



Economic Analysis Division Emerging Markets Analysis

Bi-Weekly Report 5 - 18 October 2021



NBG - Economic Analysis Division

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Emerging Markets Analysis

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ROMANIA 1

The centre-right PNL-led ruling coalition fell after losing a no-confidence vote

Against a challenging backdrop, the NBR raised its key rate by 25 bps to 1.5%, with more tightening to come

BULGARIA 2

GDP growth rebounded in Q2:21 (to 6.4% y-o-y from -0.5% in Q1:21), mainly due to a positive COVID-19-related base effect

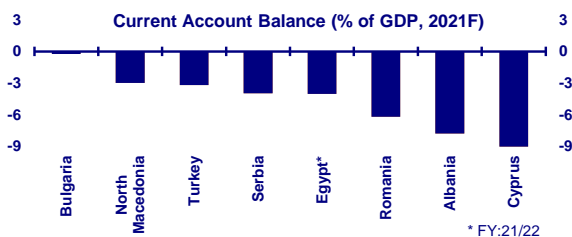
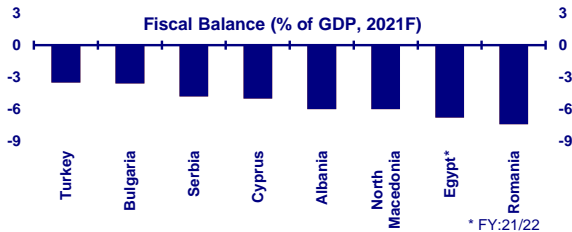
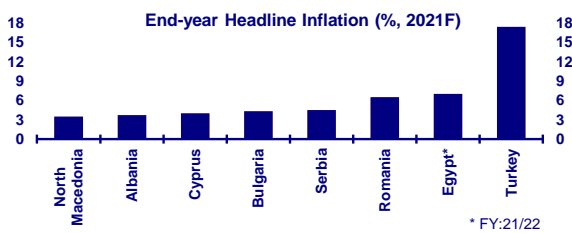
Economic activity is set to expand at a solid pace in the period ahead, helped by a procyclical fiscal stance, with risks, however, being to the downside, due to heightened political uncertainty

ALBANIA 3

GDP surged in Q2:21 (by 17.9% y-o-y and 2.1% q-o-q s.a.), reflecting positive COVID-19 base effects, post-earthquake reconstruction and a spike in energy production

Progress in vaccination, together with stronger external demand (including for tourism services) and continuing reconstruction activity, should sustain GDP growth during the remainder of the year

APPENDIX: MACROECONOMIC & FINANCIAL INDICATORS 4



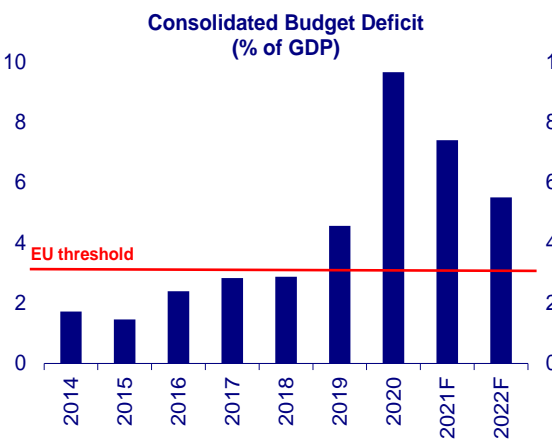
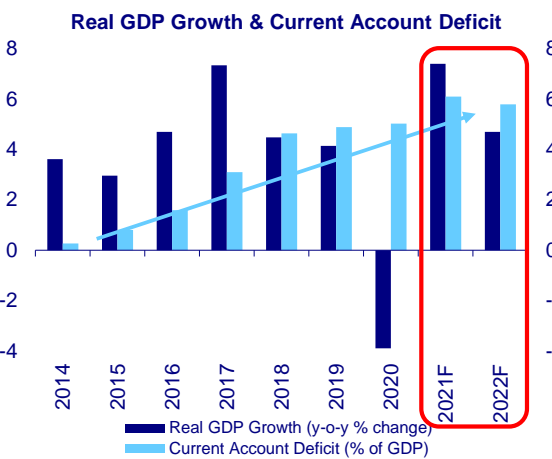
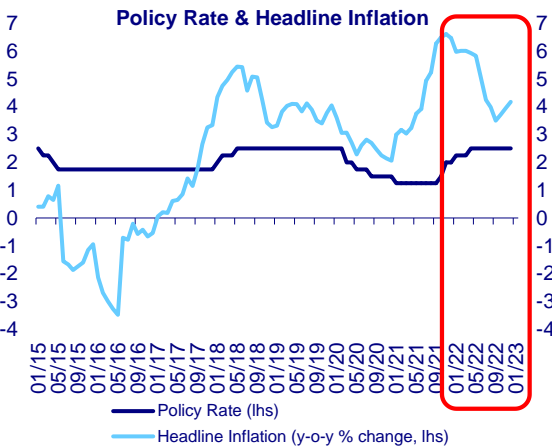
Sources: National authorities & NBG estimates

Please see disclosures on page 7



Romania

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



	18 Oct.	3-M F	6-M F	12-M F
1-m ROBOR (%)	2.2	2.4	2.5	2.7
RON/EUR	4.95	4.95	4.95	4.97
Sov. Spread (2024, bps)	84	85	85	85

	18 Oct.	1-W %	YTD %	2-Y %
BET-BK	2,516	-0.8	34.7	42.9

	2018	2019	2020E	2021F	2022F
Real GDP Growth (%)	4.5	4.1	-3.9	7.4	4.7
Inflation (eop, %)	3.3	4.0	2.1	6.5	4.2
Cur. Acct. Bal. (% GDP)	-4.6	-4.9	-5.0	-6.2	-5.9
Fiscal Bal. (% GDP)	-2.9	-4.6	-9.7	-7.4	-5.5

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

The centre-right PNL-led ruling coalition fell after losing a no-confidence vote. The motion was supported by the opposition centre-left PSD, which controls the majority of seats in an otherwise hung Parliament, the far-right AUR and the liberal USR-PLUS alliance (UPa). Recall that the latter had withdrawn support from the ruling coalition in September following the dismissal of one of its ministers by PM F. Ciutu over a dispute on policy priorities under the national Recovery & Resilience Plan (RRP). Given the former coalition partners' (also including the Hungarian minority party, UDMR) declining popularity in polls, we expect them to strive to avoid early elections. Following the rejection by the Parliament of a new cabinet proposed by the UPa, we see the formation of a (minority) PNL-led Government as the most likely scenario. Should the Parliament reject another proposed cabinet, snap elections would be then called. In any case, we expect political uncertainty to remain elevated in the short-term, exacerbating the risks surrounding the implementation of the RRP and the smooth continuation of fiscal consolidation.

Against a challenging backdrop, the NBR raised its key rate by 25 bps to 1.5%, with more tightening to come. The NBR's move officially ends an easing cycle that begun at the onset of the pandemic (including cumulative rate cuts of 125 bps). In fact, the NBR had abandoned its easing bias in mid-2021, when it terminated its QE programme and began tightening liquidity conditions in the money market. In our view, the main factors dictating this policy reversal are:

i) **the fast pace of economic growth and the ballooning current account deficit (CAD).** Although the economy is far from being overheated, the GDP numbers for Q2:21 (up 1.8% q-o-q s.a. following an average 3.7% rise over the past 3 quarters, with economic activity having already exceeded its pre-crisis level) and leading indicators for Q3:21 suggest that activity maintains a strong momentum. We see GDP growth reaching 7.4% in FY:21 and normalizing to 4.7% next year, well above its potential of c. 3.5%. As a result, the CAD is set to widen for a 7th consecutive year in FY:21 to an alarmingly high level of 6.2% of GDP, and ease only slightly to a still high 5.9% in FY:22, with the implied increase in external financing needs expected to be only partly covered by FDI and capital inflows from the EU.

ii) **the upward shift in the inflation outlook.** Following global trends, domestic inflation has been rising rapidly since the beginning of the year (reaching a multi-year high of 6.3% y-o-y in September against 2.1% at end-2020), reflecting higher international commodity prices and the impact of bottlenecks in global supply chains, as well as negative COVID-19-related base effects. In view of the unfavourable outlook for energy prices and the implied second-round effects, on the one hand, and resilient demand-side pressures, on the other hand, we expect headline inflation to remain markedly above the upper-end of the NBR's target range (2.5±1%) throughout next year as well (see chart).

Considering the NBR's bias towards FX stability, the closing of the (positive until recently) interest rate differential between Romania and its CEE peers must have also played a pivotal role in the decision to hike rates. Note that, despite strong underlying pressure on the RON, the latter has lost just c. c 2.0% of its value against the EUR y-t-d, thanks to the NBR's interventions in the FX market.

Against this challenging backdrop, we expect the NBR to maintain its tightening bias, raising its key rate by an additional 100 bps to 2.5% by end-2022, broadly in line with that of its peers. At the same time, we see the RON/EUR rate moving towards the 5.0 threshold. The overall magnitude of tightening could prove to be even bigger than currently envisaged, should delays in the ongoing fiscal consolidation process arise, prompting a further rebalancing of the policy mix.



Bulgaria

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

GDP growth rebounded in Q2:21 (to 6.4% y-o-y from -0.5% in Q1:21), mainly due to a positive COVID-19-related base effect.

Unsurprisingly, private consumption accounted for most of the improvement in Q2:21, followed by net exports and the rebuilding of stocks (see chart). Note, though, that economic recovery lost some of its momentum in Q2:21, with sequential GDP growth slowing to 0.6% q-o-q s.a. -- below the EU average of 2.0% -- from 2.5% in Q1:21, mainly due to the impact of the severe 3rd wave of the pandemic, during which, Bulgaria reported one of the highest death rates in the EU. That said, the economy remains still slightly off its pre-pandemic size (by c. 1.0%).

Economic activity is set to expand at a solid pace in the period ahead, helped by a procyclical fiscal stance, with risks, however, being to the downside, due to heightened political uncertainty.

A resurgence in COVID-19 infections has prompted the authorities to reinstate some (mild) restrictions as of September. Although we believe that strict lockdown measures are unlikely to be brought back, we underline that Bulgaria remains vulnerable to the evolution of the pandemic, given the low vaccination coverage (with the share of people fully vaccinated standing at c. 20% against an EU average of 64%).

Besides the COVID-19 uncertainty, an additional key downside risk to this outlook comes from the ongoing political crisis. Recall that, following two inconclusive elections (April, July), Bulgaria will hold a fresh snap election on November 14, the same day with the Presidential election. Worryingly, the latest polls suggest that the upcoming election will deliver another hung and highly fragmented parliament, meaning that uncertainty is unlikely to ease soon.

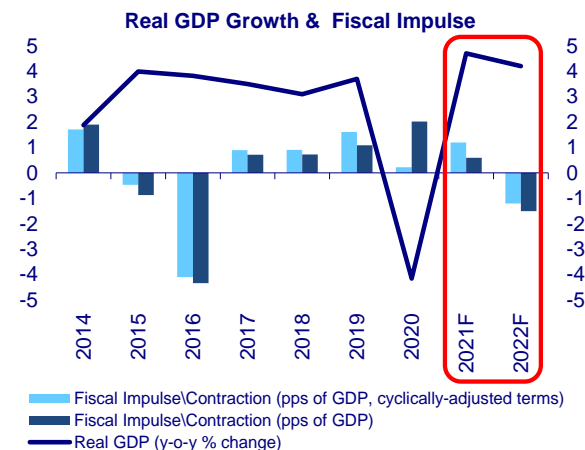
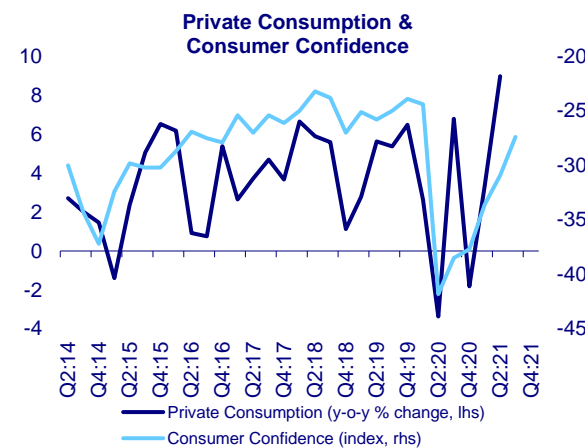
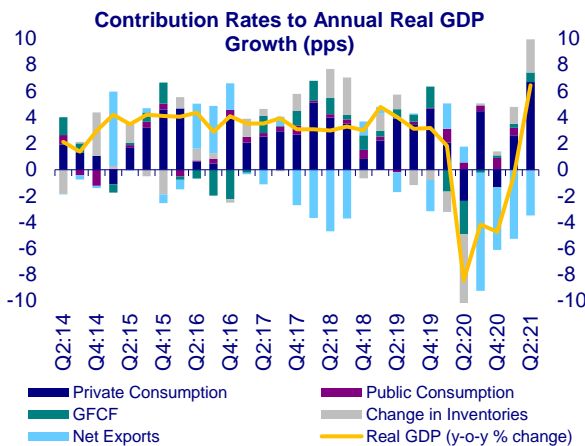
In this environment, and following the dissipation of COVID-19-related base effects, economic growth is set to moderate, yet remain robust, with its composition moving towards a more balanced structure. Private consumption should still remain the main growth driver, benefiting from the release of pent-up demand and a further improvement in confidence. However, rapidly rising inflation, together with the expiry of employment support schemes, cloud this outlook.

At the same time, we expect fixed investment to gain momentum, driven, by an EU-backed surge in capital spending. Note that Bulgaria is eligible to receive EU funds worth EUR 22.5bn (equivalent to 37% of FY:19 GDP) in 2021-27. Worryingly, potential delays and inefficiencies in the implementation of the country's Recovery & Resilience Plan, due to political uncertainty, could weigh on investment activity.

Net exports are also set to improve in the period ahead, in line with the recovery in the EU, with their contribution to overall growth, however, remaining negative. The revival in tourism activity should provide a strong boost to services' exports (note that the sector's contribution to GDP fell to 4.8% in FY:20 from 10.7% in FY:19). Still, tourism activity would remain c. 45% below pre-crisis levels this year, with the gap expected to close only in 2023.

In contrast to most EU economies, which are set to witness a partial reversal in fiscal policy this year, Bulgaria will benefit from a somewhat procyclical stance (see chart). Key drivers include a looser incomes policy and increased social spending, especially for pensions. Fiscal consolidation is expected only as of next year.

All said, we see GDP growth at 4.7% in FY:21 and moderating slightly to 4.2% in FY:22, still above its long-term potential of c. 3.0%. Importantly, although political risk is set to remain elevated in the short-term, we expect no slippage in progress with Bulgaria's strategic goals, such as euro area accession, in view of the solid policy anchors provided by the currency board and the inclusion of the BGN into the ERM-II.



	18 Oct.	3-M F	6-M F	12-M F
Base Interest Rate (%)	0.0	0.0	0.0	0.0
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2024, bps)	53	55	55	55

	18 Oct.	1-W %	YTD %	2-Y %
SOFIX	579	1.4	29.3	2.5

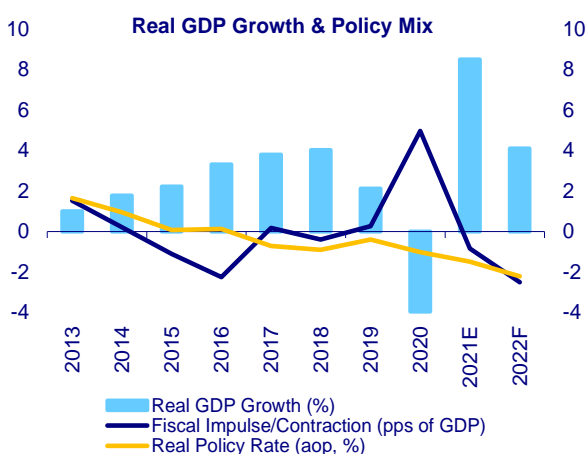
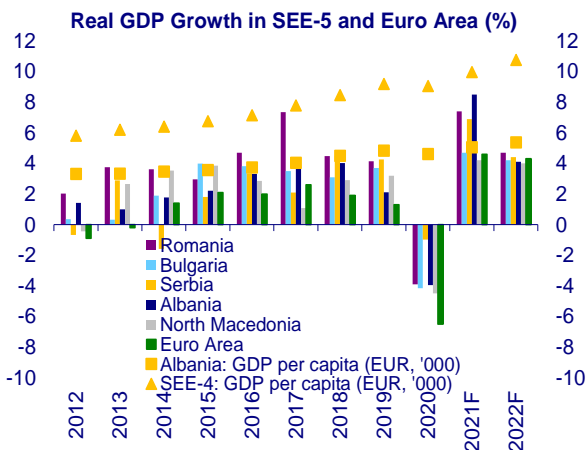
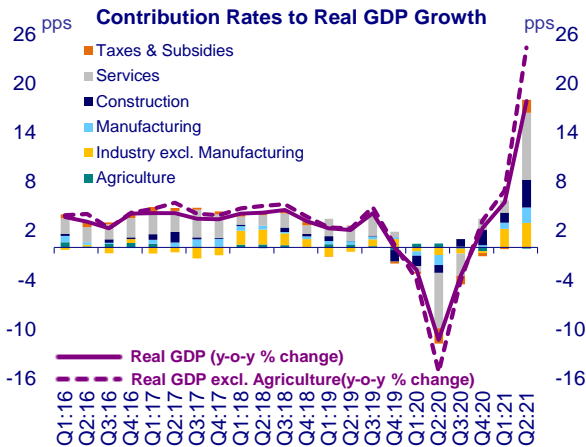
	2018	2019	2020	2021F	2022F
Real GDP Growth (%)	3.1	3.7	-4.2	4.7	4.2
Inflation (eop, %)	2.7	3.8	0.1	4.3	2.4
Cur. Acct. Bal. (% GDP)	0.9	1.9	-0.3	-0.2	0.5
Fiscal Bal. (% GDP)	0.1	-1.0	-3.0	-3.6	-2.2

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



Albania

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



	18 Oct.	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.1	1.1	1.2	1.4
ALL/EUR	121.6	122.2	122.5	123.1
Sov. Spread (2027, bps)	262	260	258	250

	18 Oct.	1-W %	YTD %	2-Y %
Stock Market	---	---	---	---

	2018	2019	2020	2021F	2022F
Real GDP Growth (%)	4.0	2.1	-4.0	8.5	4.1
Inflation (eop, %)	1.8	1.1	1.1	3.7	2.5
Cur. Acct. Bal. (% GDP)	-6.7	-7.9	-8.8	-7.8	-7.4
Fiscal Bal. (% GDP)	-1.6	-1.9	-6.8	-6.0	-3.5

Sources: Reuters, InStat & NBG estimates

GDP surged in Q2:21 (by 17.9% y-o-y and 2.1% q-o-q s.a.), reflecting positive COVID-19 base effects, post-earthquake reconstruction and a spike in energy production. GDP expanded by an unprecedented 17.9% y-o-y in Q2:21, bringing the economy 2.0% above its size before the twin shocks of the pandemic and the end-2019 devastating earthquake. All sectors (except agriculture) registered strong double-digit growth rates in Q2:21, with the services sector emerging as the main growth engine, on the back of reviving consumer spending and tourism activity.

Besides the impact of the sizeable positive COVID-19-related base effect, stemming from the gradual lifting of restrictions and dissipating uncertainty, in the wake of the launch of a vaccination campaign at end-February, the upsurge in consumption in Q2:21 was also supported by: i) the loose incomes policy (including a 15.4% rise in the minimum wage and a 14.0% hike in public sector wages); and ii) the rebound in remittances (including income from seasonal employees, whose movement was restricted during the pandemic). At the same time, activity in the services sector received a strong boost from the recovery in tourism activity and related sectors (together accounting for 21% of GDP in pre-COVID-19 times), with tourist arrivals (mainly from regional countries) bouncing back strongly (to 82% of their Q2:19 level).

The industrial sector also sustained economic recovery in Q2:21, largely driven by the surge in electricity generation -- fully based on hydroelectric production -- on the back of abundant rainfalls. Importantly, non-energy industrial output also picked up, on the back of a rebound in (non-energy) exports, especially textiles and footwear to Italy (accounting for 35% of GNFS exports), as well as construction materials, amid surging global metal prices.

Moreover, construction sector provided a sizeable boost to GDP growth, reflecting post-earthquake reconstruction needs and ongoing works in several large infrastructure projects (airports and roads), as well as and a pick-up in residential construction projects, with the latter supported by record-high mortgage lending activity.

Progress in vaccination, together with stronger external demand (including for tourism services) and continuing reconstruction activity, should sustain GDP growth during the remainder of the year. We expect economic activity to expand at a strong pace in H2:21, with services remaining the main driver, reflecting strong consumption, on the back, *inter alia*, of growing consumer confidence, amid fast progress in vaccinations (note that the share of people fully vaccinated reached 29% in mid-October from virtually nil in March, still well below the EU's 64%). The envisaged further recovery in tourism activity (with arrivals reaching their 2019 level in July-August) also bodes well for the sector. At the same time, (non-energy) industrial output should recover further, thanks to the continuing release of pent-up demand and stronger external demand, in line with the recovery in Albania's main trade partners. Finally, still large post-earthquake reconstruction needs suggest that the construction sector would continue to provide a critical boost to economic activity in the period ahead.

Importantly, the policy mix should remain accommodative, with a broadly neutral fiscal stance expected in H2:21, and the BoA keeping its policy rate at historical lows (at 0.5%), concentrating its efforts on stimulating credit activity.

All said, we see GDP rebounding by a record high 8.5% in FY:21 -- the highest in the region (see chart). As the impact from the recovery from the twin shocks tapers off, and following the shift to a tighter fiscal policy, the pace of economic expansion is set to moderate to a still robust 4.1% in FY:22 -- converging to its long-term potential (of 3.5%).



ROMANIA					
	2018	2019	2020e	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	204,633	223,104	218,306	241,248	262,827
GDP per capita (EUR)	10,477	11,506	11,251	12,434	13,547
GDP growth (real, %)	4.5	4.1	-3.9	7.4	4.7
Unemployment rate(ILO definition, %, aop)	4.2	3.9	5.0	5.4	5.0
Prices and Banking					
Inflation (% eop)	3.3	4.0	2.1	6.5	4.2
Inflation (% aop)	4.6	3.8	2.6	4.7	4.9
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	63,066	57,568	67,204	71,211
Merchandise imports (EUR million)	77,160	80,918	76,511	89,314	94,636
Trade balance (EUR million)	-15,340	-17,852	-18,943	-22,111	-23,425
Trade balance (% of GDP)	-7.5	-8.0	-8.7	-9.2	-8.9
Current account balance (EUR million)	-9,495	-10,915	-10,977	-14,944	-15,572
Current account balance (% of GDP)	-4.6	-4.9	-5.0	-6.2	-5.9
Net FDI (EUR million)	4,944	4,852	2,960	4,884	5,372
Net FDI (% of GDP)	2.4	2.2	1.4	2.0	2.0
International reserves (EUR million)	33,065	32,926	37,379	39,319	40,119
International reserves (Months ^a)	4.3	4.0	4.9	4.5	4.3
Public Finance					
Primary balance (% of GDP)	-1.5	-3.4	-8.3	-6.0	-4.1
Fiscal balance (% of GDP)	-2.9	-4.6	-9.7	-7.4	-5.5
Gross public debt ^b (% of GDP)	34.6	35.0	47.0	49.6	51.0
External Debt					
Gross external debt (EUR million)	99,841	109,783	126,807	133,893	143,241
Gross external debt (% of GDP)	48.8	49.2	58.1	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	43.8	42.2	42.9
External debt service (% of exports)	22.3	19.4	20.1	17.8	17.4
Financial Markets					
Policy rate (1-w repo rate, % eop)	2.5	2.5	1.5	2.0	2.5
Policy rate (1-w repo rate, % aop)	2.4	2.5	1.8	1.4	2.4
10-Y Bond Yield (% eop)	4.8	4.5	3.1	4.0	4.3
Exchange rate: EUR (eop)	4,652	4,786	4,863	4,945	4,980
Exchange rate: EUR (aop)	4,651	4,743	4,835	4,920	4,960

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



BULGARIA					
	2018	2019	2020e	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	56,111	61,239	60,642	66,349	71,417
GDP per capita (EUR)	8,016	8,810	8,773	9,658	10,458
GDP growth (real, %)	3.1	3.7	-4.2	4.7	4.2
Unemployment rate(ILO definition, %, aop)	5.2	4.2	5.1	5.4	5.0
Prices and Banking					
Inflation (% eop)	2.7	3.8	0.1	4.3	2.4
Inflation (% aop)	2.8	3.1	1.7	2.7	3.3
Loans to the Private Sector (% change, eop)	7.5	7.4	4.5		
Customer Deposits (% change, eop)	7.4	10.7	10.2		
Loans to the Private Sector (% of GDP)	49.7	48.9	52.0		
Retail Loans (% of GDP)	19.1	19.5	21.3		
Corporate Loans (% of GDP)	30.6	29.3	30.7		
Customer Deposits (% of GDP)	65.8	66.8	74.9		
Loans to Private Sector (% of Deposits)	75.4	73.2	69.4		
Foreign Currency Loans (% of Total Loans)	34.4	32.4	31.1		
External Accounts					
Merchandise exports (EUR million)	27,742	29,119	27,272	31,660	33,160
Merchandise imports (EUR million)	30,448	32,028	29,217	34,495	36,448
Trade balance (EUR million)	-2,706	-2,908	-1,945	-2,835	-3,288
Trade balance (% of GDP)	-4.8	-4.7	-3.2	-4.3	-4.6
Current account balance (EUR million)	0,532	1,148	-0,161	-0,159	0,376
Current account balance (% of GDP)	0.9	1.9	-0.3	-0.2	0.5
Net FDI (EUR million)	0,757	1,238	2,116	1,482	1,630
Net FDI (% of GDP)	1.3	2.0	3.5	2.2	2.3
International reserves (EUR million)	25,072	24,836	30,848	31,171	32,076
International reserves (Months ^a)	8.5	8.0	11.1	9.6	9.2
Public Finance					
Primary balance (% of GDP)	0.8	-0.4	-2.5	-3.1	-1.7
Fiscal balance (% of GDP)	0.1	-1.0	-3.0	-3.6	-2.2
Gross public debt ^b (% of GDP)	22.3	20.2	25.0	26.6	27.3
External Debt					
Gross external debt (EUR million)	37,190	37,716	39,627	40,037	40,137
Gross external debt (% of GDP)	66.3	61.6	65.3	60.4	56.2
External debt service (EUR million)	7,415	6,957	7,041	7,000	8,200
External debt service (% of reserves)	29.6	28.0	22.8	22.5	25.6
External debt service (% of exports)	20.1	17.7	20.4	17.4	19.1
Financial Markets					
Base Interest Rate (% eop)	0.0	0.0	0.0	0.0	0.0
Base Interest Rate (% aop)	0.0	0.0	0.0	0.0	0.0
10-Y Bond Yield (% eop)	0.9	0.4	0.4	0.4	0.7
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



ALBANIA					
	2018	2019	2020	2021f	2022f
Real Sector					
Nominal GDP (EUR million)	12,857	13,785	13,104	14,551	15,509
GDP per capita (EUR)	4,486	4,830	4,618	5,086	5,430
GDP growth (real, %)	4.0	2.1	-4.0	8.5	4.1
Unemployment rate (% aop)	12.8	12.0	12.2	12.1	11.7
Prices and Banking					
Inflation (% eop)	1.8	1.1	1.1	3.7	2.5
Inflation (% aop)	2.0	1.4	1.6	2.0	3.1
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	1,008	1,084
Merchandise imports (EUR million)	3,857	4,050	3,776	4,437	4,703
Trade balance (EUR million)	-2,871	-3,144	-2,982	-3,429	-3,620
Trade balance (% of GDP)	-22.3	-22.8	-22.8	-23.6	-23.3
Current account balance (EUR million)	-0,866	-1,089	-1,153	-1,138	-1,153
Current account balance (% of GDP)	-6.7	-7.9	-8.8	-7.8	-7.4
Net FDI (EUR million)	1,022	1,036	0,894	0,938	1,032
Net FDI (% of GDP)	8.0	7.5	6.8	6.4	6.7
International reserves (EUR million)	3,399	3,360	3,942	4,649	4,849
International reserves (Months ^a)	7.0	6.5	9.6	9.3	9.2
Public Finance					
Primary balance (% of GDP)	0.6	0.2	-4.7	-4.0	-1.5
Fiscal balance (% of GDP)	-1.6	-1.9	-6.8	-6.0	-3.5
Gross public debt (% of GDP)	69.5	67.8	81.9	81.2	79.5
External Debt					
Gross external debt (EUR million)	8,353	8,246	8,554	9,404	9,704
Gross external debt (% of GDP)	65.0	59.8	65.3	64.6	62.6
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	6.6	6.8
External debt service (% of exports)	9.5	5.0	13.3	6.2	6.2
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	122.2	123.4
Exchange rate: EUR (aop)	127.3	122.7	123.4	122.4	122.8

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



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