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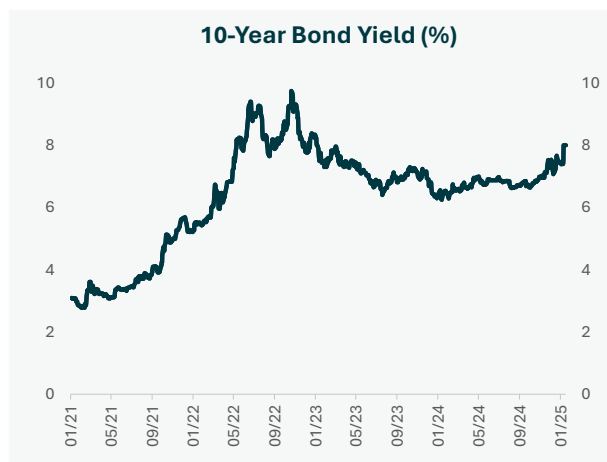
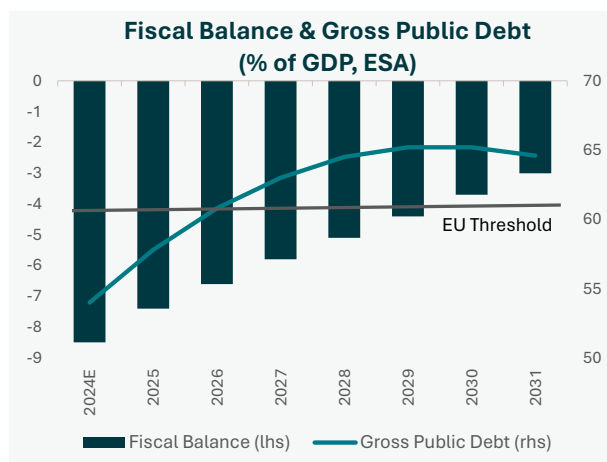
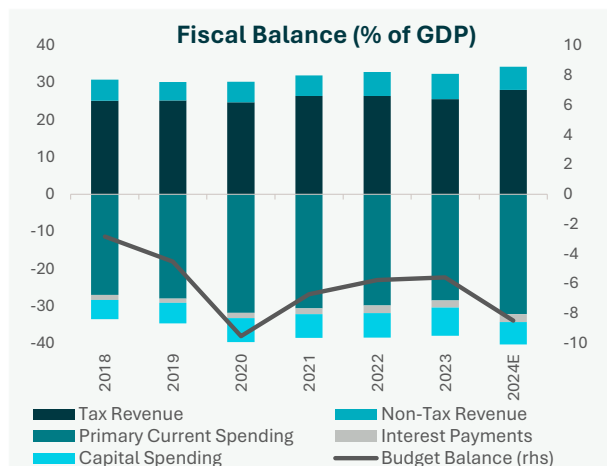
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Romania

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



	20 Jan.	3-M F	6-M F	12-M F
1-M ROBOR(%)	5.8	5.7	5.6	5.1
RON/EUR	4.97	5.00	5.01	5.05
Sov. Spread (2029, bps)	282	260	252	240

	20 Jan.	1-W %	YTD %	2-Y %
BET-BK	3,205	0.2	2.1	38.3

	2022	2023	2024E	2025F	2026F
Real GDP Growth (%)	4.0	2.4	1.0	3.0	3.6
Inflation (eop, %)	16.4	6.7	5.1	4.0	3.2
Cur. Acct. Bal. (% GDP)	-9.2	-7.0	-7.7	-7.3	-6.9
Fiscal Bal. (% GDP)	-5.8	-5.6	-8.5	-7.4	-6.6

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

A new pro-EU coalition Government takes office but uncertainty remains. The new Government is backed by the centre-left PSD, which topped the polls in the December election (with c. 22.0% of the vote), the centre-right PNL, which finished 3rd (with c. 14.0% of the vote), the Hungarian minority party, UDMR (c. 6.5% of the vote), and representatives of other ethnic minorities, altogether controlling only a slim majority of seats in Parliament (240 out of 466). M. Ciolacu of the PSD, who has been serving as a PM since 2023, maintained the post.

Despite their frictions under the outgoing coalition, the PSD and the PNL -- which saw their popularity wane markedly in the election -- stuck together to crowd out the rising far-right. The latter garnered c. 1/3rd of the vote in the December election, while one of its candidates, little-known, pro-Russian, C. Georgescu, won the 1st round of the Presidential election -- which was, however, later annulled by the Constitutional Court (CC) after intelligence information showed that Georgescu had benefitted from a “coordinated campaign on social media sponsored by a state actor from abroad”. The new vote will take place on May 4, with latest opinion polls still placing Georgescu in the first place (note that the CC’s decision over his potential disqualification from the election is pending), ahead of C. Antonescu of the PNL, joint candidate of the ruling coalition. All said, given the coalition’s slim parliamentary majority and the challenges lying ahead maintaining political stability would be an uphill battle.

Political stability is key condition for much-needed fiscal consolidation to resume. Amid a busy election year, fiscal consolidation was reversed in FY:24, with the cash budget deficit estimated to have ballooned to c. 8.5% of GDP -- the highest in the EU -- from 5.6% in FY:23. A (typical) pre-election spending spree (including, among others, 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. According to the plan submitted to the EC in October, authorities are set 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.

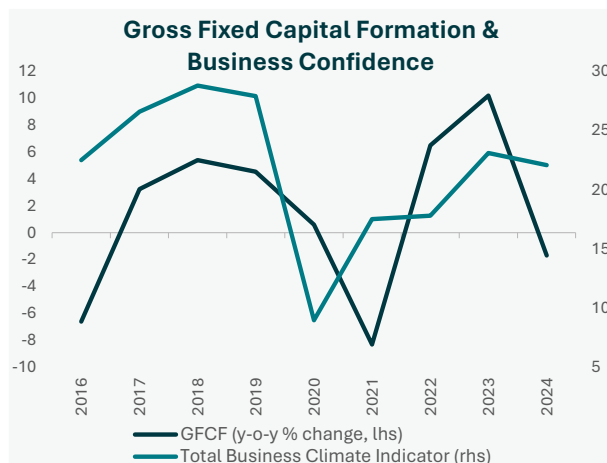
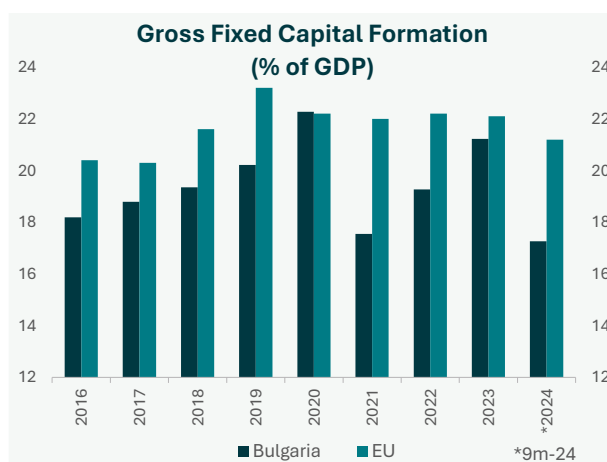
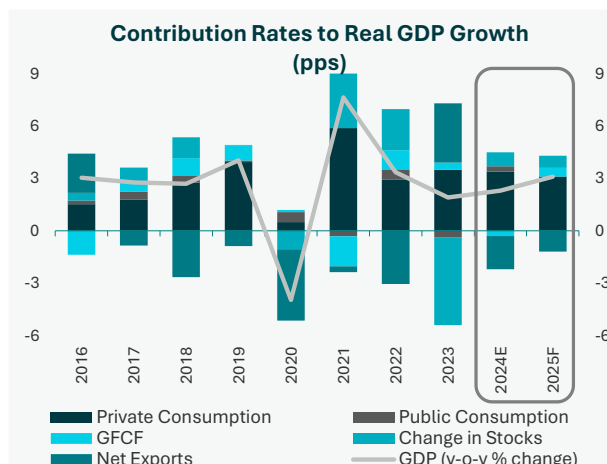
Although the new Government has yet to unveil the FY:25 budget, it has already approved a series of corrective measures. These mostly focus on shoring up tax revenue, though hiking the dividend tax (up 2 pps to 10%), lowering the tax threshold for SMEs, re-introducing a 1.0% tax on the value of all corporate buildings & facilities and eliminating tax exemptions for several key industries. On the spending side, caps on public sector wages, pensions and subsidies were announced.

In our view, given the size of the fiscal slippage, more measures would need to be taken to put public finances on a sustainable consolidation path. Considering the weak tax base (2nd lowest in the EU), there is significant scope to raise tax revenue through further (political costly, nonetheless) reforms. On a negative note, the high deficit path means that gross public debt is set to continue its upward trend in the period ahead, without, however, exceeding much the 60.0% of GDP threshold.

Worryingly, markets are highly concerned over the prospect of sustainable fiscal consolidation amid a fragile political environment, sending 10-year bond yields to c. 8.0% -- their highest level in 2 years. Note that, in an unscheduled review in December, Fitch changed its outlook on the sovereign debt credit rating to negative from stable (all major credit agencies still have Romania on (the lowest) investment grade).

Bulgaria

BBB / Baa1 / BBB (S&P / Moody's / Fitch)



	20 Jan.	3-M F	6-M F	12-M F
Base Interest Rate (%)	3.0	3.0	2.7	2.4
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2030, bps)	84	125	120	110

	20 Jan.	1-W %	YTD %	2-Y %
SOFIX	892	0.1	0.0	45.0

	2022	2023	2024E	2025F	2026F
Real GDP Growth (%)	4.0	1.9	2.3	3.1	3.1
Inflation (eop, %)	16.9	4.7	2.2	2.8	2.5
Cur. Acct. Bal. (% GDP)	-2.6	0.9	1.4	1.0	0.5
Fiscal Bal. (% GDP)	-0.8	-3.0	-3.3	-3.0	-2.6

Sources: Reuters, NSI & NBG estimates

Bulgaria has finally a new Government after the October election; its longevity, however, remains in question. Nearly 3 months after the October election -- the 7th held over the past 4 years -- the Parliament voted in a new Government, backed by: i) the pro-EU, centre-right “GERB-UDF” coalition, which had topped the polls; ii) the centre-left “BSP - United Left”; and iii) the populist “There is Such a People” party, altogether holding 107 out of 240 Parliamentary seats. To secure necessary majority, the ruling coalition relies on the Turkish minority party “DPS - Dogan” (19 seats), which offered its support, without, however, appointing any ministers.

According to the coalition agreement, the new cabinet will be headed by GERB’s PM designate, Rosen Zhelyazkov, under the auspices of the Joint Governance Council, which includes representatives from all 3 partners as well as the “DPS-Dogan” party and will work under a rotational leadership.

All said, although the prospect of a working Government bodes well for the economy and gives Bulgaria a vital opportunity to deliver on critical reforms (especially those linked to RRF disbursements, which are currently behind schedule) and proceed with euro adoption, the challenges emerging from the different political orientation of the coalition partners, which, *nota bene*, have never worked together in the past, cannot but raise concerns over its effectiveness and longevity. Recall that Bulgaria has been in limbo since the 2020 anti-graft protests, governed by caretaker cabinets for much of the past 4 years.

Importantly, the risk of serious policy slippage appears to be limited, given the anchors provided by the long-standing currency board arrangement and the inclusion of the BGN into the ERM II.

Prolonged political uncertainty has so far weighed significantly on economic growth, mainly through persistent under-investment.

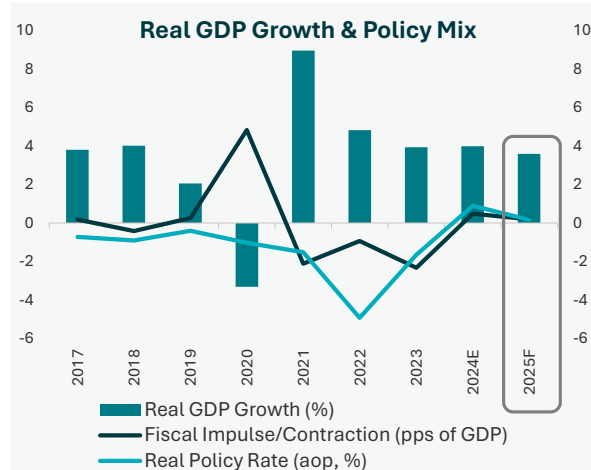
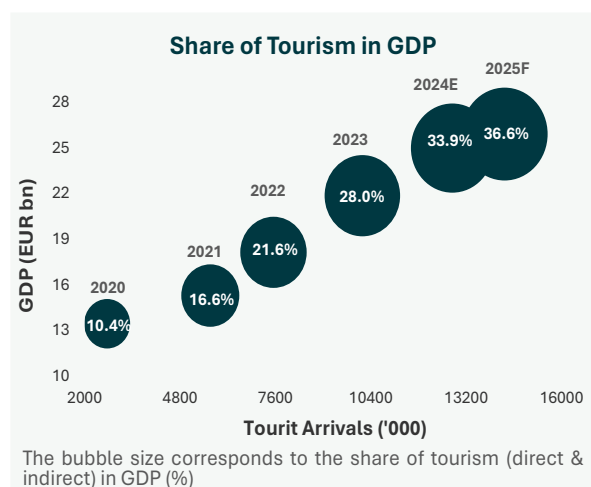
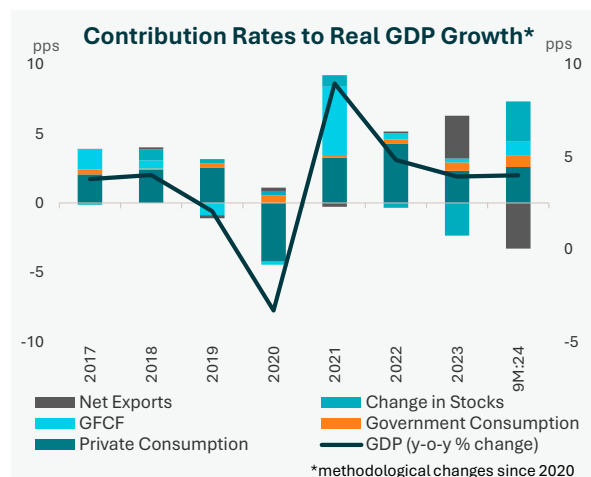
Indeed, besides the delays in EU funds’ absorption observed since 2021, there has been a significant weakening in business confidence (see chart). As a result, gross fixed investment accounted for c. 17.0% of GDP in 2021-24 against an EU average of over 22.0%. The discrepancy becomes more significant when considering the much lower capital stock in Bulgaria compared with the EU. Note that Bulgaria is one of the largest recipients of EU funds, with total grant funding by end-2027 amounting to c. 24.0% of its FY:23 GDP.

GDP growth is estimated to have firmed to 2.3% in FY:24, on the back of resilient private consumption, and is set to accelerate further to 3.1% in FY:25 driven by increasing fixed investment. Double-digit real *ex-post* wage growth boosted households’ disposable income in FY:24, pushing up private consumption growth to c. 4.5%, much higher than the FY:23 outcome (up 1.4%) and broadly in line with that seen prior to the pandemic. The rebound in private consumption, together with stock rebuilding, more than compensated for the (unsurprising) drop in fixed investment and weaker net exports, with the latter reflecting, *inter alia*, sluggish growth in the EU, helping GDP growth firm to an estimated 2.3% in FY:24 from 1.9% in FY:23.

Looking ahead, GDP growth is seen accelerating to 3.1% in FY:25, driven by stronger fixed investment growth, thanks to faster deployment of the RRF plan and more favourable financing conditions. On the other hand, following envisaged normalization of income gains, growth in private consumption should moderate somewhat this year, yet still providing the largest contribution to economic growth. Importantly, slowly reviving economic expansion in the EU, Bulgaria’s main trade partner, should help contain net exports’ drag on overall growth. Note that the lifting of border and customs controls, following Bulgaria’s full membership in the Schengen Area as of January 1st, is projected to add c. 0.2 pps to GDP growth. In addition to the fragility of the new ruling coalition, other downside risks to economic outlook include lower-than-projected growth in the EU, especially in the event of escalation of global trade war.

Albania

BB- / Ba3 / NR (S&P / Moody's / Fitch)



	20 Jan.	3-M F	6-M F	12-M F
1-M TRIBOR (%)	3.3	3.3	3.3	3.3
ALL/EUR	98.0	100.0	100.0	100.0
Sov. Spread (2031, bps)	231	240	230	210

	20 Jan.	1-W %	YTD %	2-Y %
Stock Market	---	---	---	---

	2022	2023	2024E	2025F	2026F
Real GDP Growth (%)	4.8	3.9	4.0	3.6	3.6
Inflation (eop, %)	7.4	4.0	2.1	3.2	2.6
Cur. Acct. Bal. (% GDP)	-5.9	-1.2	-1.7	-2.2	-2.3
Fiscal Bal. (% GDP)	-3.6	-1.3	-1.8	-2.0	-2.0

Sources: Reuters, Instat & NBG estimates

Albanian economy exhibited above-trend growth for another year in 2024, on the back of buoyant tourism and construction activity, outperforming its neighbouring peers. GDP is estimated to have grown by a robust 4.0% in FY:24, broadly unchanged from its FY:23 outcome and slightly above both its long-term potential (of c. 3¾%) and the performance of its neighbouring peers (up by an estimated 1.7%).

Economic growth was mainly driven by resilient private consumption. The latter was underpinned by strong real income gains, reflecting the combined impact of lower inflation (up 2.2%, half its FY:23 level and below the peak of 6.7% in FY:22), on the back of abating energy and food prices and continuing LEK appreciation (up 8.0% against the EUR in FY:24 following a rise of 9.4% in FY:23), and still strong (nearly double-digit -- yet gradually decelerating) nominal wage growth, on the back, *inter alia*, of a loose incomes policy and its spillover to the private sector.

Growth in fixed investment also strengthened markedly in FY:24, driven by the construction sector (posting high-single-digit growth for a 4th successive year). Construction activity was largely focused on residences (which were mostly financed by double-digit expanding mortgage lending) and tourism-related projects (which have attracted significant FDI inflows).

Unsurprisingly, net exports turned into a drag on overall growth in FY:24, reflecting strong domestic demand (which has a high import content), on the one hand, and sluggish external demand from the EU (especially Italy, absorbing c. 43% of total exports) along with some headwinds to the domestic industry (mainly from labour force shortages, high labour costs and the impact of the strong LEK -- up by more than 20% in REER terms over the past 5 years), on the other hand. Export growth would have been weaker had not been for buoyant tourism activity (with arrivals increasing by a solid 16% y-o-y in 11M:24, following a rise of 35% in FY:23). Note that the tourism sector has markedly surpassed its pre-pandemic share in the economy (now accounting for a sizeable 34% of GDP against 20% in FY:19), benefiting from strong price competitiveness vis-à-vis its regional peers.

Economic growth is set to moderate somewhat to a still solid 3.6% in FY:25, yet turn more balanced. Private consumption is set to remain the main driver this year as well, with its pace of expansion easing slightly, however, on the back of moderating real wage growth, due, *inter alia*, to a more prudent incomes policy. Note that labour market conditions are set to remain tight, on the back of persistent labour force shortages (mainly attributed to youth migration and skills mismatches). Improved consumer confidence (surpassing pre-pandemic levels), together with reviving lending should also support consumption this year.

At the same time, investment growth is also set to ease, yet remain solid, in line with a moderation in construction activity, following 4 years of robust growth, and lower public capital spending. Importantly, the high capacity utilization rate in the manufacturing sector and easing financing conditions bode well for a rebound in non-construction investment.

The slight moderation in domestic demand growth along with somewhat stronger external demand growth means that net exports' drag on overall growth should diminish this year. Note that, although it would see its pace of expansion moderating further, the tourism sector should continue to outperform not only the economy's other exporting industries but also its regional peers, providing a critical contribution to external balances.

The policy mix is not expected to support GDP growth in FY:25. Indeed, the fiscal policy is projected to remain neutral this year, while, following a 50 bp cut in 2024, the BoA is expected to refrain from further monetary policy easing, as appreciation pressures on the ALL (which have been supporting disinflation so far) are expected to abate.

Importantly, progress with Albania's EU accession (note that several negotiation chapters were opened in October, after years of delays), and associated incoming EU financing should help strengthen the reform drive and markets' assessment of the economy's prospects.

DETAILED MACROECONOMIC DATA

ROMANIA					
	2022	2023	2024e	2025f	2026f
Real Sector					
Nominal GDP (EUR million)	281,971	324,552	344,177	367,225	388,806
GDP per capita (EUR)	14,808	17,032	18,168	19,500	20,775
GDP growth (real, %)	4.0	2.4	1.0	3.0	3.6
Unemployment rate(ILO definition, %, aop)	5.6	5.5	5.4	5.3	5.1
Prices and Banking					
Inflation (% eop)	16.4	6.7	5.1	4.0	3.2
Inflation (% aop)	13.7	10.5	5.6	4.4	3.4
Loans to the Private Sector (% change, eop)	11.2	5.9			
Customer Deposits (% change, eop)	6.7	12.9			
Loans to the Private Sector (% of GDP)	25.0	23.0			
Retail Loans (% of GDP)	12.2	10.8			
Corporate Loans (% of GDP)	12.8	12.1			
Customer Deposits (% of GDP)	35.0	34.5			
Loans to Private Sector (% of Deposits)	71.6	66.7			
Foreign Currency Loans (% of Total Loans)	29.9	29.9			
External Accounts					
Merchandise exports (EUR million)	86,015	86,542	87,355	92,428	98,111
Merchandise imports (EUR million)	118,065	115,519	119,554	126,140	133,175
Trade balance (EUR million)	-32,050	-28,977	-32,199	-33,712	-35,065
Trade balance (% of GDP)	-11.4	-8.9	-9.4	-9.2	-9.0
Current account balance (EUR million)	-26,041	-22,603	-26,413	-26,710	-26,853
Current account balance (% of GDP)	-9.2	-7.0	-7.7	-7.3	-6.9
Net FDI (EUR million)	8,806	6,364	6,841	7,183	7,543
Net FDI (% of GDP)	3.1	2.0	2.0	2.0	1.9
International reserves (EUR million)	46,636	59,770	64,198	64,108	65,798
International reserves (Months ^a)	3.9	5.1	4.9	4.9	4.8
Public Finance					
Primary balance (% of GDP)	-3.7	-3.7	-6.5	-5.5	-4.8
Fiscal balance (% of GDP)	-5.8	-5.6	-8.5	-7.4	-6.6
Gross public debt ^b (% of GDP)	47.7	48.6	54.0	57.8	60.8
External Debt					
Gross external debt (EUR million)	143,886	168,335	185,167	196,465	206,456
Gross external debt (% of GDP)	51.0	51.9	53.8	53.5	53.1
External debt service (EUR million)	21,991	22,702	23,500	24,000	24,350
External debt service (% of reserves)	47.2	38.0	37.8	37.4	37.0
External debt service (% of exports)	17.9	18.0	18.4	17.7	16.9
Financial Markets					
Policy rate (1-w repo rate, %, eop)	6.8	7.0	6.5	5.8	4.8
Policy rate (1-w repo rate, %, aop)	4.4	7.0	6.8	6.1	5.0
10-Y Bond Yield (% eop)	8.4	6.3	7.5	7.0	6.1
Exchange rate: EUR (eop)	4.940	4.972	4.972	5.050	5.090
Exchange rate: EUR (aop)	4.928	4.944	4.972	5.011	5.070

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

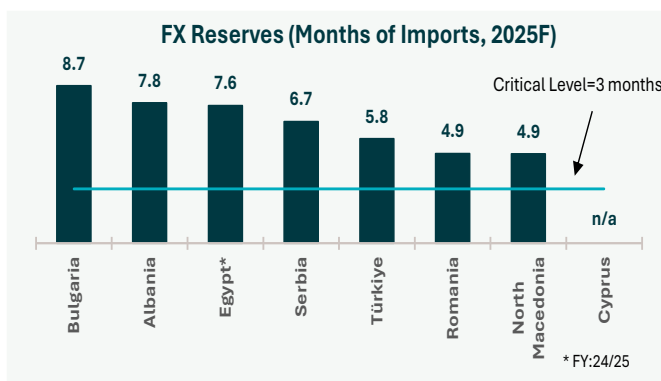
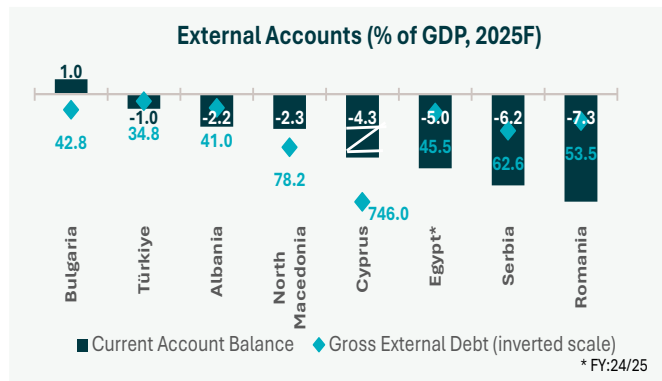
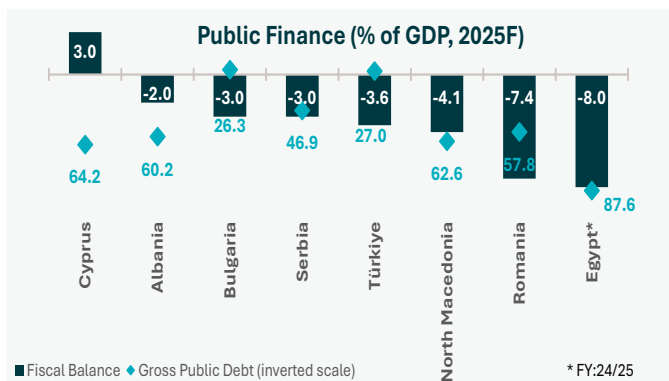
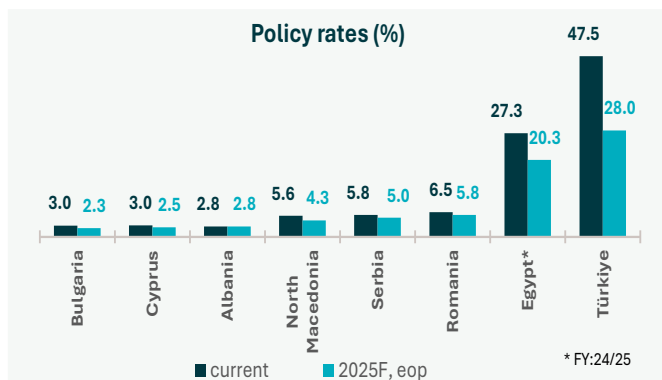
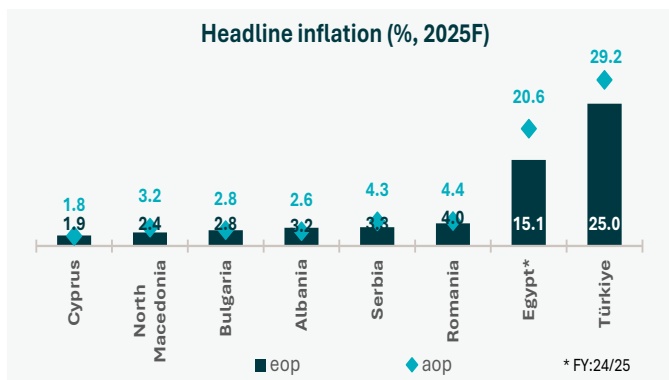
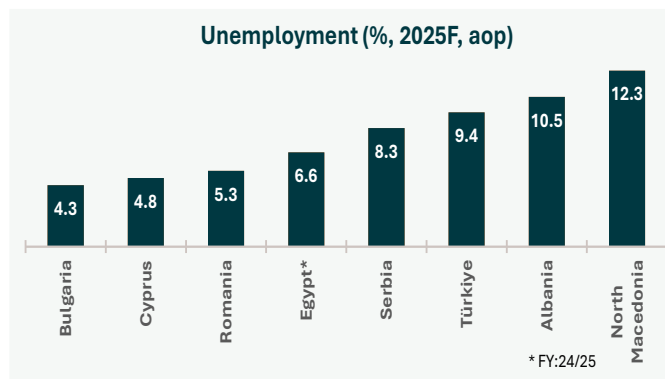
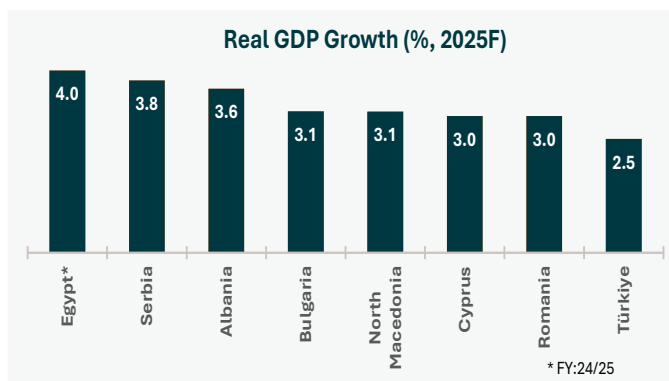
BULGARIA					
	2022	2023	2024e	2025f	2026f
Real Sector					
Nominal GDP (EUR million)	86,081	94,708	100,686	106,718	112,966
GDP per capita (EUR)	13,350	14,695	15,851	17,048	18,191
GDP growth (real, %)	4.0	1.9	2.3	3.1	3.1
Unemployment rate(ILO definition, %, aop)	4.2	4.3	4.3	4.3	4.2
Prices and Banking					
Inflation (% eop)	16.9	4.7	2.2	2.8	2.5
Inflation (% aop)	15.2	9.6	2.4	2.8	2.7
Loans to the Private Sector (% change, eop)	12.2	11.1			
Customer Deposits (% change, eop)	14.4	9.6			
Loans to the Private Sector (% of GDP)	44.1	44.6			
Retail Loans (% of GDP)	19.4	20.5			
Corporate Loans (% of GDP)	24.7	24.0			
Customer Deposits (% of GDP)	65.3	65.0			
Loans to Private Sector (% of Deposits)	67.6	68.6			
Foreign Currency Loans (% of Total Loans)	25.7	23.3			
External Accounts					
Merchandise exports (EUR million)	47,145	43,540	42,752	44,515	46,542
Merchandise imports (EUR million)	52,229	47,467	47,965	49,978	52,576
Trade balance (EUR million)	-5,084	-3,927	-5,213	-5,463	-6,034
Trade balance (% of GDP)	-5.9	-4.1	-5.2	-5.1	-5.3
Current account balance (EUR million)	-2,232	0,839	1,451	1,078	0,602
Current account balance (% of GDP)	-2.6	0.9	1.4	1.0	0.5
Net FDI (EUR million)	3,402	2,644	0,661	0,959	1,198
Net FDI (% of GDP)	4.0	2.8	0.7	0.9	1.1
International reserves (EUR million)	38,424	41,706	40,991	42,028	42,878
International reserves (Months ^a)	7.8	9.1	8.9	8.7	8.4
Public Finance					
Primary balance (% of GDP)	-0.4	-2.5	-2.8	-2.6	-2.2
Fiscal balance (% of GDP)	-0.8	-3.0	-3.3	-3.0	-2.6
Gross public debt ^b (% of GDP)	22.5	22.9	24.8	26.3	27.5
External Debt					
Gross external debt (EUR million)	44,249	45,414	45,611	45,675	45,977
Gross external debt (% of GDP)	51.4	48.30	45.3	42.8	40.7
External debt service (EUR million)	6,200	6,900	7,300	8,100	8,700
External debt service (% of reserves)	16.1	16.5	17.8	19.3	20.3
External debt service (% of exports)	10.3	11.8	12.6	13.4	13.8
Financial Markets					
Base Interest Rate (% eop)	1.3	3.8	3.1	2.3	1.9
Base Interest Rate (% aop)	0.2	2.9	3.5	2.7	2.1
10-Y Bond Yield (% eop)	6.0	4.5	3.9	3.5	3.3
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

ALBANIA					
	2022	2023	2024e	2025f	2026f
Real Sector					
Nominal GDP (EUR million)	18,116	21,858	24,989	26,840	28,535
GDP per capita (EUR)	6,522	7,909	9,060	10,142	10,387
GDP growth (real, %)	4.8	3.9	4.0	3.6	3.6
Unemployment rate (% aop)	11.3	11.2	10.9	10.5	10.1
Prices and Banking					
Inflation (% eop)	7.4	4.0	2.1	3.2	2.6
Inflation (% aop)	6.7	4.8	2.2	2.6	3.0
Loans to the Private Sector (% change, eop)	7.1	5.0			
Customer Deposits (% change, eop)	4.4	2.4			
Loans to the Private Sector (% of GDP)	31.4	29.9			
Retail Loans (% of GDP)	12.3	12.4			
Corporate Loans (% of GDP)	19.1	17.5			
Customer Deposits (% of GDP)	56.9	53.9			
Loans to Private Sector (% of Deposits)	55.1	55.5			
Foreign Currency Loans (% of Total Loans)	48.2	43.3			
External Accounts					
Merchandise exports (EUR million)	1,933	1,836	1,809	1,827	1,881
Merchandise imports (EUR million)	6,201	6,376	6,982	7,505	8,031
Trade balance (EUR million)	-4,269	-4,540	-5,173	-5,679	-6,149
Trade balance (% of GDP)	-23.6	-20.8	-20.7	-21.2	-21.6
Current account balance (EUR million)	-1,063	-0,264	-0,428	-0,572	0,654
Current account balance (% of GDP)	-5.9	-1.2	-1.7	-2.1	-2.3
Net FDI (EUR million)	1,190	1,256	1,287	1,332	1,419
Net FDI (% of GDP)	6.6	5.7	5.2	5.0	5.0
International reserves (EUR million)	4,952	5,847	6,026	6,547	6,871
International reserves (Months ^a)	6.9	7.3	7.7	7.8	7.6
Public Finance					
Primary balance (% of GDP)	-1.8	0.7	0.8	0.6	0.5
Fiscal balance (% of GDP)	-3.6	-1.3	-1.8	-2.0	-2.0
Gross public debt (% of GDP)	65.5	61.1	60.4	60.2	59.8
External Debt					
Gross external debt (EUR million)	9,766	10,075	10,225	10,625	11,025
Gross external debt (% of GDP)	53.9	46.1	40.9	39.6	38.6
External debt service (EUR million)	0,328	0,352	0,380	0,380	0,380
External debt service (% of reserves)	6.6	6.0	6.3	5.8	5.5
External debt service (% of exports)	3.5	3.9	4.3	4.2	4.1
Financial Markets					
Policy rate (1-week repo rate, % eop)	2.8	3.3	2.8	2.8	2.8
Policy rate (1-week repo rate, % aop)	1.5	3.0	3.1	2.8	2.8
1-Y T-bill rate ^b (% eop)	5.5	3.8	4.7	4.5	4.5
Exchange rate: EUR (eop)	114.0	103.4	97.8	99.0	99.0
Exchange rate: EUR (aop)	118.7	108.4	100.4	99.0	99.0

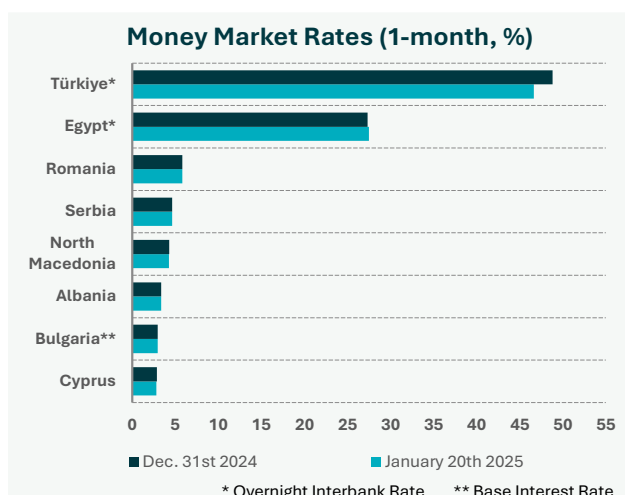
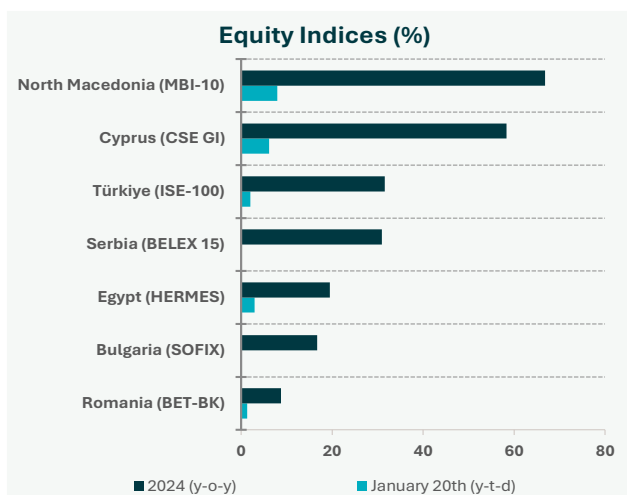
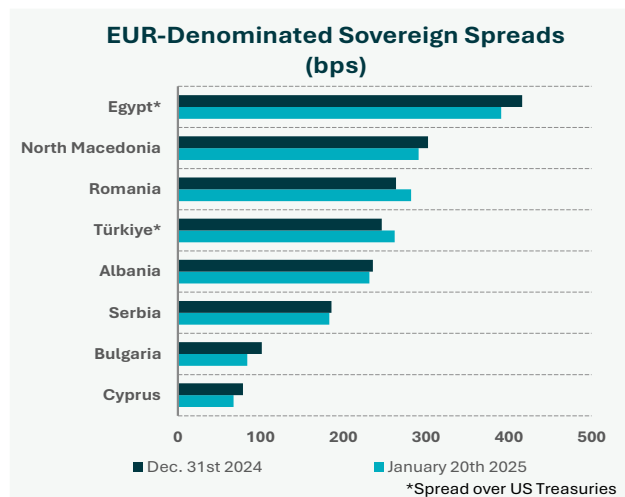
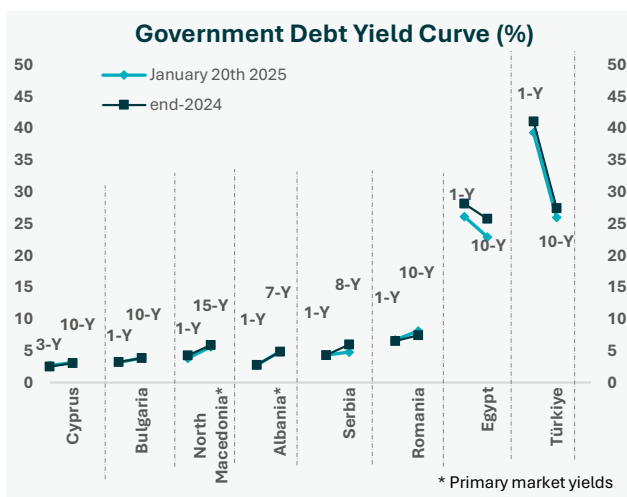
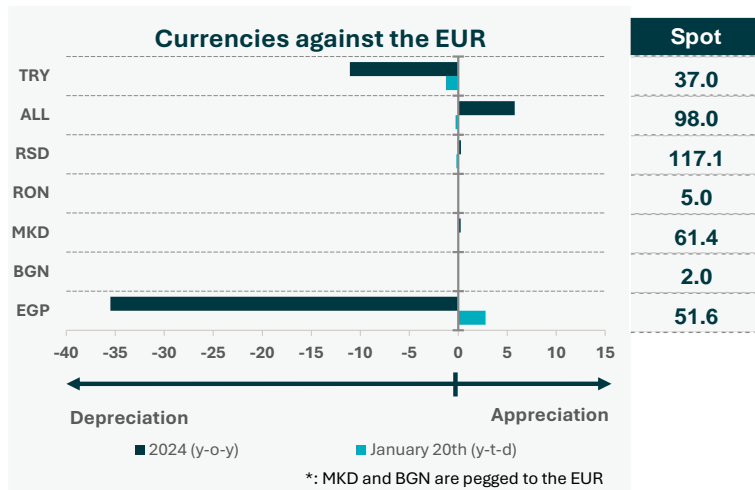
f: NBG forecasts; a: months of imports of GNFS; b: primary market

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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