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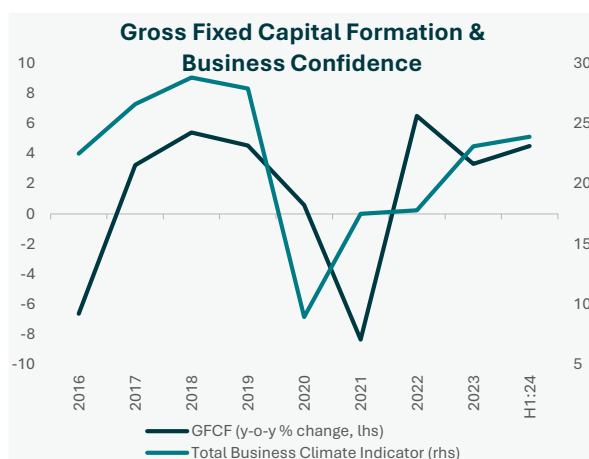
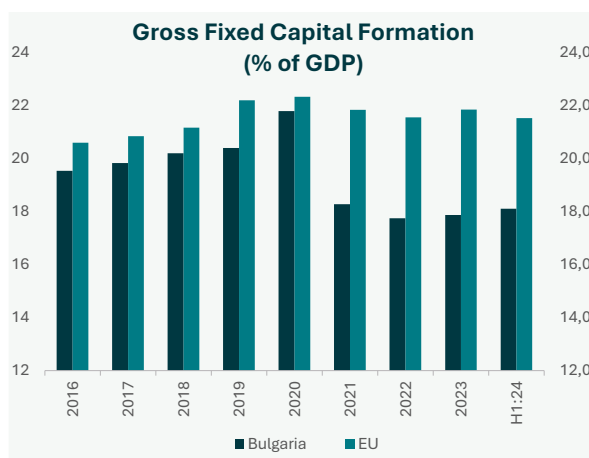
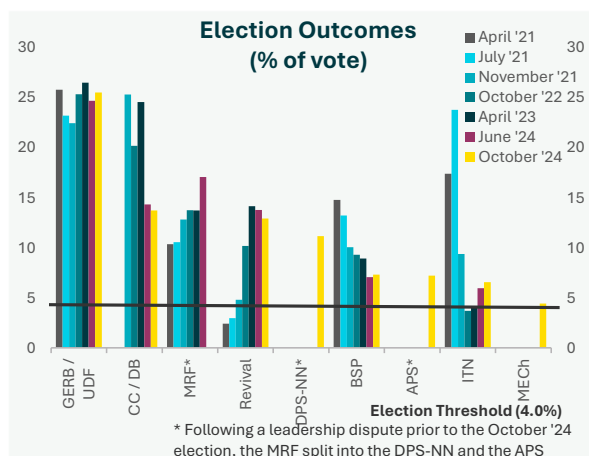
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# Bulgaria

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



	11 Nov.	3-M F	6-M F	12-M F
Base Interest Rate (%)	3.2	3.0	2.8	2.4
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2030, bps)	93	90	85	80

	11 Nov.	1-W %	YTD %	2-Y %
SOFIX	855	-0.3	11.8	43.4

	2021	2022	2023	2024F	2024F
Real GDP Growth (%)	7.8	4.0	1.9	2.2	3.1
Inflation (eop, %)	7.8	16.9	4.7	3.0	2.6
Cur. Acct. Bal. (% GDP)	-1.1	-2.6	0.9	0.4	0.4
Fiscal Bal. (% GDP)	-2.8	-0.8	-3.0	-3.3	-3.0

Sources: Reuters, NSI & NBG estimates

## Another inconclusive election outcome fails to ease political uncertainty.

The October 27<sup>th</sup> snap election -- the 7<sup>th</sup> held in 3½ years -- delivered another hung Parliament, failing to end the country's long-standing political impasse. As expected, the pro-Western centre-right GERB topped the polls (with 26.4% of the vote) but fell short of securing an absolute majority (winning 69 out of 240 Parliamentary seats), meaning that -- once again -- it needs to seek coalition partners to form a functioning Government. However, this would not be an easy task, as GERB would have to rely on the also pro-Western liberal CC-DB coalition, which finished 2<sup>nd</sup> (with 14.2% of the vote, 37 seats) and with whom it had previously engaged into a short-lived ruling coalition that collapsed due to disagreement over the allocation of ministerial seats, and at least one other party. Note that GERB has refused to work with the nationalist pro-Russian Revival party which came in 3<sup>rd</sup> (with 13.4% of the vote, 35 seats). At the same time, most parties have rejected the prospect of entering a Government in which the controversial media tycoon and leader of the DPS-New Beginning party (DPS-NN, 11.5% of the vote, 30 seats), D. Peevski, who is reportedly closely tied to B. Borisov, leader of the GERB, would participate. Note that the turnout in the election, which was marred by allegations over election fraud, stood at a low 39%. All said, political noise is unlikely to ease soon, in a country which has been in limbo since the 2020 anti-graft protests and has been governed by caretaker Governments for much of these years.

## This unstable political environment would continue to weigh on investment activity, constraining economic growth.

Prolonged political uncertainty has been a key reason for the economy's underperformance, with the latter largely driven by persistent under-investment. Indeed, besides the delays in EU funds' absorption observed since 2021, there has been also a significant weakening in business confidence (see chart). Worryingly, in the absence of a stable, functioning Government and policies, business confidence is unlikely to strengthen substantially, and further delays in policy and reform implementation could arise, hampering tapping of EU funds. Note that Bulgaria is one of the largest recipients of EU funds, with total grant funding under the Recovery & Resilience Facility and Multiannual Financial Framework 2021-27 amounting to c. 24.0% of its FY:23 GDP. According to the latest available data from the European Court of Auditors (ECA), Bulgaria has absorbed only 22% of available RRF grants against an EU average of 37%, having fulfilled only 6% of set milestones and targets against an EU average of 19%.

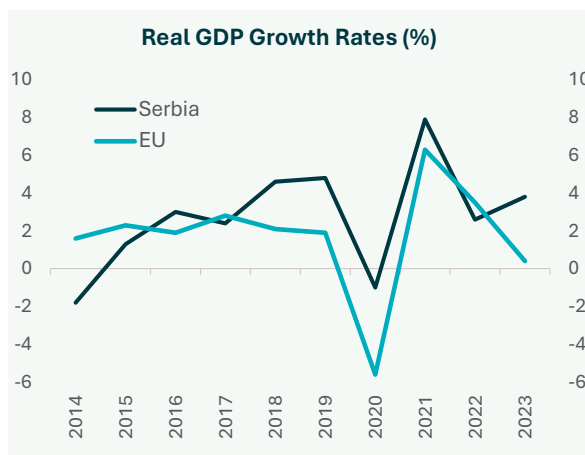
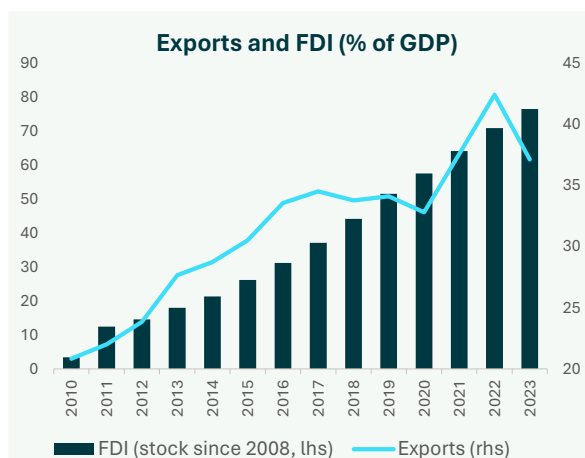
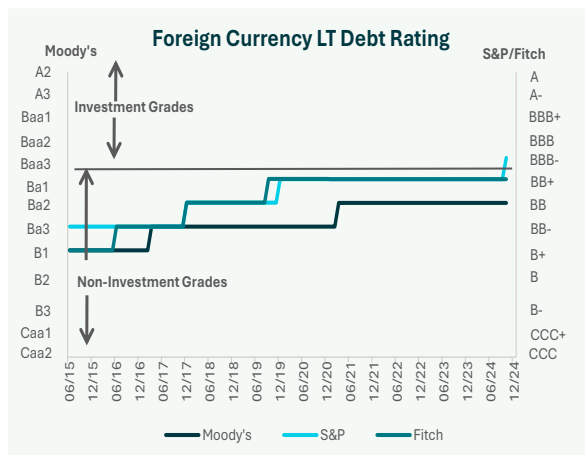
Importantly, despite prolonged political uncertainty, the risk of serious policy slippage appears to be limited, given the anchors provided by the long-standing currency board arrangement and the inclusion of the BGN into the ERM II, a precursor to the adoption of the euro.

**Euro adoption to be delayed at least until 2026.** Recall Bulgaria has been meeting all the criteria for euro adoption but one, that of price stability. Indeed, although inflation has embarked on a downward trend, it remains above that of the 3 best performing EU states. Worryingly, there are serious concerns over the prospect of sustainable convergence, considering that prices in Bulgaria stand at c. 60% of the euro area average. However, as it was the case with Croatia, we recognise that competent authorities could show some compromise on ultimate accession.

Joining the euro area (*per se*) should bring no fundamental change in macroeconomic policies, given Bulgaria's currency board arrangement and high euroization of the economy. Still, euro area membership should entail significant benefits, including lower transaction and funding costs as well as access to ECB's facilities, which should help further cement investor confidence in the economy. Note that Bulgaria's integration with the euro area's financial system has been advancing since joining the European Banking Union and its key mechanisms, namely the Single Supervisory Mechanism and the Single Resolution Mechanism, in 2020.

# Serbia

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



	11 Nov.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	4.7	4.7	4.5	4.0
RSD/EUR	116.9	116.5	116.5	116.5
Sov. Spread (2029, bps)	178	175	170	160

	11 Nov.	1-W %	YTD %	2-Y %
BELEX-15	1,139	0.6	30.1	46.1

	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	7.9	2.6	3.8	3.7	4.2
Inflation (eop, %)	7.9	15.1	7.6	3.5	3.3
Cur. Acct. Bal. (% GDP)	-4.0	-6.6	-2.3	-3.8	-4.3
Fiscal Bal. (% GDP)	-3.9	-3.0	-2.1	-2.8	-3.0

Sources: Reuters, NBS, OPBC & NBG estimates

**S&P awarded Serbia first-ever investment grade credit rating, “BBB-”, with stable outlook, making it the first non-EU country in SEE to gain such distinction.** The October upgrade came on the back of the economy’s outstanding performance over the past tumultuous decade and reflects its favourable prospects in the context of prudent economic policies. Note that the other major credit agencies still rate Serbia below investment grade, but we expect them to act likewise.

**Serbia delivered impressive economic results in 2015-19 and demonstrated resilience during the pandemic and the subsequent energy crisis.** The economy grew at an average rate of c. 3¼% in 2015-19, above the EU average (of c. 2.0%), underpinned by sizeable FDI inflows (averaging 6.0% of GDP, double the regional average), particularly in the export-oriented manufacturing sector. Although the pandemic hurt the economy, the downturn was brief and shallow (down 1.0%), followed by a strong rebound (up 7.9% in FY:21), supported by comprehensive policies. The subsequent global energy crisis, along with domestic energy supply problems (largely attributed to years of underinvestment), weighed on GDP growth in FY:22, albeit modestly (up 2.6%), while resulting in a sharp deterioration in the current account deficit (CAD), prompting authorities to have recourse to the IMF. The resumption of domestic energy production allowed GDP growth to rebound in FY:23 (up 3.8%).

**Robust private consumption and increasing fixed investment should keep GDP growth above its long-term potential (of c. 3¼%) over the forecast horizon.** The consolidation of inflation at lower levels, which enabled the NBS to start cutting rates, along with tight labour market conditions, should underpin private consumption in the period ahead. At the same time, fixed investment should increase progressively its contribution to overall growth, benefiting from: i) implementation of the multi-year infrastructure project related to hosting the international exhibition EXPO 2027; ii) absorption of available funding under the EU Growth Plan for Western Balkans (worth EUR 2.2bn); as well as iii) easing financing conditions. All said, GDP growth is seen firming to 3.7% in FY:24, before accelerating to 4.2% in FY:25 and 4.4% in FY:26.

Importantly, this solid macroeconomic picture has and would continue to be underpinned by credible policies. Indeed, the budget deficit remained in check throughout the past decade (averaging 1.8% of GDP, excluding the period of the pandemic), helping to put public debt on a downward trend (48.4% of GDP at end-2023, down from 68.4% at end-2015). Despite the cost of the EXPO 2027 project, the budget deficit is projected to remain below the critical threshold of 3.0% of GDP over the forecast horizon.

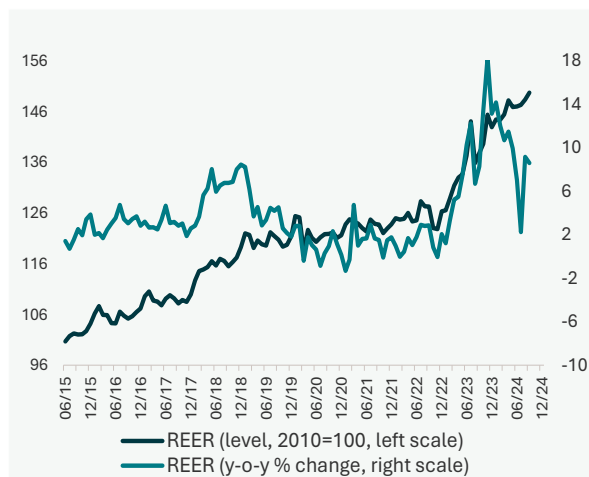
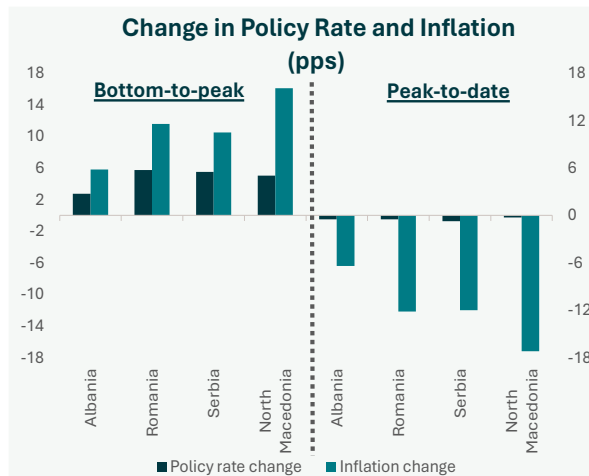
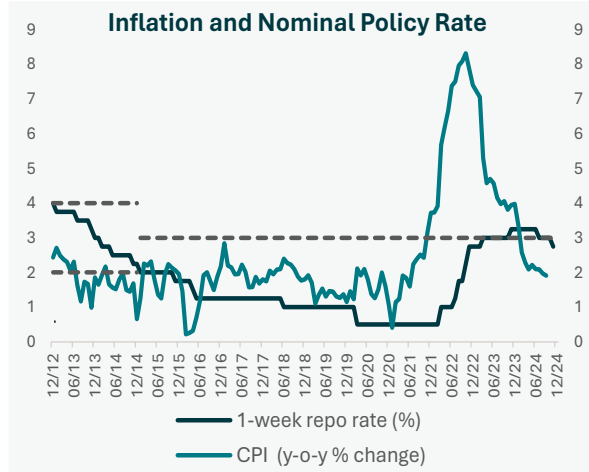
Serbia’s external imbalances remain moderate (with the CAD averaging at 4.6% of GDP over the past decade), despite robust GDP growth. Importantly, nonetheless, FX reserves’ accumulation has been uninterrupted (with the coverage ratio being double the IMF threshold of 3 months), thanks to large FDI inflows. Strong domestic demand suggests that CAD is set to remain under pressure in the period ahead, approaching the critical threshold of 5.0% of GDP. Still, solid FDI inflows should more than cover the CAD, allowing for further build-up in FX reserves.

**Macroeconomic and financial market conditions are expected to benefit from investment grade status.** The upgrade of sovereign debt to investment grade (IG) should unlock a broader investor base (note that the bulk of investment and pension funds are restricted to invest only in IG-rated assets) and help lowering financing costs, cementing investor confidence, and eventually leading to increased foreign capital flows with positive impact on the economy.

**Serbia strikes new non-financing deal with the IMF.** Ahead of the upcoming completion of Serbia’s stand-by arrangement (SBA) with the IMF, domestic authorities reached staff-level agreement on a new 36-month Policy Coordination Instrument (PCI) arrangement, to start as of 2025. The PCI is a non-financing instrument, designed to help authorities commit to strong economic policies and structural reforms, and thus potentially unlock financing from other IFIs.

# Albania

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



	11 Nov.	3-M F	6-M F	12-M F
1-M TRIBOR (%)	3.3	3.3	3.3	3.3
ALL/EUR	98.0	99.1	99.4	99.9
Sov. Spread (2031 bps)	218	215	210	200

Stock Market	11 Nov.	1-W %	YTD %	2-Y %
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	2021	2022	2023	2024F	2025F
Real GDP Growth (%)	9.0	4.8	3.9	3.6	3.6
Inflation (eop, %)	3.7	7.4	4.0	2.1	3.2
Cur. Acct. Bal. (% GDP)	-7.6	-5.9	-1.2	-1.7	-2.2
Fiscal Bal. (% GDP)	-4.6	-3.6	-1.3	-2.0	-2.0

Sources: Reuters, BoA, Instat & NBG estimates

The envisaged completion of the ALL appreciation cycle should prompt the BoA to refrain from further monetary policy easing in the period ahead. At its November meeting, the BoA lowered its key 1-week repo rate by 25 bps to 2.75%, bringing the cumulative rate cuts to 50 bps since July. The BoA cited the preceding rapid decline in inflation and the favourable short-term outlook as key reasons behind its decision.

Indeed, headline inflation currently hovers around 2.0%, which is below the BoA's target of 3.0% and close to the levels seen prior to the pandemic, marking an outstanding performance compared with Albania's regional peers, which still suffer from relatively elevated inflation, a legacy of the 2022 global energy price shock. The main factor behind this overperformance lies on the sharp appreciation of the domestic currency (ALL, up by a massive 16.0% since Q4:22, see below). Note that Albania's low energy import dependency, due to its reliance on (low-cost) domestic hydroelectric power production, as well as the fiscal consolidation carried out in 2022-23 have also helped in taming inflationary pressures.

All said, although we see inflation remaining subdued in the short-term due to favourable base and supply-side effects, we deem that the balance of medium-term risks is clearly skewed to the upside, prompting the BoA to remain cautious. Indeed:

*i) appreciation pressures on the ALL, that had supported disinflation so far, are expected to abate.* In fact, ALL's appreciation has come on the back of a remarkable structural improvement of Albania's current account deficit (CAD, hitting a record-low of 1.2% of GDP in FY:23) from its long-term historical average (7.5% of GDP in 2015-22), which was, in turn, largely driven by the rapid expansion of the tourism sector (with tourism arrivals surging by 60% from their pre-pandemic peak, boosting the sector's contribution to GDP to 28% in FY:23 from 20% in FY:19).

Nonetheless, it appears to be limited room for further improvement in the CAD, as, on the one hand, further material expansion in the capacity of the tourism sector largely hinges on additional investment not only in accommodation but in broader infrastructure, which usually takes time to materialize, while, on the other hand, the strong ALL has already started weighing on non-tourism exports' price competitiveness (the CPI-based REER has appreciated by more than 20% in the past 5 years). All said, given the relatively poor economic outlook in the EU (especially Italy, absorbing 43% of exports), we project the CAD widening to as still modest 2.5% of GDP in the short-to-medium term. Although, it is expected to be comfortably covered by FDI inflows, the overall surplus should narrow markedly, eliminating appreciation pressures on the local currency.

*ii) double-digit wage growth -- well above pre-pandemic level -- should continue fuelling inflationary pressures.* Against the backdrop of tight labour market conditions, due, *inter alia*, to shrinking labour supply (with the country's population having dropped by c. 14.0% in 2011-23, following continuing youth migration and an ageing population), wage growth (up 10.0% y-o-y in H1:24, following a rise of 14.0% on average in FY:23) is expected to remain close to double-digits in the period ahead, also reflecting loose incomes policy and its spillover to the private sector.

*iii) persistent and broadening tensions in the Middle East further exacerbate uncertainty over the future inflation path,* due not only to repercussions from potential global commodity price spikes (the impact of which on inflation would be compounded by the large weight of energy and food prices in the CPI basket) and/or further disruptions in supply chains but also a potential sudden reversal of ALL appreciation (following potentially lower FDI, tourism and remittance inflows and a drop in manufacturing service exports).

All said, the BoA is unlikely to lower its key rate substantially in the period ahead. Assuming that the rate remains unchanged at its current level, still the BoA's stance would remain accommodative, with the *ex-post* policy rate hovering around 0.0% by end-2025 (in real and compounded terms), slightly below the levels observed prior to the pandemic.



## DETAILED MACROECONOMIC DATA

BULGARIA					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	71,377	86,081	94,708	100,953	107,310
GDP per capita (EUR)	10,437	13,350	14,695	15,893	17,142
GDP growth (real, %)	7.8	4.0	1.9	2.2	3.1
Unemployment rate(ILO definition, %, aop)	5.3	4.2	4.3	4.5	4.3
<b>Prices and Banking</b>					
Inflation (% eop)	7.8	16.9	4.7	3.0	2.6
Inflation (% aop)	3.3	15.2	9.6	2.8	3.1
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)	47.4	44.1	44.6		
Retail Loans (% of GDP)	20.5	19.4	20.5		
Corporate Loans (% of GDP)	26.9	24.7	24.0		
Customer Deposits (% of GDP)	69.1	65.3	65.0		
Loans to Private Sector (% of Deposits)	68.6	67.6	68.6		
Foreign Currency Loans (% of Total Loans)	28.7	25.7	23.3		
<b>External Accounts</b>					
Merchandise exports (EUR million)	34,405	47,145	43,540	43,146	45,006
Merchandise imports (EUR million)	37,291	52,229	47,467	48,193	50,514
Trade balance (EUR million)	-2,887	-5,084	-3,927	-5,0475	-5,508
Trade balance (% of GDP)	-4.0	-5.9	-4.1	-5.0	-5.1
Current account balance (EUR million)	-0,768	-2,232	0,839	0,409	0,380
Current account balance (% of GDP)	-1.1	-2.6	0.9	0.4	0.4
Net FDI (EUR million)	1,112	3,402	2,644	1,322	1,454
Net FDI (% of GDP)	1.6	4.0	2.8	1.3	1.4
International reserves (EUR million)	34,597	38,424	41,706	41,687	42,771
International reserves (Months <sup>a</sup> )	9.8	7.8	9.1	9.0	8.8
<b>Public Finance</b>					
Primary balance (% of GDP)	-2.4	-0.4	-2.5	-2.8	-2.6
Fiscal balance (% of GDP)	-2.8	-0.8	-3.0	-3.3	-3.0
Gross public debt <sup>b</sup> (% of GDP)	23.8	22.5	22.9	24.8	26.3
<b>External Debt</b>					
Gross external debt (EUR million)	41,317	44,249	45,414	45,865	45,559
Gross external debt (% of GDP)	58.1	51.6	48.3	45.8	42.8
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	12.4	12.3
<b>Financial Markets</b>					
Base Interest Rate (% eop)	0.0	1.3	3.8	3.1	2.3
Base Interest Rate (% aop)	0.0	0.2	2.9	3.5	2.7
10-Y Bond Yield (% eop)	0.7	6.0	4.5	3.7	3.4
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

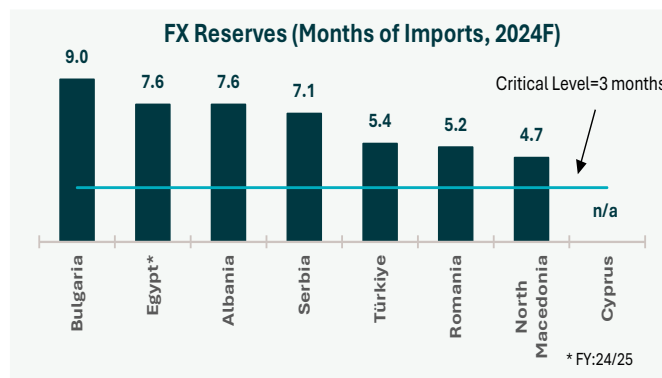
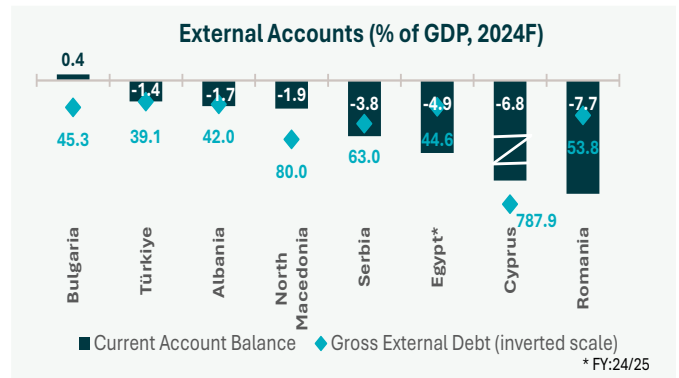
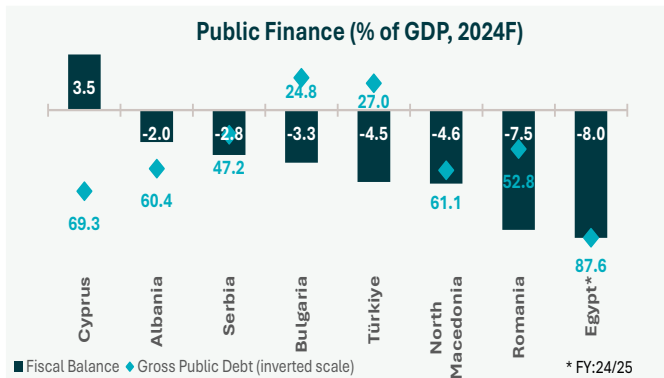
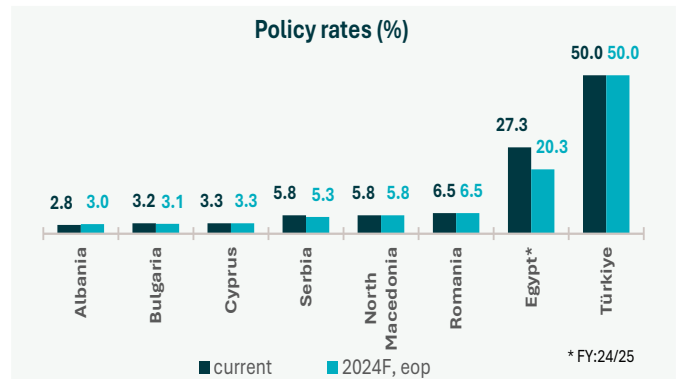
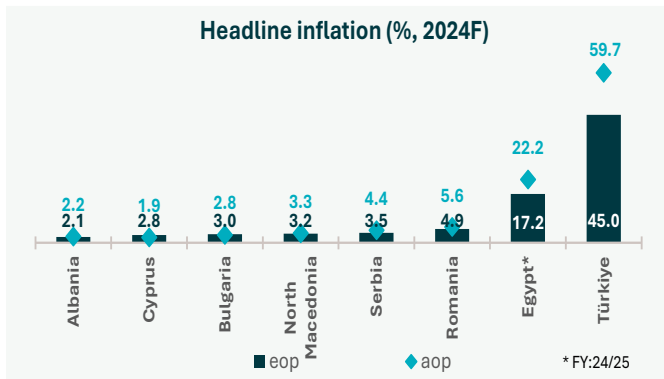
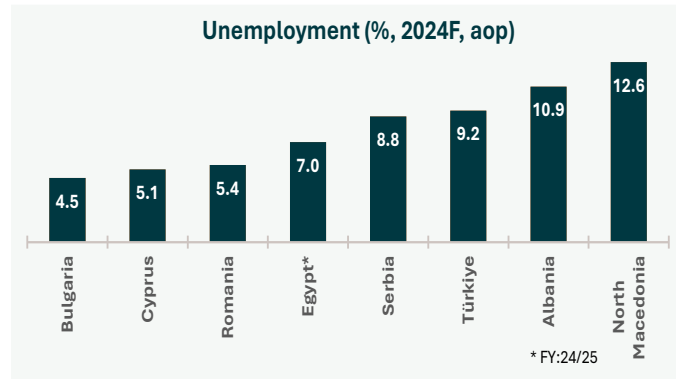
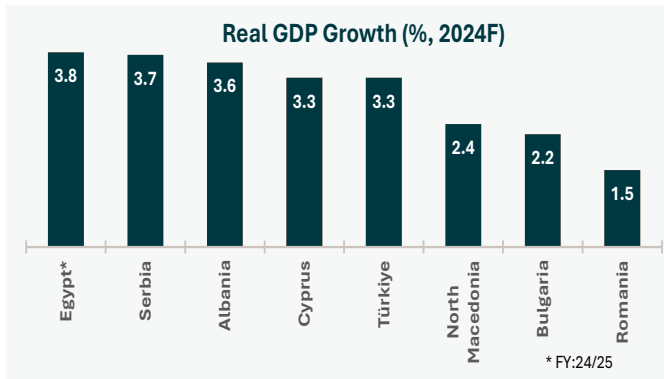
SERBIA					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	55,966	63,540	75,258	81,567	88,099
GDP per capita (EUR)	8,189	9,363	11,156	12,140	13,165
GDP growth (real, %)	7.9	2.6	3.8	3.7	4.2
Unemployment rate (% aop)	11.1	9.6	9.4	8.8	8.5
<b>Prices and Banking</b>					
Inflation (% eop)	7.9	15.1	7.6	3.5	3.3
Inflation (% aop)	4.1	11.9	12.5	4.4	3.7
Loans to the Private Sector (% change, eop)	10.1	6.9	1.1		
Customer Deposits (% change, eop)	13.3	6.9	11.7		
Loans to the Private Sector (% of GDP)	45.2	42.5	36.4		
Retail Loans (% of GDP)	21.9	20.5	18.0		
Corporate Loans (% of GDP)	23.2	22.0	18.4		
Customer Deposits (% of GDP)	52.1	49.2	45.2		
Loans to Private Sector (% of Deposits)	86.7	86.5	80.4		
Foreign Currency Loans (% of Total Loans)	61.1	64.1	64.7		
<b>External Accounts</b>					
Merchandise exports (EUR million)	21,018	26,928	27,929	29,108	30,503
Merchandise imports (EUR million)	27,038	36,292	34,551	36,628	38,925
Trade balance (EUR million)	-6,020	-9,364	-6,622	-7,520	-8,422
Trade balance (% of GDP)	-10.8	-14.7	-8.8	-9.2	-9.6
Current account balance (EUR million)	-2,266	-4,162	-1,766	-3,069	-3,753
Current account balance (% of GDP)	-4.0	-6.6	-2.3	-3.8	-4.3
Net FDI (EUR million)	3,657	4,328	4,221	4,517	4,788
Net FDI (% of GDP)	6.5	6.8	5.6	5.5	5.4
International reserves (EUR million)	16,455	19,416	24,909	28,107	30,142
International reserves (Months <sup>a</sup> )	5.9	5.2	6.7	7.1	7.1
<b>Public Finance</b>					
Primary balance (% of GDP)	-2.3	-1.6	-0.4	-0.9	-0.8
Fiscal balance (% of GDP)	-3.9	-3.0	-2.1	-2.8	-3.0
Central Government debt (% of GDP)	53.8	52.4	48.0	47.2	46.9
<b>External Debt</b>					
Gross external debt (EUR million)	36,488	41,895	45,378	51,388	55,150
Gross external debt (% of GDP)	65.2	65.9	60.3	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	22.4	15.9
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	5.5	4.8
Policy rate (2-w repo rate, % aop)	1.0	2.6	6.1	6.1	5.1
10-Y T-bill rate (% eop)	4.1	7.3	6.2	5.8	5.3
Exchange rate: EUR (eop)	117.5	117.2	117.2	117.0	117.3
Exchange rate: EUR (aop)	117.5	117.4	117.2	117.1	117.1

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

ALBANIA					
	2021	2022	2023	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	15,270	18,116	21,858	24,694	25,830
GDP per capita (EUR)	5,431	6,522	7,909	8,953	9,383
GDP growth (real, %)	9.0	4.8	3.9	3.6	3.6
Unemployment rate (% aop)	12.1	11.3	11.2	10.9	10.5
<b>Prices and Banking</b>					
Inflation (% eop)	3.7	7.4	4.0	2.1	3.2
Inflation (% aop)	2.0	6.7	4.8	2.2	2.7
Loans to the Private Sector (% change, eop)	8.5	7.1	5.0		
Customer Deposits (% change, eop)	9.1	4.4	2.4		
Loans to the Private Sector (% of GDP)	33.7	31.4	29.9		
Retail Loans (% of GDP)	12.6	12.3	12.4		
Corporate Loans (% of GDP)	21.1	19.1	17.5		
Customer Deposits (% of GDP)	62.8	56.9	53.9		
Loans to Private Sector (% of Deposits)	53.7	55.1	55.5		
Foreign Currency Loans (% of Total Loans)	47.6	48.2	43.3		
<b>External Accounts</b>					
Merchandise exports (EUR million)	1,265	1,933	1,836	1,809	1,827
Merchandise imports (EUR million)	5,094	6,201	6,376	6,982	7,505
Trade balance (EUR million)	-3,829	-4,269	-4,540	-5,173	-5,679
Trade balance (% of GDP)	-25.1	-23.6	-20.8	-20.9	-22.0
Current account balance (EUR million)	-1,166	-1,063	-0,264	-0,428	-0,572
Current account balance (% of GDP)	-7.6	-5.9	-1.2	-1.7	-2.2
Net FDI (EUR million)	0,990	1,190	1,256	1,287	1,332
Net FDI (% of GDP)	6.5	6.6	5.7	5.2	5.2
International reserves (EUR million)	4,972	4,952	5,847	5,966	6,487
International reserves (Months <sup>a</sup> )	8.8	6.9	7.3	7.6	7.7
<b>Public Finance</b>					
Primary balance (% of GDP)	-2.7	-1.8	0.7	0.6	0.8
Fiscal balance (% of GDP)	-4.6	-3.6	-1.3	-2.0	-2.0
Gross public debt (% of GDP)	75.2	65.5	61.1	60.4	60.2
<b>External Debt</b>					
Gross external debt (EUR million)	9,755	9,766	10,075	10,375	10,775
Gross external debt (% of GDP)	63.9	53.9	46.1	42.0	41.7
External debt service (EUR million)	0,306	0,328	0,352	0,380	0,380
External debt service (% of reserves)	6.1	6.6	6.0	6.4	5.9
External debt service (% of exports)	4.9	3.5	3.9	4.3	4.2
<b>Financial Markets</b>					
Policy rate (1-week repo rate, %, eop)	0.5	2.8	3.3	2.8	2.8
Policy rate (1-week repo rate, %, aop)	0.5	1.5	3.0	3.1	2.8
1-Y T-bill rate <sup>b</sup> (% eop)	1.6	5.5	3.8	4.7	4.5
Exchange rate: EUR (eop)	120.6	114.0	103.4	99.0	100.0
Exchange rate: EUR (aop)	122.2	118.7	108.4	101.2	102.5

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

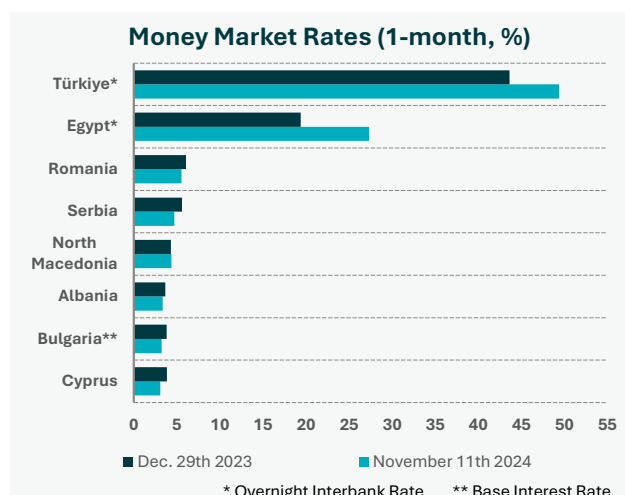
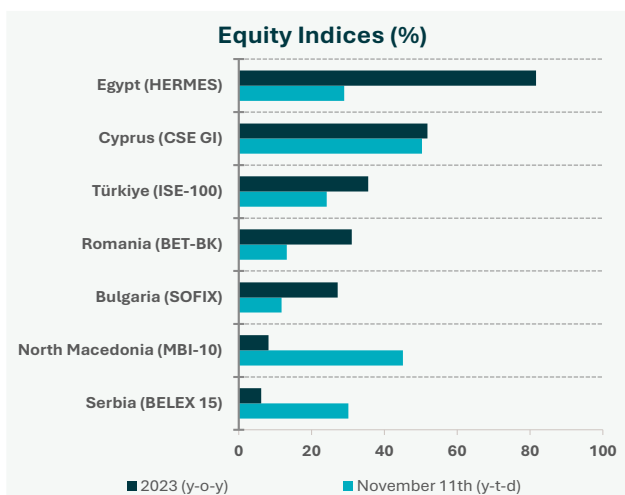
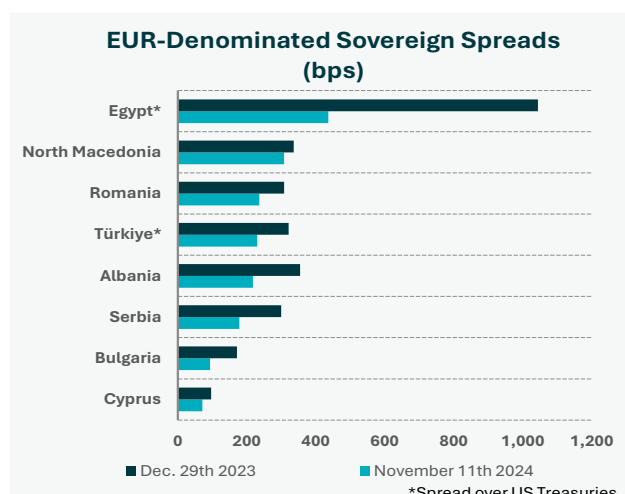
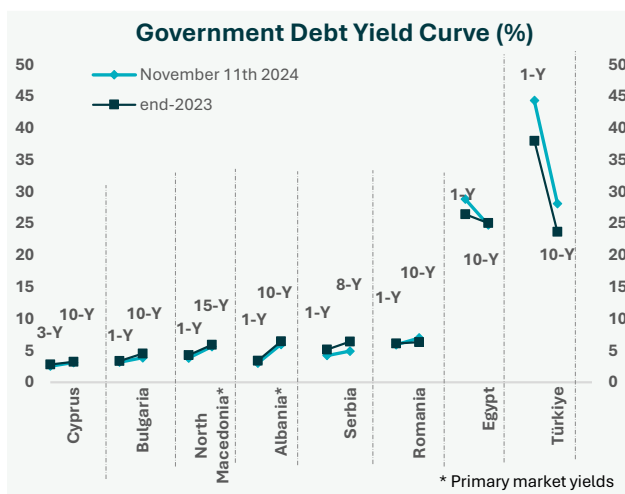
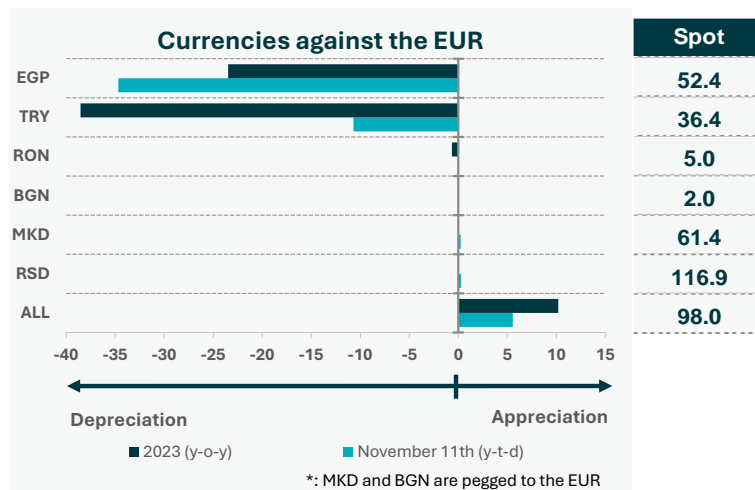
# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBS estimates



# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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