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### DETAILED MACROECONOMIC DATA ..... 4

#### REGIONAL SNAPSHOT:

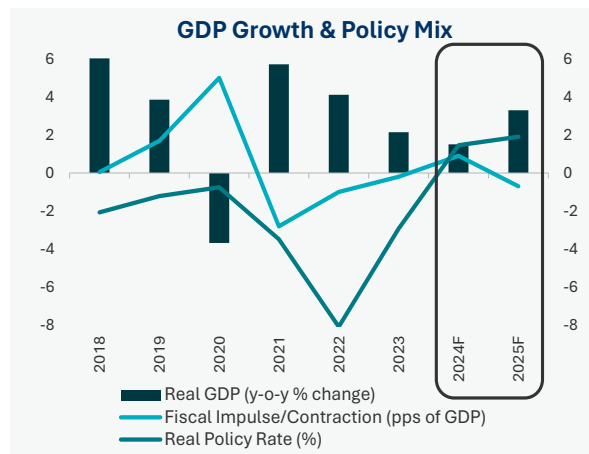
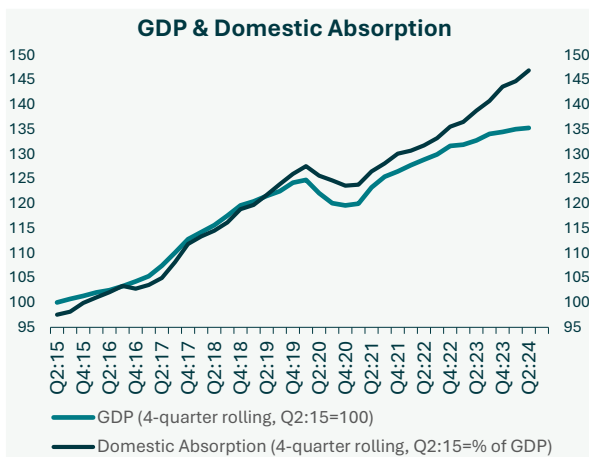
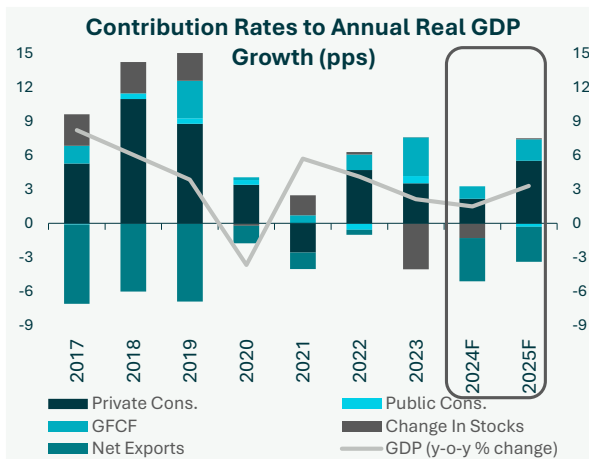
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# Romania

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



	30 Sep.	3-M F	6-M F	12-M F
1-M ROBOR(%)	5.5	5.4	5.1	4.7
RON/EUR	4.97	5.00	5.01	5.04
Sov. Spread (2029, bps)	257	260	240	210

	30 Sep.	1-W %	YTD %	2-Y %
BET-BK	3,304	0.1	14.4	64.8

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	5.7	4.1	2.1	1.5	3.3
Inflation (eop, %)	8.2	16.4	6.7	4.3	3.6
Cur. Acct. Bal. (% GDP)	-7.2	-9.2	-7.0	-7.3	-6.8
Fiscal Bal. (% GDP)	-6.7	-5.8	-5.6	-6.7	-6.0

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

## A weak start to the year confirms economy's structural deficiencies.

GDP expanded by a meager 1.3% on annual basis in H1:24, down from 2.3% in H2:23, with sequential growth pointing to stagnating momentum. A look at the breakdown reveals that growth in domestic absorption, especially private consumption, remained solid, but it was largely channeled to imports, failing to boost domestic production. At the same time, sluggish growth in the EU, especially Germany, Romania's most important trade partner, has been constraining exports.

Although the surge in imports was more or less expected, given the large import content of the ongoing multiple large-scale projects, we cannot but underline the economy's chronic poor performance in capitalizing on strong domestic absorption. Indeed, while the latter has been expanding at a solid CAGR of c. 5.0% over the past 2½ years (or c. 4.0% over the past decade), GDP has been witnessing a CAGR of just 2¾% at the same time (or 3.0% over the past decade, with both aggregates starting from a comparable base), hinting at structural handicaps to growth, as reflected in Romania's low position in global value chains. Weakening external competitiveness (with the CPI-based RERR having appreciated by more than 15% over the past 5 years) has been also taking a toll.

## Despite the envisaged fiscal consolidation, domestic absorption is expected to remain solid over the forecast horizon, sustaining GDP growth.

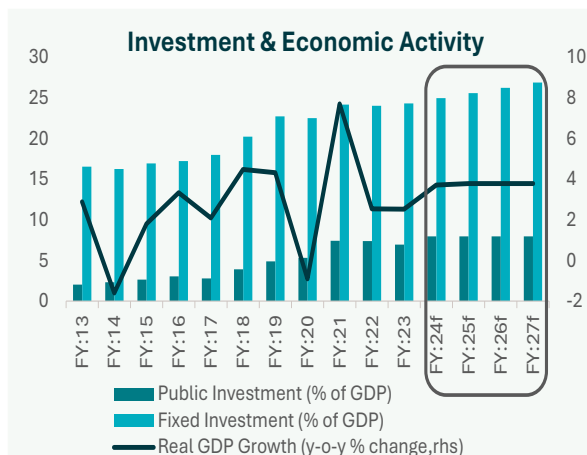
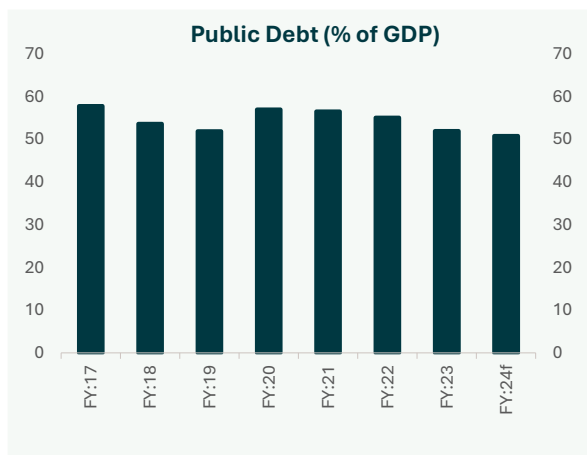
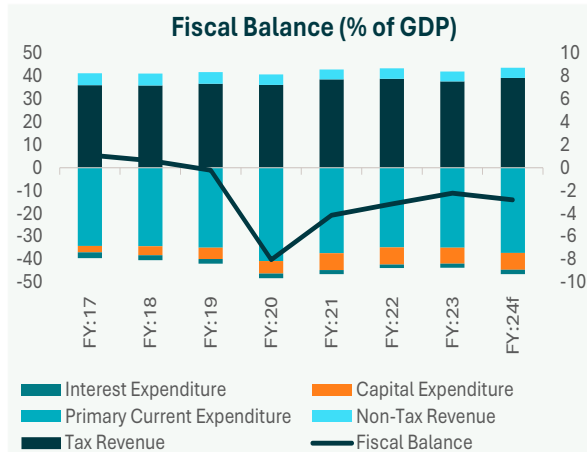
Indeed, strengthening (real) disposable incomes, in line with robust wage growth (with the latter having accelerated to c. 10.0% in real ex-post terms in H1:24, reflecting the combined impact of easing inflation and tight labour market conditions) and higher pensions (up c. 15.0% in real ex-post terms as of October), together with improving sentiment and reviving consumer lending activity should underpin private consumption in the period ahead. At the same time, fixed investment is due to increase its contribution to overall growth, following deployment of the RRF plan and gradually easing financing conditions. Note that, despite lackluster economic growth, the central bank is expected to proceed cautiously with further easing in the period ahead, in view of persistently wide external imbalances (with related financing risks, however, mitigated by solid FX inflows -- mainly capital transfers from the EU) and upside risks to the inflation outlook. Worryingly, against the backdrop of strong domestic demand, net exports cannot but remain a large drag on overall growth. Yet, its size is set to diminish gradually, thanks, *inter alia*, to economic recovery in the EU.

Following a significant slippage this busy election year (see below), fiscal policy is set to turn restrictive starting from 2025. Considering budget spending rigidities, fiscal consolidation efforts would largely focus on broadening the weak tax base (2nd lowest in the EU). Note that 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 put public finances on a sustainable path. That said, the budget deficit is unlikely to fall below the EU threshold of 3.0% of GDP earlier than 2028.

All said, we see GDP easing to 1.5% in FY:24 from 2.1% in FY:23, before picking up to 3.3% in FY:25 (still below its long-term potential of 3½-3¾%). Should geopolitical uncertainties translate into renewed upside global commodity price pressures or a wage-price spiral emerge, GDP growth could come in lower than projected. Similarly, bottlenecks in the absorption of available EU funding could weigh on the pace of economic expansion. Regarding political risk, the forthcoming Presidential and Parliamentary elections (due in late-November and early-December, respectively) are unlikely to bring any significant surprises, with the coalition between the centre-left Social Democratic Party and the centre-right PNL party expected to remain in power.

# Serbia

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



	30 Sep.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	4.8	4.4	4.3	4.0
RSD/EUR	116.9	117.5	117.5	117.5
Sov. Spread (2029, bps)	220	220	210	200

	30 Sep.	1-W %	YTD %	2-Y %
BELEX-15	1,125	0.6	28.5	36.0

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	7.7	2.5	2.5	3.7	3.8
Inflation (eop, %)	7.9	15.1	7.6	3.5	3.2
Cur. Acct. Bal. (% GDP)	-4.2	-6.9	-2.6	-4.0	-4.1
Fiscal Bal. (% GDP)	-4.1	-3.2	-2.2	-2.8	-3.0

Sources: Reuters, NBS, OPBC & NBG estimates

## Deployment of the EXPO 2027 development plan, higher defense spending and increased interest payments should keep the budget deficit close to the 3.0% of GDP threshold over the forecast horizon.

Following a landslide victory in the December 2023 snap elections, the new government announced launch of the ambitious development plan “Leap into the future - Serbia EXPO 2027” to boost economic growth. The plan, whose cost is reportedly estimated at c. EUR 18.0 bn (or 24.0% of FY:24 GDP), includes not only new projects closely related to the holding of the exhibition (such as the National Stadium and a railway connecting the latter with the centre of Belgrade) but other already penciled-in projects (mainly focusing on transports and the energy sector), suggesting that the eventual increase in budget capital spending over the years to come would be much smaller than implied by plan’s headline figure.

Besides the cost of the EXPO 2027 plan, this and next years’ budgets should need to accommodate the purchase of 12 military aircrafts from France (worth EUR 2.7bn, with installments worth EUR 421mn or c. 0.6% of GDP each, due to be paid in FY:24 and FY:25).

Overall, we see budget capital spending jumping to c. 8.0% of GDP in FY:24 from 7.0% in FY:23 and remaining at that level by end-2027. At such levels, public investment would remain markedly higher compared with Serbia’s peers, helping to catalyze private investment and eventually stimulating economic growth. Note that the overall investment-to-GDP ratio has jumped to c. 24.5% currently from 16.3% a decade ago, with Serbia’s long-term potential growth estimated to have firmed to slightly less than 4.0% at the same time from slightly over 3.0% in early-2010s.

Current spending is also set to come under pressure in the period ahead, mainly due to increased interest payments. Indeed, although the NBS and other major central banks have started to ease cautiously their stance, interest rates are projected to remain significantly higher than in the pre-pandemic period. As a result, and given the impact of past monetary policy tightening, interest payments are projected to rise gradually from 1.8% of GDP in FY:23 to 2.1% in FY:24 and 2.4% in FY:27.

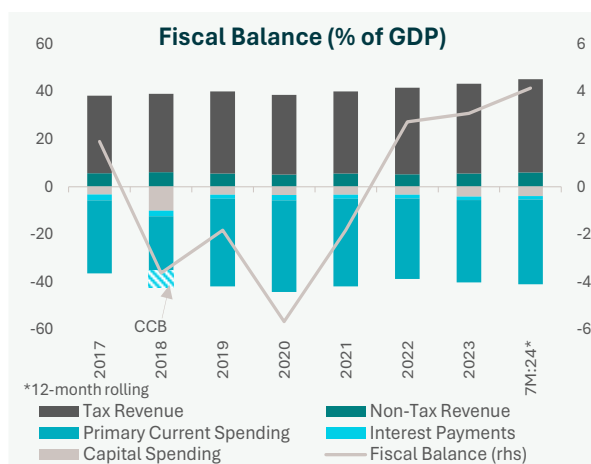
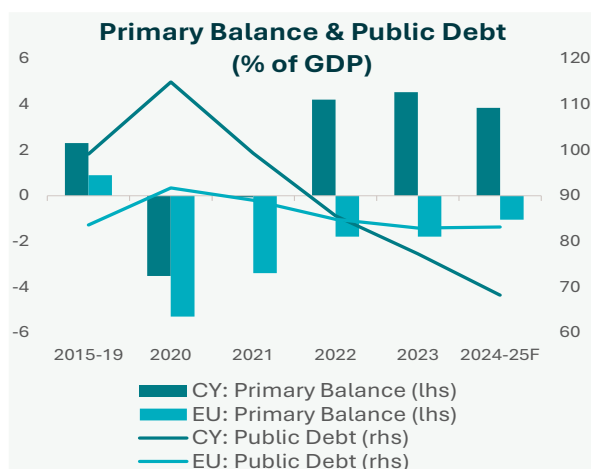
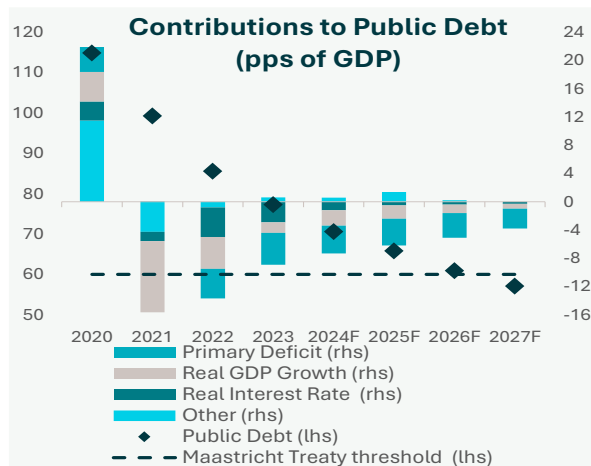
That said, part of the extra costs should be covered by savings on the public wage and pension bills from the implementation of the respective fiscal rule components. The latter set a 10.0% of GDP ceiling for the public wage bill (that is below the projected FY:24 outcome of 10.3%) and provide for the indexation of pensions (which should, in turn, help lower related expenses to 10.0% of GDP by end-2027 from a projected 10.5% in FY:24). Importantly, tax revenue is envisaged to continue growing at a solid pace over the forecast horizon, providing some support to the budget. Specifically, revenue from social security contributions has a strong potential to grow further, amid favourable labour market conditions (involving solid nominal wage growth and rising employment, thanks, *inter alia*, to the declining share grey activities). Note that CIT collection is projected to return gradually to more normal levels, following elimination of the large windfall corporate profitability gains witnessed in 2022-23.

All said, we see the fiscal deficit widening to 2.8% of GDP in FY:24 and c. 3.0% on average in FY:25-27 from 2.2% in FY:23. Note that the deficit component of the fiscal rule, setting a 1.5% of GDP budget deficit ceiling, has been postponed until 2029, due to implementation of the EXPO 2027 investment plan. Risks to our forecast are tilted to the downside, reflecting potential repercussions from rising geopolitical tensions on GDP growth and cost overruns on the EXPO 2027 plan.

**Public debt is projected to remain on a downward trend on solid economic growth, despite increased budget deficits.** With economic growth remaining robust over the forecast horizon (averaging c. 3¾%), implying a favourable “snowball” effect that should more than offset the impact of persistent -- yet gradually diminishing -- primary budget deficit, gross public debt is set to continue moderating, falling to 49.0% of GDP at end-2027.

# Cyprus

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



	30 Sep.	3-M F	6-M F	12-M F
1-M EURIBOR (%)	3.4	3.2	2.9	2.4
EUR/USD	1.11	1.11	1.12	1.13
Sov. Spread (2028, bps)	82	83	80	78

	30 Sep.	1-W %	YTD %	2-Y %
CSE 100	192	1.2	41.2	160.5

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	9.9	5.1	2.5	3.2	2.8
Inflation (eop, %)	4.8	7.9	1.6	3.5	1.9
Cur. Acct. Bal. (% GDP)	-6.1	-7.9	-12.1	-9.5	-8.5
Fiscal Bal. (% GDP)	-1.8	2.7	3.1	2.6	2.4

Sources: Reuters, Cystat, Eurostat & NBG estimates

**Cyprus' recurrent sizeable fiscal surpluses -- the largest in the EU -- along with strong nominal GDP growth have put public debt on a steep downward path, with the latter falling below the EU average for the first time since 2012.** Gross public debt saw a swift and sizeable drop of c. 38.0 pps of GDP over the past three years -- the largest adjustment in the EU after Greece in this period -- to a 12-year low of 77.3% at end-2023, below the EU average of 82.9%. This impressive performance was mainly driven by:

*i) large primary surpluses* (lowering the public debt-to-GDP ratio by c. 9.0 pps of GDP over this period). Indeed, Cyprus has maintained large primary surpluses since the 2013 crisis, averaging 3.7% of GDP in 2015-19 (excluding the once-off impact from CCB's resolution in 2018), among the largest in the EU. This trend was only interrupted in 2020-21 by the pandemic, but has resumed since then, with the primary balance returning into a surplus of 4.4% of GDP on average in 2022-23.

A closer look at fiscal accounts suggests that pre-pandemic fiscal consolidation was marked by spending discipline (including public sector wage cuts and freezes as well as pension and social benefit rationalization), as foreseen under the EFSF/ESM & IMF economic adjustment programme agreed in the aftermath of the 2012-13 banking crisis. On the other hand, post-pandemic fiscal consolidation has been mainly driven by macroeconomic tailwinds, reflected in broad-based double-digit tax revenue growth, on the back of robust GDP growth and a flourishing labour market (recording solid employment gains, following, *inter alia*, the massive relocation of foreign companies in Cyprus and the registration of new employees), that offset higher spending on public sector wages, pensions, and the national health system as well as on measures aimed at mitigating the impact of the energy-driven cost-of-living crisis;

*ii) a sizeable favourable snowball effect*, capturing the supportive impact of the (large negative) differential between the interest rate on public debt and nominal growth rate, which shaved another c. 24.0 pps of GDP off gross public debt in 2021-23; and

*iii) the partial drawdown of ample cash holdings* (mainly accumulated prior to the pandemic, amid a low interest rate environment) to repay maturing debt. Indeed, Cyprus' cash reserves amounted 11.1% of GDP in Q1:24, down from 16.3% in 2020 -- covering more than two times the economy's 2024 gross financing needs.

All said, this impressive reduction in gross public debt, which restored its sustainability, along with the economy's resilience, despite the shocks it has been faced with, prompted all credit agencies to upgrade Cyprus back to investment grade.

**Continued -- yet decreasing -- fiscal surpluses -- along with a still favourable (but diminishing) snowball effect, should bring the public-debt-to-GDP ratio below the EU threshold of 60% by end-2027, for the first time since 2010.** Public debt is projected to remain on a downward trend in the period ahead -- albeit less steep than before -- eventually falling below the EU threshold of 60.0% of GDP by end-2027. Indeed, Cyprus is expected to sustain large (yet decreasing) primary surpluses (of 3.9% of GDP in 2024-25 and 3.4% of GDP in 2026-27), as robust, albeit normalising, revenue growth (supported by the phase-in of hikes in social security contributions), and the planned withdrawal of the remaining measures alleviating the impact of cost-living-crisis should largely offset spending pressures from public wage and pension increases and the cost of the mortgage-to-rent scheme. At the same time, debt dynamics would continue to benefit from a favourable -- yet diminishing (due to receding inflation) -- snowball effect (projected at c. 3.0 pps of GDP per year in 2024-

25 and 1¼ pps of GDP in 2026-27). Note that although interest rates are projected to well exceed their pre-pandemic levels in the period ahead, the nominal interest rate on Cyprus' public debt should remain quite subdued, reflecting the large stock of low-interest concessional debt (accounting for more than 1/3 of outstanding debt).

## DETAILED MACROECONOMIC DATA

ROMANIA					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	241,737	284,385	324,762	344,507	365,112
GDP per capita (EUR)	12,589	14,935	17,066	18,186	19,388
GDP growth (real, %)	5.7	4.1	2.1	1.5	3.3
Unemployment rate(ILO definition, %, aop)	5.6	5.6	5.5	5.5	5.3
<b>Prices and Banking</b>					
Inflation (% eop)	8.2	16.4	6.7	4.3	3.6
Inflation (% aop)	5.0	13.7	10.5	5.4	3.4
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		
<b>External Accounts</b>					
Merchandise exports (EUR million)	70,194	86,015	86,559	86,559	91,580
Merchandise imports (EUR million)	93,317	118,065	115,570	117,694	124,161
Trade balance (EUR million)	-23,123	-32,050	-29,011	-31,135	-32,581
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	-24,987	-24,978
Current account balance (% of GDP)	-7.2	-9.2	-7.0	-7.3	-6.8
Net FDI (EUR million)	8,820	8,806	6,558	7,050	7,402
Net FDI (% of GDP)	3.6	3.1	2.0	2.0	2.0
International reserves (EUR million)	40,475	46,636	59,770	63,833	66,257
International reserves (Months <sup>a</sup> )	4.3	3.9	5.0	5.3	5.2
<b>Public Finance</b>					
Primary balance (% of GDP)	-5.2	-3.7	-3.7	-4.7	-4.0
Fiscal balance (% of GDP)	-6.7	-5.8	-5.6	-6.7	-6.0
Gross public debt <sup>b</sup> (% of GDP)	48.2	47.3	48.5	51.6	54.2
<b>External Debt</b>					
Gross external debt (EUR million)	136,585	143,886	170,083	179,144	186,937
Gross external debt (% of GDP)	56.5	50.6	52.4	52.0	51.2
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	33.7	32.4
External debt service (% of exports)	17.0	17.9	16.7	16.9	15.9
<b>Financial Markets</b>					
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	6.7	6.1
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

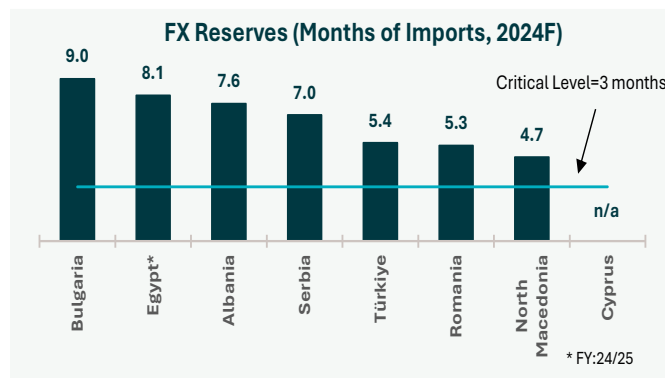
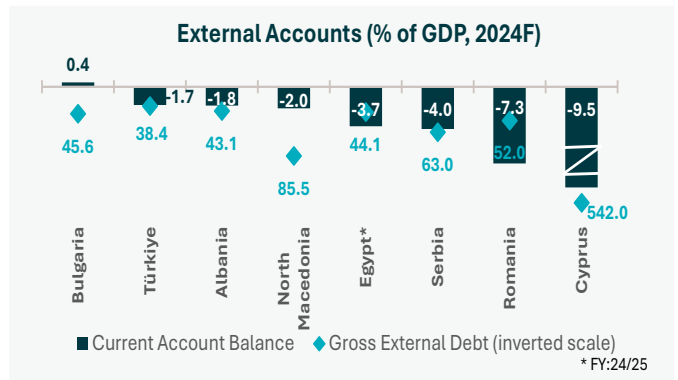
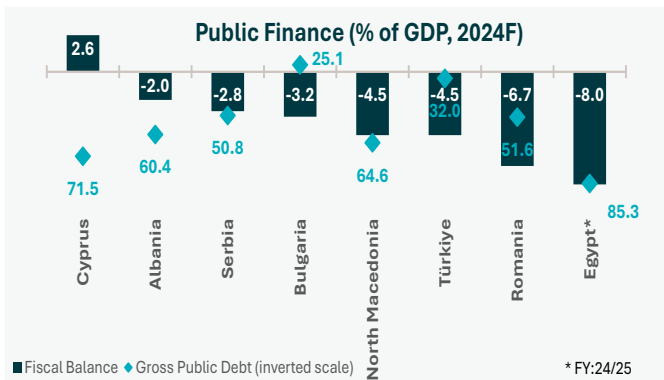
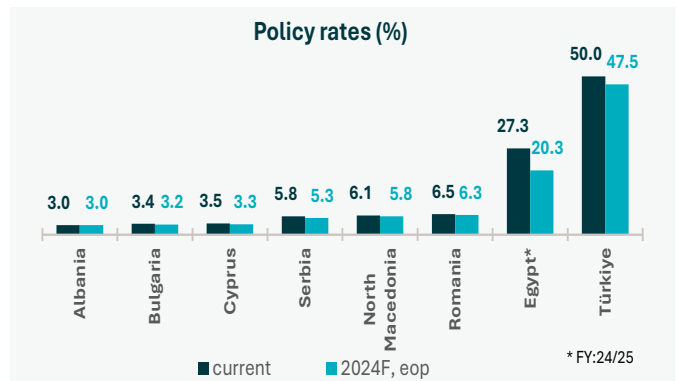
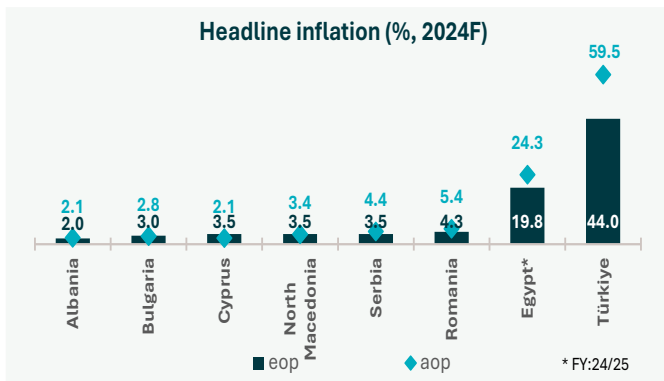
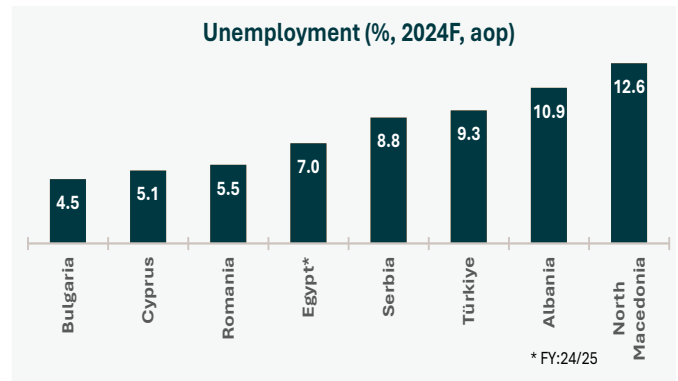
SERBIA					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	53,379	60,463	69,563	75,312	80,893
GDP per capita (EUR)	7,810	8,909	10,312	11,209	12,088
GDP growth (real, %)	7.7	2.5	2.5	3.7	3.8
Unemployment rate (% aop)	11.1	9.6	9.4	8.8	8.5
<b>Prices and Banking</b>					
Inflation (% eop)	7.9	15.1	7.6	3.5	3.2
Inflation (% aop)	4.1	11.9	12.5	4.4	3.6
Loans to the Private Sector (% change, eop)	10.1	6.9	1.1		
Customer Deposits (% change, eop)	13.3	6.9	11.7		
Loans to the Private Sector (% of GDP)	47.3	44.7	39.4		
Retail Loans (% of GDP)	21.9	20.5	18.0		
Corporate Loans (% of GDP)	25.4	24.2	21.3		
Customer Deposits (% of GDP)	52.1	49.2	46.6		
Loans to Private Sector (% of Deposits)	90.9	90.8	84.5		
Foreign Currency Loans (% of Total Loans)	61.1	64.1	64.7		
<b>External Accounts</b>					
Merchandise exports (EUR million)	21,018	26,928	27,930	29,056	30,428
Merchandise imports (EUR million)	27,038	36,292	34,534	36,610	38,538
Trade balance (EUR million)	-6,020	-9,364	-6,604	-7,553	-8,109
Trade balance (% of GDP)	-11.3	-15.5	-9.5	-10.0	-10.0
Current account balance (EUR million)	-2,266	-4,162	-1,810	-3,009	-3,324
Current account balance (% of GDP)	-4.2	-6.9	-2.6	-4.0	-4.1
Net FDI (EUR million)	3,657	4,328	4,220	4,515	4,741
Net FDI (% of GDP)	6.9	7.2	6.1	6.0	5.9
International reserves (EUR million)	16,455	19,416	24,909	27,665	29,082
International reserves (Months <sup>a</sup> )	5.9	5.2	6.7	7.0	6.9
<b>Public Finance</b>					
Primary balance (% of GDP)	-2.4	-1.7	-0.4	-0.7	-0.6
Fiscal balance (% of GDP)	-4.1	-3.2	-2.2	-2.8	-3.0
Central Government debt (% of GDP)	56.5	55.1	52.0	50.8	50.0
<b>External Debt</b>					
Gross external debt (EUR million)	36,488	41,895	45,378	47,446	50,639
Gross external debt (% of GDP)	68.4	69.3	65.2	63.0	62.6
External debt service (EUR million)	6,000	5,300	5,500	6,300	4,800
External debt service (% of reserves)	36.5	27.3	22.1	22.8	16.5
External debt service (% of exports)	20.8	13.9	13.4	14.7	10.6
<b>Financial Markets</b>					
Policy rate (2-w repo rate, % eop)	1.0	5.0	6.5	5.3	4.5
Policy rate (2-w repo rate, % aop)	1.0	2.6	6.1	6.0	4.8
10-Y T-bill rate (% eop)	4.1	7.3	6.2	5.8	5.4
Exchange rate: EUR (eop)	117.5	117.2	117.2	117.2	117.5
Exchange rate: EUR (aop)	117.5	117.4	117.2	117.2	117.4

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

CYPRUS					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	24,928	27,777	29,807	31,402	33,043
GDP per capita (EUR)	27,687	30,434	32,151	33,535	34,938
GDP growth (real, %)	9.9	5.1	2.5	3.2	2.8
Unemployment rate (% aop)	7.5	6.2	5.8	5.1	5.0
<b>Prices and Banking</b>					
Inflation (% eop)	4.8	7.9	1.6	3.5	1.9
Inflation (% aop)	2.4	8.4	3.6	2.1	2.4
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)	---	---	---		
<b>External Accounts</b>					
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	-22.8
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 <sup>a</sup> )	---	---	---	---	---
<b>Public Finance</b>					
Primary balance <sup>b</sup> (% of GDP)	-0.1	4.2	4.5	3.9	3.8
Fiscal balance <sup>b</sup> (% of GDP)	-1.8	2.7	3.1	2.6	2.4
Gross public debt (% of GDP)	99.3	85.6	77.3	71.5	66.0
<b>External Debt</b>					
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	542.0	510.5
External debt service (EUR million)	---	---	---	---	---
External debt service (% of reserves)	---	---	---	---	---
External debt service (% of exports)	---	---	---	---	---
<b>Financial Markets</b>					
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	3.1	3.7
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

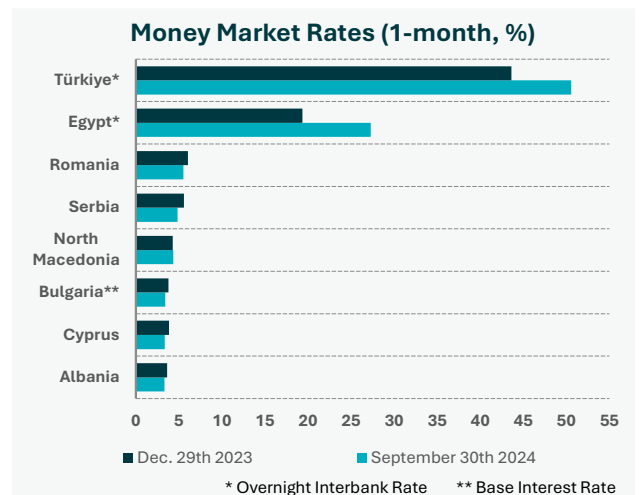
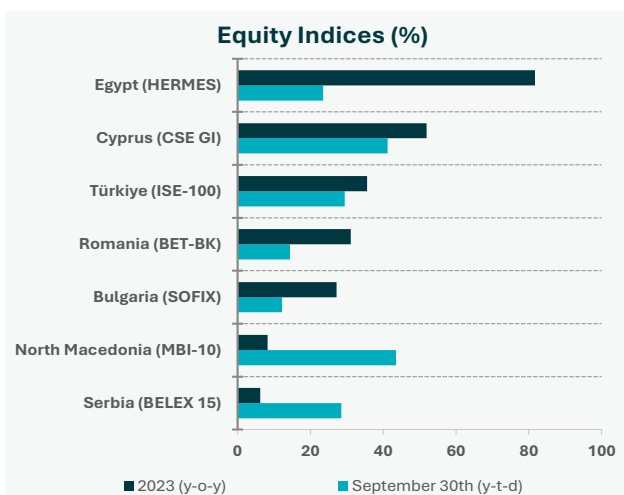
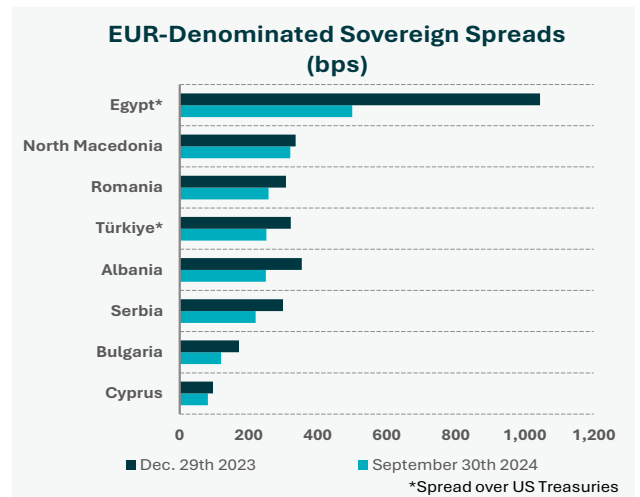
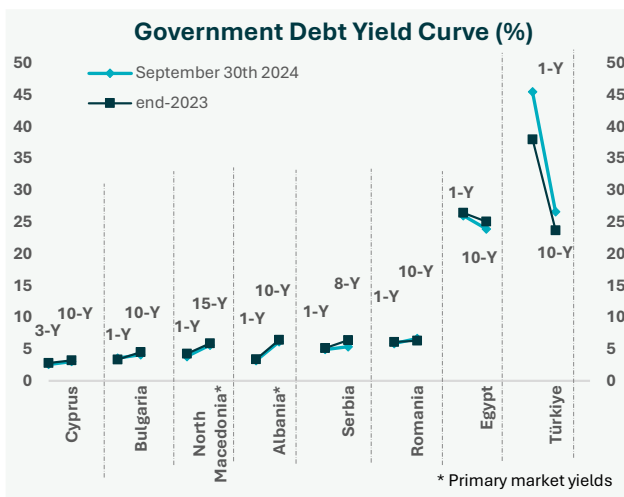
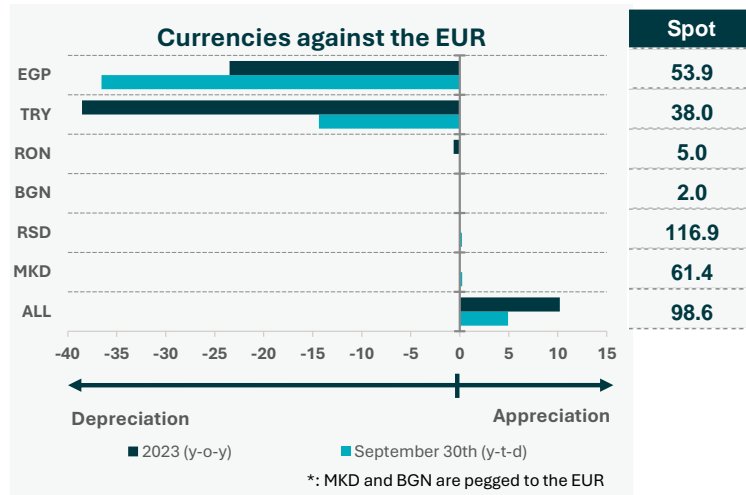
# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates



# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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