

COUNTRIES IN FOCUS:

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A domestic-demand driven rebound in economic activity in Q4:24, brought full-year GDP growth to a solid 3.2%, albeit down from 5.1% in FY:23

The impact of past monetary policy tightening is unlikely to subside soon, with FY:25 GDP projected to grow at a more than descent pace of 3.5%, with a more balanced structure

Political noise on the rise following arrest of Istanbul's popular mayor, E. Imamoglu

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Resurgence in inflationary pressures leaves no room for further monetary policy easing in the short-term

The real estate market appears to be gaining steam again, warranting caution

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Despite external headwinds, GDP growth strengthened to 3.4% in 2024 -- more than four times the euro area average -- from 2.6% in 2023, on strong (tourism & other) services exports (and their positive spillovers to the economy), underscoring the economy's increasing diversification

GDP growth is set to remain resilient and broad-based this year, at 2.7% -- slightly below the economy's long-term potential -- but double the euro area average

APPENDIX:

DETAILED MACROECONOMIC DATA 4

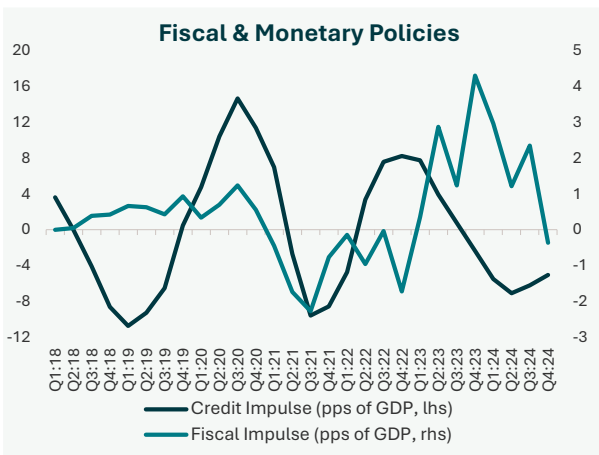
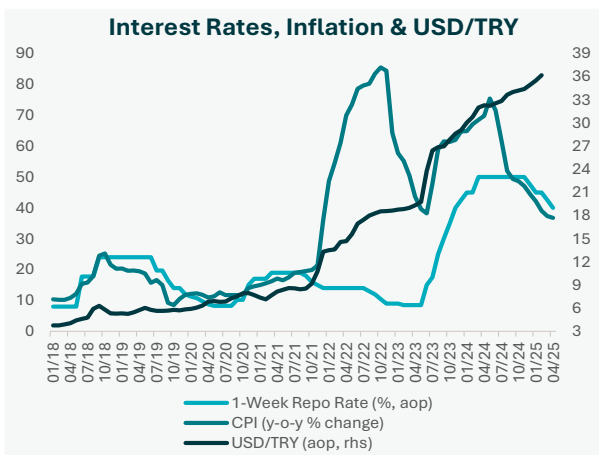
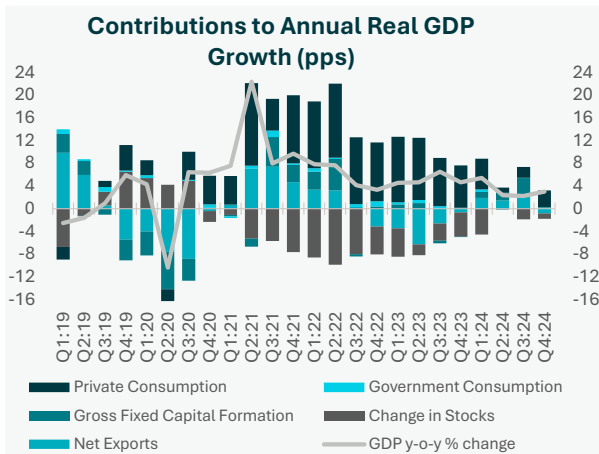
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Türkiye

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



A domestic-demand driven rebound in economic activity in Q4:24, brought FY:24 GDP growth to a solid 3.2%, albeit down from 5.1% in FY:23. Following 2 marginally negative prints (signaling a technical recession), sequential GDP growth rebounded to 1.7% q-o-q s.a. in Q4:24, with the annual pace of economic expansion picking-up to 3.0% y-o-y, at the same time, from a post-pandemic low of 2.2% in Q3:24. A turnaround in private consumption, thanks, *inter alia*, to improving confidence and a recovery in consumer lending, especially credit cards (beyond the caps imposed by the CBRT), provided the main impetus to GDP growth in Q4:24. Fixed investment also added to growth, with construction accounting for the bulk of the increase and investment in machinery equipment rising after dropping for 2 quarters. Unsurprisingly, following 3 quarters of positive contribution, net exports turned into a drag on overall growth.

Full year GDP growth came in at a solid 3.2%, down from 5.1% in FY:23. An unprecedented tightening in monetary policy (including policy rate hikes of 4,150 bps) to address external imbalances and skyrocketing inflation has been the main driver behind the adjustment. As a result, inflation has moderated, without yet falling into manageable levels (standing at 44% y-o-y at end-2024, well below its mid-year peak of 75%). Loose fiscal and incomes policies have been key factors behind slow disinflation.

The impact of past monetary policy tightening is unlikely to subside soon, with FY:25 GDP projected to grow at a more than descent pace of 3.5%, with a more balanced structure. Considering that demand has yet to match supply (inventories depleted for a 17th consecutive quarter in Q4:24), feeding inflationary pressures, the CBRT cannot but remain cautious, meaning that the impact of monetary policy tightening would be felt for much longer. Note that the real *ex-post* policy rate currently stands at c. 3.5% against -11.0% a year ago. Under our baseline scenario, we expect to fall gradually to 2.0% only by the end of the forecast horizon.

In this environment, domestic demand should continue growing in 2025, albeit at a modest pace, although we recognize that upbeat consumer and business confidence and delays in fiscal consolidation could lend some support to economic activity over the next few months. Record-high labour underutilization (c. 28.0%) and a prudent incomes policy (providing for *ex-ante* minimum wage indexation) corroborate the view of slower growth in private consumption. At the same time, a relatively low industrial capacity utilization rate and the fading of the favourable effect from post-earthquake reconstruction activity suggest that fixed investment is unlikely to add meaningfully to overall growth, at least in the short-term. Modest domestic demand, together with gradually strengthening external demand (with risks to this outlook being clearly tilted to the downside, reflecting escalating global trade tensions), point to a neutral contribution of net exports to GDP growth. Worryingly, stubbornly high inflation has largely eroded the gains in external competitiveness from the recent massive nominal depreciation of the TRY (with the REER having gone up c. 45% over the past ½ year).

Political noise on the rise following arrest of Istanbul’s popular mayor, E. Imamoglu. Imamoglu -- widely seen as opposition’s key figure in its bid to return to power -- was arrested on charges of corruption and aiding a terrorist group. His arrest came a day after a university annulled his diploma, the holding of which is (according to national legislation) a prerequisite for running in Presidential elections (with the next one due by 2028). Note that similar actions have been launched against other prominent opposition members across the country over the past months. The crackdown on the opposition has been widely criticized for being politically motivated, giving new rise to concerns over the rule of law in Türkiye. In response to the new bout of political uncertainty, the TRY lost c. 3.5% of its value against the USD, hitting a new low of 38.0. FX losses would have been much larger had the CBRT not intervened heavily in the market, while substituting temporarily regular policy funding with costlier funding under its overnight lending facility (the interest rate of which was raised by 200 bps, to 46.0%, at the same time).

	17 Mar.	3-M F	6-M F	12-M F
O/N TLREF (%)	42.0	36.0	30.0	26.0
TRY/USD	36.5	37.5	39.0	42.2
Sov. Spread (2030, bps)	259	250	240	220

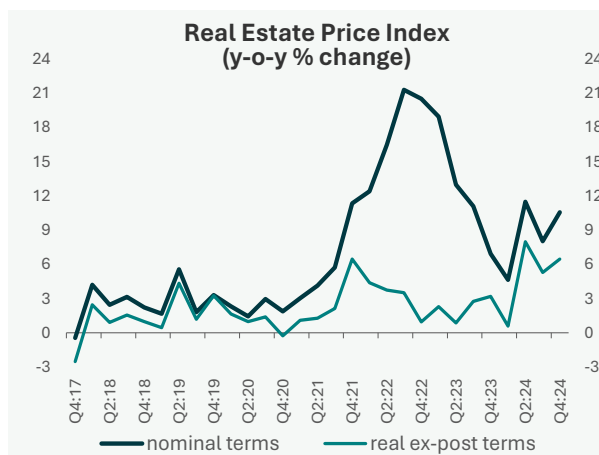
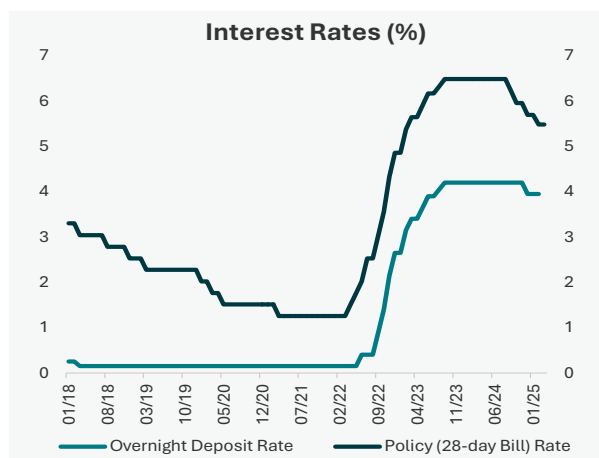
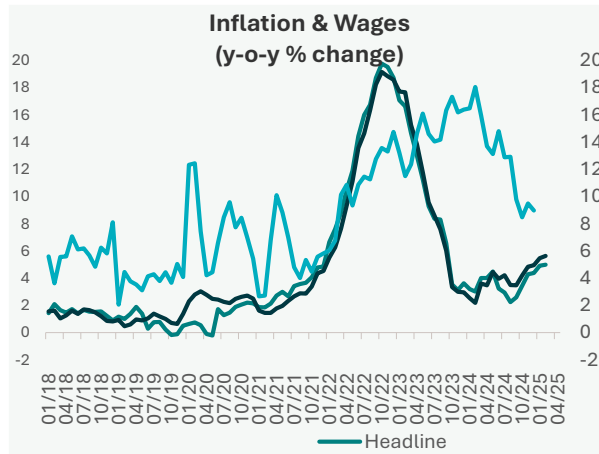
	17 Mar.	1-W %	YTD %	2-Y %
ISE 100	10,862	4.2	10.5	111.5

	2022	2023	2024E	2025F	2026F
Real GDP Growth (%)	5.5	5.1	3.2	3.5	3.8
Inflation (eop, %)	64.3	64.2	44.4	28.0	14.0
Cur. Acct. Bal. (% GDP)	-5.1	-3.6	-0.8	-1.2	-1.7
Fiscal Bal. (% GDP)	-0.9	-5.2	-4.9	-3.6	-3.0

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

North Macedonia

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



	17 Mar.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	4.2	4.0	3.5	3.3
MKD/EUR	61.4	61.6	61.6	61.6
Sov. Spread (2028, bps)	232	225	220	205

	17 Mar.	1-W %	YTD %	2-Y %
MBI 100	10,406	0.1	2.0	79.4

	2022	2023	2024E	2025F	2026F
Real GDP Growth (%)	2.8	2.1	2.8	3.1	3.2
Inflation (eop, %)	18.7	3.6	4.4	2.8	2.4
Cur. Acct. Bal. (% GDP)	-6.0	0.4	-2.3	-2.6	-2.7
Fiscal Bal. (% GDP)	-4.3	-4.6	-4.4	-4.0	-3.4

Sources: Reuters, NBRNM, MAKSTAT & NBG estimates

Resurgence in inflationary pressures leaves no room for further monetary policy easing in the short-term. After bottoming out at 2.2% y-o-y in August '24 (against an end-2022 peak of nearly 20.0%), inflation has rebounded, hitting a 16-month high of 5.0% in February, markedly above its pre-pandemic average of c. 1.0%. Higher volatile food prices, on the back, *inter alia*, of a relatively poor harvest, and an unfavourable base effect from the expiration of state's measures freezing the price of several basic food products have been key factors behind the recent deterioration.

Although these factors should wane gradually over the next few months, helped by state's new intervention (capping profit margins on over 100 product groups at 10%) and favourable base effects from higher energy prices over the previous year, the scope for headline inflation to fall significantly appears to be limited, considering stubbornly high core inflation (currently standing at 5.6% y-o-y, i.e. roughly 1.5 pps higher than that witnessed in North Macedonia's regional peers, largely driven by services prices). Indeed, strong -- yet slowly moderating -- nominal wage growth (up 9.0% y-o-y in Q4:24 and 12.9% on average in FY:24, reflecting structural issues in the labour market as well as a loose incomes policy and its spillover to the private sector) and *ad-hoc* pension hikes (with another adjustment scheduled for March '25) along with reviving consumer lending activity (up 6.7% y-o-y at end-2024 against 4.8% at end-2023) should continue feeding inflationary pressures in the short-term.

Note that the streamlining of the public wage-setting process (starting from 2025, public sector wage increases are capped by nominal GDP growth), together with the fact that the real income losses experienced over the past years have been more than recouped, suggest that nominal wage growth should moderate gradually in the period ahead. Still, it is unlikely to subside to levels consistent with labour productivity gains (2.0-3.0%).

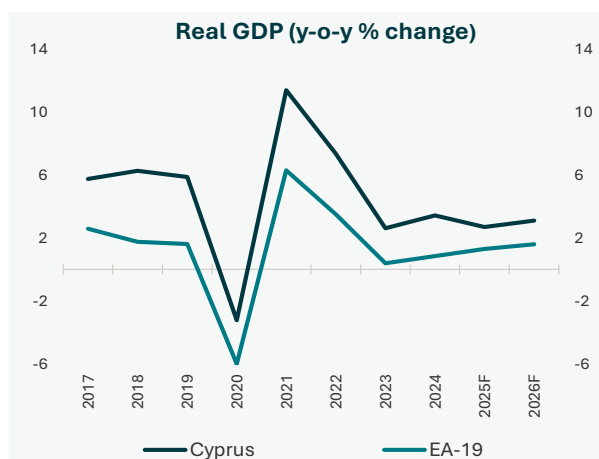
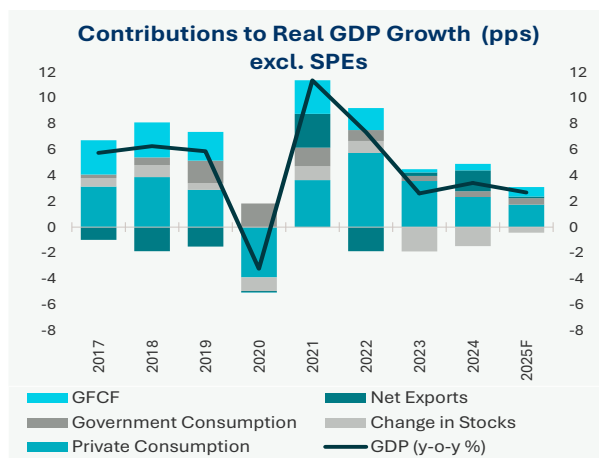
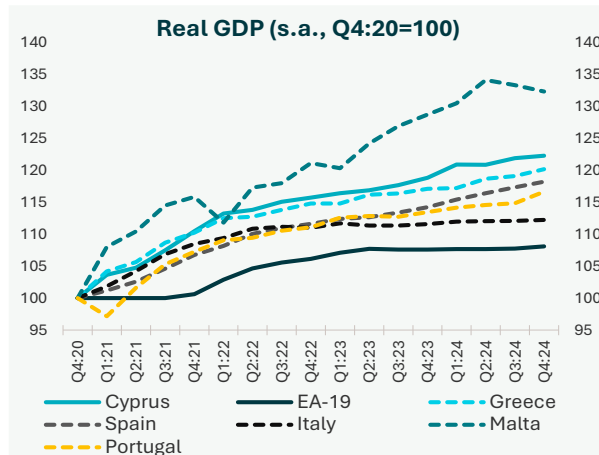
Against this backdrop, we see limited room for the NBRNM to lower further its key 28-bill rate. Recall that the latter has been trimmed by 95 bps since September '24, to 5.35% currently, with the overnight deposit rate, which provides a floor for interbank market rates, having been reduced by much less at the same time -- just 25 bps, to 3.95%. All said, we see headline inflation easing to 2.4% by end-2025 and 2.0% by end-2026, with the NBRNM bringing its key rate gradually down to 4.35% and 3.85%, respectively, at the same time.

The real estate market appears to be gaining steam again, warranting caution. Following a short-lived but only modest slump between end-2023 and early-2024 (see chart), mainly attributed to tightened financing conditions, real estate price inflation has gained pace again, returning to double-digit territory (up 10.6% y-o-y in Q4:24 against an average of c. 5.5% in Q3:23-Q1:24). Currently, residential prices stand c. 60% above their pre-pandemic levels, which is nearly double the inflation rate over the same period, highlighting the impact of strong underlying demand. Importantly, price misalignment measures (defined as the deviation of the price-to-income ratio from its historical average) suggest a modest overvaluation of the residential real estate market (of 5.0%-10.0%, source: Numbeo).

Considering constrained real estate supply (with a low housing stock of poor-quality and new construction growing sluggishly at the same time -- up by a mere 1.0% in FY:14 following a drop of 8.0% in FY:23), one the one hand, and easing financing conditions (with mortgage lending already growing at double-digit rates -- up 12.5% y-o-y at end-2024), low household indebtedness (less than 30.0% of GDP against an EU average of c. 52.0%) and attractiveness of the real estate sector as an asset class (rental yields currently stand at c. 6.5%, markedly above the yield of the 15-year sovereign bond in the primary market, c. 5.0%, and well above the interest rate on long-term deposits, c. 3.5%), on the other hand, we expect real estate prices to continue growing at rates significantly exceeding that of inflation, despite adverse demographics. Worryingly, in the absence of measures, such a development could imply increasing risks to financial stability.

Cyprus

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



	17 Mar.	3-M F	6-M F	12-M F
1-M EURIBOR (%)	2.4	2.1	2.0	2.0
EUR/USD	1.09	1.08	1.10	1.12
Sov. Spread (2028, bps)	58	57	55	50

	17 Mar.	1-W %	YTD %	2-Y %
CSE 100	231	1.1	7.4	121.3

	2022	2023	2024E	2025F	2026F
Real GDP Growth (%)	7.4	2.6	3.4	2.7	3.1
Inflation (eop, %)	7.9	1.6	2.6	1.8	1.9
Cur. Acct. Bal. (% GDP)	-5.4	-9.5	-4.7	-5.0	-5.2
Fiscal Bal. (% GDP)	2.6	2.0	4.5	3.0	2.8

Sources: Reuters, Cystat, Eurostat & NBG estimates

Despite external headwinds, GDP growth strengthened to 3.4% in 2024 -- more than four times the euro area average -- from 2.6% in 2023, on strong (tourism & other) services exports (and their positive spillovers to the economy), underscoring the economy's increasing diversification. Exports of (high value-added) ICT, professional, financial and shipping services posted another year of robust in FY:24, following the relocation of foreign companies to the island (with more than 2,300 new firms with 12,000 employees having registered locally in 2022-24, attracted by authorities' headquartering policy as well as due to migration from Russia, Ukraine and war-affected areas in the Middle East, including Israel) and the expansion of their activities. This (diversified) expansion of the economy's export base has resulted in a positive output gap since end-2021, with Cyprus overperforming both the euro area average as well other tourism-dependent Southern European economies (see chart), despite the adverse impact of the sanctions imposed against Russia -- Cyprus's key trade partner. Note that despite the fallout from the year-long conflict in Gaza (which affected arrivals from Israel, Cyprus' 2nd most important source country, yet less than initially expected) and heightened security concerns, due to Cyprus' geographical proximity to the suffering Middle East, tourist activity also remained resilient in FY:24, recovering to pre-pandemic levels.

The abrupt deceleration in GDP growth seen over the last quarter of the year (to 2.6% y-o-y from 3.7% in 9M:24) is largely temporary, attributed to the month-long halt in construction activity due to the cement workers' strike (GDP excluding construction grew by 3.0% y-o-y in Q4:24 against 3.4% in 9M:24).

GDP growth is set to remain resilient and broad-based this year, at 2.7% -- slightly below the economy's long-term potential -- but double the euro area average. Private consumption should continue growing, yet at a slower pace than before, in line with easing real wage growth (reflecting the impact of the consolidation of inflation at low levels under a largely backward-looking wage setting process) and slowing employment growth after past years' surge (up by a CAGR of c. 4.0% in 2021-23, driven by the inflow of new foreign workers related to business relocations).

At the same time, investment growth is set to firm, in line with faster deployment of projects under the Recovery & Resilience Plan (RRP, with Cyprus having received 31% of total available funds so far -- below the EU average of 47.2% -- worth 1.1% of its FY:24 GDP, and being eligible for another 2.5% by end-2026, upon agreed reforms implementation), more accommodative financing conditions and improving investor sentiment in the wake of the recent sovereign credit rating upgrades. Construction should remain the key engine of growth, thanks to: i) still strong resident demand for real estate, more than offsetting the cool-down in demand from foreigners (in line with the envisaged slowdown in the inflow of foreign companies and their personnel to the island); and ii) the continuation of large non-residential projects (mainly in the areas of tourism, transport, energy, education and health).

On the other hand, net exports' contribution to real GDP should remain positive, on the back of stronger economic growth in the EU, yet shrink compared with FY:24, reflecting not only solid domestic demand (with a high import content), but also the fading out of favourable base effects from the relocation of foreign companies to the island. Assuming implementation of the January Gaza ceasefire agreement, tourism activity could regain some steam, following the return of tourist flows from Israel (2nd largest source country with by far the higher spending visitors) to pre-war trend and the de-escalation of geopolitical tensions in Cyprus' neighborhood.

A resurgence in geopolitical tensions and/or escalation of global trade war (with latter projected to have limited direct effects on the Cypriot economy but quite substantial indirect effects, especially on its globally-oriented services sector) pose the main downside risks to the economic outlook.

DETAILED MACROECONOMIC DATA

TÜRKİYE					
	2022	2023	2024e	2025f	2026f
Real Sector					
Nominal GDP (USD million)	905,789	1,116,339	1,332,537	1,581,656	1,744,798
GDP per capita (USD)	10,621	13,076	15,412	18,340	20,135
GDP growth (real, %)	5.5	5.1	3.2	3.5	3.8
Unemployment rate (% aop)	10.5	9.4	8.7	8.9	8.7
Prices and Banking					
Inflation (% eop)	64.3	64.2	44.4	28.0	14.0
Inflation (% aop)	71.6	53.1	59.7	32.6	18.5
Loans to the Private Sector (% change, eop)	54.5	53.7	36.7		
Customer Deposits (% change, eop)	68.0	67.1	29.2		
Loans to the Private Sector (% of GDP)	50.4	43.8	36.3		
Retail Loans (% of GDP)	11.2	11.2	9.8		
Corporate Loans (% of GDP)	39.2	32.6	26.6		
Customer Deposits (% of GDP)	53.1	50.2	39.7		
Loans to Private Sector (% of Cust. Deposits)	94.9	87.3	92.3		
Foreign Currency Loans (% of Total Loans)	32.6	32.5	36.9		
External Accounts					
Merchandise exports (USD million)	253,352	250,999	257,507	264,682	274,535
Merchandise imports (USD million)	342,938	337,279	313,765	333,238	354,905
Trade balance (USD million)	-89,586	-86,280	-56,258	68,556	80,370
Trade balance (% of GDP)	-9.9	-7.7	-4.3	-4.3	-4.6
Current account balance (USD million)	-46,283	-39,877	-9,973	-19,769	-28,910
Current account balance (% of GDP)	-5.1	-3.6	-0.8	-1.2	-1.7
Net FDI (USD million)	8,850	4,694	4,661	6,992	8,739
Net FDI (% of GDP)	1.0	0.4	0.4	0.4	0.5
International reserves (USD million)	128,736	140,951	155,156	167,500	180,000
International reserves (Months ^a)	3.3	5.0	6.3	5.7	6.1
Public Finance					
Primary balance (% of GDP)	1.1	-2.6	-1.9	-0.7	-0.2
Fiscal balance (% of GDP)	-0.9	-5.2	-4.9	-3.6	-3.0
Gross public debt (% of GDP)	30.8	29.3	26.0	26.3	26.3
External Debt					
Gross external debt (USD million)	456,728	499,898	530,000	542,500	552,500
Gross external debt (% of GDP)	50.4	44.8	40.1	34.3	31.7
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	25.5
Financial Markets					
Policy rate (Effective funding rate, % eop)	9.0	42.5	47.5	30.0	17.0
Policy rate (Effective funding rate, % aop)	12.6	20.7	49.0	36.0	22.2
10-Y T-bill rate (% eop)	9.9	23.7	27.2	23.0	18.0
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

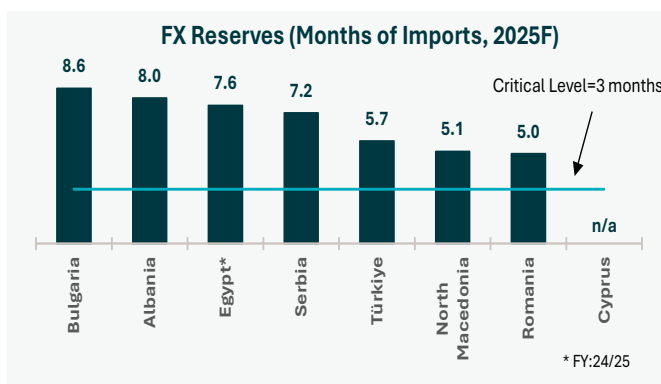
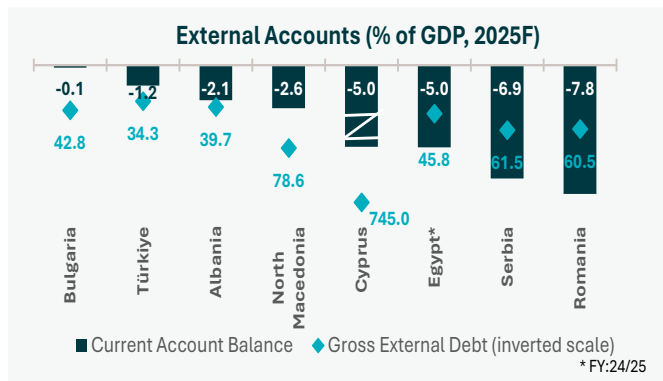
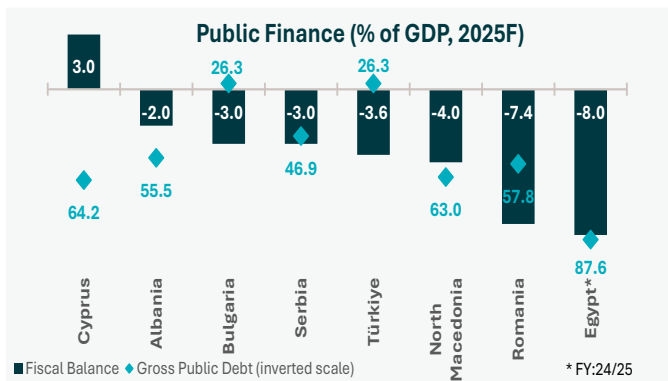
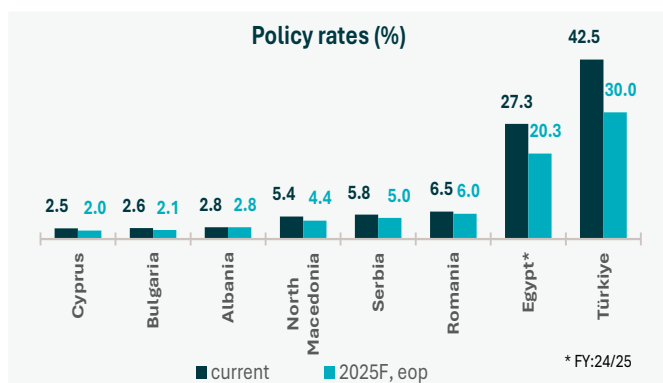
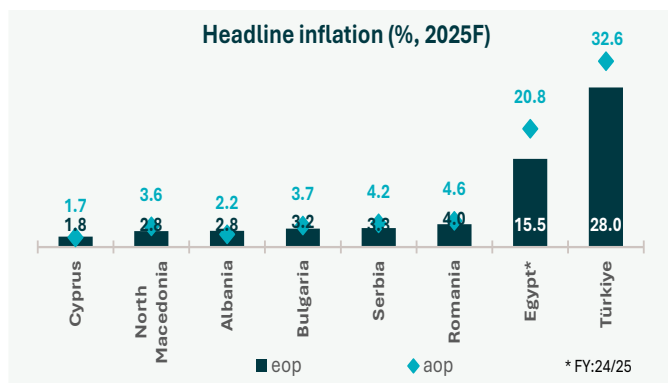
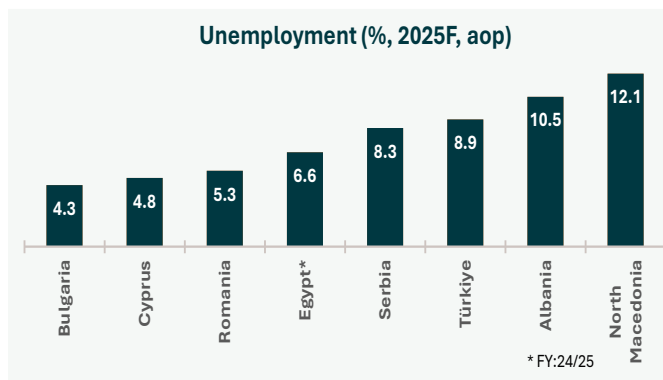
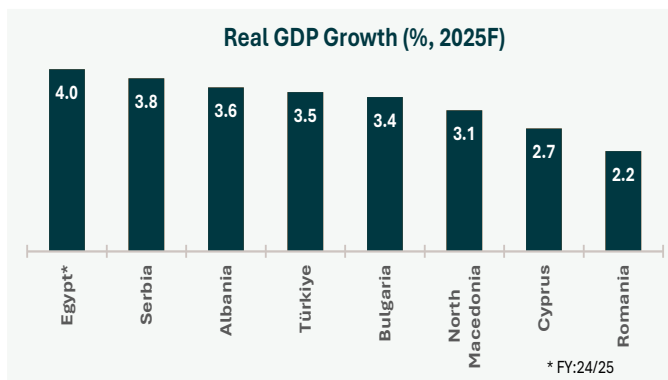
NORTH MACEDONIA					
	2022	2023	2024	2025f	2026f
Real Sector					
Nominal GDP (EUR million)	13,263	14,595	15,437	16,487	17,436
GDP per capita (EUR)	7,240	7,967	8,426	9,109	9,757
GDP growth (real, %)	2.8	2.1	2.8	3.1	3.2
Unemployment rate (% aop)	14.4	13.1	12.4	12.1	11.8
Prices and Banking					
Inflation (% eop)	18.7	3.6	4.2	2.8	2.4
Inflation (% aop)	14.0	9.5	3.5	3.6	2.6
Loans to the Private Sector (% change, eop)	8.8	5.2	10.5		
Customer Deposits (% change, eop)	5.1	9.5	12.3		
Loans to the Private Sector (% of GDP)	51.1	48.8	51.1		
Retail Loans (% of GDP)	26.0	25.2	26.0		
Corporate Loans (% of GDP)	24.9	23.5	24.9		
Customer Deposits (% of GDP)	57.1	56.8	60.4		
Loans to Private Sector (% of Deposits)	89.5	85.9	84.5		
Foreign Currency Loans (% of Total Loans)	42.6	42.0	38.8		
External Accounts					
Merchandise exports (EUR million)	7,321	7,236	6,725	7,003	7,313
Merchandise imports (EUR million)	10,802	9,871	9,829	10,330	10,889
Trade balance (EUR million)	-3,482	-2,634	-3,103	-3,327	3,576
Trade balance (% of GDP)	-26.3	-18.0	-20.1	-20.2	-20.5
Current account balance (EUR million)	-0,801	-0,056	-0,355	-0,430	-0,478
Current account balance (% of GDP)	-6.0	0.4	-2.3	-2.6	-2.7
Net FDI (EUR million)	0,654	0,488	1,088	0,898	0,943
Net FDI (% of GDP)	4.9	3.3	7.0	5.4	5.4
International reserves (EUR million)	3,863	4,538	5,019	5,269	5,519
International reserves (Months ^a)	3.7	4.6	5.2	5.1	5.0
Public Finance					
Primary balance (% of GDP)	-3.2	-3.2	-2.6	-2.1	-1.6
Fiscal balance (% of GDP)	-4.3	-4.6	-4.4	-4.0	-3.4
Gross public debt ^b (% of GDP)	57.6	57.6	61.9	63.0	63.7
External Debt					
Gross external debt (EUR million)	10,790	11,356	12,411	12,959	13,426
Gross external debt (% of GDP)	81.4	77.8	80.4	78.6	77.0
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	39.0	42.9	44.6
Financial Markets					
28-d CB bill rate (% eop)	4.8	6.3	5.6	4.4	3.9
28-d CB bill rate (% aop)	2.5	5.8	6.1	5.0	4.1
1-Y T-bill rate ^c (% 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
Real Sector					
Nominal GDP (EUR million)	29,416	31,340	33,414	34,897	36,676
GDP per capita (EUR)	31,313	32,723	34,338	35,506	36,983
GDP growth (real, %)	7.4	2.6	3.4	2.7	3.1
Unemployment rate (% aop)	6.2	5.8	4.9	4.8	4.8
Prices and Banking					
Inflation (% eop)	7.9	1.6	2.6	1.8	1.9
Inflation (% aop)	8.4	3.6	1.8	1.7	1.9
Loans to the Private Sector (% change, eop)	-12.1	-5.0	2.4		
Customer Deposits (% change, eop)	2.9	-0.6	5.8		
Loans to the Private Sector (% of GDP)	82.0	73.1	70.2		
Retail Loans (% of GDP)	39.0	35.6	33.5		
Corporate Loans (% of GDP)	43.0	37.5	36.7		
Customer Deposits (% of GDP)	151.8	141.7	140.5		
Loans to Private Sector (% of Deposits)	54.0	51.6	50.0		
Foreign Currency Loans (% of Total Loans)	---	---	---		
External Accounts					
Merchandise exports (EUR million)	5,027	4,340	4,373	4,452	4,546
Merchandise imports (EUR million)	10,802	11,545	10,683	11,226	11,807
Trade balance (EUR million)	-5,775	-7,204	-6,309	-6,774	-7,261
Trade balance (% of GDP)	-19.6	-23.0	-18.9	-19.4	-19.8
Current account balance (EUR million)	-1,584	-2,966	-1,555	-1,732	-1,921
Current account balance (% of GDP)	-5.4	-9.5	-4.7	-5.0	-5.2
Net FDI (EUR million)	7,978	6,568	5,583	6,420	7,062
Net FDI (% of GDP)	27.1	21.0	16.7	18.4	19.3
International reserves (EUR million)	---	---	---	---	---
International reserves (Months ^a)	---	---	---	---	---
Public Finance					
Primary balance ^b (% of GDP)	4.0	3.3	5.8	4.4	4.2
Fiscal balance ^b (% of GDP)	2.6	2.0	4.5	3.0	2.8
Gross public debt (% of GDP)	80.8	73.5	69.3	64.2	58.1
External Debt					
Gross external debt (EUR million)	258,424	259,577	261,477	259,577	258,477
Gross external debt (% of GDP)	878.5	828.3	782.4	745.0	704.8
External debt service (EUR million)	---	---	---	---	---
External debt service (% of reserves)	---	---	---	---	---
External debt service (% of exports)	---	---	---	---	---
Financial Markets					
Policy rate (ECB deposit facility rate, % eop)	2.0	4.0	3.0	2.0	2.0
Policy rate (ECB deposit facility rate, % aop)	0.1	3.3	3.7	2.2	2.0
10-Y T-bill rate (% eop)	4.2	3.2	3.0	3.0	3.0
Exchange rate: USD (eop)	1.070	1.104	1.035	1.050	1.070
Exchange rate: USD (aop)	1.053	1.081	1.082	1.040	1.060

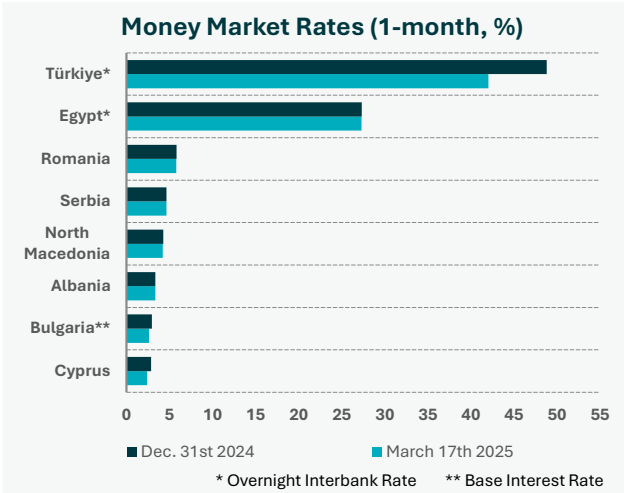
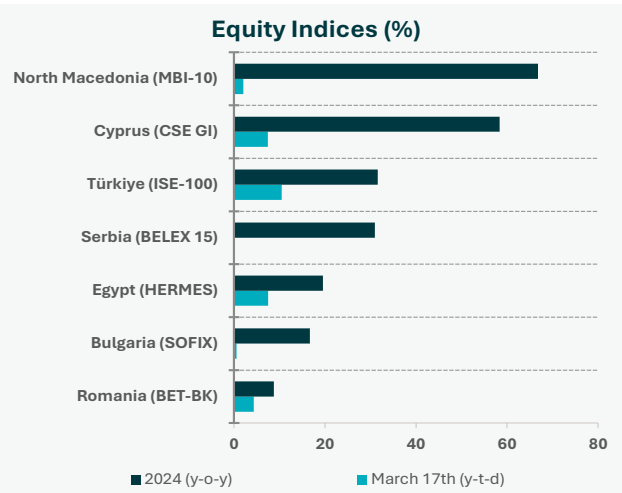
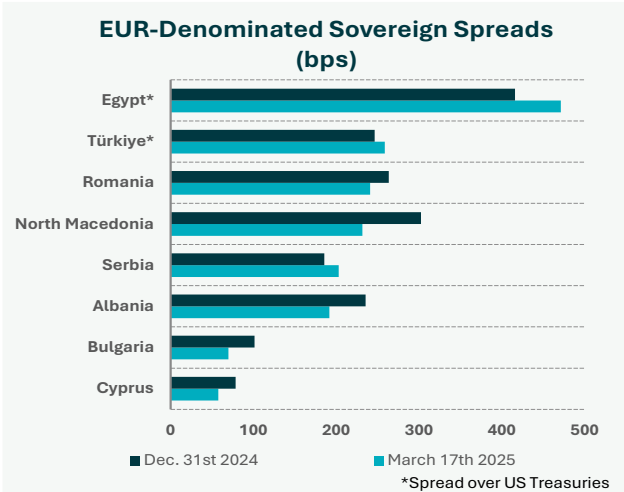
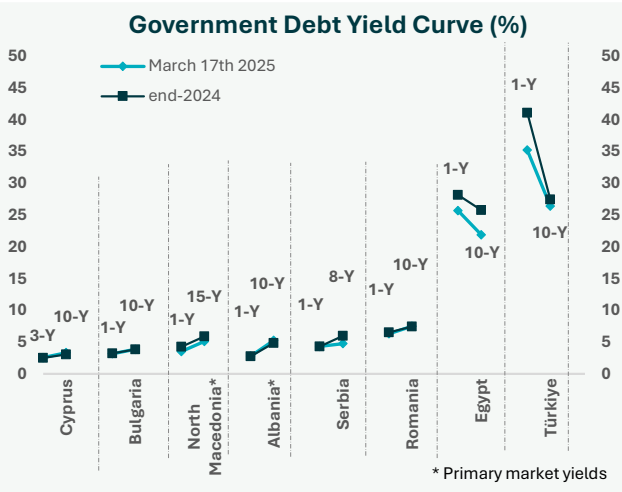
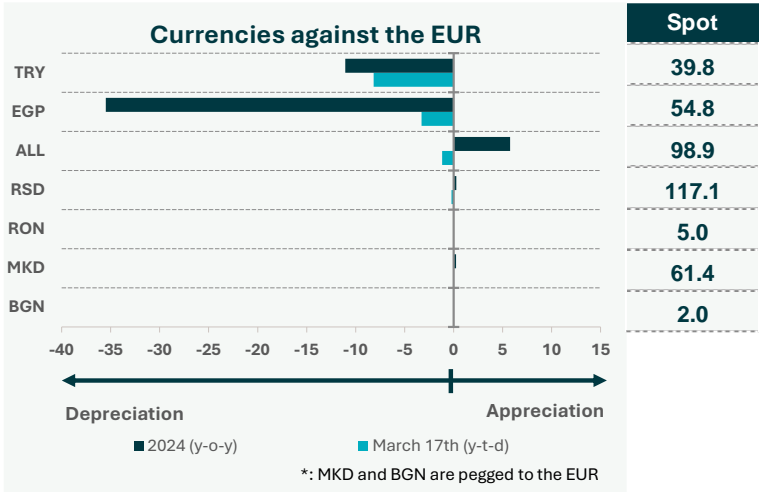
f: NBG forecasts; a: months of imports of GNFS; b: cash basis

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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