



Economic Analysis Division Emerging Markets Analysis

Bi-Weekly Report 22 June - 5 July 2021



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Emerging Markets Analysis

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ROMANIA 1

Economic activity maintained strong momentum in Q1:21, virtually returning to pre-pandemic levels

Private consumption is set to drive economic recovery during the remainder of the year

ALBANIA 2

Impeachment proceedings against the President move ahead, heightening political tensions

GDP rebounded strongly in Q1:21 (up 5.5% y-o-y and 2.1% q-o-q s.a.), following a spike in energy production

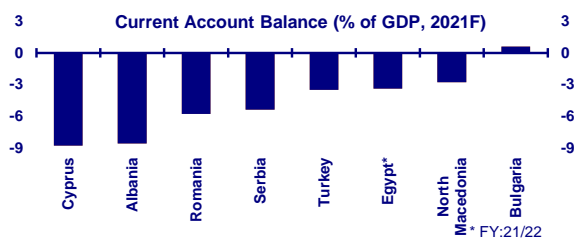
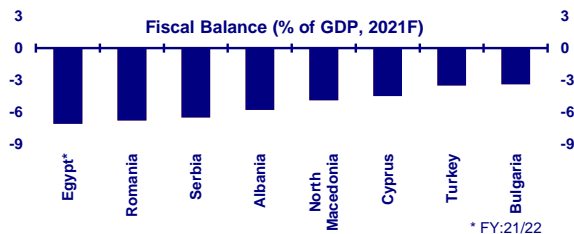
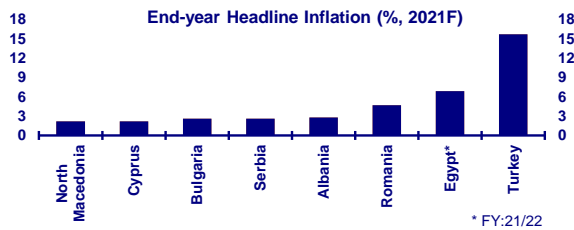
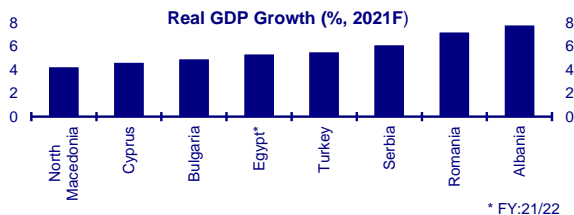
Post-earthquake reconstruction activity, together with positive COVID-19-related base effects, should boost full-year GDP growth close to 8.0%

CYPRUS 3

Economic recovery continued at a fast pace in Q1:21, on stronger exports of non-tourism services

Following the re-opening of the economy and the return of tourism, economic recovery is set to gain momentum in the remainder of the year, bringing full-year growth to 4.6%, broadly in line with the euro area average

APPENDIX: MACROECONOMIC & FINANCIAL INDICATORS 4



Sources: National authorities & NBG estimates



Romania

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

Economic activity maintained strong momentum in Q1:21, virtually returning to pre-pandemic levels. Despite headwinds from COVID-19, private consumption emerged as the main growth driver in Q1:21 (see chart), reflecting improved confidence, in the wake of the launch of a mass vaccination campaign, better adaptation to restrictions as well as solid wage growth, following, *inter alia*, the extension of the temporary income support schemes. At the same time, investment activity remained resilient, adding (modestly) to economic growth, with the public sector once again providing a critical contribution. Unsurprisingly, net exports deteriorated sharply in Q1:21, in line with stronger domestic demand. Overall, the pace of GDP contraction eased to just 0.2% y-o-y (up 2.8% q-o-q s.a.) from -1.4% (up 4.6% q-o-q s.a.), beating market expectations (down 1.8% y-o-y) and virtually bringing the economy back to its pre-pandemic size, at least one quarter earlier than expected.

Private consumption is set to drive economic recovery during the remainder of the year. The drop in COVID-19 infections, along with growing vaccination coverage, enabled the authorities to gradually lift restrictions as of end-Q2:21. Against this backdrop, we expect economic activity to continue to expand at a solid pace, driven by domestic demand, especially private consumption. Indeed, despite the jump in inflation, the latter should benefit from the release of pent-up demand and a further improvement in confidence. Note that recovery in the labour market is expected to be slow, lagging behind that of the broader economy, with wage growth, however, remaining solid, yet clearly lower than the double-digit rates seen in previous years.

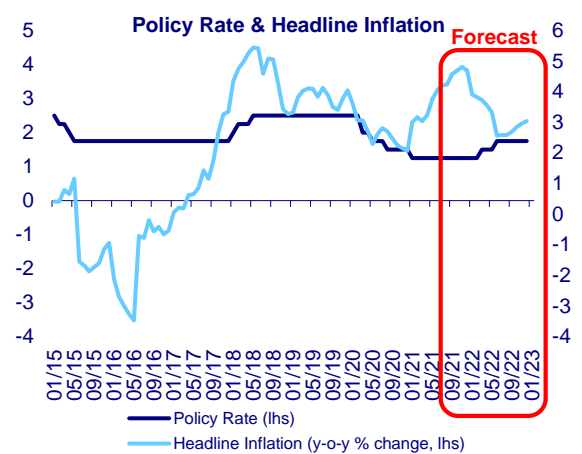
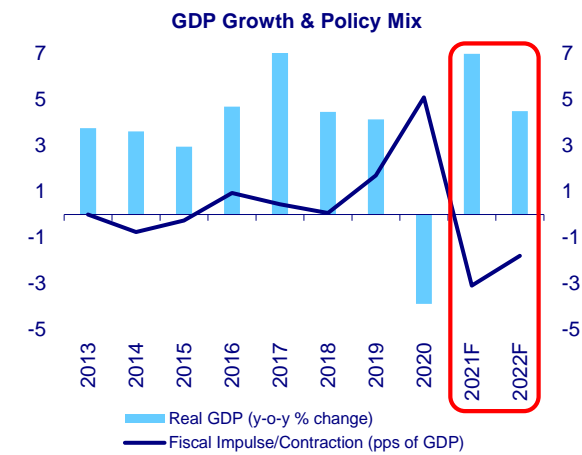
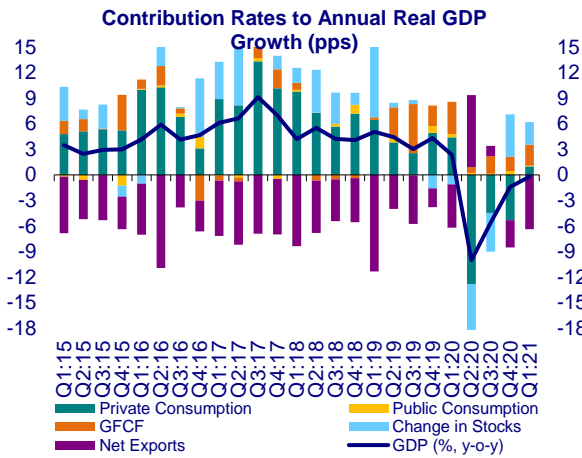
Fixed investment should also pick up, driven by higher EU-backed capital spending, especially towards end-year. Note that Romania is eligible to receive funds worth c. 35.0% of FY:19 GDP under the NGEU and the MFF schemes in 2021-27, with the country's historical low EU funds absorption rate posing, however, serious challenges in this regard. The return of manufacturing capacity utilisation rate to its pre-pandemic level (c. 75.0%) also bodes well for a rebound in investment activity.

Despite the recovery in the EU, Romania's main trade partner (accounting for 75% of its exports), net exports will remain a drag on overall growth, as reviving domestic demands feeds into imports (the latter account for 112% of GDP as compared with 62% for exports).

Importantly, despite the apparent need for fiscal consolidation (recall that the FY:20 budget deficit widened to 9.7% of GDP, reflecting, *inter alia*, a weak starting position), the latter is set proceed at a measured pace (with the budget deficit projected to narrow modestly to 6.8% of GDP in FY:21), so as not to jeopardize economic recovery.

At the same time, monetary conditions are set to remain accommodative. Recall that the NBR has responded to the COVID-19 shock with a 125 bp cut in its key rate to a low of 1.25% (currently equivalent to -2.4% in real *ex-post* terms). Despite the increasingly challenging backdrop, reflecting a ballooning current account deficit, on the one hand, and the upward shift in the inflation outlook, on the other hand, we believe that marked interest rate differential between Romania and its peers (35-115 bps) should allow the NBR to delay any tightening at least until 2022.

All said, we see GDP growth rebounding to 7.2% in FY:21. Note that the latter reflects, in a large part, the sizeable carry-over from Q4:20 (2.8 pps) and Q1:21 (2.9 pps). For FY:22, amid further unwinding of fiscal and monetary stimuli, we project GDP growth to normalise to 4.6%, still above its long-term potential rate (of c. 3.0%), with domestic demand partially rebalancing towards investment. The uncertainty over the evolution of COVID-19 poses downside risks to this outlook.



	5 July	3-M F	6-M F	12-M F
1-m ROBOR (%)	1.5	1.5	1.6	1.8
RON/EUR	4.93	4.93	4.94	4.96
Sov. Spread (2024, bps)	74	76	80	90

	5 July	1-W %	YTD %	2-Y %
BET-BK	2,332	0.6	24.9	37.8

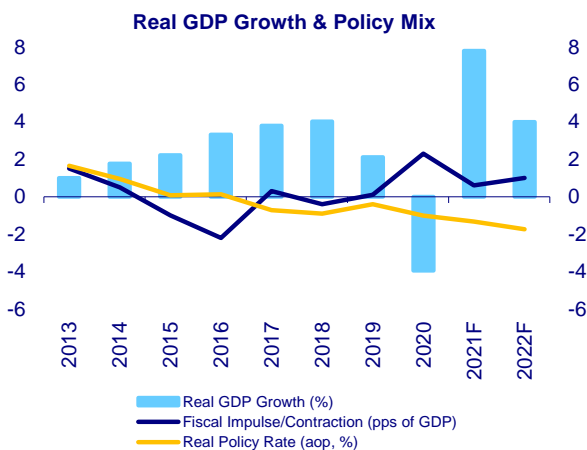
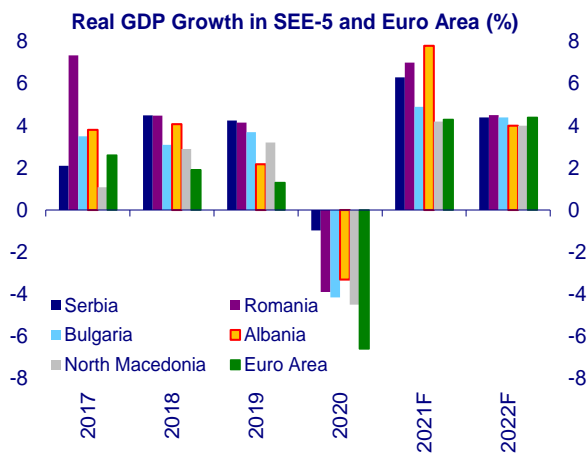
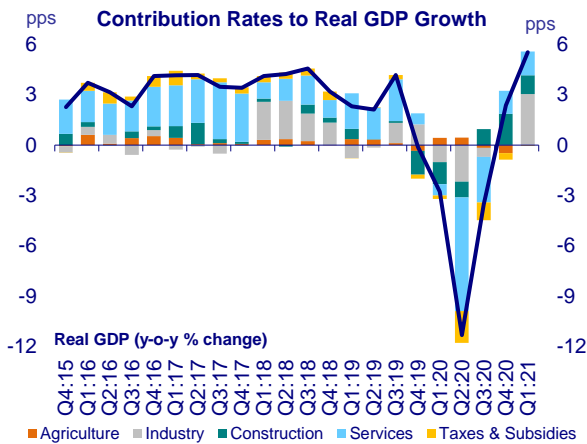
	2018	2019	2020	2021F	2022F
Real GDP Growth (%)	4.5	4.1	-3.9	7.2	4.6
Inflation (eop, %)	3.3	4.0	2.1	4.7	3.0
Cur. Acct. Bal. (% GDP)	-4.6	-4.9	-5.2	-5.8	-5.3
Fiscal Bal. (% GDP)	-2.9	-4.6	-9.7	-6.8	-5.0

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



Albania

B+ / B1 / NR (S&P / Moody's / Fitch)



	5 July	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.0	1.0	1.1	1.3
ALL/EUR	122.4	123.0	123.5	124.0
Sov. Spread (bps)	260	275	265	245

Stock Market	5 July	1-W %	YTD %	2-Y %
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	2018	2019	2020	2021F	2022F
Real GDP Growth (%)	4.0	2.1	-4.0	7.8	4.0
Inflation (eop, %)	1.8	1.1	1.1	2.8	2.5
Cur. Acct. Bal. (% GDP)	-6.7	-7.9	-8.8	-8.5	-7.7
Fiscal Bal. (% GDP)	-1.6	-1.9	-6.8	-5.6	-3.0

Sources: Reuters, InStat & NBG estimates

Impeachment proceedings against the President move ahead, heightening political tensions. The ruling Socialist Party (SP), which was re-elected in the April parliamentary elections, managed to secure the $\frac{2}{3}$ ^{ds} majority required for President's I. Meta dismissal -- a year before the end of his term -- on the grounds of having breached the Constitution, by making anti-Government statements prior to the April election. The Constitutional Court has the final say on the issue, with its rule expected by mid-September. Note that this is the SP's second attempt to dismiss Meta -- long at loggerheads with PM E. Rama. All said, the deepening rift between the Government and the President could slow the pace of reform implementation, with the President having already blocked the adoption of several laws.

GDP rebounded strongly in Q1:21 (up 5.5% y-o-y and 2.1% q-o-q s.a.), following a spike in energy production. GDP expanded by a robust 5.5% y-o-y in Q1:21 -- by far the highest in SEE-5 -- following a rise of 3.3% in Q4:20, bringing the economy back to the record high levels seen before the twin shocks of the pandemic and the end-2019 devastating earthquake. All sectors registered positive growth rates, with industrial sector emerging as the main driver. The latter expanded at a strong pace in Q1:21 (adding 3.0 pps to overall growth against virtually nil in Q4:20), driven by the surge in electricity generation (estimated to have contributed c. 2.0 pps to GDP growth in Q1:21), on the back of abundant rainfalls (note that Albania's energy system is fully based on hydroelectric production). Importantly, (non-energy) industrial output also picked up in Q1:21 (contributing another 0.7 pps to overall GDP growth in Q1:21 following 0.3 pps in Q4:20), on the back of a rebound in (non-energy) exports, especially textiles and footwear (accounting for 35% of GNFS exports), as well as construction materials.

Post-earthquake reconstruction activity, together with positive COVID-19-related base effects, should boost full-year GDP growth close to 8.0%. We expect economic activity to gain pace in Q2-Q4:21, with the services sector turning into the main engine of growth. Indeed, following the launch of vaccinations and the gradual lifting of restrictions, consumption is set to strengthen in the period ahead, underpinned by a loose incomes policy and higher inflow of remittances (including income from seasonal employees, whose movement was restricted during the pandemic). The envisaged rebound in tourism activity should also help to this end. At the same time, industrial output is set to maintain momentum, thanks, not only to robust electricity production, but also to a rebound in non-energy external demand, in line with the recovery in Albania's main trade partners. A critical contribution to economic growth should come from the construction sector, which is set to continue to expand at a strong pace, reflecting post-earthquake reconstruction needs and the completion of several ongoing large infrastructure projects (airports and roads).

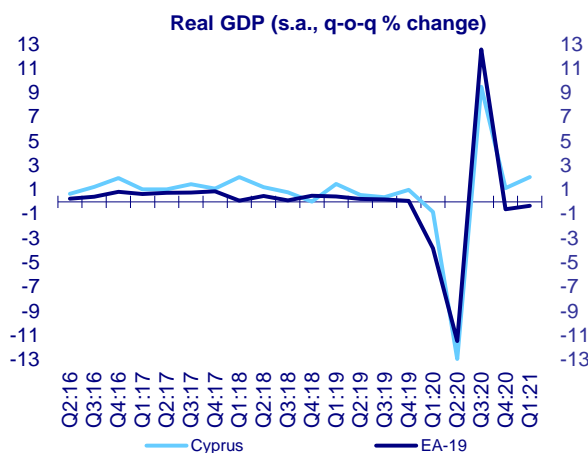
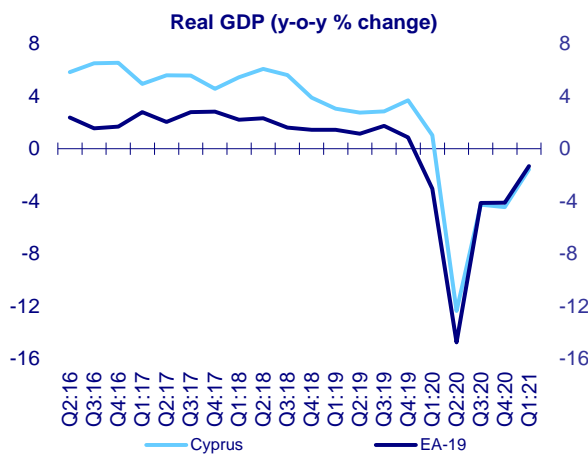
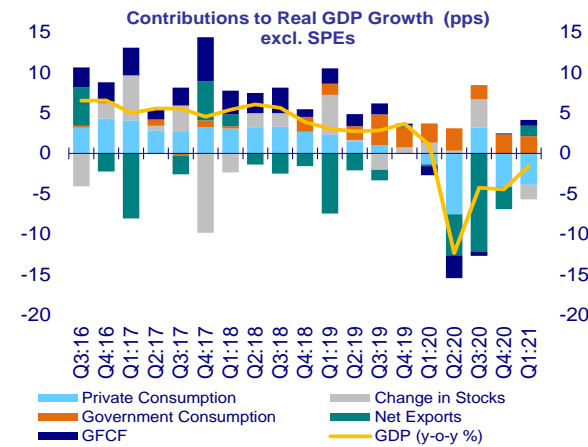
The policy mix should continue to support growth this year (see chart). Indeed, the budget deficit is set to narrow only very slightly in FY:21 (by 0.8 pps to a still high 5.6% of GDP). At the same time, monetary conditions are set to remain accommodative, with the BoA keeping its policy rate at historical lows, while concentrating its efforts on stimulating credit activity.

All said, we see GDP rebounding by an eye-catching 7.8% in FY:21 -- the highest in SEE-5. As the impact from the recovery from the twin shocks tapers off, and following the gradual shift to a tighter fiscal policy, the pace of economic expansion is set to moderate to a still robust 4.0% in FY:22 -- converging to its long-term potential (of 3.5%). Importantly, despite delays in the formal launch of EU accession talks (note that the latter was once again put on hold in June European Council), EU accession prospects provide an important policy anchor.



Cyprus

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



Economic recovery continued at a fast pace in Q1:21, on stronger exports of non-tourism services. On a sequential basis, GDP rebounded strongly in Q1:21 (up 2.0% q-o-q s.a. following an increase of 1.1% in Q4:20), outperforming the euro area (down 0.3% q-o-q s.a.). As a result, GDP reached 97.5% of its pre-COVID level in Q1:21 (comparing favourably with the euro area average of 94.9%).

On an annual basis, real GDP contraction was contained to just 1.6% y-o-y in Q1:21 from 4.5% in Q4:20. The main driver behind this improvement was the rebound in external demand for (non-tourism) services -- especially financial, transport (shipping) and business related (especially ICT) services. As a result, following three negative readings, net exports' (excluding SPEs) contribution to overall growth turned positive in Q1:21 (see chart). Supporting economic recovery, fixed investment (excluding SPEs) also gained traction in Q1:21, following the resumption in construction activity (including marinas, tourist accommodation and energy efficiency upgrades for buildings). Importantly, although it continued to decline, following a renewed lockdown in January, private consumption's drag on overall growth improved slightly in Q1:21, underpinned, *inter alia*, by the extension into H1:21 of employment support schemes and improved confidence.

Following the re-opening of the economy and the return of tourism, economic recovery is set to gain momentum in the remainder of the year, bringing full-year growth to 4.6%, broadly in line with the euro area average. We expect private consumption to grow strongly in Q2-Q4:21, reflecting: i) increased spending options, in the wake of the gradual lift of restrictions; ii) a dissipation in uncertainty, underpinned by the fast vaccine rollout -- comparing favourably with most EU countries; iii) strong pent-up demand, supported by a built-up of deposits; and iv) the substantial positive spill-overs from the envisaged rebound in activity in the tourism and related sectors (wholesale and retail trade, restaurants, transportation) -- together accounting for 22% of FY:19 GDP. Note, though, that the phasing-out of the employment schemes and the expiry of the loan repayment moratorium (both due in mid-2021) pose downside risks. Public consumption is also set to provide support to economic growth during the remainder of the year, albeit to a slightly smaller extent than in FY:20, reflecting the phasing-out of the crisis-era cuts in public sector wages and the impact of the reform of the NHIS.

Fixed investment should gain further steam during the remainder of the year, driven by higher EU-backed public capital spending. At the same time, private investment will continue to benefit from accommodative financing conditions (which are supplemented by several loan guarantee schemes). Note, however, that the abolition of the "Golden Visa" scheme bodes ill for high-end residential construction activity.

Net exports are due to weaken over the next quarters, as stronger domestic demand will feed into imports. Yet, their contribution to overall growth should be much higher than during the COVID-19 crisis, reflecting: i) increased financial, shipping and business exports; and ii) the gradual recovery in tourist inflows (up 65% in FY:21 to just 25% of their pre-COVID-19 level, with full recovery not expected before 2024).

All said, we see GDP growth rebounding to 4.6% in FY:21, before moderating to 3.8% in FY:22, still above its long-term potential (of 2.0%). Risks to our forecasts are tilted to the downside, however, reflecting the uncertainty over the evolution of COVID-19 (with new infections in Cyprus having seen a significant increase as of end-June).

Note that President Anastasiades' efforts to get majority backing in Parliament and the recent cabinet reshuffle made to this end were derailed by the opposition's unwillingness to support DISY's minority Government. Yet, with all parties reiterating their commitment to support reforms related to the country's Recovery plan, we see limited risk for the political factor to be brought into play in the period ahead.

	5 July	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.55	-0.55	-0.53	-0.50
EUR/USD	1.19	1.18	1.18	1.20
Sov. Spread (2025. bps)	40	45	50	65

	5 July	1-W %	YTD %	2-Y %
CSE Index	65	-1.5	14.8	-10.6

	2018	2019	2020	2021F	2022F
Real GDP Growth (%)	5.2	3.1	-5.1	4.6	3.8
Inflation (eop. %)	1.7	0.7	-1.1	2.2	1.5
Cur. Acct. Bal. (% GDP)	-3.9	-6.3	-11.9	-8.8	-6.6
Fiscal Bal. (% GDP)	-3.5	1.5	-5.7	-4.5	-2.2

Sources: Reuters, CYSTAT & NBG estimates



ROMANIA					
	2018	2019	2020	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	204,633	223,104	218,306	239,432	256,255
GDP per capita (EUR)	10,477	11,497	11,251	12,341	13,208
GDP growth (real, %)	4.5	4.1	-3.9	7.0	4.5
Unemployment rate(ILO definition, %, aop)	4.2	3.9	5.0	5.5	5.0
Prices and Banking					
Inflation (% eop)	3.3	4.0	2.1	4.7	3.0
Inflation (% aop)	4.6	3.8	2.6	4.0	3.1
Loans to the Private Sector (% change, eop)	7.9	8.4	8.4		
Customer Deposits (% change, eop)	9.2	10.2	10.2		
Loans to the Private Sector (% of GDP)	25.6	25.9	25.9		
Retail Loans (% of GDP)	14.0	14.1	14.1		
Corporate Loans (% of GDP)	11.6	11.8	11.8		
Customer Deposits (% of GDP)	32.7	33.0	33.0		
Loans to Private Sector (% of Deposits)	78.4	78.4	78.4		
Foreign Currency Loans (% of Total Loans)	33.7	34.4	34.4		
External Accounts					
Merchandise exports (EUR million)	61,820	63,062	57,551	60,902	64,159
Merchandise imports (EUR million)	77,160	80,918	76,717	82,579	86,275
Trade balance (EUR million)	-15,340	-17,856	-19,166	-21,677	-22,115
Trade balance (% of GDP)	-7.5	-8.0	-8.8	-9.1	-8.6
Current account balance (EUR million)	-9,495	-10,913	-11,421	-13,789	-13,481
Current account balance (% of GDP)	-4.6	-4.9	-5.2	-5.8	-5.3
Net FDI (EUR million)	4,944	4,848	1,856	2,784	3,480
Net FDI (% of GDP)	2.4	2.2	0.9	1.2	1.4
International reserves (EUR million)	33,065	32,926	38,527	38,822	39,671
International reserves (Months ^a)	4.3	4.0	5.1	4.7	4.6
Public Finance					
Primary balance (% of GDP)	-1.5	-3.4	-8.3	-5.3	-3.5
Fiscal balance (% of GDP)	-2.9	-4.6	-9.7	-6.8	-5.0
Gross public debt ^b (% of GDP)	34.6	35.0	47.0	50.0	52.2
External Debt					
Gross external debt (EUR million)	99,841	109,783	125,927	132,885	139,659
Gross external debt (% of GDP)	48.8	49.2	57.7	55.5	54.5
External debt service (EUR million)	19,132	17,442	16,372	16,600	17,200
External debt service (% of reserves)	57.9	53.0	42.5	42.8	43.4
External debt service (% of exports)	22.3	19.4	20.1	19.2	18.7
Financial Markets					
Policy rate (1-w repo rate, %, eop)	2.5	2.5	1.5	1.3	1.8
Policy rate (1-w repo rate, %, aop)	2.4	2.5	1.8	1.3	1.5
10-Y Bond Yield (% eop)	4.8	4.5	3.1	3.4	3.8
Exchange rate: EUR (eop)	4,652	4,786	4,863	4,935	4,970
Exchange rate: EUR (aop)	4,651	4,743	4,835	4,915	4,953

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



ALBANIA					
	2018	2019	2020	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	12,857	13,785	13,104	14,349	15,126
GDP per capita (EUR)	4,486	4,803	4,574	5,015	5,296
GDP growth (real, %)	4.0	2.1	-4.0	7.8	4.0
Unemployment rate (% aop)	12.3	11.6	11.7	12.2	11.6
Prices and Banking					
Inflation (% eop)	1.8	1.1	1.1	2.8	2.5
Inflation (% aop)	2.0	1.4	1.6	1.8	2.5
Loans to the Private Sector (% change, eop)	-1.0	6.1	8.9		
Customer Deposits (% change, eop)	-1.0	3.2	8.0		
Loans to the Private Sector (% of GDP)	30.7	31.5	35.9		
Retail Loans (% of GDP)	11.3	11.7	13.0		
Corporate Loans (% of GDP)	19.4	19.8	22.8		
Customer Deposits (% of GDP)	58.6	58.9	66.5		
Loans to Private Sector (% of Deposits)	52.3	53.4	53.9		
Foreign Currency Loans (% of Total Loans)	50.8	49.0	48.1		
External Accounts					
Merchandise exports (EUR million)	0,986	0,907	0,794	0,865	0,930
Merchandise imports (EUR million)	3,857	4,050	3,776	4,116	4,289
Trade balance (EUR million)	-2,871	-3,144	-2,982	-3,251	-3,359
Trade balance (% of GDP)	-22.3	-22.8	-22.8	-22.7	-22.2
Current account balance (EUR million)	-0,866	-1,089	-1,156	-1,223	-1,171
Current account balance (% of GDP)	-6.7	-7.9	-8.8	-8.5	-7.7
Net FDI (EUR million)	1,022	1,036	0,892	0,959	1,055
Net FDI (% of GDP)	8.0	7.5	6.8	6.7	7.0
International reserves (EUR million)	3,399	3,360	3,942	4,068	4,252
International reserves (Months ^a)	7.0	6.5	9.6	8.8	8.8
Public Finance					
Primary balance (% of GDP)	0.6	0.2	-4.7	-3.6	-1.0
Fiscal balance (% of GDP)	-1.6	-1.9	-6.8	-5.6	-3.0
Gross public debt (% of GDP)	67.7	65.8	75.7	76.8	75.6
External Debt					
Gross external debt (EUR million)	8,353	8,246	8,554	8,904	9,104
Gross external debt (% of GDP)	65.0	59.8	65.3	62.1	60.2
External debt service (EUR million)	0,386	0,221	0,517	0,306	0,328
External debt service (% of reserves)	11.3	6.6	13.1	7.5	7.7
External debt service (% of exports)	9.5	5.0	13.3	7.2	7.2
Financial Markets					
Policy rate (1-week repo rate, % eop)	1.0	1.0	0.5	0.5	1.0
Policy rate (1-week repo rate, % aop)	1.1	1.0	0.6	0.5	0.8
1-Y T-bill rate ^b (% eop)	1.5	1.8	1.8	2.0	2.5
Exchange rate: EUR (eop)	123.3	121.6	123.4	123.5	124.5
Exchange rate: EUR (aop)	127.3	122.7	123.4	123.1	124.0

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



CYPRUS					
	2018	2019	2020	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	21,433	22,287	20,841	22,105	23,312
GDP per capita (EUR)	24.806	25.442	23.552	24.670	25.730
GDP growth (real, %)	5.2	3.1	-5.1	4.6	3.8
Unemployment rate (% aop)	8.4	7.1	7.6	7.7	7.1
Prices and Banking					
Inflation (% eop)	1.7	0.7	-1.1	2.2	1.5
Inflation (% aop)	1.4	0.3	-0.6	1.4	1.6
Loans to the Private Sector (% change, eop)	-22.0	-7.4	-5.6		
Customer Deposits (% change, eop)	-1.9	0.0	-0.6		
Loans to the Private Sector (% of GDP)	154.3	137.4	138.7		
Retail Loans (% of GDP)	69.5	63.3	64.3		
Corporate Loans (% of GDP)	84.9	74.1	74.4		
Customer Deposits (% of GDP)	193.3	185.9	197.5		
Loans to Private Sector (% of Deposits)	79.8	73.9	70.2		
Foreign Currency Loans (% of Total Loans)	---	---	---		
External Accounts					
Merchandise exports (EUR million)	3,689	3,106	2,964	3,077	3,187
Merchandise imports (EUR million)	8,225	7,741	7,141	7,498	7,783
Trade balance (EUR million)	-4,537	-4,634	-4,177	-4,422	-4,596
Trade balance (% of GDP)	-21.2	-20.8	-20.0	-19.7	-19.5
Current account balance (EUR million)	-0,842	-1,406	-2,476	-1,952	-1,538
Current account balance (% of GDP)	-3.9	-6.3	-11.9	-8.8	-6.6
Net FDI (EUR million)	4,734	5,312	2,020	2,626	3,545
Net FDI (% of GDP)	22.1	23.8	9.7	11.9	15.2
International reserves (EUR million)	---	---	---	---	---
International reserves (Months ^a)	---	---	---	---	---
Public Finance					
Primary balance ^b (% of GDP)	-1.2	3.8	-3.6	-2.5	-0.1
Fiscal balance ^b (% of GDP)	-3.5	1.5	-5.7	-4.5	-2.2
Gross public debt (% of GDP)	99.2	94.0	118.2	112.4	105.8
External Debt					
Gross external debt (EUR million)	192,933	189,212	189,307	190,000	188,500
Gross external debt (% of GDP)	900.2	849.0	908.4	859.6	808.6
External debt service (EUR million)	---	---	---	---	---
External debt service (% of reserves)	---	---	---	---	---
External debt service (% of exports)	---	---	---	---	---
Financial Markets					
Policy rate (ECB refinancing rate, % eop)	0,0	0,0	0,0	0,0	0,0
Policy rate (ECB refinancing rate, % aop)	0,0	0,0	0,0	0,0	0,0
3-Y T-bill rate (% eop)	0,8	-0,1	-0,1	-0,1	0,2
Exchange rate: USD (eop)	1,147	1,121	1,221	1,180	1,210
Exchange rate: USD (aop)	1,181	1,119	1,142	1,193	1,195

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



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