



Economic Analysis Division Emerging Markets Analysis

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ROMANIA 1

The still robust annual GDP growth rate in Q3:21 masks weakening underlying momentum, as disruptions in global supply chains weigh on industrial activity and investment

GDP growth should remain fairly strong in FY:22, shifting to a more balanced composition, despite tightening policies

BULGARIA 2

Amid heightened uncertainty, GDP growth lost further steam in Q3:21, with economic activity having yet to reach its pre-COVID-19 levels

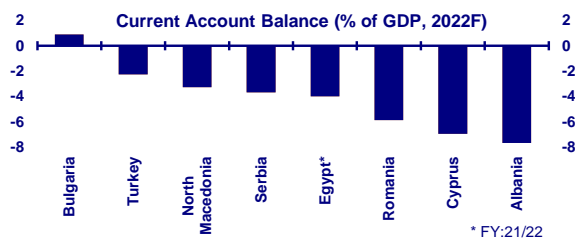
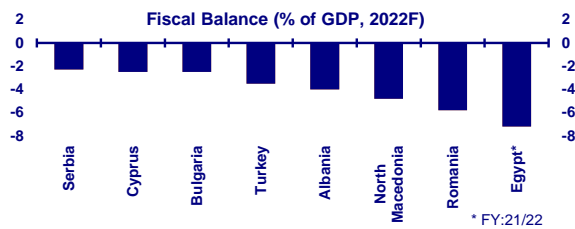
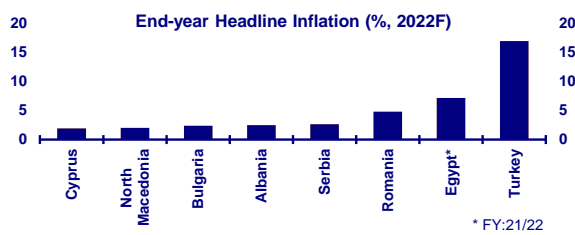
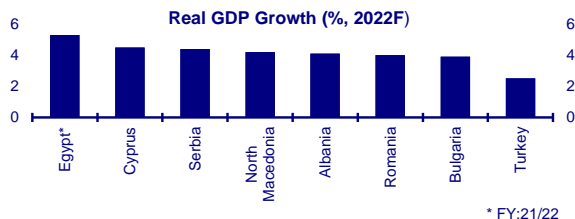
Economic growth is set to strengthen in 2022, buoyed by a surge in investments financed by EU's Recovery & Resilience Fund

CYPRUS 3

Real GDP expanded by a robust and stronger-than-expected 5.5% y-o-y (up 1.5% q-o-q s.a.) in Q3:21, underpinned by a tourism-driven surge in exports of services

GDP growth is expected to moderate to a still strong 4.5% in FY:22, remaining above its long-term potential (of 2.5%), with net exports driving economic expansion and domestic demand rebalancing towards EU (RRF)-funded investment

APPENDIX: MACROECONOMIC & FINANCIAL INDICATORS 4



Sources: National authorities & NBG estimates



Romania

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

The still robust annual GDP growth rate in Q3:21 masks weakening underlying momentum, as disruptions in global supply chains weigh on industrial activity and investment. Following the dissipation of COVID-19-induced base effects, GDP growth moderated to a still robust 7.4% y-o-y in Q3:21 from 13.9% in Q2:21. However, the picture turns less rosy when considering sequential growth, with GDP expanding by just 0.4% q-o-q s.a. in Q3:21 against increases of 1.5% in Q2:21 and 2.2% in Q1:21, pointing to a significant loss in momentum.

In terms of expenditure, the negative surprise came from fixed investment, which remained stagnant. Regarding the supply side, the main drivers behind this disappointing performance were the industrial and construction sectors, with the former clearly affected by the ongoing disruptions in global supply chains (especially of automotive parts). Note that economic performance would have been much worse had agricultural output not surged in Q3:21.

With Romania having been severely hit by a 4th COVID-19 wave, which peaked in mid-October, and disruptions in global supply chains persisting, we believe that Q4:21 is unlikely to have seen much of an improvement in terms of economic growth. All said, we see GDP growth at 6.4% in FY:21 against a decline of 3.9% in FY:20.

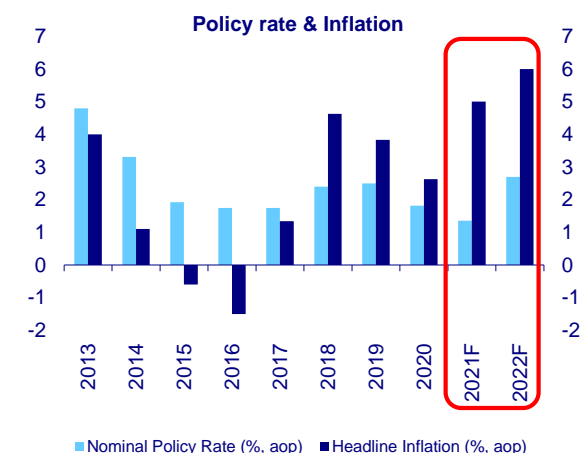
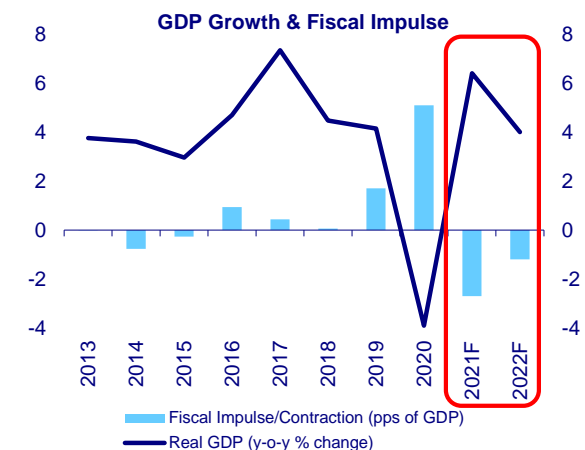
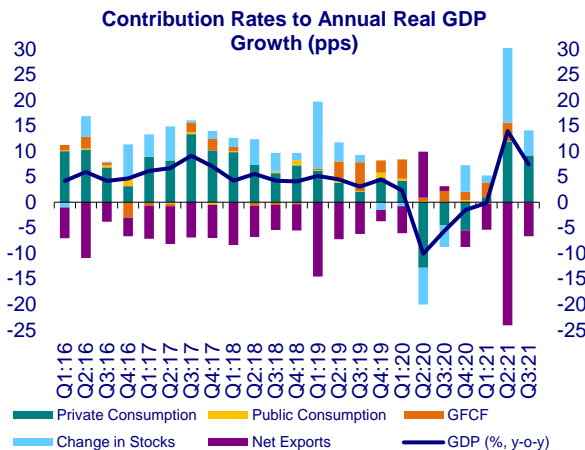
GDP growth should remain fairly strong in FY:22, shifting to a more balanced composition, despite tightening policies. Private consumption should remain the main growth driver next year, supported by increasing employment and solid wage growth, especially as soon as supply-side constraints ease. Still, its growth rate should moderate compared with the levels seen in the previous quarters, reflecting the fading tailwind from pent-up demand as well as the adverse impact of the ongoing energy-driven surge in inflation on disposable income (especially in H1:22).

At the same time, (private and public) fixed investment should gain momentum, driven by higher EU-backed capital spending. Note that Romania is eligible to receive grants and loans worth c. 13.5% of FY:19 GDP under the RFF in 2021-26, with the historical low EU funds absorption rate posing, however, challenges in this regard.

The envisaged normalization in global supply conditions should foster export growth, especially in second part of the year. Nevertheless, net exports would remain a large drag on overall growth, in view of the large import content of domestic demand (with the latter accounting for 125% of GDP as compared with 65% for exports).

On the downside, the policy mix should turn less supportive of growth in FY:22. Indeed, fiscal consolidation is set to continue next year, albeit at a relatively slower pace, with the budget deficit projected to narrow to 5.8% of GDP from 7.0% in FY:21. At the same time, monetary conditions are set to tighten significantly. Note that the NBR has already embarked on a tightening cycle (hiking its key rate by 50 bps to 1.75%) to address the widening external imbalances and the upward shift in the inflation outlook. In view, *inter alia*, of the widening negative interest rate differential between Romania and its peers, we see the NBR raising its key rate by an additional 100 bps to 2.75% by end-2022.

All said, with the bulk of positive base effects related to post-COVID-19 economic recovery having played out, we see GDP growth moderating to a still solid 4.0% in FY:22. On a positive note, the installation of a functioning Government, supported by the (otherwise arch rivals) PNL and PSD, should bring a certain degree of political stability in the period ahead. Nevertheless, political noise is unlikely to fully dissipate, given the parties' fundamental ideological differences. Importantly, the policy anchors provided by the RRF plan and the Excessive Deficit Procedure limit the risk of a serious disruption in policies.



	13 Dec.	3-M F	6-M F	12-M F
1-m ROBOR (%)	2.6	3.0	3.0	3.0
RON/EUR	4.95	4.96	4.98	5.00
Sov. Spread (2024, bps)	89	90	92	95

	13 Dec.	1-W %	YTD %	2-Y %
BET-BK	2,446	-0.5	31.0	31.2

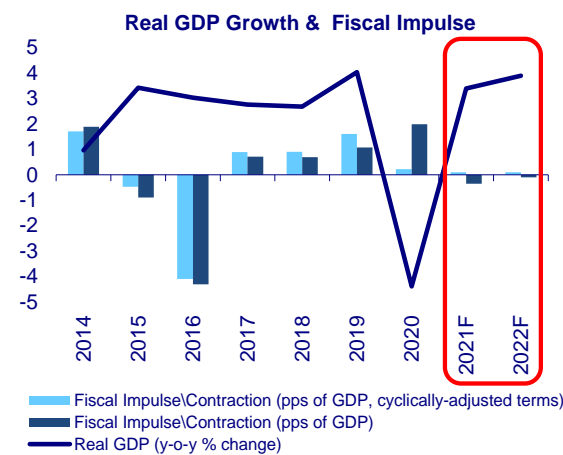
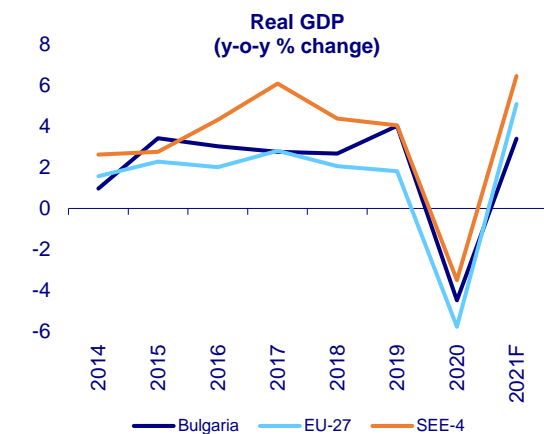
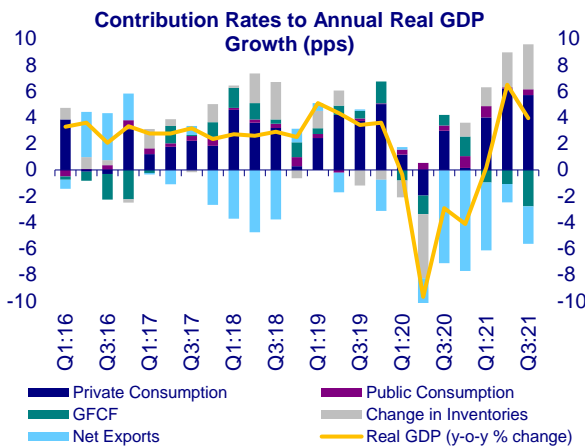
	2019	2020E	2021F	2022F	2023F
Real GDP Growth (%)	4.1	-3.9	6.4	4.0	4.3
Inflation (eop, %)	4.0	2.1	7.8	4.8	3.0
Cur. Acct. Bal. (% GDP)	-4.9	-5.0	-6.2	-5.9	-5.7
Fiscal Bal. (% GDP)	-4.6	-9.7	-7.0	-5.8	-4.4

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



Bulgaria

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



Amid heightened uncertainty, GDP growth lost further steam in Q3:21, with economic activity having yet to reach its pre-COVID-19 levels. Underlying economic momentum weakened further in Q3:21, with seasonally-adjusted GDP growth slowing to 0.6% q-o-q from 0.8% in Q2:21 and 1.4% in Q1:21. In our view, the key factor was heightened uncertainty, as suggested by a resurgence in new COVID-19 infections in mid-quarter and the long-standing political deadlock (see below). On an annual basis, the pace of economic expansion moderated sharply to 3.9% y-o-y in Q3:21 from 6.5% in Q2:21, with the bulk of the slowdown due to the elimination of COVID-19-induced base effects

Private consumption was the main growth driver in Q3:21, benefitting from the (gradual) release of pent-up demand. In contrast, investment activity remained subdued, reflecting still low capacity utilization in the manufacturing sector, amid significant disruptions in global supply chains. At the same time and despite stronger tourism inflows, net exports' drag on overall growth increased in Q3:21, in line with the pick-up in imports, on the back, *inter alia*, of strong stock rebuilding.

Worryingly, the further deterioration in the epidemiological situation in Q4:21 is estimated to have taken a toll on economic activity. As a result, we see GDP growth slowing to 3.0% y-o-y in Q4:21, bringing FY:21 growth to a meager 3.4% -- markedly below the performance of Bulgaria's peers -- against a contraction of 4.4% in FY:20, which would leave the economy still short of its pre-COVID-19 levels.

Economic growth is set to strengthen in 2022, buoyed by a surge in investments financed by the EU's Recovery & Resilience Fund.

Assuming that Bulgaria receives next year grants worth c. 2.0% of its FY:19 GDP under the EU's Recovery & Resilience Fund (out of a total of c. 11% of GDP available to the country by 2026), we expect (private and public) fixed investment to rebound strongly, providing a critical boost to overall growth (c. 2.0 pp of GDP).

At the same time, amid further improvement in labour market conditions and confidence, we expect private consumption to continue growing, yet at a slower pace than that observed in FY:21. Indeed, high (energy-driven) inflation (especially in H1:22), together with the unwinding of emergency income support schemes, should (partly) erode gains in disposable income.

Net exports are also set to improve in FY:22, remaining, however, a drag on overall growth. Indeed, stronger external demand (including for tourism services, whose contribution to GDP is projected to improve to 6.5% in FY:21 from 4.8% in FY:20, still lower than in FY:19 -- 10.7%) will be largely offset by a pick-up in imports, reflecting the high import content of domestic demand (c. 70%), in particular in investment goods.

Importantly, fiscal policy should remain supportive in FY:22, with the budget deficit projected to remain broadly flat at 2.5% of GDP, as increased EU grants (including from the RFF) and stronger tax revenue, on the back of the continuing economic recovery, should cover the cost of higher social spending (including for pensions) and public investment. At the same time, monetary conditions are set to remain highly accommodative, in view of the ECB's dovish stance.

All said, we expect GDP growth to rebound to 3.9% in FY:22, above its long-term potential of c. 3.3%. Importantly, the recent formation of a functioning broad-based Government (led by the new centrist anti-graft CC party and also including the BSP, ITN and DB parties), following months of political impasse, should help reduce political noise in the period ahead. Note that the uncertainty over the evolution of the pandemic poses a significant downside risk to our forecasts, given the low vaccination coverage in Bulgaria (with the share of people fully vaccinated standing at c. 26% against an EU average of 71%).

	13 Dec.	3-M F	6-M F	12-M F
Base Interest Rate (%)	0.0	0.0	0.0	0.1
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2022, bps)	62	62	65	70

	13 Dec.	1-W %	YTD %	2-Y %
SOFIX	498	0.7	11.4	-14.4

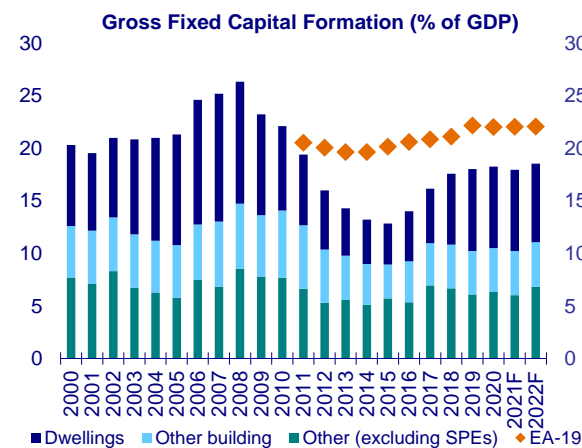
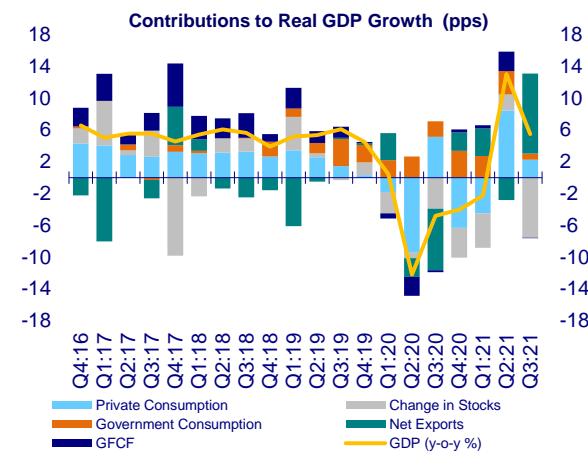
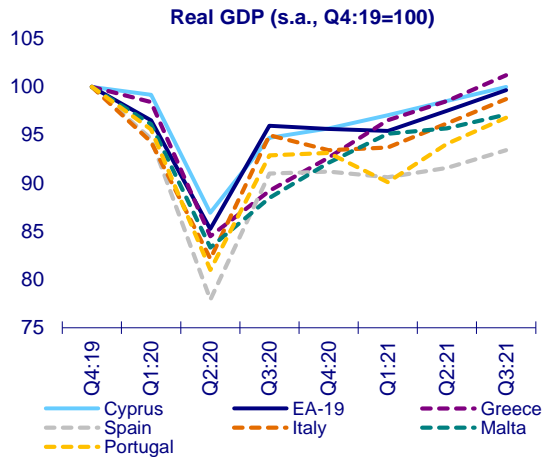
	2019	2020	2021F	2022F	2023F
Real GDP Growth (%)	4.0	-4.4	3.4	3.9	4.1
Inflation (eop, %)	3.8	0.1	6.3	2.4	2.5
Cur. Acct. Bal. (% GDP)	1.9	-0.3	0.3	0.9	1.2
Fiscal Bal. (% GDP)	-1.0	-2.9	-2.6	-2.5	-1.6

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



Cyprus

BBB- / Ba1 / BBB- (S&P / Moody's / Fitch)



	13 Dec.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.59	-0.56	-0.54	-0.50
EUR/USD	1.13	1.13	1.13	1.14
Sov. Spread (2025. bps)	75	77	80	85

	13 Dec.	1-W %	YTD %	2-Y %
CSE Index	67	0.2	17.6	2.0

	2019	2020	2021F	2022F	2023F
Real GDP Growth (%)	5.3	-5.2	5.4	4.5	3.8
Inflation (eop. %)	0.7	-1.1	4.6	1.9	1.7
Cur. Acct. Bal. (% GDP)	-5.7	-10.1	-9.0	-7.0	-6.3
Fiscal Bal. (% GDP)	1.3	-5.7	-3.8	-2.5	-0.7

Real GDP expanded by a robust and stronger-than-expected 5.5% y-o-y (up 1.5% q-o-q s.a.) in Q3:21, underpinned by a tourism-driven surge in exports of services. GDP growth maintained its solid momentum in Q3:21 (up 1.5% q-o-q, a pace broadly equal to that observed in H1:21), lifting economic activity back to its pre-COVID levels. Note that Cyprus' post-COVID-19 economic performance is broadly in line with that of the euro area, but compares favourably with that of other southern European countries (with the exception of Greece) with large dependence on tourism activity (see chart).

On an annual basis, GDP growth moderated to a still robust 5.5% y-o-y in Q3:21 from 13.1% in Q2:21, due to the fading of positive COVID-19-related base effects. A look at the GDP breakdown suggests that net exports emerged as the main growth driver in Q3:21, led by tourism-related services. Indeed, following the relaxation of travel restrictions, tourist arrivals surged in Q3:21 (up 273.6% y-o-y), still lagging, however, their pre-crisis level (by c. 40.2%). Importantly, non-tourism services -- especially financial, transport (shipping) and business related (mainly ICT) services -- are also estimated to have strengthened, reflecting Cyprus' growing export diversification.

A resurgence in COVID-19 infections is estimated to have taken a toll on economic activity in Q4:21. Nevertheless, we expect economic momentum to have been little affected, thanks to uninterrupted state support. All said, we see GDP growth at 5.4% in FY:21 against a recession of 5.2% in FY:20.

GDP growth is expected to moderate to a still strong 4.5% in FY:22, remaining above its long-term potential (of 2.5%), with net exports driving economic expansion and domestic demand rebalancing towards EU (RRF)-funded investment. Albeit diminishing, due to fading base effects, net exports' contribution to overall GDP growth is expected to remain strongly positive in FY:22, in line with: i) stronger external demand for financial, shipping and business exports; and ii) a further recovery in tourist inflows. The latter are set to increase by 50% in FY:22 (compared with an estimated 200% in FY:21) to 70% of their pre-COVID-19 level (with full recovery not expected before 2024).

At the same time, fixed investment should gain traction, bolstered by EU funding (with Cyprus due to receive EUR 1.2bn under the EU Recovery and Resilience Fund in 2021-26, or 5.2% of the FY:19 GDP, which -- assuming there are evenly distributed -- could add c. 0.8 pps to GDP growth in FY:22). In view of the significant under-investment since 2008 (see chart), the smooth implementation of the RRF plan should help Cyprus to improve its growth model, given the more productive nature of projected investments (for illustrative purposes, note that 65% of total investments in 2000-20 were concentrated in the construction sector). In this context, the completion of the RRF-related structural reforms should also foster economic growth. Importantly, the country's strong track record bodes well for fast and effective absorption of available EU funds.

The envisaged pick-up in fixed investment activity should compensate for the moderation in private consumption growth. Indeed, despite improving labour market conditions (with unemployment projected to fall by 0.7 pps in FY:22, returning to its pre-COVID level of c. 7.0%) and the still significant room for pent-up demand (retail deposits have increased by 17.8 pps of GDP since end-2019, to 121.4% of GDP in September 2021), we expect private consumption to lose some steam next year, reflecting the adverse impact of surging inflation on disposable income (especially in H1:22) as well as the unwinding of several emergency state-funded income support schemes.

Sources: Reuters, Cystat, Eurostat & NBG estimates



ROMANIA					
	2019	2020	2021f	2022f	2023f
Real Sector					
Nominal GDP (EUR million)	223,269	218,306	240,828	263,677	282,220
GDP per capita (EUR)	11,506	11,251	12,413	13,591	14,548
GDP growth (real, %)	4.1	-3.9	6.4	4.0	4.3
Unemployment rate(ILO definition, %, aop)	3.9	5.0	5.4	5.0	4.7
Prices and Banking					
Inflation (% eop)	4.0	2.1	7.8	4.8	3.0
Inflation (% aop)	3.8	2.6	5.0	6.4	3.6
Loans to the Private Sector (% change, eop)	8.4	8.4			
Customer Deposits (% change, eop)	10.2	10.2			
Loans to the Private Sector (% of GDP)	25.9	25.9			
Retail Loans (% of GDP)	14.1	14.1			
Corporate Loans (% of GDP)	11.8	11.8			
Customer Deposits (% of GDP)	33.0	33.0			
Loans to Private Sector (% of Deposits)	78.4	78.4			
Foreign Currency Loans (% of Total Loans)	34.4	34.4			
External Accounts					
Merchandise exports (EUR million)	63,066	57,568	68,472	73,437	76,761
Merchandise imports (EUR million)	80,918	76,511	90,463	96,847	101,288
Trade balance (EUR million)	-17,852	-18,943	-21,991	-23,410	-24,527
Trade balance (% of GDP)	-8.0	-8.7	-9.1	-8.9	-8.7
Current account balance (EUR million)	-10,907	-10,977	-14,824	-15,508	-16,210
Current account balance (% of GDP)	-4.9	-5.0	-6.2	-5.9	-5.7
Net FDI (EUR million)	4,848	2,960	4,884	5,372	5,910
Net FDI (% of GDP)	2.2	1.4	2.0	2.0	2.1
International reserves (EUR million)	32,926	37,379	39,039	40,253	41,453
International reserves (Months ^a)	4.0	4.9	4.4	4.2	4.1
Public Finance					
Primary balance (% of GDP)	-3.4	-8.3	-5.6	-4.4	-3.0
Fiscal balance (% of GDP)	-4.6	-9.7	-7.0	-5.8	-4.4
Gross public debt ^b (% of GDP)	35.0	47.0	49.9	51.5	52.6
External Debt					
Gross external debt (EUR million)	109,783	126,807	133,827	145,022	152,399
Gross external debt (% of GDP)	49.2	58.1	56.4	55.0	54.0
External debt service (EUR million)	17,442	16,372	16,600	17,200	17,500
External debt service (% of reserves)	53.0	43.8	42.5	42.7	42.2
External debt service (% of exports)	19.4	20.1	17.6	17.0	16.5
Financial Markets					
Policy rate (1-w repo rate, %, eop)	2.5	1.5	1.8	2.8	3.0
Policy rate (1-w repo rate, %, aop)	2.5	1.8	1.4	2.6	2.9
10-Y Bond Yield (% eop)	4.5	3.1	5.0	5.2	5.4
Exchange rate: EUR (eop)	4,786	4,863	4,945	5,000	5,040
Exchange rate: EUR (aop)	4,743	4,835	4,920	4,973	5,020

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



BULGARIA					
	2019	2020e	2021f	2022f	2023f
Real Sector					
Nominal GDP (EUR million)	61,557	61,330	66,966	72,918	77,805
GDP per capita (EUR)	8,856	8,873	9,748	10,678	11,642
GDP growth (real, %)	4.0	-4.4	3.4	3.9	4.1
Unemployment rate (% aop)	4.2	5.1	5.4	5.0	4.8
Prices and Banking					
Inflation (% eop)	3.8	0.1	6.3	2.4	2.5
Inflation (% aop)	3.1	1.7	3.1	4.8	2.5
Loans to the Private Sector (% change, eop)	7.4	4.5			
Customer Deposits (% change, eop)	10.7	10.2			
Loans to the Private Sector (% of GDP)	48.9	52.0			
Retail Loans (% of GDP)	19.5	21.3			
Corporate Loans (% of GDP)	29.3	30.7			
Customer Deposits (% of GDP)	66.8	74.9			
Loans to Private Sector (% of Deposits)	73.2	69.4			
Foreign Currency Loans (% of Total Loans)	32.4	31.1			
External Accounts					
Merchandise exports (EUR million)	29,271	27,581	32,649	33,773	34,685
Merchandise imports (EUR million)	32,194	29,549	35,268	37,110	38,464
Trade balance (EUR million)	-2,923	-1,967	-2,619	-3,337	-3,779
Trade balance (% of GDP)	-4.7	-3.2	-3.9	-4.6	-4.9
Current account balance (EUR million)	1,154	-0,163	0,183	0,639	0,937
Current account balance (% of GDP)	1.9	-0.3	0.3	0.9	1.2
Net FDI (EUR million)	1,244	2,141	1,528	1,674	1,793
Net FDI (% of GDP)	2.0	3.5	2.3	2.3	2.3
International reserves (EUR million)	24,836	30,848	30,507	31,658	33,326
International reserves (Months ^a)	8.0	11.1	9.4	9.2	9.3
Public Finance					
Primary balance (% of GDP)	-0.4	-2.4	-2.1	-2.0	-1.1
Fiscal balance (% of GDP)	-1.0	-2.9	-2.6	-2.5	-1.6
Gross public debt ^b (% of GDP)	20.0	24.7	25.8	26.2	26.2
External Debt					
Gross external debt (EUR million)	37,716	39,627	41,251	41,490	41,392
Gross external debt (% of GDP)	61.3	64.6	61.6	56.9	53.2
External debt service (EUR million)	6,957	7,041	7,000	8,200	7,100
External debt service (% of reserves)	28.0	22.8	22.9	25.9	21.3
External debt service (% of exports)	17.7	20.4	17.4	19.2	15.9
Financial Markets					
Base Interest Rate (% eop)	0.0	0.0	0.0	0.0	0.2
Base Interest Rate (% aop)	0.0	0.0	0.0	0.0	0.1
10-Y Bond Yield (% eop)	0.4	0.4	0.6	0.9	1.3
Exchange rate: EUR (eop)	1.956	1.956	1.956	1.956	1.956
Exchange rate: EUR (aop)	1.956	1.956	1.956	1.956	1.956

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



CYPRUS					
	2019	2020	2021f	2022f	2023f
Real Sector					
Nominal GDP (EUR million)	23,010	21,548	23,257	25,080	26,490
GDP per capita (EUR)	26.267	24.321	25.956	27.682	28,888
GDP growth (real, %)	5.3	-5.2	5.4	4.5	3.8
Unemployment rate (% aop)	7.1	7.6	7.7	7.0	6.5
Prices and Banking					
Inflation (% eop)	0.7	-1.1	4.6	1.9	1.7
Inflation (% aop)	0.3	-0.6	2.4	3.2	1.8
Loans to the Private Sector (% change, eop)	-7.4	-5.6			
Customer Deposits (% change, eop)	0.0	-0.6			
Loans to the Private Sector (% of GDP)	133.1	134.1			
Retail Loans (% of GDP)	61.3	62.1			
Corporate Loans (% of GDP)	71.7	72.0			
Customer Deposits (% of GDP)	180.0	191.0			
Loans to Private Sector (% of Deposits)	73.9	70.2			
Foreign Currency Loans (% of Total Loans)	---	---			
External Accounts					
Merchandise exports (EUR million)	3,080	2,967	2,774	2,877	2,963
Merchandise imports (EUR million)	7,711	7,118	7,510	7,870	8,201
Trade balance (EUR million)	-4,631	-4,151	-4,736	-4,993	-5,238
Trade balance (% of GDP)	-20.1	-19.3	-20.4	-19.9	-19.8
Current account balance (EUR million)	-1,308	-2,177	-2,097	-1,750	-1,673
Current account balance (% of GDP)	-5.7	-10.1	-9.0	-7.0	-6.3
Net FDI (EUR million)	-0,082	3,864	4,637	6,028	7,685
Net FDI (% of GDP)	-0.4	17.9	19.9	24.0	29.0
International reserves (EUR million)	---	---	---	---	---
International reserves (Months ^a)	---	---	---	---	---
Public Finance					
Primary balance ^b (% of GDP)	3.7	-3.4	-1.7	-0.6	1.2
Fiscal balance ^b (% of GDP)	1.3	-5.7	-3.8	-2.5	-0.7
Gross public debt (% of GDP)	91.1	115.3	107.5	101.5	96.8
External Debt					
Gross external debt (EUR million)	189,212	189,307	190,000	188,500	186,500
Gross external debt (% of GDP)	822.3	878.5	817.0	751.6	704.0
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)	-0,1	-0,1	-0,1	0,2	0,5
Exchange rate: USD (eop)	1,121	1,221	1,130	1,140	1,170
Exchange rate: USD (aop)	1,119	1,142	1,183	1,135	1,155

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



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