Greece
Economic & Financial Outlook

Our Views in a Nutshell…

In the first half of the year primary budget surplus position and strong signs of growth recovery led to market re-entry by Greek sovereign and banks underpinning improvement in confidence...

Nevertheless progress towards conclusive market access awaits the successful negotiations with the Troika and the contingent financing framework to be put in place for 2015, expected to bring still unsustainably high government bond yields to lower levels consistent with the fundamentals of the economy….

Recovery prospects are further strengthened as ECB-conducted stress tests reveal the fundamental soundness of Greek banks easing liquidity conditions…

The better-than-expected results of the stress tests, could pave the way for converting €11.4 billion set aside for bank recapitalization into a precautionary credit line helping Greece to a smooth exit from its current bailout program…

Widely-expected small-scale official debt relief will further support the overall adjustment process, helping to mitigate political risk in view of uncertainties in the run-up to presidential elections by early 2015…

Consumption stabilized for three consecutive quarters… Healthy increase of investments excluding housing…Substantial increase in exports of goods & services…

Growth is set to turn positive this year and accelerate in 2015 driven by:

- ***a boom in tourism…***
- ***a revival of EU- backed infrastructure projects…***
- ***increasing availability of borrowing from recently recapitalised banks which are set to accelerate the work out of the large stock on non-performing loans…***
- ***decline in uncertainty as reflected in business sentiment and consumer confidence indicators…***

From GREentry to GREvival

The substantive progress that Greece has made during 2013 and 2014 has been evident with the return of the Greek state and systemic banks to the international markets in 2014, as well as the successful completion of stress tests conducted by the ECB revealing that the Greek banking system has practically no capital shortfall. The recapitalisation of the banks during the first half 2014 was preceded by a fundamental restructuring of the country's banking system and has laid the solid foundation needed for the stabilisation of the economy and for establishing the conditions for the re-enactment of proper bank financing to support economic recovery.

The EU contribution in the funding for Greece's second adjustment program will run out at the end of 2014 while IMF's funding continues until the end of the first quarter of 2016. Based on the current situation, and provided that Troika's review will be completed successfully as government fulfills its commitments, the regular access to the international markets might be feasible as the financing needs of the country in 2015 would be, grosso modo, €10 bn, if the IMF involvement was to be terminated in 2014.

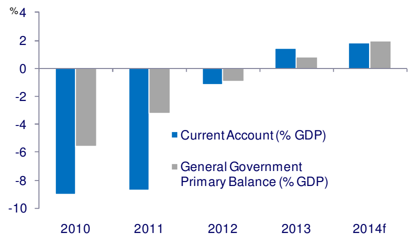
Taking into account the net capital of €8.3 bn already raised in H1 2014, the Greek banking system has practically no capital shortfall after the completion of the European Comprehensive Assessment. This could pave the way for converting €11.4 bn set aside for bank recapitalisation into a precautionary credit line helping Greece to follow a market-friendly and smooth exit from its current bailout program.

Basic Conjunctural Indicators
(average annual % change)

	2012	2013	2014	available period
Retail sales volume	-11.8	-8.4	2.4	Jan-Aug
Automobile sales	-41.7	-3.2	29.8	Jan-Sep
VAT revenue	-11.4	-7.4	-0.2	Jan-Sep
Consumption tax on fuels	-4.1	-5.3	-23.5	Jan-Sep
Private Consumption	**-9.3**	**-6.0**	**0.0**	**H1**
Government Consumption	**-6.9**	**-4.1**	**-0.4**	**H1**
Private building activity (volume, according to permits)	-30.6	-39.0	-4.3	Jan-July
Concrete production	-40.6	-17.0	0.6	Jan-Jul
Public investment expenditure	-6.8	8.8	31.9	Jan-Sep
Fixed investment	**-19.2**	**-12.8**	**-4.2**	**H1**
Unemployment	24.2	27.3	26.4	July
Manufacturing production	-4.2	-2.0	0.0	Jan-Jul
Economic sentiment indicator	80.3	90.8	102.2	Oct
-Industry	77.2	87.8	97.4	Oct
-Consumer confidence	-74.8	-69.3	-50.9	Oct
PMI (manufacturing)	41.2	46.0	48.8	Oct
Exports of goods - excluding oil (ELSTAT)	0.9	-2.1	-3.0	Jan-Aug
Exports of goods (ELSTAT)	13.5	-0.2	-3.9	Jan-Aug
Imports of goods - excluding oil (ELSTAT)	-7.5	-4.8	6.4	Jan-Aug
Imports of goods (ELSTAT)	1.8	-4.9	-0.2	Jan-Aug
Tourist arrivals	-5.5	15,5	22.1	Jan-Aug
Tourism receipts (BoP)	-0.6	14.9	11.2	Jan-Aug
Exports goods & services	**1.4**	**1.6**	**5.3**	**H1**
Imports goods & services	**-12.1**	**-6.1**	**3.4**	**H1**
GDP growth*	**-6.6**	**-3.3**	**-0.7**	**H1**
Inflation (CPI)	**1.5**	**-0.9**	**-0.8**	**Sep**
Current Account (% of GDP)	**-1.2**	**1.4**	**2.2**	**Jan-Aug**

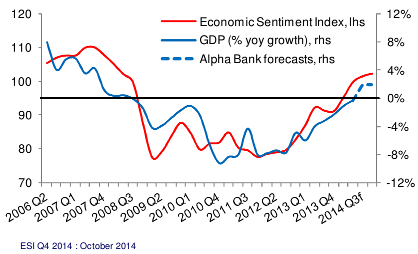
Sources: Bank of Greece, Hellenic Statistical Authority (ELSTAT)
* Revised GDP for 2012 and 2013.

Macroeconomic Imbalances Restored



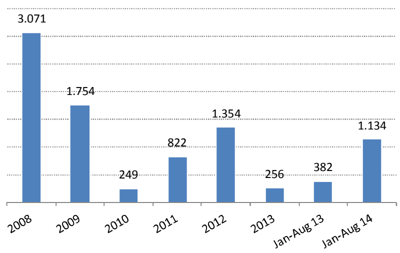
Source: Bank of Greece, IMF

Growth and Confidence



Source: ELSTAT, IOBE, Alpha Bank

Foreign Direct Investments
(in €mn)



Source: ELSTAT

Additionally, on the back of the successful outcome of stress tests the government is now in a better position to start negotiations with the Troika, leading to the disbursement of the next loan installment. Consequently, the most likely scenario is that some sort of EU precautionary credit line will be agreed before the current program is completed at the end of this year. An exit with a safety net in the form of precautionary credit line will ensure that the country will be under supervision securing the progress of structural adjustments and fiscal discipline leading in turn to a de-escalation of Greek government bond yields. Additionally, it would give financial markets the security of knowing that Greek government could draw on the credit line of an emergency.

The aforementioned favourable developments was the result of some great achievements in the process of implementation of Greece's Eurozone, ECB and IMF backed adjustment program in the period 2010-2014, although at a big cost in terms of lost incomes and employment.

Firstly, in the field of fiscal adjustment, Greece implemented successfully the 2013 budget with a notable general government primary surplus instead of a budgeted zero deficit. This achievement, in combination with low domestic demand by the private sector and drastic improvement of the international competitiveness of the country led also to a substantial surplus in the current account (including capital transfers) of the country's balance of payments.

Secondly, in the field of structural reforms, Greece has succeeded in overhauling its institutional framework, abolishing pervasive rigidities and a great array of impediments to the competitiveness of its economy.

Thirdly, in the field of growth dynamics there are now visible signs for a strong recovery, setting the conditions for a drastic fall of today's high unemployment and also for the sustainability of government debt, as well as for the effective management and settlement of households and corporate debt obligations.

Overall, Greece's remarkable adjustment in the last four and a half years has led to the rebalancing of the economy. This was made possible through fiscal consolidation, mainly by reducing spending and expanding the tax base on a permanent basis. Moreover, substantial productivity-enhancing and employment-increasing structural reforms (especially in the labour and product markets) were implemented successfully, boosting Greece's international competitiveness, as well as net exports, business and consumer sentiment.

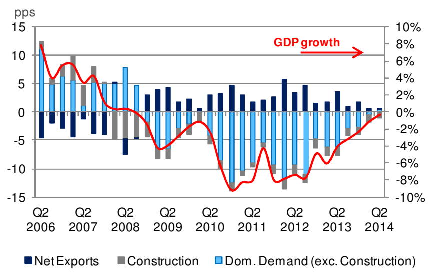
The improved economic conditions continue to be supported by better than expected primary budget surpluses, a sine qua non condition for the confidence-driven recovery of the Greek economy and its sustainability. Widely-expected small-scale official debt relief will further support the overall adjustment process, helping to mitigate political risk in view of uncertainties in the run-up to presidential elections by early 2015. More specifically, regarding the fiscal sector, the General Government (GG) primary balance recorded a surplus of 0.8% of GDP in 2013, well ahead of schedule, against a targeted zero balance, from a deficit of -0.9% in 2012. Moreover, fiscal consolidation continues unabated in the nine months of 2014 which indicates an over-performance of 2014 fiscal primary surplus target. According to the Economic Policy Program, the target set for 2014 is for a primary surplus of 1.5% of GDP. However, as mentioned in the Preliminary Draft Budget, Greece will record a bigger primary surplus of 2.0% of GDP.

Also, **current account balance** (including net capital transfers) recorded a surplus of 1.44% of GDP in 2013. Moreover, in January-August 2014 a current account surplus of 2.2% of GDP has been recorded, compared to a surplus of 1.5% of GDP in the same period of 2013. This was made possible through the implementation of the adjustment program which also led to a significant improvement in the international competitiveness of the economy. Greece has now recouped in full the competitiveness losses in the period 2000-2009, through internal devaluation since 2010, while the restoration of labour market flexibility and the expected strong economic performance in terms of GDP and productivity growth may imply further gains in competitiveness in the following years.

Regarding **growth dynamics**, after six years of deep recession (with a 25% cumulative decline in economic activity since the onset of the crisis) Greece is clearly on the road to recovery. This was evident since 2013 (and specifically the last quarter of 2013) when real GDP showed a marked slowdown in the rate of output decline. In fact, the recession was milder than was first anticipated, as according to the new revised data, real GDP fell by -3.3% in 2013, from -6.6% in 2012.

The recovery has gathered speed in Q1 2014 and further in Q2 2014, when GDP contracted at a decelerated pace, from -6.0% yoy in Q1 2013 to -2.3% yoy in Q4 2013 and then to -1.1% in Q1 2014. In Q2 2014, official figures showed that GDP shrank by -0.3% on a yearly basis, the smallest contraction since 2008, while GDP is expected to grow by 1.5%-2% in H2 2014. On the basis of quarter-on-quarter unofficial seasonally adjusted estimates, the turnaround of economic activity has already begun with a growth rate of about 0.4% in Q2 2014.

GDP Components' Contribution to Growth



Source: ELSTAT

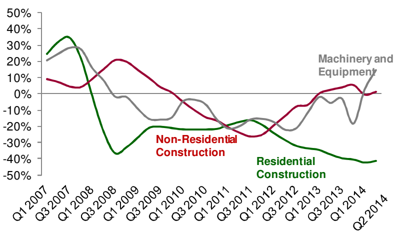
Positive Signs for GDP Growth Rate from Q3 2014 Onwards but Deflationary Pressures Remain

GDP fall in Q2 2014 was mainly due to: a) the surge in shipping imports which subtracted more than 0.5 pps from GDP, b) the unexpected negative contribution of inventories by 0.35 pps and c) the plunge in housing investment by -41.4% yoy in Q2 2014, on top of its fall by -42.3% in Q1 2014, which subtracted -1.0 pps in Q2 2014. On the bright side, looking at the components of GDP in Q2 2014, it is noteworthy:

-the stabilisation of private consumption. More specifically, the fall in private consumption is completely reversed as it stabilized for a third consecutive quarter, against a large fall by -6.6% in Q2 2013 and -8.7% in Q1 2013. In H2 2014 private consumption is expected to gain more momentum.

- the pick-up in exports of goods and services by 5.3% yoy in Q2 2014, which partially offset the surge in imports of goods and services by 4.6%. As a result, net trade had a small positive contribution in GDP by 0.2 pps in Q2 2014, from 0.6 pps in Q1 2014. The sharp rise in exports in Q2 2014 is completely attributed to the rise in exports of services, as they increased by 15.6% yoy in Q2 2014, up from an increase by 13.1% in Q1 2014, and while exports of goods decreased by -3.4% yoy. According to the Balance of Payments published by the Bank of Greece, exports of goods increased by 2.1% in Jan-Aug 2014, while non-oil exports registered a significant increase by 4.5% accordingly.

Investment (yoy % growth)

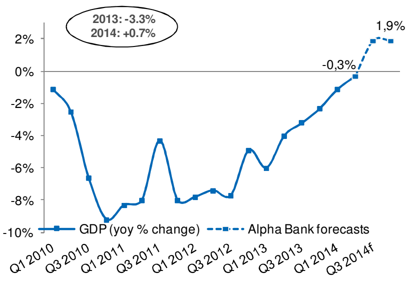


Source: ELSTAT

Exports are projected to surge in 2015 as a result of the gains in competitiveness and quality of the business environment as well as the depreciation of the Euro against main currencies.

-the rebound in investment (excluding housing) which increased by 8.2% yoy in Q2 2014, up from an increase by 1.7% in Q1 2014, presumably driven by a recovery in investment in machinery and equipment by 14.5% in Q2 2014 (Q1 2014: 2.6%), and to a lesser extend driven by an increase in non-residential construction by 1.2% in Q2 2014.

GDP (yoy % growth)



Source: ELSTAT

GDP growth on a yearly basis is expected to turn positive in between 1.5% to 2% during the second half of 2014. Recoveries in employment (notably private sector employment), retail sales, non-residential investment, car registrations and building permits, all propel economic sentiment and consumer confidence indicators to new highs, amidst record-breaking tourism activity and strong performance in non-oil exports of goods. These developments have also contributed to the pick-up in deposits growth for a seventh consecutive month in September 2014.

These favorable developments may lead to a real GDP growth even higher than the Troika's projection for an average 2.8% real GDP growth in the period 2014-2018. Stabilising trends in unemployment, already from the first semester 2014, indicate that the trend of positive GDP growth from 2014 onwards will be substantially based on increasing labour employment. Additionally, the stronger economic recovery in the months ahead is expected to prop up NPL decompression from Q1 2015 and, as the releveraging of the economy picks up, to gradually bring ECB-supervised and capital-enriched Greek systemic banks back to profitability, especially after the outcome of the stress tests.

The key drivers on the resurgence of the economy are:

a) Greece's valuable comparative advantage in important sectors of the economy, mainly tourism, which contributed to the recovery of the economy after 6 years of deep recession.

b) The drastic improvement of the country's international competitiveness and its institutional and organisational structure, which led to the attraction of the much needed business investments and in particular of Foreign Direct Investment (FDI).

c) Private consumption will be supported by low inflation expectations, increase in disposable income and use of precautionary savings held outside the banking system during the crisis. With employment increasing, private consumption is also poised for a recovery towards the end of the year.

d) The expected bottoming out of recovery in housing investment in 2014 and the recovery from 2015 onwards.

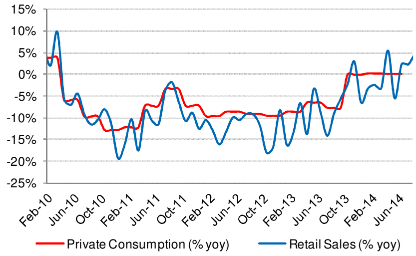
e) The implementation of the new EU co-financed development program of Greece, under the new programming period for cohesion policy 2014-2020 and the provision for EU structural funds financing amounting to more than € 26 bn for the following 7-year period. Moreover, by the end of 2015 Greece is expected to totally absorb € 12 bn from EU structural funds (including €4.2 bn of the remaining projects under the National Framework of the period 2007-2013).

Indicative of the improvements made in Greece's economic and financial environment is S&P's upgrade in September 2014 of the country's long term foreign and local currency sovereign to B, from B- (outlook stable). The rating agency has taken into consideration three key factors, which refer to: a) the successful fiscal adjustment which is expected to continue in the next few years and the lack of risk for a fiscal derailment, b) the recovery of the economy (positive gains in nominal and real GDP), that will enable Greece to sustain primary surpluses during 2014-2017, c) the funds currently held in the government's Hellenic Financial Stability Fund which will be sufficient for any further bank recapitalisation. Also, Moody's upgrade the country's government bond rating by two notches, from Caa3 to Caa1 in August 2014.

Deflationary pressures remain in the country as a result of both external factors such as the Euro's rising exchange rate and falling commodity prices and internal ones such as the weak economic activity due to the program of macroeconomic adjustment. CPI Inflation remained negative at -0.8% in September 2014 from -0.3% in August 2014, -0.7% in July and also negative -1.1% in September 2013. Average CPI stood at -0.9% in 2013 from 1.5% in 2012, 3.4% in 2011 and 4.7% in 2010. Overall, inflation is expected to remain negative even in 2014 (-0.8%) and turn positive (0.3%) in 2015. Core inflation turned negative and stood at -0.4% in September 2014 from +0.4% in August 2014, -0.2% in July and -1.9% in September 2013.

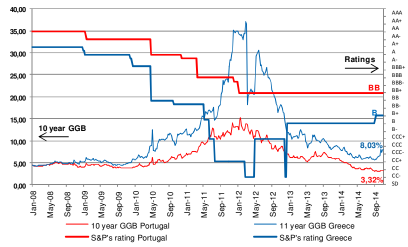
Harmonised inflation decreased significantly at -1.1% in September 2014 from -0.2% in August 2014, -0.8% in July and -1.0% in September 2013. The decline in energy prices is expected to have downward effect not only on Greek CPI, but also on Eurozone's one, thus exacerbating the deflationary worries.

Private Consumption)



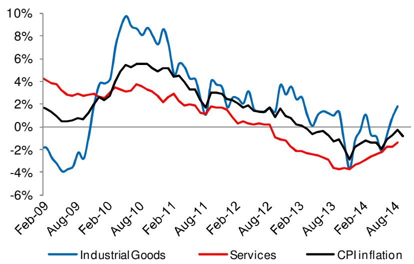
Source: ELSTAT

Greek Government Bond Yields and Ratings



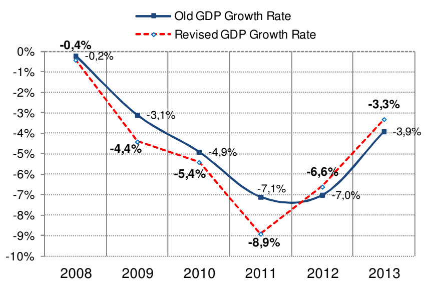
Source: Bloomberg

Tradables vs Non-Tradables (CPI Inflation)



Source: Bank of Greece, ELSTAT

GDP Methodological Revision



Source: ELSTAT

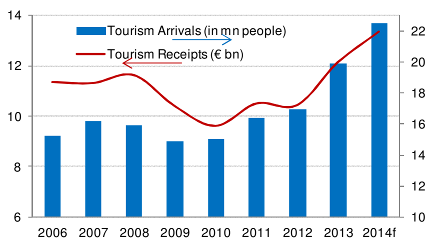
BOX1 : GDP Methodological Revision

In early October 2014, the Hellenic Statistical Authority announced a revision of the benchmark year and compilation of time series for national accounts for the period 1995-2013, in combination with the implementation of the European System of National and Regional Accounts ESA2010 (from ESA 95). As a result of the revision, the real GDP (2010 constant prices) increased mostly throughout the period 1995-2010 and less during 2011-2013. In the benchmark year 2010 the real GDP increased by €4,058 mil. (a 1.8% impact on GDP 2010).

The main changes concern the calculation of R&D as a fixed asset (impact +0,57% on GDP 2010), the calculation of total military expenditure as gross fixed capital formation (+0.55%), the change in the statistical recording of goods sent abroad for manufacturing/processing and a change in the calculation of Financial Intermediation Services Indirectly Measured between resident and non-resident Financial Institutions. In addition, imports and exports of oil petroleum products were compiled from Foreign Trade Statistics of ELSTAT instead of Bank of Greece data (impact on GDP 2010: +0.5%). Finally a new method for the calculation of the expenditure for new dwellings and work in progress was applied for the period 1995-2013 with negative impact on GDP 2010 of 0.43%.

Greek Shoots of Recovery Seem Growing and Flourishing

Tourism Prospects



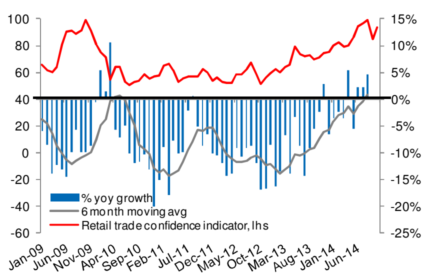
Source: Association of Greek Tourism Enterprises, Bank of Greece

Tourism: Tourism sector has shown a remarkable strength in 2013, which has been widely surpassed in 2014. Greece's unique geographical characteristics, in combination with its highly developed and still fast developing transportation infrastructure as well as further modernisation of tourist facilities, are expected to contribute to its development as a major tourist destination in Europe and international transportation hub.

In fact, tourism arrivals through air travel in the main Greek airports exceeded expectations in Jan-Sept 2014 and increased by 14.3%, reaching 13.01 mn arrivals, compared to an increase by 9.9% in Jan-Sept 2013. According to the Bank of Greece data, total tourism arrivals increased by 22.1% yoy in January-August 2014, reaching 15.34 mn. As a result, tourism receipts were also increased remarkably by 11.1% in January-August 2014, compared to 14.5% in January-August 2013.

The positive results in January-August 2014, together with the upturn in tourism indicator turnover (Q2 2014: 89.8, Q1 2014: 46.5) set the scene for another record year in tourism in 2014, fuelling growth and job creation. According to the estimates of the Association of Greek Tourism Enterprises (SETE), in 2014 tourist arrivals are expected to increase by 13.1% reaching 22.5 mn (including cruise travelers) from 19.9 mn in 2013. An increase in those traditionally visiting Greece, such as the British and the Germans, will offset any fall in arrivals from Russia and Ukraine. The good prospects in the tourism sector in 2014 are attributed to the improvement in services provided, such as accommodation establishment and the decline in expenditure for accommodation. The average expenditure per night decreased by -4.7% on an annual basis in H1 2014, while in July and August-traditionally the peak tourism season-prices registered a moderate increase by 0.8% and 2.5% respectively.

Volume of Retail Sales (2010=100)



Source: ELSTAT, IOBE

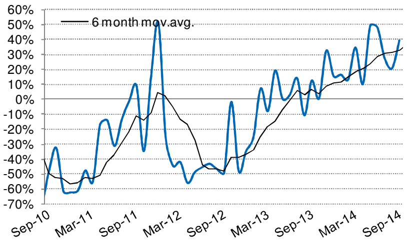
Retail Sales: The general index of the volume of retail sales increased by 2.4% in Jan-Aug 2014 yoy, from a decrease of -10.6% in Jan-Aug 2013. Actually, retail sales were up for a third consecutive month in Aug 2014 by 7.4% yoy versus a fall by -7.8% yoy in Aug 2013. The most encouraging element was that **private consumption resumed growth** and actually increased by 0.1% yoy in Q1 2014, for the first time since Q1 2010, versus a decrease by -0.2% yoy in Q4 2013 and a fall by -8.7% in Q1 2013. In Q2 2014 private consumption stagnation confirmed its stabilising trend. In 2014, private consumption is expected to increase by 0.4%, compared to a considerable fall by -6% in 2013. This favourable development came much sooner than expected, as consumer spending was significantly weak in the nine month period of 2013 due to high unemployment and fiscal austerity, but also due to the extensive restructuring that took place in the retail trade market with some big businesses ceasing operations.

The **improvement in consumer confidence indicator** in October 2014 to -50.9, from -55.8 in Sept.2014, indicates that the conditions for a stable financial environment are fully in place. Moreover, retail trade confidence indicator improved 93.9 in October from 84.8 in Sept.2014. On these grounds, household spending on goods is expected to pick up in the coming months, with the general index of the volume of retail trade expected to register an increase of 3.3% in 2014, from its fall by -8.1% in 2013.

The new private passenger cars registrations soared by 29.8% in Jan-Sept 2014, against a fall by -0.4% in the same period 2013. This marked increase might be considered as a leading indicator to the recovery of private consumption. In particular, in Sept.2014 the monthly increase was 46.7% yoy, on top of its increase by 12.6% in Sept.2013. Expenditure on imported cars increased at € 775 mn in Jan-Aug 2014, from €606 mn in the same period 2013 and is expected to increase further in the coming months.

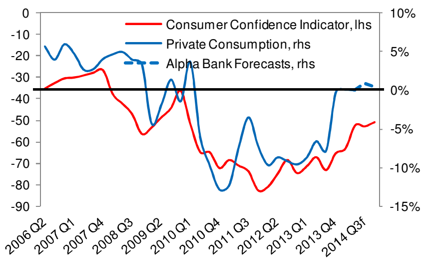
The upward trend in the Economic Sentiment Indicator (ESI) provides another indication that the economy is on track to recovery. The economic sentiment indicator for Greece, which is compiled by the Greek Institute of Industrial Studies (IOBE) and published by the European Commission, despite its fall during the last three months, increased in October 2014 to 102.2, from 99.3 in Sept.2014 and 102 in Aug.2014. The movement of the index followed the European one and is consistent with positive annual GDP growth in H2 2014.

Car Sales (% yoy change)



Source: ELSTAT

Consumer Confidence



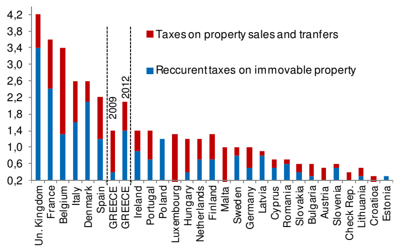
Consumer Confidence Indicator Q4 2014 : October 2014

Source: ELSTAT, IOBE

Real Estate Market: The real estate market has been hit severely by the economic crisis in Greece. The market's main characteristics are the subdued demand, the low level of transactions and the price slippage. Nevertheless, the cumulative property price decrease, during recession, combined with the gradual increasing confidence for the Greek economy may trigger investors' interest towards the Greek real estate market. However, the most controversial issue and destabilising factor for housing investment is the implementation of the new unified property tax. Although few revisions have been made by the government, such as the extended period of payment installments and the exemption procedure for vulnerable social groups, it is widely assessed that it still represents a huge burden for households and may discourage foreigners to invest in the Greek housing market.

Despite the tax reduction on property transactions, the overall tax burden on property in Greece is high and in fact among the highest (7th) in EU28. This is mainly due to the high recurrent taxes on property which are the 5th highest in Europe (or 1.4% of GDP). The heavy tax burden on property during the contracting phase of economic cycle caused a distortionary effect on growth and real estate sector recovery. This effect is magnified when i) applied on objective property values which are higher than the market values and ii) imposed on property offering no yields for taxes to be paid or cannot even be easily liquidated. These two characteristics should rationalise.

2012: Property Taxes (% of GDP)



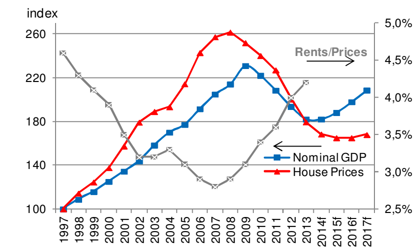
Source: Eurostat

Real estate market is expected to stabilise but at a different pace along market segments. More specifically:

Residential Property Sector: Activity in the sector remains subdued, as residential investment fell drastically by -41.4% yoy in Q2 2014, from -42.3% yoy in Q1 2014 and had a negative contribution to GDP by 1.0 pps. It is expected for residential investment to gradually recover from early 2015 in line with easing lending conditions for mortgages. In general, it is believed that the housing market will bottom out in 2014 and has the potential to enter into a recovery path, helping to reinforce the recovery of the economy as a whole from 2015. During the six years of recession, several supply and demand factors caused the collapse of the housing market. On the demand side, the dramatic shrinking of household incomes together with the deterioration of economic sentiment-especially consumer sentiment- the delays on new property tax and the wide spread perception for even lower prices, contributed to a drastic fall for housing demand at abnormally low levels. On the supply side, the tightening of credit standards by banks on mortgages, following the upward surge of their NPLs, has deprived the housing market with vital liquidity. The combination of the above factors resulted in a decline in mortgage lending by -3.3% in the end of 2013 and by -2.9% in Sept. 2014.

As mentioned earlier, it is noteworthy that property taxation took a heavy toll on households. During the period 2010-2011 property taxes (collected through the electricity bill) stood at 1.5% of GDP. These property tax revenues increased to 2.2% of GDP in 2013 when the government imposed cumulatively the property taxes for the years 2010, 2011 and 2012. The fall in domestic demand for housing and, on the other hand, the substantial fall of housing investment are also attributed to high unemployment and the abnormally high losses in disposable income. Therefore, apart from the substantial fall in residential investment, the number of transactions in new houses declined drastically to 3.0 thousand in Q2 2014 from 5.1 thousand in Q2 2013 and 34.9 thousand in Q2 2008. House prices also fell cumulatively by -31.2% from 2008 to 2013, while the pace of decline has been decreased to -7.3% yoy in Q2 2014, down from -8.5% yoy in Q4 2013 and -12% yoy in Q2 2013.

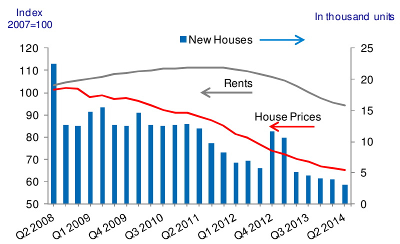
House Price Adjustment



Source: Bank of Greece, ELSTAT

Housing market is expected to gradually stabilise in 2015-2016, as housing taxation is expected to rationalise and house prices have become particularly attractive following their 5–year falling trend. The expected recovery of the economy from 2014 onwards, supported by a booming tourism season and a substantial increase of the capital inflow for investment in housing, is expected to support housing price stability. These developments are compatible with the expected GDP growth of 2.9% in 2015 and 3.7% in 2016. Moreover, it is also expected that fixed investment in housing will stabilise in 2014 and will have a positive contribution to GDP growth from 2015 onwards.

New Houses ,Prices , Rents

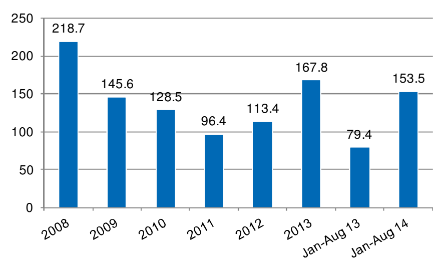


Source: Bank of Greece, ELSTAT

The above projections are taking into account the fact that the volume (in cubic meters) of **building permits** fell by 4.3% yoy in Jan-July 2014, against a big fall by -41.1% in Jan-July 2013.

Since the beginning of 2014, there is a pickup in rental activity due to increasing demand for medium to good quality houses for rent. This is the combined effect of decreasing rental prices, increasing property taxes and tighter credit standards for a house purchase. During the last years the number of vacant office spaces increased substantially, due to the increase of companies' insolvency rate and the mergers of banks' branch networks.

Foreign Inflows to Purchase Real Estate (€ bn)



Source: Bank of Greece

Nevertheless, **the office sector** had stabilised as depicted in rental prices, in prime office locations. Demand starts to emerge as a lot of businesses seek to exploit historical low prices. Prices stabilised and fluctuated between 8-14 Euro/sq. meters depending on the business district and quality of the buildings. In any case, prices do not reflect fair values due to market inefficiency and low transaction volume.

The most severely hit market segment of the real estate sector was the retail commercial outlet. Consumer spending was extremely weak, due to the high unemployment rate and the lower household disposable income, thus affected negatively the demand for commercial property. On top of that, the extensive restructuring of the retailers, with some of the big businesses ceasing operations, increased vacancies substantially.

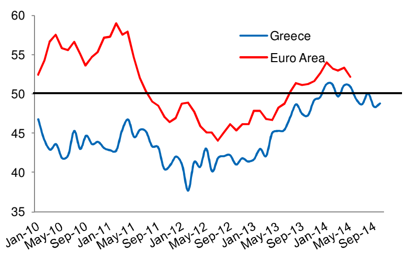
As consumer spending has been stabilising since Q1 2014 and consumer confidence improves, no further increase of the vacancy rate is expected. In 2014 there has been focus back on the main retail arteries, at the expense of local markets and shopping centers in the suburbs.

Finally, the main characteristics of the **logistics and industrial segment** of the real estate sector are the high vacancy rates that still increase for facilities of 1,000-3,000 sq.meters, the stable yields and the subdued demand. Furthermore, rental prices are expected to stabilise in 2014 while lease contracts to become more flexible and for shorter periods of time.

Construction and Public Investment Projects: Construction excluding residential investment is expected to be a major contributor to investment and GDP growth from 2014 onwards.

This is evident already from Q2 2014, when non-residential construction registered an increase by 1.2% yoy, thus smaller than it was estimated, from a decrease by 0.5% in Q1 2014. Non-residential construction is expected to strengthen further in the following quarters, and increase by 6.5% in 2014 and further to 13% in 2015. This is based on the reactivation of public investment projects most of which are co-financed by the European Union structural funds with the critical contribution of the European Investment Bank (EIB). Of particular importance in this respect is the restart of construction activity on the four big highways of Greece, which activity had stopped abruptly in 2011. Thus, public investment is expected to recover as the Public Investment Program is expected to be higher in 2014 compared to 2013 (2014: €6.8 bn, 2013: € 6.6 bn).

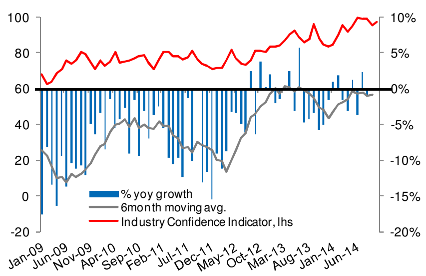
PMI manufacturing



Source: Reuters, Bank of Greece

Industrial Production: Despite all other positive signs, the general index of industrial production for the 8-month period 2014 registered a decrease by -2.8% yoy versus a smaller decrease by -2.6% yoy in Jan-Aug 2013 reflecting mixed trends. Electricity production recorded a double-digit drop (-13.0%), while water supply production slipped -0.9% yoy. However, production in manufacturing industry registered a marginal growth by +0.3% in Jan-Aug 2014, from a decrease by -0.2% in Jan-Aug 2013. In 2013 the general index of industrial production registered a fall by -3.6% compared to a fall by -3.4% in 2012 and a cumulative fall by -34.6% in 2008-2013.

Manufacturing Production (2005=100)

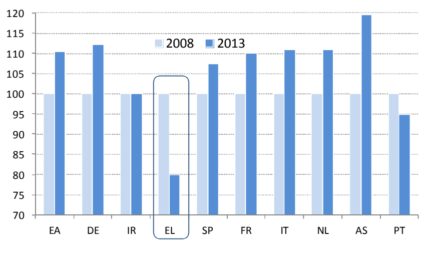


Source: ELSTAT, IOBE

The PMI index in manufacturing gained back its strength and climbed to 50.1 in Aug 2014, from 48.7 in July 2014 and 48.7 in Aug 2013. However, in October 2014 the index fell back to recession territory, to 48.8. PMI index is poised to reach higher levels, as industrial production starts recovering on a more permanent basis.

Industrial confidence indicator followed a declining path during summer 2014 from 99.9 in June to 95.3 in September. However the index edges up in Oct. 2014 at 97.4. The level of the index still points to small positive growth of manufacturing production of 0.5% in 2014 as a whole. These developments in manufacturing production are taking place despite the fact that most sectors are still affected negatively by the continuing fall of activity in the housing market. Also, production in the domestic market of basic metals has registered an increase by 6.2% in Jan-Aug 2014 versus a proportionate decrease by -5.9% in Jan-Aug 2013. This shows that the expected recovery of other construction from 2014 and of investment in housing from 2015 will have substantial positive effects on the manufacturing production as well.

Unit Labour Cost Index (2008=100)



Source: Eurostat

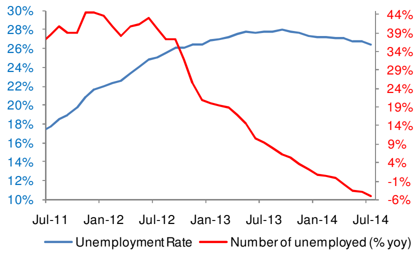
Unit Labour Cost Time Path: Reflection of Internal Devaluation Policy

Greece exhibited the most significant reduction in the Unit Labour Cost (ULC) among all countries in the European Union, which was mainly the result of wage cuts. Admittedly, compensation per employee registered big falls (2013: -7.8%, 2012: -3.7%) while in 2014 is expected to decline further by -1.5%, while labour productivity increased by 0.2% in 2013. Compensation of employee in Greece fell cumulatively in 2009-2014 by -17.7%, while labour productivity fell by -0.6%. Accordingly, ULC fell by -19.7%, unlike Italy, for example, where ULC increased by 0.3% in 2009-2014.

The drastic fall of wages and salaries both in the public and the private sector of the economy is the palpable evidence of the magnitude of the labour market reforms. These reforms imply that the falling trend of ULC in Greece is bound to continue in the following years as well, mainly through increases in labour productivity at a relatively high rate in 2015-2016. **ULC is expected to continue to fall in 2014** also as a result of the legislated reduction of employers' social security contributions in the private sector by 3.9% as of July 2014. Labour reforms will have to be safeguarded, securing the already established high degree of flexibility in this market, following the abolition of labour market rigidities existing until 2009.

In this business friendly environment, the fast implementation of the privatisation program will boost investment and create jobs and thereby lead to an increase in real and potential output.

Unemployment Rate
Number of Unemployed (% yoy, SA)

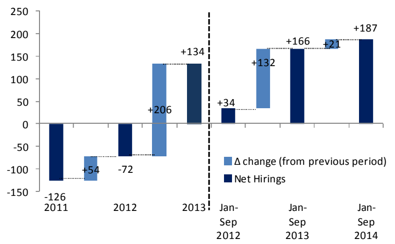


Source: ELSTAT

Stabilising Unemployment

The 25% decline in real GDP over 2008-2013 period was accompanied by a decline in employment by 17.7%. Within 2013 the unemployment rate peaked to 28.7% in Nov. 2013, from 27.8% in Jan 2013. However, since Feb. 2014, the unemployment rate registered a gradual fall to 26.0% in June 2014, and further to 25% in July 2014, from 28.4 in Feb. 2014. On a seasonally-adjusted basis, unemployment rate stood at 26.4% in July 2014, from 26.7% in June 2014. Admittedly, unemployment rate is falling, but still this has barely made a dent in the rise of unemployed people to 1.28 million. The sectors of the economy that were mostly affected in 2013 and 2014 are construction (cumulative decrease in employment by -59.1% in 2008-2013), manufacturing industry (2008-2013: -40.4%) and trade (2008-2013:-24.9%).

Net Hiring Over Dismissals (Private Sector)

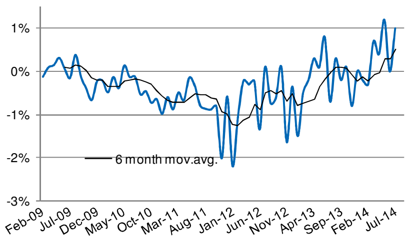


Source: Manprower Employment Organization

Another worrisome fact is that the share of long term unemployed has increased to 74.4% in Q2 2014, from 65.1% in Q2 2013 and 45.5% in Q4 2010. Moreover, unemployment has reached an alarming level for the youth, as it remains at extremely high level, at 51.5 % in June 2014, though from a peak of 60.3% in Feb.2013 and 58.8% in June 2013. Additionally, in Q2 2014, 922,500 unemployed were less than 44 years old and about 377,600 of them were less than 29 years old. The institutional changes in the labour market have also affected the employment contracts, as it is evident by the increase in the part-time employment in total new employment contracts to 34% (H1 2014), compared to only 17% in 2009. At the same time, full-time employment contracts decreased to 52% of total new employment contracts in Jan.-Aug. 2014, versus 79% in 2009.

Progress has also been made as a result of the new legal and institutional settings of the labour market, such as wider use of decentralised wage bargaining, lower minimum wage and substantial reductions in non-wage labour costs. These reforms have contributed to a more efficient functioning of the market as well as to the rapid improvement of the country's international competitiveness.

Employment (% mom, SA)



Source: ELSTAT

Due to the aforementioned developments in the labour market, the unemployment rate is expected to recede to 26.4% in 2014 and further to 24.0% in 2015, from 27.5% in 2013.

Positive signs that labour market has rebound strongly emerge from the employment in the private sector, according to the Manpower Employment Organisation (ERGANI data). **New hirings in Jan-Sept 2014 increased by 384 thousands** compared to the nine months in 2013, and reached 1,187 thousands. This is a huge improvement bearing in mind that construction activity is still in recession. Most of these hirings use flexible labour contracts and offer low wages and salaries. At the same time, dismissals increased by 362.8 thousands. As a result, employment registered a net increase of 186.9 thous. in Jan-Sept 2014, compared to a smaller net increase of 165.7 thousands in Jan-Sept 2013.

2000-2009 Competitiveness Losses Recouped Propping a Current Account Surplus

Based on data from the European Commission (Price & Cost Competitiveness and European Economic Forecast, Spring 2014), the internal devaluation, measured as the devaluation of the relative Unit Labour Cost based Real Effective Exchange Rate (REER) for Greece (against 35 trading partner countries), reached 19.8% in Q2 2014 versus Q4 2009, leading to a complete reversal of losses in competitiveness from 2000 until 2009. Comparing to other Euro Area countries in the periphery that also experienced prolonged period of recessions, Spain's internal devaluation reached 12.1% and Italy's internal devaluation reached a mere 0.8% during the same period.

The Euro REER for Greece decreased by 5.8% in 2013, while an additional fall by 2.2% and 1.8% is expected for 2014 and 2015 respectively. This is a huge adjustment, which could not easily be achieved even if Greece had its own currency and the ability to apply its own independent monetary and exchange rate policies. This spectacular improvement in Greece's international competitiveness and its upgrading as a place of establishment of internationally tradable industries is expected to continue in the near future through the maturing of already implemented structural reforms.

This significant improvement led to a spectacular current account adjustment, when in 2013 Greece actually ran a surplus of 1.4% of GDP, against a deficit of 1.2% of GDP in 2012. According to the 8month 2014 balance of payments data, the current account balance (including capital transfers) recorded a surplus of €3.98 bn (or 2.2% of GDP) which supports our estimate for a surplus, for a second consecutive year in 2014 of 1.8% of GDP.

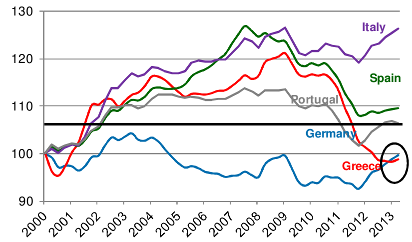
The 8month surplus was mainly attributed to the significant increase in services balance surplus by 17.4% (of €13.8 bn) and counterbalances fully the 8% increase of trade balance deficit (€12.3 bn). The driving force of the services balance surplus increase was the 8month higher increase of tourism receipts by 11.1%, due to the 22.1% increase of tourism arrivals. In 2014 the tourism receipts are expected to increase by more than 15%, up to € 13.5 bn, so the impact of tourism receipts on nominal GDP increase 2014 is estimated at 0.8 percentage points. Apart from the tourist receipts, the current account balance benefited during January-August 2014 by the increase in the transportation surplus of 20.1% and particularly by the international transportation receipts. The impact of this increase on the nominal GDP in 2014 is estimated at 0.6 percentage points.

The case of Greece has proved beyond doubt that restoring competitiveness sustainably through internal devaluation is possible, even under the most unfavourable economic and political conditions. It is true that the implied cost of adjustment in terms of lost output and employment (from the peak of the macroeconomic bubble of 2009) was substantial, but this cost would have been dramatically higher, if Greece had opted to pursue the needed adjustment through GRexit.

Significant progress in competitiveness has also taken place as a result of structural and institutional changes. More specifically, Greece has moved up four spots – from the 65th in 2013 to the 61st position in 2014 - in the World's Bank "Ease of Doing Business" ranking, with improvements in several areas. More specifically, Greece made the largest improvement among the 189 countries examined, in the ease of registering property, rendering it easier and less costly (2013: 170th, 2014: 116st). Starting business has also been facilitated by removing bureaucratic obstacles and unnecessary cost ranking Greece 52nd (2013: 57th). The relative position of Greece was also improved, by two notches, regarding trading across borders and dealing with construction permits.

The Global Competitiveness Report 2014–2015 released by the World Economic Forum also reveals that the Greece's competitiveness is improving as the economy seems to be leaving behind the worst. The report provides an overview of the competitiveness performance of 144 economies among which Greece ranks 81st,

Competitiveness (REER, based on ULC)



Source: Price and Cost Competitiveness Report, European Commission

Greek Balance of Payments (in € bn)

Greek Balance of Payments (€ billions)

	Jan-Aug 2014	Jan-Aug 2013
Trade Balance (TB)	-12.33	-11.41
Exports of goods	15.38	15.06
Imports of goods	27.72	26.48
Services Balance	13.83	11.78
Tourism Receipts	9.74	8.76
Shipping Receipts	8.53	7.95
Income Balance	-2.13	-2.68
Payment of Interest, Divid. & Profits	4.17	4.65
Transfers' Balance	4.61	5.03
Current Account (CA)	3.98	2.72
CA (% of GDP)	2.18	1.44
Capital Account	-2.52	-3.78

Source: Bank of Greece

WB Doing Business Rank 2014

Doing Business, World Bank	2014*	2013*	2012	2010
Ease of Doing Business	**61**	**65**	**78**	**109**
Starting a business	52	57	146	149
Protecting investors	62	61	117	154
Getting credit	71	67	83	89
Dealing with constuction permit	88	90	31	51
Registering property	116	170	150	153
Paying taxes	59	41	56	74
Trading across borders	48	50	62	84
Enforcing contracts	155	155	87	88

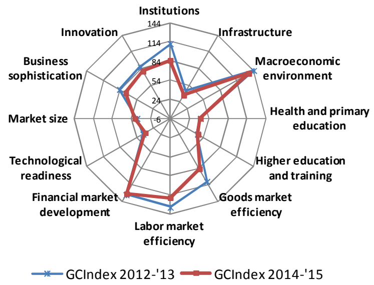
* In 2014 a new methodology was adopted and based on this, 2013 ranking was revised.

Source: "Doing Business", various editions, World Bank compared to 96th in 2012-2013. Greece's improved performance, according to the Global Competitiveness Index, by 15 steps, during the last three years, is mainly attributed to the improvement of a) the institutional environment as it is determined by the legal and administrative framework, b) the macroeconomic conditions, c) the "goods market efficiency", which is determined by the right mix of products and services given their particular supply-and-demand conditions, d) the labour market efficiency and e) the business sophistication.

According to this ranking, Greece's strong points are infrastructure, market size, technological readiness, health and education, whereas it is most apparent weaknesses and fields of improvement are related to the macroeconomic environment, financial sector and labour market efficiency.

Finally, according to the World Economic Forum the most problematic factors of doing business in Greece in 2014-2015 are, not surprisingly, due to the current economic hardship, the access to financing, the government bureaucracy, the tax regulations and high tax rates as well as the policy instability. Most of these are also going to improve in the year ahead as the Greek economy and public sector structure undergo substantial changes.

Global Competitiveness Index 2014-2015, (Rank)

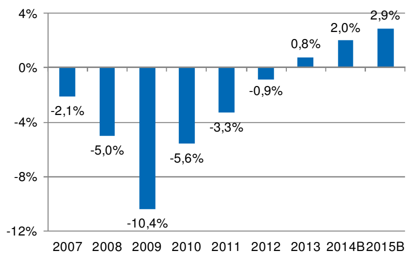


Source: World Economic Forum

Fiscal Discipline is Being Maintained and Extended

Greece had exceeded its fiscal target in 2013 and recorded a primary surplus of 0.8% of GDP. This surplus achieved one year ahead of schedule. Overall, Greece accomplished a significant improvement in its fiscal position compared to 2009, as it managed to eliminate the primary general government (GG) budget deficit of € 24 bn in 2009 to a record surplus of € 1.5 bn in 2013. This constitutes a fiscal adjustment of 11.3 pps of GDP, allowing the Greek authorities to proceed with the distribution of €525 mn as a one-off payment to the most vulnerable social groups such as the long term unemployed and the low-income families and pensioners, as well as the restoration of past wage and pension cuts to judges and military servants.

General Government Primary Balance (as % of GDP)

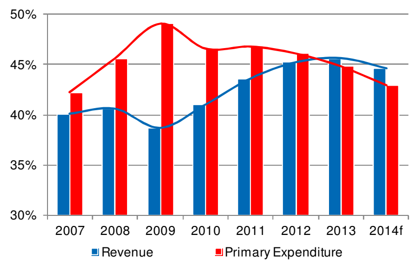


Source: Ministry of Finance, Alpha Bank forecasts

Fiscal performance continues at an unabated pace in 2014, as GG primary budget registered a surplus of €2.45 bn (1.3% of GDP) in Jan-Aug 2014, versus a surplus of €1.17 bn (0.6% of GDP) in the same period 2013 (excluding one-off transfers from the Securities Market Program of €1.5 bn). This outperformance is the result of better tax administration, improving tax collection and expenditure control. This is a remarkable outcome taking into consideration that tax refunds amounted to extremely high levels (9-month 2013: €1.5 bn, 9-month 2014: €2.6 bn). According to the Medium-Term Fiscal Strategy 2014-2018, tax refunds are projected to amount to € 3.14 bn in 2014 versus € 3.1bn in 2013.

According to the central government budget execution in the nine months of 2014, a central government primary surplus of €2.53 bn was recorded, against the nine month target set for a surplus of €1.55 bn and a surplus of €1.13 bn in the same period 2013.

General Government Primary Balance (as % of GDP)

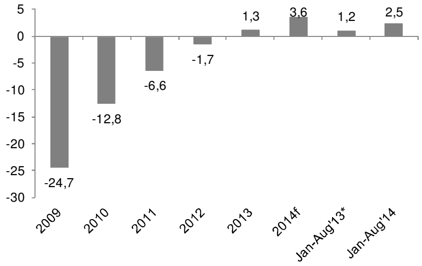


Source: Ministry of Finance, IMF forecast

In particular, net current budget revenues increased significantly by 2.0% in Jan.-Sept 2014, while in the same period 2013 they actually fell by -2.7%. In Sept.2014 revenues increased by 13.5% yoy, versus an increase by 8.5% in Sept.2013. Actually, this is a positive development taking into consideration that the authorities have collected only one out of the three schedules installments of the new property tax. The collection of direct taxes was robust and recorded an increase by 9.0% yoy, against a fall by -7.3% yoy in the same period 2013. Property tax collection continued to be strong, amounted to €2.18 bn in Jan.-Sept 2014, while in 2014 as a whole is expected to reach €3.8 bn. Moreover, indirect tax collections improved in July-Sept 2014, after a very poor performance in H1 2014. In Jan.-Sept 2014, indirect taxes decreased by only -1.4%, versus a fall by -8.1% in Jan-Sept 2013.

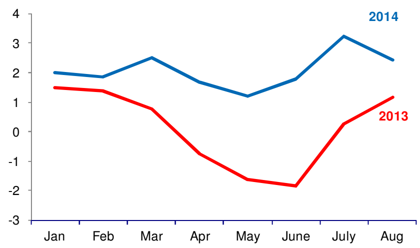
On the expenditure side, it is noteworthy that fiscal adjustment continues to be mainly attributed to the steep fall of current primary expenditure by -5.7% yoy in

General Government Primary Budget Balance
(in € bn)



Source: IMF, Fifth Review, June 2014

General Government Primary Budget
(in € bn)



Source: IMF, Fifth Review, June 2014

Major Projects

State-owned enterprises
Completed
Public Gas Distribution (DESFA)
Football Prognostics Organization (OPAP)
In the pipeline
2014
Horserace Betting Organization (ODIE)
Hellelnic Post (ELTA)
Hellenic Petroleum (HELPE)
Hellenic Vehicle Industry (ELVO)
Mining and Metallurgical Company (LARCO)
Railways (TRAINOSE)
Athens Airport (AIA)
Hellenic Defense Systmens (EAS)
Public Power Corporation (PPC)

Source: IMF, Fifth Review, June 2014

[1] The GG primary surplus in 2013 and in 2014 excludes Greece's revenues of €2.7 bn and €2.6 bn respectively from the return of profits of National Central Banks from GGBs purchased by the ECB under the SMP program.

Jan.-Sept 2014, against a decrease by -7.4% yoy in Jan.-Sept 2013. Court decisions reversing past wage cuts of military personnel and judges totaling €540.9 mn effective on Dec.2014 is not a reason for fiscal derailment in 2014 or 2015. The authorities have affirmed their commitment to take compensating measures if risks materialise.

Overall, the implementation of the central government budget in the nine month period of 2014 was satisfactory and paves the way for the better than planned implementation of the GG budget for 2014. It also reflects the strong possibility for better than planned outcome concerning fiscal adjustment [1] .

This evolution enables certain tax reliefs which are necessary to enhance growth perspectives as presented by the Prime Minister at the Thessaloniki International Fair. In particular, the Prime Minster preannounced the reduction of consumption tax on heating oil by 30%, the revision of the property tax, an increase of payment installments of debt to tax authorities and insurance funds, a reduction in the solidarity levy, and the gradual reduction of personal and corporate income tax.

Fast-Forward to Privatisations and Structural Reforms

Despite past delays associated with weak demand for the assets on sale and regulatory obstacles, privatisations are about to gain a new momentum. This should be one of the main priorities of the authorities, as the privatisation process will create new jobs. Major agreements were concluded, the most significant of which were those concerning the sale of Astir Palace Resort in Vouliagmeni, the privatisation of the Organisation of Football Prognostics S.A. (OPAP), of the Hellenic Gas Transmission System Operator S.A. (DESFA), etc.

A key development was also the selection of the Trans Adriatic Pipeline (TAP) for the transportation of natural gas from the Caspian region to the European markets. The the construction of the pipeline, which will cross Northern Greece, is expected to attract investments and expertise from abroad, while it will facilitate the reduction of energy costs which primarily burden domestic industry.

Ongoing reforms to strengthen the Hellenic Republic Asset Development Fund are expected to further facilitate the privatisation process. During the period 2011 –Sept 2014, the value of privatisations amounted to €2.947 bn. Looking forward, several agreements are in the pipeline. For 2014, some of the main planned privatisations include the Piraeus and Saloniki harbours, Athens International Airport, the train operator (TRAINOSE) and regional airports. The target for 2015-2016 is €3.5 bn in privatisation proceeds.

Strong interest has been expressed for the marina of Alimos, part of the port of Hydra, and part of the port and the tourist shelter of Poros and New Epidaurus. Strong interest has been also expressed for the marinas of Chios and Pylos (8 investors qualified for the second phase); the initial stage of the privatisation process of TRAINOSE by 3 major companies in European railways and the sale of 67% stake of Port Authorities of Piraeus (OLP) and Salonika (OLTH).

With respect to structural reforms, significant initiatives were undertaken during the first semester of the year. Firstly, measures were taken which further reduced the time and costs for start-ups and reduced red tape. Last but not least, specific measures also took place to liberalise professional activities, and selective activities in transport (e.g. taxis), food processing (e.g. milk), and retail (e.g. pharmacies, bakeries, gas stations, books).

Concerning the public sector, further rationalisation efforts were undertaken. The number of civil servants in the wider public sector was drastically reduced, public entities and organisations were closed down or merged, the tax and the social security administration as well as the tax collection mechanism were improved. Additionally, the plan to reduce employment levels in the public sector by 150,000 is on track. The reduction of employees in the public sector was quite significant at the end of 2013, as the implementation of the rule of 1:5 (1 hiring for every 5 retirements) was pursued consistently. The application of this rule has contributed to significant reduction of the civil servants to 671.1 thousand in 2013, compared to 907.3 thousand in 2009. A further reduction to 621.8 thousand employees is projected to take place until 2016, according to the European Commission. With these trends, it is now essential to hire new high-skilled employees to boost productivity and effectiveness in essential public services.

Privatization Revenues

2011-2014 (to-date)	€ 2947 mn
2011	€ 1560 mn
2012	€ 22 mn
2013	€ 1040 mn
of which:	
OPAP	€ 650 mn
Real Estate Sale and Lease	€ 250 mn
IBC	€ 80 mn
2014 (to-date)	€ 325 bn
of which:	
DESFA	€ 187 mn
Astir Palace Resort	€ 80 mn
2015-2016	€ 3500 mn

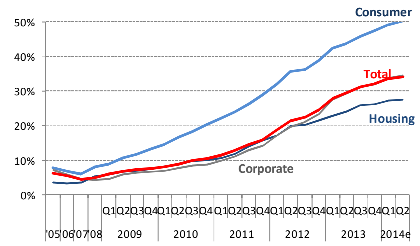
Source: HRADF, Alpha Bank

Banking System, Financing and Liquidity Conditions

The ECB conducted the comprehensive assessment exercise for assuming its banking supervision responsibilities for the credit institutions of the Eurozone in November 2014. The better than expected results of the stress tests for the Greek banking sector should help restore confidence in the economy and facilitate the re-leveraging of the economy. The demand for loans is expected to rise in line with the increase in incomes and jobs. The adequately capitalised banking system is set to accelerate the workout of the large stock of non-performing loans. The latter is about to peak towards the end of this year as percentage of total loans.

The NPL ratio is estimated at 34.1% in Q2 2014, from 31.9% in Q4 2013, 24.5% in Q4 2012 and 10.4% in Q4 2010. The NPL ratio for consumer lending is estimated at 50.1% in Q2 2014, 47.3% in Q4 2013 and 38.8% in Q4 2012 while NPL for the business segment at 34.5% in Q2 2014 from 31.8% in Q4 2013. Regarding the mortgage market segment, the NPL ratio is estimated at 27.5% in Q2 2014 from 26.1% in Q4 2013.

NPLs Ratio (%)

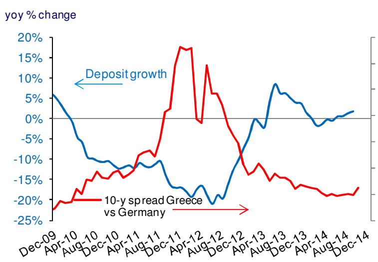


Source: Bank of Greece, 2014: Alpha Bank estimates

Moreover, more systematic and tailor-made initiatives are expected to generate a decrease of the NPLs level. A new law framework for dealing with the NPLs is on the cards, which is expected to speed up banks' efforts to tackle this issue. Additionally, as structural reforms regarding the business environment are in progress, business activity is expected to be gradually restored and improving borrowers cashflow.

The **upward trend of deposits** from households and businesses starting on March 2014 is still maintained. Particularly, in September 2014 total households' and businesses' deposits amounted to € 164.7 bn, from € 164.2 bn in August 2014 and € 163.2 bn in July 2014. The recapitalisation and restructuring of the banking system which led to the creation of four large banks already enhanced the banking system's ability to attract new deposits. Furthermore, the recent positive results of the stress tests are expected to strengthen confidence in the domestic banking system and thus further enhance the inflow of deposits.

Deposit Flight
(yoy % change)

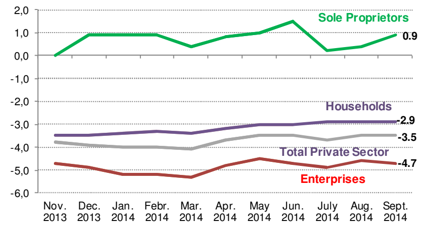


Source: Bank of Greece, Bloomberg

Despite the optimism in the financial environment caused by the recapitalisation of the Greek banking system, **credit expansion** remains in negative territory as a result of weak demand and tighter credit conditions, exhibiting remarkable differences among loan categories. Additionally, banks still face the consequences of the prolonged recession as reflected by the level of non-performing loans. Particularly, credit expansion to private sector stood at -3.5% yoy in September 2014 same as in August 2014, from -3.7% in July 2014, but improved from -3.9% in September 2013. Specifically, housing loans growth rate stood at -3.1% yoy in September 2014, from -3.0% in August 2014, but still improved from -3.2% in September 2013. However, consumer lending fell only by -2.5% in September 2014, from -2.9% in August 2014, reporting a significant improvement from -4.8% a year ago. Additionally, lending growth to businesses stood at -4.7% in September 2014 from -4.6% in August 2014 and -4.7% in September 2013. As mentioned in the previous paragraph, the inflow of deposits is a significant factor for the stabilisation of credit expansion by the end of 2014 and its reinforcement by the first quarter of 2015, so as to reach the level of growth rate of nominal GDP.

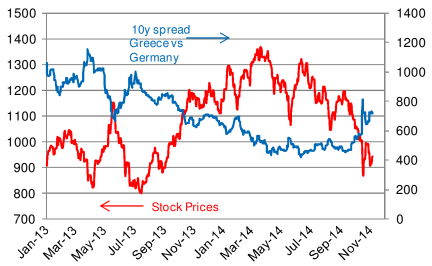
The average loan interest rate in Greece slightly decreased in September 2014 while the deposit one continued its downward trend. The combination of the fall in the average deposit rate and the average loan rate, led the spread to 3.89%. More specifically, the interest rate on households' new time deposits interest rate (agreed maturity up to 1 year) decreased to 2.08% in September 2014, from 2.13% in August

Evolution of Credit Growth, (%)



"Sole Proprietors" include unincorporated partnerships
Source: Bank of Greece

Athens Stock Exchange &10Y GGBs



Source: Bloomberg

and 2.39% in June, keeping up with the trend in the Eurozone, where the deposit rate decreased to 1.20% in September 2014, from 1.23% in August and 1.35% in June. Despite this gradual convergence to more normalised levels compared to the exceptionally high readings of the past three years, interest rates in Greece remain 60- 100 bps higher than those in other Euro Area peripheral countries. The corporate lending interest rate in Greece (with a fixed maturity for loans above €250 thousand and up to €1 mn) increased at 5.38% in September 2014, from 5.22% in Aug and 5.28% in Jun. 2014.

ECB's recent decisions i) to lower further the base interest rate (by 10bps to 0.05%), ii) start purchasing simple and transparent asset-backed securities and iii) purchase euro-denominated covered bonds issued by MFIs, were taken aiming at facilitating the new credit flows to the economy. Despite the skepticism around this decision to whether it will have a notable effect on stimulating credit expansion, especially for peripheral Eurozone economies, it is a rather symbolic action for a gradual transition to milder forms of fiscal adjustment in Europe.

In mid-October 2014 there was a severe turbulence in the **bond and stock markets** causing a sell-off of Greek securities as a result of the increasing skepticism on whether Greece can partially cover its financing needs from markets in case of an early bail-out exit, and the elevating political thermometer related to the forthcoming presidential election which may trigger early parliamentary elections. Additionally, the ASE index experienced its biggest slump of the last two years and registered a 13.6% decline between 13-16.10.2014 or a 25.3% decline in 16.10.2014 since the beginning of the year. Nevertheless after Greece has announced that an EU precautionary credit line will be agreed before the current adjustment program is completed at the end of this year, the markets calmed down a bit but the 10year Greek bond yield continued to hover close to 8%.

Economic Data – Greece

(% change unless otherw ise noted)

Yearly Data	2008	2009	2010	2011	2012	2013	2014*
Real GDP Growth	-0.4	-4.4	-5.4	-8.9	-6.6	-3.3	0.7
Gross Fixed Capital Formation	-6.6	-13.2	-20.9	-16.8	-28.7	-4.6	2.5
- Equipment	-4.7	-18.0	-8.4	-18.0	-17.1	-7.2	5,9
- Residential	-33.6	-20.7	-21.6	-18.0	-32.9	-37.8	-28,2
Unemployment rate	7.6	9.5	12.5	17.7	24.2	27.5	26.7
Employment	1.2	-0.6	-2.6	-5.6	-8.3	-3.7	0.6
Consumer Price Index (year average)	4.2	1.2	4.7	3.3	1.5	-0.9	-1.0
Unit Labor Costs	4.9	5.2	-0.1	-1.8	-6.2	-7.8	-1.5
Credit Expansion (Private Sector)	15.9	4.1	0.0	-3.1	-4.0	-3.9	-2.7
Primary Budget of General Government (as % of GDP)	-5.0	-10.4	-5.6	-3.3	-0.9	0.8	2.0
Current Account (as % of GDP)	-12.7	-10.0	-9.2	-8.7	-1.2	1.4	1.8

* Projections: Alpha Bank- Economic Analysis Division

Quarterly Data	2013	2013			2014		2014
	yearly	Q2	Q3	Q4	Q1	Q2	available period
Economic Activity (average, annual % change)							
Retail Sales Volume	-8.4	-8.4	-9.1	-1.8	-0.2	2.4	2.4 (Jan-Aug)
Construction Activity	-25.6	-30.7	-21.9	2.2	-17.0	17.4	-4.3 (Jan-July)
Industrial Production (Manufacturing)	-1.1	2.2	-3.9	-3.0	0.1	-1.8	0.3 (Jan-Aug)
PMI (Manufacturing)	46.0	45.2	47.7	48.7	50.7	50.5	48.8 (Oct)
Economic Sentiment Indicator	90.8	92.6	91.8	91.1			102.2 (Oct)
Index of Business Expectations in Manufacturing	87.8	90.6	90.1	85.4	90.0	95.6	97.4 (Oct)
Consumer Sentiment Index	-69.0	-67.0	-73.0	-65.0	-63.0	-52.0	-50.9 (Oct)
Credit Expansion (end of period, annual % change)							
Private Sector	-3.9	-4.1	-3.9	-3.9	-4.1	-3.5	-3.5 (Sep)
Consumer Credit	-3.9	-5.2	-4.8	-3.9	-3.4	-2.7	-2.5 (Sep)
Housing	-3.3	-3.2	-3.2	-3.3	-3.4	-3.2	-3.1 (Sep)
Business	-4.9	-4.9	-4.7	-4.9	-5.3	-4.7	-4.7 (Sep)
Tourism	-2.6	-0.7	-1.5	-2.6	-2.0	-1.5	-1.3 (Sep)
Prices (period average)							
Consumer Price Index (annual % change)	-0.9	-0.5	-1.0	-2.2	-1.3	-1.5	-0.8 (Sep)
Core Inflation	-1.7	-1.5	-2.0	-2.1	-1.0	-1.2	-0.4 (Sep)
Interest Rates (period average %)							
Savings	0.38	0.39	0.37	0.32	0.28	0.27	0.20 (Sep)
Short-term Business Loans	7.34	7.41	7.29	7.21	7.19	7.08	6.56 (Sep)
Consumer Loans (with charges)	10.47	9.78	10.83	10.82	11.05	9.79	8.55 (Sep)
Housing Loans (with charges)	3.07	3.07	2.99	2.99	2.99	3.22	3.44 (Sep)
10-year Bond Yield	10.05	10.24	10.23	8.60	7.59	6.17	5.88 (Sep)
National Accounts (annual % change)							
Real GDP	-3.9	-4.0	-3.2	-2.3	-1.1	-0.3	-0.7 (H1)
Final Consumption	-5.6	-6.4	-6.1	-0.8	-0.1	0.0	-0.1 (H1)
Investment	-12.8	-11.5	-12.9	-15.3	-7.9	-0.8	-4.2 (H1)
Exports of Goods & Services	1.8	1.6	5.2	0.5	5.4	5.3	5.3 (H1)
Imports of Goods & Services	-5.3	-11.1	2.7	-5.6	2.2	4.6	3.4 (H1)
Balance of Payments (in € bn - Cumulative)							
Exports of Goods	22.5	11.1	16.8	22.5	5.4	11.5	15.4 (Jan-Aug)
Imports of Goods	39.8	19.3	29.7	39.8	10.0	20.5	27.7 (Jan-Aug)
Trade Balance	-17.2	-8.3	-12.9	-17.2	-4.6	-9.0	-12.3 (Jan-Aug)
Invisibles Balance	19.5	6.5	18.2	19.5	5.0	9.8	16.3 (Jan-Aug)
Invisibles Balance / Trade Account	113.3	78.5	141.4	113.3	109.0	108.0	132.2 (Jan-Aug)
Current Account	2.3	-1.8	5.3	2.3	0.4	0.7	4.0 (Jan-Aug)
Direct Investments	2.4	1.1	0.9	2.4	0.1	0.6	0.9 (Jan-Aug)
Portfolio Investments	-6.6	-9.8	-7.5	-6.6	0.3	4.5	-1.1 (Jan-Aug)
Athens Stock Exchange (end of period)							
Athex Composite Index	1.162,7	847.6	1,014.1	1,162.7	1.335.7	1.214,3	915.8 (Oct)
annual % change	28.1	38.7	37.2	28.1	53.7	43.3	-22.9 (Oct)
Market Capitalisation ASE (% of GDP)	39.6	29.3	31.6	39.6	39.9	41.3	31.8 (Oct)

Sources: Hellenic Statisticsl Authority (ELSTAT.), Bank of Greece, Ministry of Finance, Bloomberg