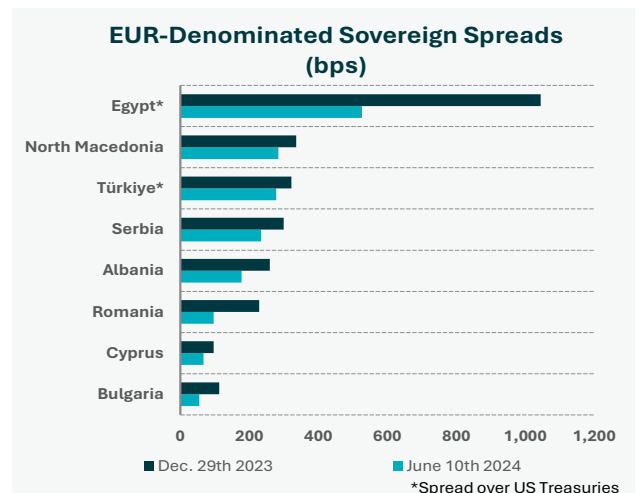
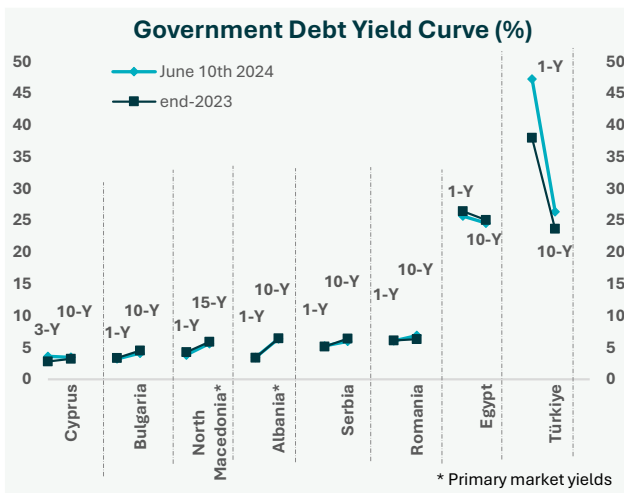
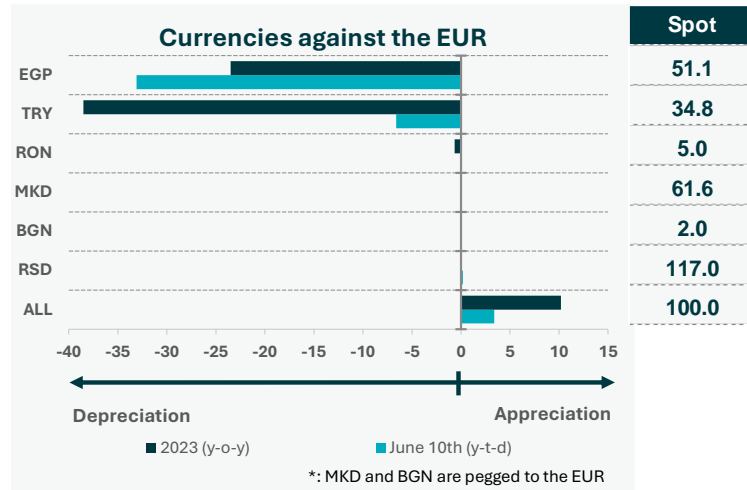
f: NBG forecasts; a: months of imports of GNFS; b: cash basis

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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