

## COUNTRIES IN FOCUS:

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Economic growth is set to firm to 3.1% in 2025, on stronger, more balanced, domestic demand

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Real estate market continues to overperform, on the back of strong (mainly resident) demand

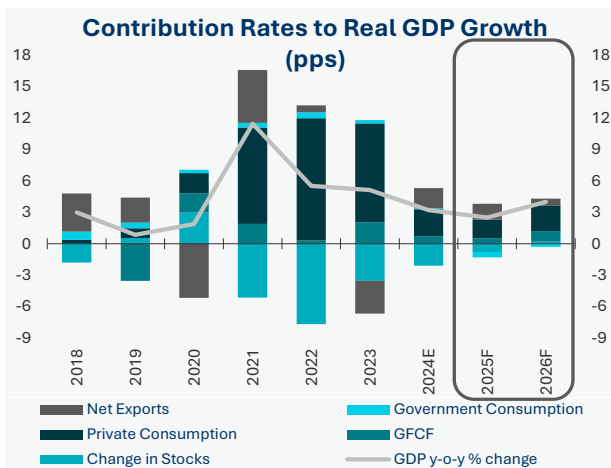
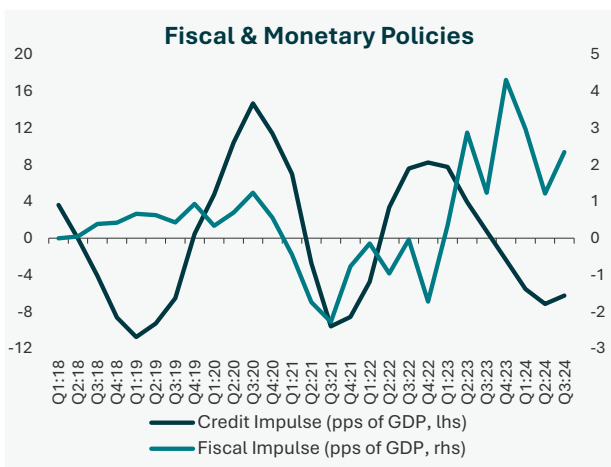
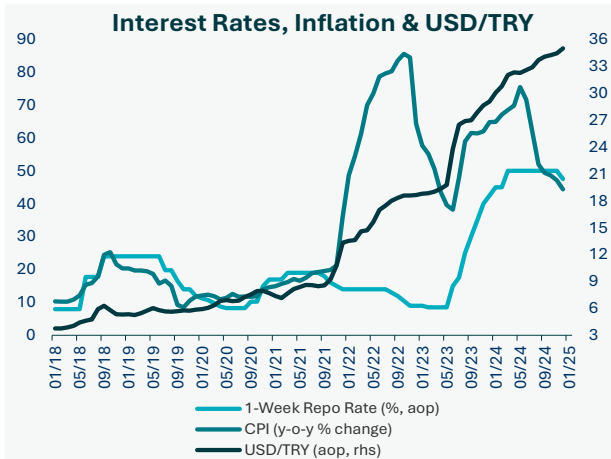
The residential market should eventually cool down, albeit moderately, in the medium-term, due to easing demand (mostly by foreigners), on the one hand, and increased supply, on the other hand

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# Türkiye

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



	6 Jan.	3-M F	6-M F	12-M F
O/N TLREF (%)	46.9	38.0	34.0	28.0
TRY//USD	35.3	36.5	37.7	40.0
Sov. Spread (2030, bps)	243	240	230	220

	6 Jan.	1-W %	YTD %	2-Y %
ISE 100	10,086	2.0	2.6	88.8

	2022	2023	2024E	2025F	2026F
Real GDP Growth (%)	5.5	5.1	3.2	2.5	4.0
Inflation (eop, %)	64.3	64.2	44.4	25.0	14.0
Cur. Acct. Bal. (% GDP)	-5.1	-3.6	-0.8	-0.6	-1.3
Fiscal Bal. (% GDP)	-0.9	-5.2	-5.0	-3.6	-3.0

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

## Tight financing conditions and (still) high inflation lead to a marginal contraction in economic activity for a 2<sup>nd</sup> consecutive quarter in Q3:24.

Sequential GDP growth was marginally negative for a 2<sup>nd</sup> consecutive quarter in Q3:24 (down 0.2% q-o-q s.a.), suggesting further loss of momentum in an economy that was growing at a robust pace until the beginning of the previous year (GDP, up 1.2% q-o-q s.a. in Q1:24). On an annual basis, the pace of economic expansion eased to a new post-pandemic low of 2.1% y-o-y in Q3:24, bringing 9M:24 growth to a still respectable 3.2%, nonetheless.

A sharp turnaround in monetary policy to address external imbalances and skyrocketing inflation has been the main factor behind the ongoing adjustment. Recall that the CBRT has raised its key rate by a whopping 4,150 bps, to 50.0%, between June '23 and March '24. The reversal in rates has been complemented by credit and quantitative tightening measures (including lending growth caps and higher required reserves for banks), as well as a roll-back of measures stemming dollarization.

Against this backdrop, inflation has started to moderate, without yet falling into manageable levels (standing at 44% y-o-y at end-year, well below its mid-year peak of 75%). Loose fiscal and incomes policies and (still) unanchored inflation expectations are key factors behind the slow disinflation process. Importantly, TRY depreciation pressures have eased, reflecting, *inter alia*, improving market sentiment.

Unsurprisingly, domestic absorption, especially private consumption, has been driving the slowdown, in line with lowered real incomes, slowing credit expansion (with the credit impulse metric having turned negative since Q4:23) and weaker confidence. That said, inventory drawdown continued for a 16<sup>th</sup> consecutive quarter in Q3:24, suggesting that demand has yet to match supply. Despite sluggish growth in the EU, Türkiye's main trade partner, net exports added to GDP growth for a 3<sup>rd</sup> consecutive quarter, confirming ongoing unwinding of external imbalances.

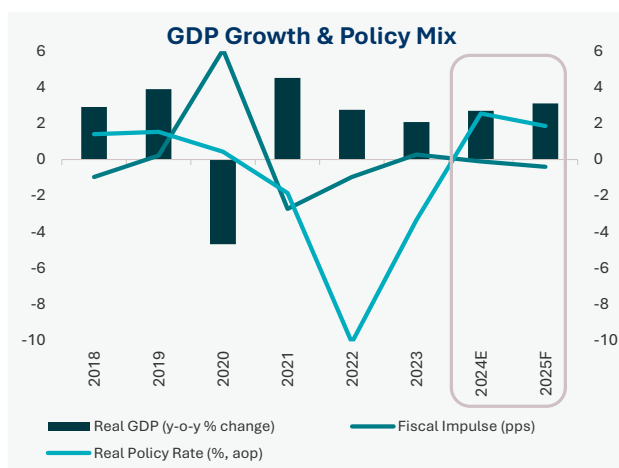
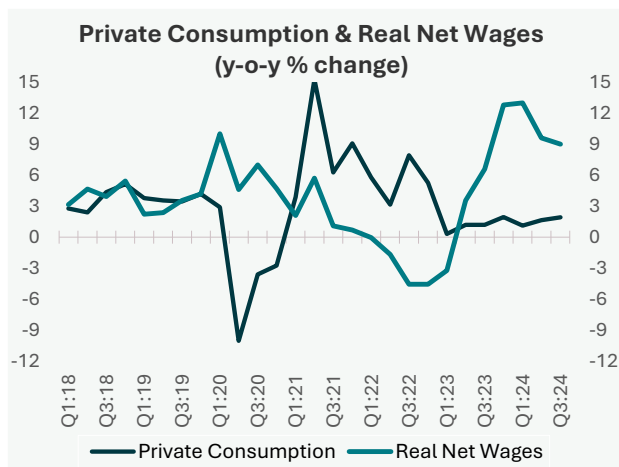
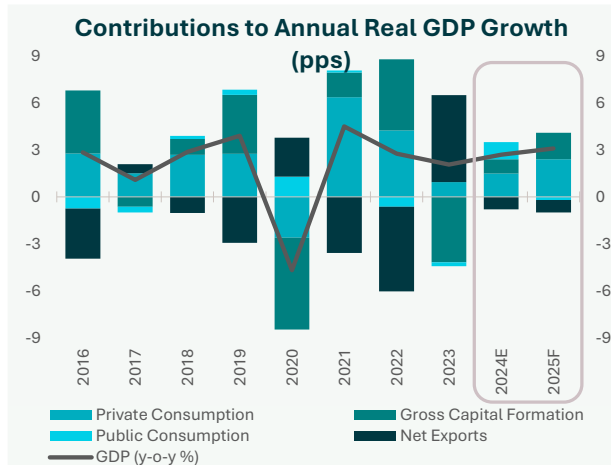
**Economic momentum is set to remain weak until mid-2025.** Considering slow disinflation and volatile TRY, the CBRT is set to proceed cautiously with easing in the period ahead (note that the key policy rate was trimmed by 250 bps in December). Still, the lagged impact of the unprecedented monetary policy tightening would be felt for much longer, weighing on domestic demand (the real *ex-post* policy rate stood at 2.2% at end-2024 against -13.5% a year ago). Importantly, the Government's efforts to reign in its budget deficit, which has ballooned amid a prolonged election cycle, should complement the CBRT's efforts to recalibrate the economy.

In this environment, the economy is set to remain on a weak footing, at least in the short-term. Indeed, with labour underutilization standing at 3-year highs (c. 27.0%) and incomes policy expected to stop looking backwards at inflation, growth in private consumption cannot but remain subdued. Amid tight financing conditions, gross fixed capital formation is also unlikely to add meaningfully to GDP growth, given, *inter alia*, the fading of the favourable effect from post-earthquake reconstruction activity. On the other hand, with domestic and external demand gradually decoupling, net exports should continue adding to economic growth, despite the real appreciation of the TRY (up c. 35% over the past 3 years).

All said, GDP growth is seen easing to 2.5% in FY:25 from 3.2% in FY:24, before rebounding to 4.0% in FY:26, following consolidation of inflation at low double-digit levels and further easing in monetary policy conditions. Risks to our forecast are tilted to the downside, reflecting repercussions from ongoing geopolitical tensions and/or a reversal of capital flows in the event of a slower-than-envisaged unwinding of Türkiye's imbalances. Should the new USD administration proceed with levying global tariffs, the economy's long-term growth trajectory could not but be also affected. Note that higher US rates and a stronger USD would pose additional challenges for EMs, including Türkiye.

# North Macedonia

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



	6 Jan.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	4.3	4.1	3.8	3.1
MKD/EUR	61.4	61.6	61.6	61.6
Sov. Spread (2028, bps)	296	290	280	260

	6 Jan.	1-W %	YTD %	2-Y %
MBI 100	10,280	0.8	0.8	78.5

	2022	2023	2024E	2025F	2026F
Real GDP Growth (%)	2.8	2.1	2.7	3.1	3.2
Inflation (eop, %)	18.7	3.6	4.2	2.4	2.0
Cur. Acct. Bal. (% GDP)	-6.0	0.4	-1.8	-2.3	-2.4
Fiscal Bal. (% GDP)	-4.3	-4.6	-4.5	-4.1	-3.5

Sources: Reuters, NBRNM, MAKSTAT, Ministry of Finance & NBG estimates

**Higher public consumption in the run-up and after the May Parliamentary election, together with reviving private consumption and the halt in the decline of gross capital formation, pushed GDP growth higher in 2024.** Economic momentum has been building up, with GDP growth accelerating to a solid 3.0% y-o-y in Q3:24 (up 0.7% q-o-q s.a.) from 2.8% in Q2:24 (up 1.1% q-o-q s.a.) and 1.9% (up 0.2% q-o-q s.a.) in Q1:24. Looking at the breakdown, the picture has been quite mixed, with private consumption gaining steam, without, however, reaching the growth rates witnessed in the period prior to the pandemic, and gross capital formation (GCF) having yet to show credible signs of recovery (note that the jump witnessed in Q1:24 was mostly attributed to a base effect) after falling sharply in FY:23. A government spending spree ahead of the May Parliamentary election and the later clearance of (discovered) arrears to the private sector also provided a critical boost to domestic demand. On the other hand, after a temporary (base-effect related) deterioration in Q1:24, net exports have been adding to overall growth, with their contribution shrinking markedly, however, compared with FY:23.

**Economic growth is set to firm to 3.1% in 2025, on stronger, more balanced, domestic demand.** With inflation consolidating at low levels, private consumption growth is due to strengthen, underpinned by: i) solid -- yet easing -- real (*ex-post*) wage growth and pension hikes (see chart); ii) improving confidence (which has only recently exceeded pre-pandemic levels); iii) reviving consumer lending; and iv) a recovery in remittances (with the latter estimated to have dropped by c. 2.0 pps of GDP in FY:24, on the back of stagnation in the EU). Importantly, the steady outflow of labour force (largely due to immigration) appears to have been halted, with the participation rate inching-up (after declining for many years), at the same time, painting a somewhat more encouraging outlook for the labour market.

Growth in fixed investment is also set to gain momentum, spearheaded by construction of the Corridor 8/10d highway, a project that is currently behind schedule. Private investment should also contribute to overall growth, albeit modestly, in view, *inter alia*, of the envisaged gradual easing in financing conditions (note that corporates saw a much more acute hike in their borrowing costs compared to households during the recent tightening cycle). Moreover, the need to replenish inventories, which have been depleted, following past years' disruptions in global supply chains, should add to GCF.

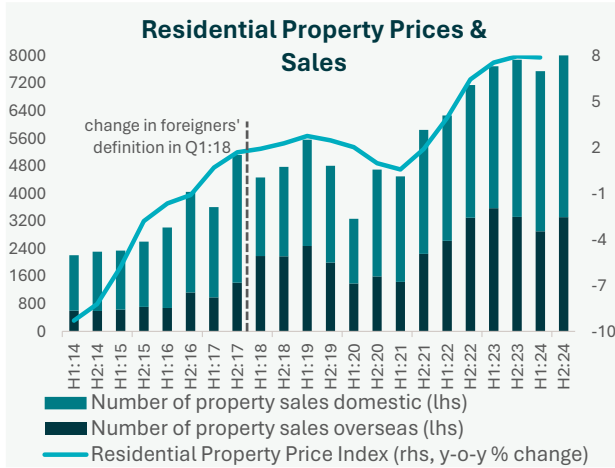
In contrast, amid sluggish growth in the EU, especially Germany (which absorbs c. 45% of the country's exports and whose economy is projected to expand by a mere 1.0% in FY:25, well below the pre-pandemic average of c. 1¾%), on the one hand, and firming domestic demand, particularly investment, which has a quite large import content, on the other hand, net exports are envisaged to drag overall growth down.

All said, we see GDP growth firming to 3.1% in FY:25 from 2.7% in FY:24. In the event the Corridor 8/10d continues to face implementation delays, investment growth could come in lower than projected. Similarly, should increasing household income be largely channeled to savings instead of consumption and/or remittances fail to return to historical levels, private consumption growth would remain constrained. 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.

As regards political risk, noise in the domestic sphere is set to remain elevated, at least in the short-term, in view of resurging tensions between the Albanian (accounting for c. 25% of population) and N. Macedonian communities over the official use of the Albanian language. Worryingly, on the external front, it is unlikely to see significant progress on the country's EU path. Although the Government officially supports EU integration, its hard-line stance against the required constitutional amendments, providing, among others, for the recognition of a Bulgarian minority, should deter Bulgaria from lifting the veto on North Macedonia's EU accession.

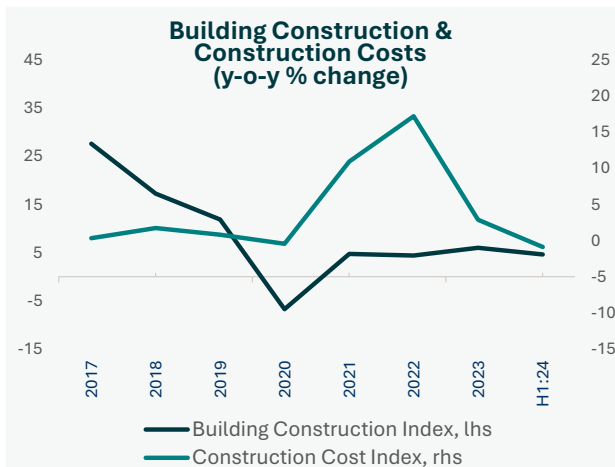
# Cyprus

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



**The real estate market continues to overperform, on the back of strong (mainly resident) demand.** Amid record-high activity in the real estate market, prices continued to increase at a fast pace in H1:24 (up 7.9% y-o-y, following a rise of 7.7% in FY:23, with their level, however, still standing lower than their pre-GFC high), driven by rising demand from local buyers and resilient, albeit moderating, interest by (mainly non-EU) foreign buyers (see chart).

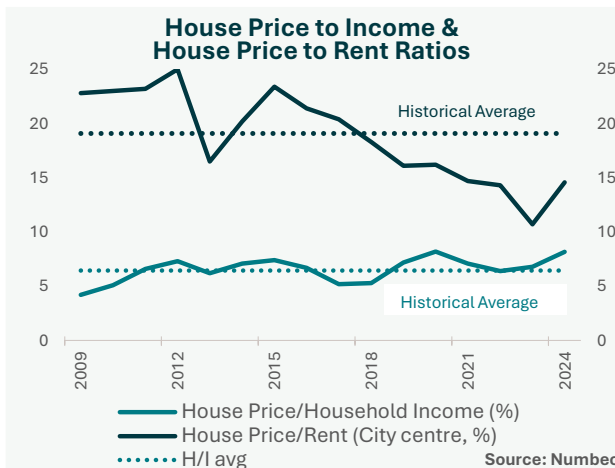
Indeed, demand for housing from domestic buyers continued to expand in H1:24, in line with strengthening (real) disposable incomes, stronger mortgage lending growth (amid expectations of monetary policy easing) and improving economic sentiment. At the same time, foreign demand for real estate (that relies less on mortgage lending), albeit losing steam, remained resilient (accounting for a still sizeable 40% of total property sales in FY:24, slightly below the 44% outcome of 2023), reflecting continuing influx of foreign companies and their personnel (partly due to migration from war-affected areas in the Middle East, including Israel) and the expansion of activities of businesses attracted by authorities' headquartering policy.



Real estate price growth would have been stronger had supply not responded to increased demand (with the production index of building construction rising for a 4<sup>th</sup> successive year, up 5.0% y-o-y in H1:24), on the back, *inter alia*, lower construction costs (after 3 years of strong growth, see chart).

**The residential market should eventually cool down, albeit moderately, in the medium-term, due to easing demand (mostly by foreigners), on the one hand, and increased supply, on the other hand.**

Against a bright outlook for the Cypriot economy, domestic demand for real estate is set to remain solid, supported by stronger mortgage lending growth (on the back of lower borrowing costs and the launch of a state subsidy scheme on housing loans for young people). The sector's attractiveness as an asset class (with rental yields currently standing at c. 7.0%, well above 10-year bond yields -- c. 3.0%) also bodes well for the market, considering easing interest rates. Note that the household investment rate -- defined as gross fixed capital formation (mainly dwellings) divided by gross disposable income -- is the highest in the EU (standing at 14.6% against the EU average of 9.5%), while financial asset accumulation is the lowest, implying Cypriot households' inclination to build wealth through real estate. The still high, yet declining, household indebtedness (amounting to 64.3% of GDP against an EU average of 51.8% in FY:23) cannot but continue to act as a constraint, nonetheless, despite support from monetary policy normalization.



On the other hand, following strong growth over the past 2 years, demand for real estate by foreigners is expected to cool-down, in line with the envisaged slowdown in the inflow of foreign companies to the island.

Along with a moderation in overall demand for real estate, supply is set to increase further in the period ahead, helping moderate real estate price inflation. The recently launched state measures aiming at addressing housing supply shortages (namely the "Renovate-Rent" and "Build to Rent" schemes and fast-track licensing procedures for low-risk building permits) bode well to this end. Note that the month-long halt in construction activity due to the cement workers' strike in November is expected to impact real estate prices only temporarily.

All said, we see real estate price growth easing toward mid-single digits in the medium-term. Importantly, with price misalignment measures showing no signs of overvaluation (with both the price-to-income and price-to-rent ratios hovering below and around their historical averages, respectively, see chart), an abrupt correction in the market seems a distant prospect.

	6 Jan.	3-M F	6-M F	12-M F
1-M EURIBOR (%)	2.8	2.4	2.1	2.1
EUR/USD	1.04	1.08	1.09	1.10
Sov. Spread (2028, bps)	79	78	75	70

	6 Jan.	1-W %	YTD %	2-Y %
CSE 100	217	1.1	0.5	135.6

	2022	2023	2024E	2025F	2026F
Real GDP Growth (%)	7.4	2.6	3.7	3.0	3.1
Inflation (eop, %)	7.9	1.6	2.6	1.9	1.9
Cur. Acct. Bal. (% GDP)	-5.4	-9.5	-4.7	-4.3	-4.0
Fiscal Bal. (% GDP)	2.6	2.0	3.5	3.0	2.8

Sources: Reuters, Cystat, Ministry of Interior & NBG estimates

## DETAILED MACROECONOMIC DATA

TÜRKİYE					
	2022	2023	2024	2025f	2026f
<b>Real Sector</b>					
Nominal GDP (USD million)	905,789	1,116,339	1,332,782	1,537,547	1,703,710
GDP per capita (USD)	10,621	13,076	15,532	17,829	19,661
GDP growth (real, %)	5.5	5.1	3.2	2.5	4.0
Unemployment rate (% aop)	10.5	9.4	8.8	9.4	9.1
<b>Prices and Banking</b>					
Inflation (% eop)	64.3	64.2	44.4	25.0	14.0
Inflation (% aop)	71.6	53.1	59.7	29.2	18.8
Loans to the Private Sector (% change, eop)	54.5	53.7			
Customer Deposits (% change, eop)	68.0	67.1			
Loans to the Private Sector (% of GDP)	50.4	43.8			
Retail Loans (% of GDP)	11.2	11.2			
Corporate Loans (% of GDP)	39.2	32.6			
Customer Deposits (% of GDP)	53.1	50.2			
Loans to Private Sector (% of Cust. Deposits)	94.9	87.3			
Foreign Currency Loans (% of Total Loans)	32.6	32.5			
<b>External Accounts</b>					
Merchandise exports (USD million)	253,352	250,999	257,096	264,667	262,746
Merchandise imports (USD million)	342,938	337,279	314,875	324,857	338,764
Trade balance (USD million)	-89,586	-86,280	-57,780	60,190	76,018
Trade balance (% of GDP)	-9.9	-7.7	-4.3	-3.9	4.5
Current account balance (USD million)	-45,638	-40,442	-10,634	-9,296	-22,580
Current account balance (% of GDP)	-5.1	-3.6	-0.8	-0.6	-1.3
Net FDI (USD million)	8,731	5,031	2,264	3,396	4,245
Net FDI (% of GDP)	1.0	0.5	0.2	0.2	0.2
International reserves (USD million)	128,736	140,884	155,000	167,500	180,000
International reserves (Months <sup>a</sup> )	3.3	5.0	6.2	6.0	6.4
<b>Public Finance</b>					
Primary balance (% of GDP)	1.1	-2.6	-2.0	-0.7	-0.2
Fiscal balance (% of GDP)	-0.9	-5.2	-5.0	-3.6	-3.0
Gross public debt (% of GDP)	30.8	29.3	27.0	27.0	27.0
<b>External Debt</b>					
Gross external debt (USD million)	456,728	499,898	522,500	535,000	545,000
Gross external debt (% of GDP)	50.4	44.8	39.2	34.8	32.0
External debt service (USD million)	67,079	75,000	80,000	85,000	87,500
External debt service (% of reserves)	52.1	53.2	51.6	50.7	48.6
External debt service (% of exports)	21.2	23.9	24.9	25.7	26.6
<b>Financial Markets</b>					
Policy rate (Effective funding rate, % eop)	9.0	42.5	47.5	28.0	17.0
Policy rate (Effective funding rate, % aop)	12.6	20.7	49.0	33.8	21.9
10-Y T-bill rate (% eop)	9.9	23.7	27.2	21.0	16.5
Exchange rate: USD (eop)	18.69	29.48	35.34	40.00	44.00
Exchange rate: USD (aop)	16.57	23.78	32.82	37.67	42.00

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

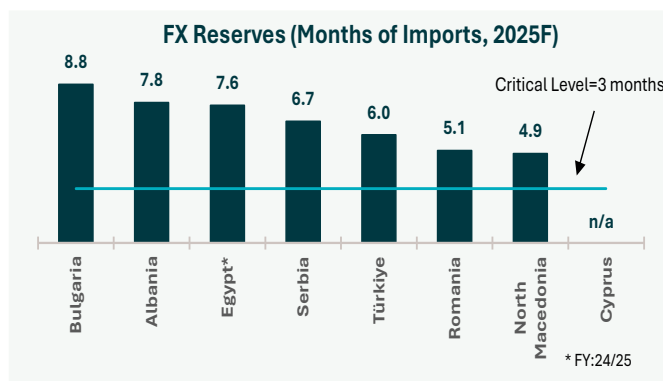
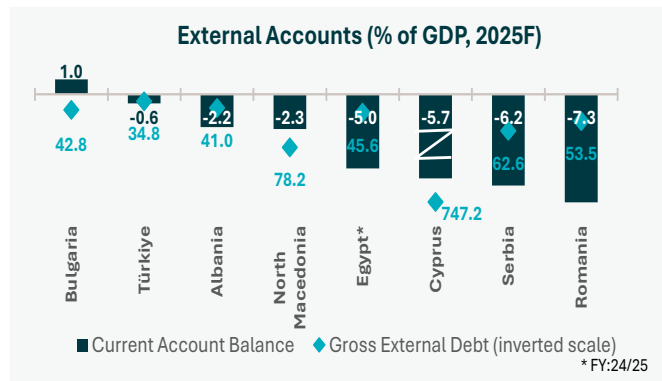
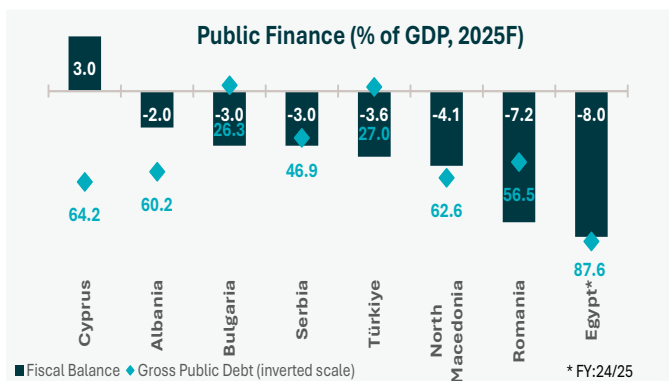
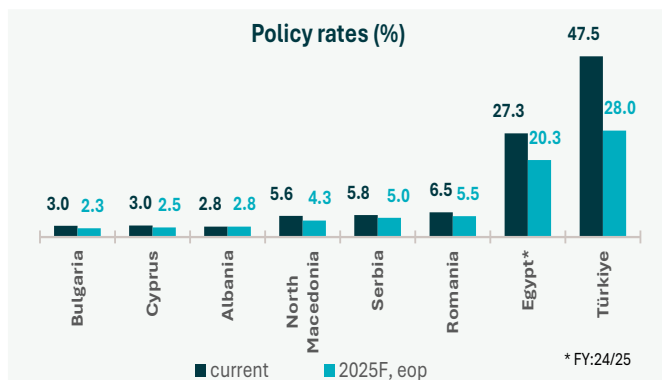
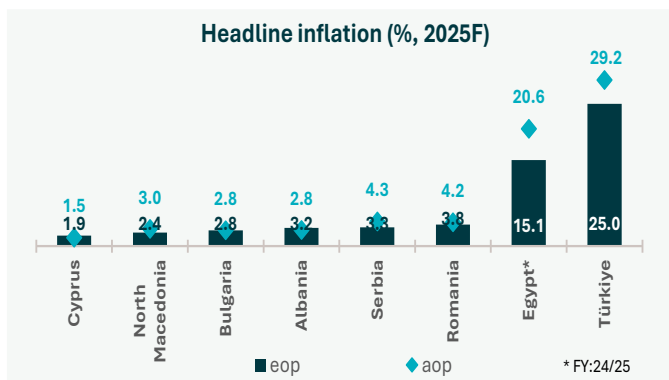
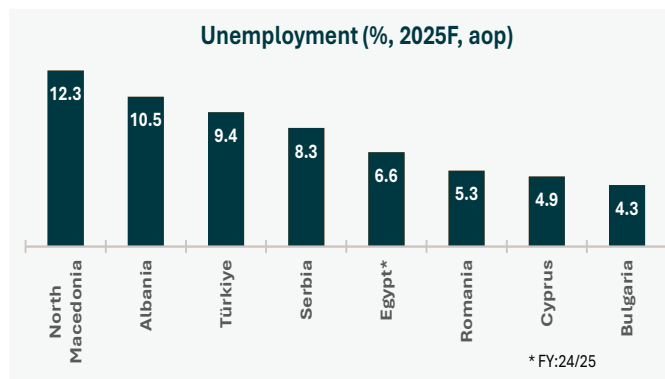
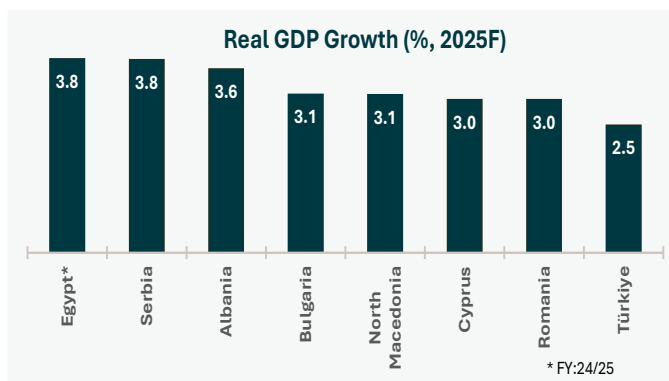
NORTH MACEDONIA					
	2022	2023	2024	2025f	2026f
<b>Real Sector</b>					
Nominal GDP (EUR million)	13,263	14,595	15,523	16,483	17,397
GDP per capita (EUR)	7,240	7,967	8,473	9,107	9,736
GDP growth (real, %)	2.8	2.1	2.7	3.1	3.2
Unemployment rate (% aop)	14.4	13.1	12.6	12.3	12.0
<b>Prices and Banking</b>					
Inflation (% eop)	18.7	3.6	4.2	2.4	2.0
Inflation (% aop)	14.0	9.5	3.5	3.0	2.4
Loans to the Private Sector (% change, eop)	8.8	5.2			
Customer Deposits (% change, eop)	5.1	9.5			
Loans to the Private Sector (% of GDP)	51.1	48.8			
Retail Loans (% of GDP)	26.0	25.2			
Corporate Loans (% of GDP)	24.9	23.5			
Customer Deposits (% of GDP)	57.1	56.8			
Loans to Private Sector (% of Deposits)	89.5	85.9			
Foreign Currency Loans (% of Total Loans)	42.6	42.0			
<b>External Accounts</b>					
Merchandise exports (EUR million)	7,321	7,236	7,092	7,396	7,700
Merchandise imports (EUR million)	10,802	9,871	10,145	10,695	11,234
Trade balance (EUR million)	-3,482	-2,634	-3,053	-3,299	3,534
Trade balance (% of GDP)	-26.3	-18.0	-19.7	-20.0	-20.3
Current account balance (EUR million)	-0,801	-0,056	-0,272	-0,387	-0,416
Current account balance (% of GDP)	-6.0	0.4	-1.8	-2.3	-2.4
Net FDI (EUR million)	0,654	0,488	0,696	0,574	0,603
Net FDI (% of GDP)	4.9	3.3	4.5	3.5	3.5
International reserves (EUR million)	3,863	4,538	5,019	5,0269	5,519
International reserves (Months <sup>a</sup> )	3.7	4.6	5.0	4.9	4.9
<b>Public Finance</b>					
Primary balance (% of GDP)	-3.2	-3.2	-2.6	-2.2	-1.7
Fiscal balance (% of GDP)	-4.3	-4.6	-4.5	-4.1	-3.5
Gross public debt <sup>b</sup> (% of GDP)	57.6	57.6	61.1	62.6	63.6
<b>External Debt</b>					
Gross external debt (EUR million)	10,790	11,356	12,418	12,890	13,222
Gross external debt (% of GDP)	81.4	77.8	80.0	78.2	76.0
External debt service (EUR million)	2,558	4,043	3,761	4,342	4,749
External debt service (% of reserves)	66.2	89.1	74.9	82.4	86.0
External debt service (% of exports)	26.5	40.9	37.9	41.6	43.4
<b>Financial Markets</b>					
28-d CB bill rate (% eop)	4.8	6.3	5.6	4.3	3.8
28-d CB bill rate (% aop)	2.5	5.8	6.1	4.9	4.1
1-Y T-bill rate <sup>c</sup> (% eop)	3.5	4.3	3.8	3.0	2.8
Exchange rate: EUR (eop)	61.6	61.6	61.4	61.6	61.6
Exchange rate: EUR (aop)	61.5	61.5	61.5	61.5	61.6

f: NBG forecasts; a: months of imports of GNFS; b: incl. guaranteed debt; c: primary market

CYPRUS					
	2022	2023	2024e	2025f	2026f
<b>Real Sector</b>					
Nominal GDP (EUR million)	29,416	31,340	33,248	34,849	36,623
GDP per capita (EUR)	32,230	33,804	35,507	36,848	38,378
GDP growth (real, %)	7.4	2.6	3.7	3.0	3.1
Unemployment rate (% aop)	6.2	5.8	5.1	4.9	4.8
<b>Prices and Banking</b>					
Inflation (% eop)	7.9	1.6	2.6	1.9	1.9
Inflation (% aop)	8.4	3.6	1.8	1.8	1.9
Loans to the Private Sector (% change, eop)	-12.1	-5.0			
Customer Deposits (% change, eop)	2.9	-0.6			
Loans to the Private Sector (% of GDP)	82.0	73.1			
Retail Loans (% of GDP)	39.0	35.6			
Corporate Loans (% of GDP)	43.0	37.5			
Customer Deposits (% of GDP)	151.8	141.7			
Loans to Private Sector (% of Deposits)	54.0	51.6			
Foreign Currency Loans (% of Total Loans)	---	---			
<b>External Accounts</b>					
Merchandise exports (EUR million)	5,027	4,340	4,373	4,499	4,631
Merchandise imports (EUR million)	10,802	11,545	10,683	11,109	11,560
Trade balance (EUR million)	-5,775	-7,204	-6,309	-6,610	6,929
Trade balance (% of GDP)	-19.6	-23.0	-19.0	-19.0	-18.9
Current account balance (EUR million)	-1,584	-2,966	-1,555	-1,492	-1,468
Current account balance (% of GDP)	-5.4	-9.5	-4.7	-4.3	-4.0
Net FDI (EUR million)	7,978	6,568	5,583	6,420	7,062
Net FDI (% of GDP)	27.1	21.0	16.8	18.4	19.3
International reserves (EUR million)	---	---	---	---	---
International reserves (Months <sup>a</sup> )	---	---	---	---	---
<b>Public Finance</b>					
Primary balance <sup>b</sup> (% of GDP)	4.0	3.3	4.8	4.4	4.2
Fiscal balance <sup>b</sup> (% of GDP)	2.6	2.0	3.5	3.0	2.8
Gross public debt (% of GDP)	80.8	73.5	69.3	64.2	58.1
<b>External Debt</b>					
Gross external debt (EUR million)	258,424	259,577	261,477	259,977	258,477
Gross external debt (% of GDP)	878.5	828.3	786.4	746.0	705.8
External debt service (EUR million)	---	---	---	---	---
External debt service (% of reserves)	---	---	---	---	---
External debt service (% of exports)	---	---	---	---	---
<b>Financial Markets</b>					
Policy rate (ECB deposit facility rate, % eop)	2.0	4.0	3.3	2.5	2.5
Policy rate (ECB deposit facility rate, % aop)	0.2	3.4	3.8	2.7	2.5
10-Y T-bill rate (% eop)	4.2	3.2	3.0	3.0	3.0
Exchange rate: USD (eop)	1.070	1.104	1.110	1.130	1.140
Exchange rate: USD (aop)	1.053	1.081	1.090	1.120	1.135

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

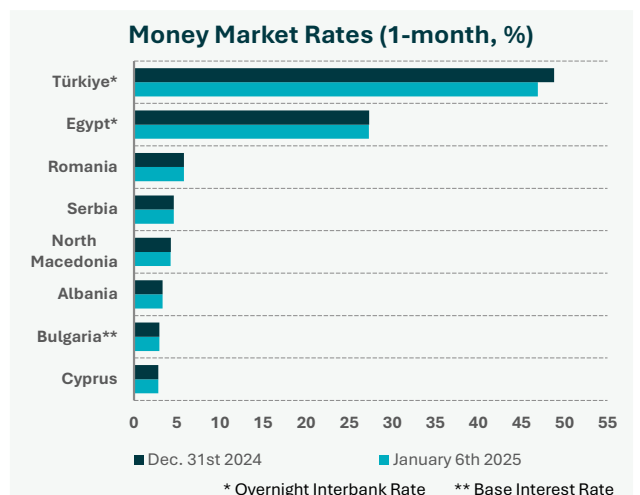
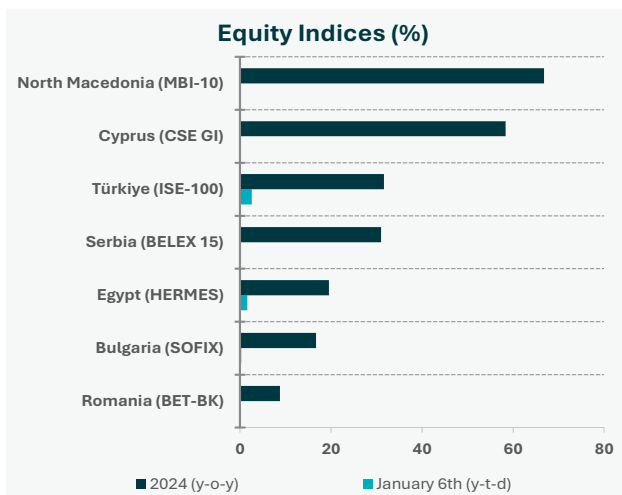
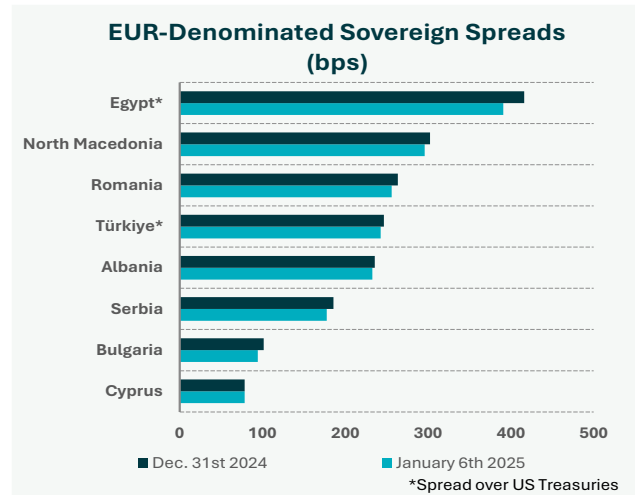
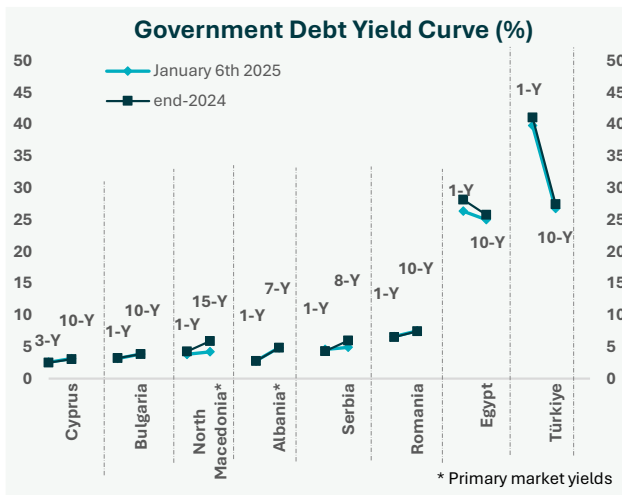
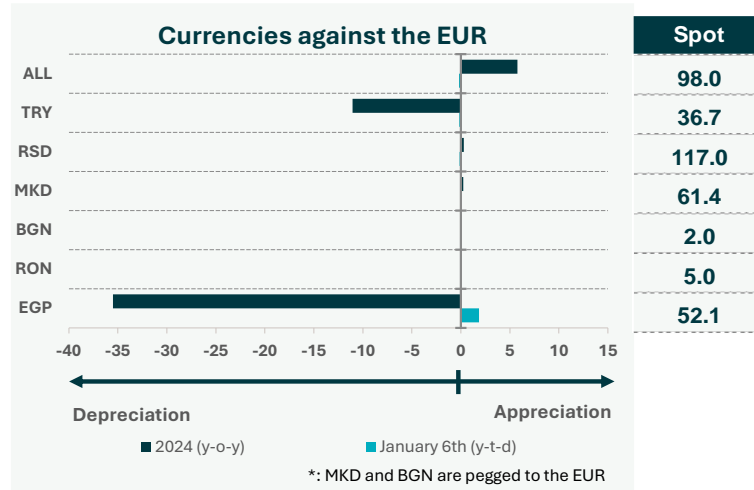
# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates



# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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