

# Greece

## Economic & Financial Outlook

### Our Views in a Nutshell...

**Strong GDP growth performance in H1 2015, despite the prevailing political uncertainty, on the back of growing private consumption and a new record year in tourism. Economic activity grew by 0.6% y-o-y (seasonally adjusted) in Q1 2015 and by 1.6% y-o-y in Q2 2015.**

**The bank holiday and the capital controls imposed in July 2015, as well as the implementation of new fiscal austerity measures are expected to wipe out the recovery dynamics recorded in H2 2014 and H1 2015. However, the higher-than-expected real GDP growth at 1.6% y-o-y in Q2 2015 signals a GDP decline between -1.3% and -1.6% for the year as a whole.**

**Political turmoil was mirrored in the dramatic declines in Consumer and Business Confidence in July and August 2015. Since Monday, 21<sup>st</sup> September, Greece has new government with a fresh mandate to implement the economic adjustment programme.**

**The election outcome ends a long period of political uncertainty setting the conditions for a full and efficient implementation of the recently agreed new bailout as the great majority of the new Parliament is supporting the new reform agenda. These developments were also reflected in the rebound of Economic Sentiment in September 2015.**

**The frontloaded fiscal adjustment programme marks a policy regime switch which may lead to milder fiscal multipliers.**

**The new agreement entails significant downward revision of the General Government primary balance targets for 2015-2018, allowing milder fiscal consolidation.**

**Changes in insolvency law and judicial framework will help opening NPL servicing market to facilitate clean-up of banking sector loan books.**

### H1 2015 performance and the end of extreme uncertainty support a more benign impact of the fresh recessionary shock

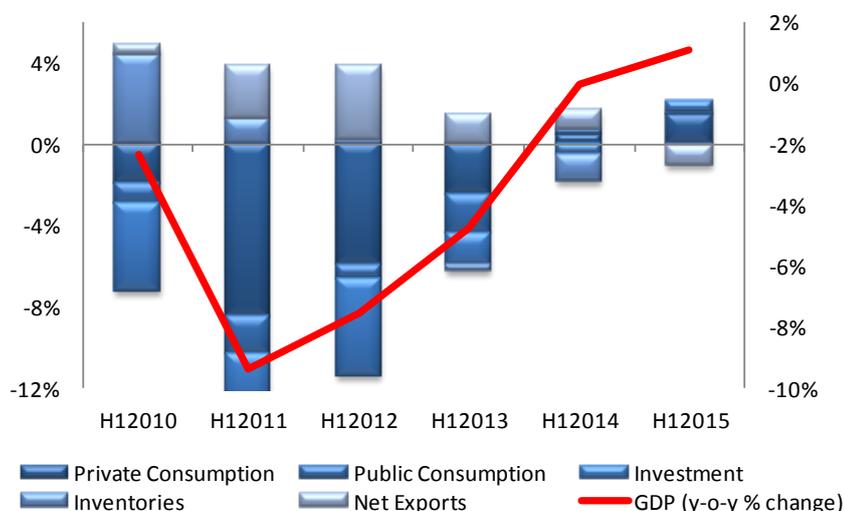
Economic activity retained its recovery dynamics in H1 2015, growing by 1.1% y-o-y. Private consumption remained the main driving force of recovery, contributing 1.5 pps to GDP growth in H1 2015, along with the positive contribution of investment (+0.6 pps). Recovery gathered momentum in Q2 2015 as real GDP expanded by 1.6% y-o-y against 0.6% y-o-y in Q1 2015.

Despite the better-than-expected GDP growth performance in H1 2015, the Greek Economy is expected to enter a new downturn in H2 2015, triggered by the effects of the bank holiday and the capital controls imposed in July 2015, as well as by the implementation of the new fiscal austerity measures, in the context of required prior actions.

The agreement on the new ESM programme (see Box 1) and the formation of a stable coalition government after the Parliamentary elections of 20 September 2015 pave the way for the gradual return of business confidence, already evident in September 2015 and are expected to contribute decisively to the swift restart of the Greek Economy, on the back of lower oil prices, ECB's accommodative monetary stance and the frontloaded mobilisation of EU funds. The successful conclusion of the first review of the new programme in Autumn remains pivotal for boosting market confidence.

In line with the above, a negative GDP growth rate, ranging between -1.3% and -1.6%, is considered the most likely scenario for the Greek Economy in 2015, as the imposition of capital controls and other administrative measures reduce transactions volume while the new austerity measures add significantly to the tax burden, reducing consumption and compressing household income and business profits.

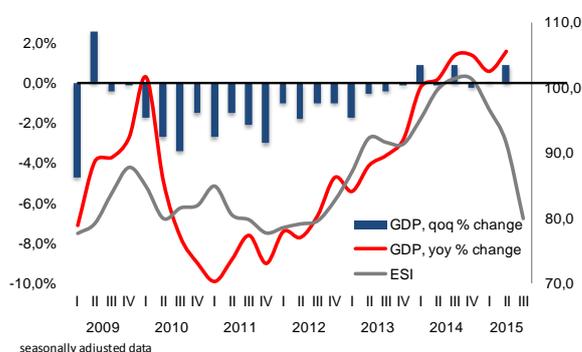
**Growth Contributors Quantified: H1 2015**



Seasonally adjusted data

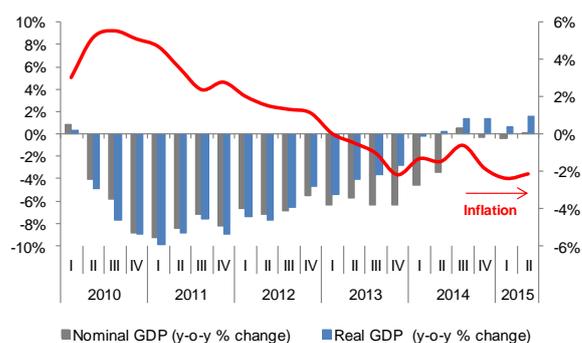
Source: Hellenic Statistical Authority

### GDP Growth and Economic Sentiment Indicator



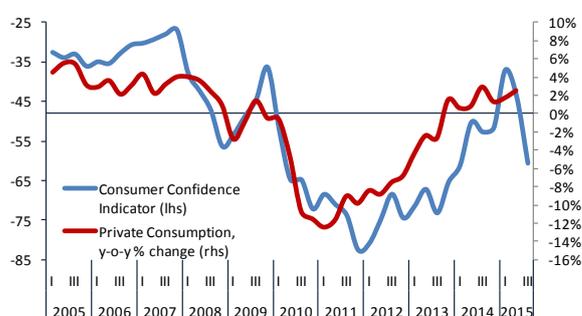
Source: ELSTAT, IOBE

### GDP and Inflation



Source: ELSTAT

### Private Consumption and Consumer Confidence Indicator



Source: IOBE, ELSTAT

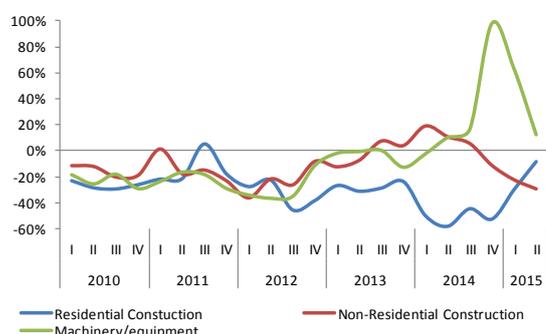
On the positive side, there are three facts suggesting that the GDP decline in 2015 may be milder than initially expected in July 2015 (European Commission forecasts at that time ranging between -2% and -4%). In particular:

- The tourism sector remains Greece's most valuable comparative advantage. According to the Association of Greek Tourism Enterprises (SETE), Greece is expected to register another record year in tourism in 2015, as tourist visitors will reach 26.7 million.
- Lower energy prices and deflation still have favourable effects on household income and may limit the decline of private consumption in the following quarters.
- Net exports are expected to support growth in 2015. Imports of goods and services are expected to register a big fall over the following quarters due to the pronounced contraction in domestic demand, the imposition of capital controls and lower oil prices.

Moreover, a series of factors could contribute to the faster turnaround of GDP to positive figures in the medium term. In particular, these include:

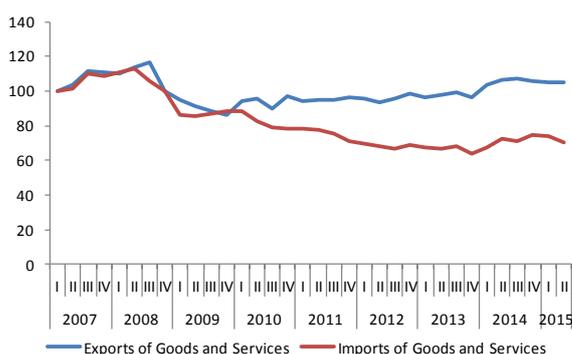
- Timely adoption of measures to offset the negative effects of capital controls on the import and export activity.
- Participation in the ECB's QE programme.
- Frontloaded mobilisation of the EU funding to support domestic investment and job creation. The EU funding spans over the 2014-2020 period and consists of €20 billion from the European Structural and Investment Funds and €15 billion for direct payments to farmers and support measures for agricultural markets. For the faster and frontloaded mobilisation of EU funds, the European Parliament supported the proposal of the European Commission for (a) the increase of the pre-financing rate by 7 percentage points in 2015 and 2016 for the 2014-2020 funding, making available an additional €1 billion upfront and (b) the increase of the EU co-financing rates to 100% for the 2007-2013 programmes and the early release of the last 5% of the remaining EU payments normally retained until the programmes' closure. This translates to €500 million of additional liquidity and saving of approximately €2 billion for the Greek budget.
- Implementation of structural reforms in areas where progress has lagged, mostly regarding the acceleration of product and service market liberalisation, as well as, addressing the weaknesses of the social security system.
- Further privatisations of state owned companies.
- Launch of discussions regarding a debt relief agreement, most probably in the form of debt reprofiling involving maturity extension and lower interest rates, following the first review on the implementation of the new programme.
- The expansion in the use of electronic payment methods as a result of the capital controls could contribute to combating tax evasion.
- Agreed relaxation of fiscal targets and renewed focus on fiscal discipline to facilitate allocation of funds into an expansionary mode.
- New Programme lending for Government's arrears clearance.
- Greece exhibited the most significant reductions in the Unit Labor Cost (ULC) among all countries in the EU in recent years, a clear reflection of the magnitude of the labor market reforms. The internal devaluation of 18.6% in Q4 2014 vs. Q4 2009, led to complete reversal of competitiveness loss from 2000 until 2009.

### Investment, (% yoy change)



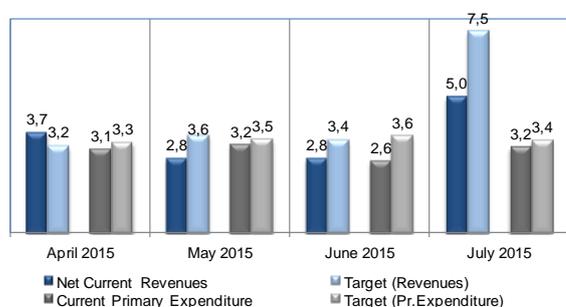
Source: ELSTAT

### Imports and Exports of Goods and Services (2007=100)



Source: ELSTAT

### Budget Execution (in € bn.)



Source: Ministry of Finance

## Box 1: Overview of the ESM Stability Support Programme for Greece

- The third Programme has duration of three years, from August 2015 to August 2018, with quarterly updates of its conditionality taking into account the progress achieved.
- The aggregate financial assistance amounts **up to €86 billion** to be used for debt servicing needs, bank recapitalisation, budget financing and arrears clearance.
- The first tranche amounts to €26 billion and is divided into two sub-tranches:
  - **First sub-tranche:** €16 billion in total, to be used for budget financing and debt servicing needs. The first part of the first sub-tranche amounting to €13 billion was disbursed on 20 August 2015. The remaining €3 billion will be released in two further disbursements of €2 billion and €1 billion respectively, once Greece completes additional prior actions. In particular, on 5 October 2015, the Eurogroup endorsed the first set of milestones to be implemented for the disbursement of €2 billion. The second set of milestones is expected to be determined in the next weeks and its implementation will unlock the disbursement of the remaining €1 billion.
  - **Second sub-tranche:** €10 billion to be used for bank recapitalisation.
- The Programme Reform Agenda is based on four Pillars:
  - Restoring Fiscal Sustainability;
  - Safeguarding Financial Stability;
  - Enhancing Growth, Competitiveness and Investment;
  - Modernising the State and Public Administration.
- In line with the Euro Summit statement of 12 July 2015, a new Independent Privatisation Fund will be established in Greece, managed by the Greek Authorities under the supervision of European Institutions. The monetisation of assets, which will generate a target total of €50 billion, through privatisations and other means, will be used for loan repayments to the ESM, for investment and for the debt-to-GDP ratio decrease.

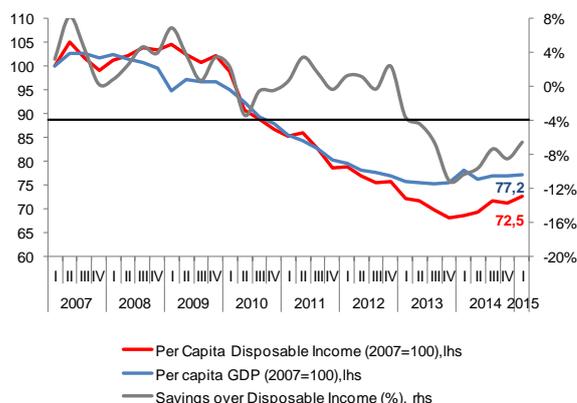
## Despite heightened uncertainty economic activity speed up in H12015

Greek economy returned to growth in 2014, as real GDP increased by 0.7%. Moreover, real GDP growth increased by 1.1% on a yearly basis in H1 2015, against zero growth in H1 2014. The strong performance of GDP in Q2 2015 (1.6% y-o-y), is mainly attributed to the strengthening of private consumption, which contributed 1.7 pps to GDP growth and, to a lesser extent, to the positive contribution of net exports (+0.6 pps).

More specifically, private consumption increased by 2.1% y-o-y in H1 2015, compared to an increase by 0.7% in H1 2014. In Q2 2015, private consumption registered positive growth for the seventh consecutive quarter, increasing by 2.5% y-o-y. However, private consumption is about to weaken and is expected to turn into negative territory in the following quarters due to the recent VAT increase, the anticipated increase in unemployment rate and the enhanced needs for fiscal retrenchment. Political uncertainty together with the imposition of capital controls had a dramatic impact on consumer confidence in July-August 2015. On the other hand, households' disposable income in 2015 is expected to benefit from the lower oil prices and deflation.

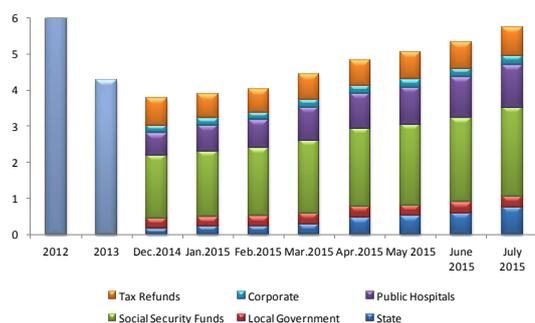
Government consumption increased slightly by 0.5% in H1 2015, against an increase by 1.4% in H1 2014. Investment declined by 3.3%

### Per Capita GDP, Disposable Income and Savings Ratio



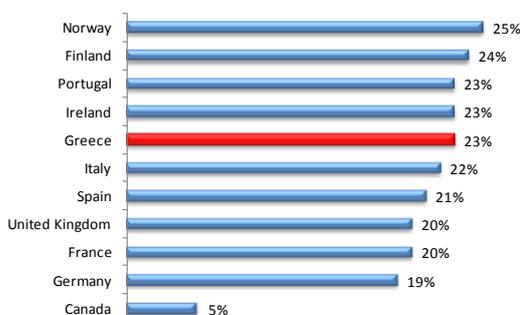
Source: OECD

### General Government Arrears by Subsector (in € bn.)



Source: Ministry of Finance

### VAT Rates in Selected OECD Countries



Source: OECD

y-o-y in Q2 2015, after the larger-than-anticipated increase by 13.9% y-o-y registered in Q1 2015. In H1 2015, investment increased by 5.1% y-o-y, against a fall by 4.7% in H1 2014. The rebound in investment was mainly driven by a huge increase in machinery and equipment. On the other hand, residential investment continued to decrease in H1 2015 by 20.3% y-o-y, on top of its fall by 53.8% in H1 2014. Inventories made a slight positive contribution to GDP in H1 2015 by 0.1 bps. Investment is expected to be the main drag on the economy, as political uncertainty and risk aversion, heightened in July 2015, are expected to delay the realization of investment projects.

Regarding the external sector, export of goods and services declined by 0.4% y-o-y in H1 2015, against a significant rise by 8.4% in H1 2014. On the other hand, the substantial increase of imports of goods and services registered in 2014, as well as in Q1 2015, came to a standstill in Q2 2015 as imports declined by 3.5%. In H1 2015, imports of goods and services registered a moderate increase by 2.8%. As a result, net external sector contributed negatively to GDP by 1.0 bps in H1 2015. Export growth is projected to continue in 2015 on the back of another record year in tourism. Thus, net exports are expected to support growth in 2015.

### Box 2. Negative Household Savings Ratio in response to strong decline in disposable income

According to OECD data, the Greek households' average propensity to save remained in negative territory in the first quarter of 2015. The basic underlying factor of the negative savings ratio, i.e. savings over total disposable income, relates to the households' effort to gradually adjust their standard of living, without suffering equivalent losses in their welfare, to the large and abrupt drop in their disposable income.

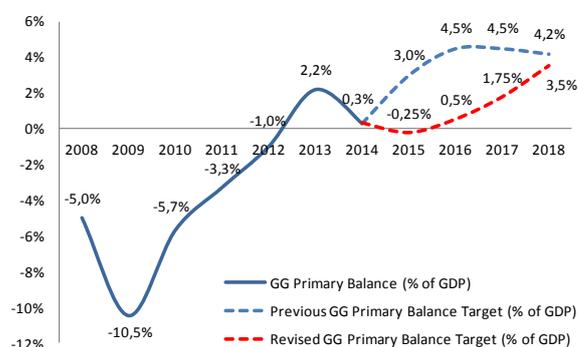
During the period from Q1 2007 to Q1 2015 period, per capita disposable income declined cumulatively by 27.5%, as a result of (i) the significant tax burden due to the fiscal consolidation measures and (ii) the cumulative decrease in wages by 14.5% over the same period, in the context of internal devaluation policy. Since the third quarter of 2014 and up until the first quarter of the current year, per capita disposable income has been on a moderately increasing trend (5.8% y-o-y increase in Q1 2015) which is expected to be reversed in the following quarters as the economy is projected to enter a new recessionary phase while the implementation of new fiscal austerity measures will further squeeze household budgets.

### Fiscal position at stake as Government Arrears Accumulate

While the new agreement involved the rationalization of fiscal targets on primary balances, considerably revised downwards taking into account the expected recession in 2015, the fiscal situation seems tricky.

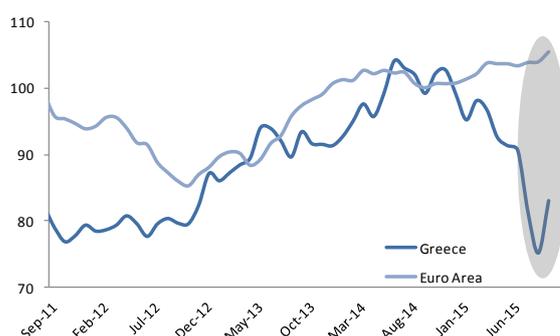
More specifically, the General Government (GG) primary surplus on a cash basis stood at €2.35 billion in January-July 2015, against a primary surplus of €2.87 billion in the same period 2014. The surplus achieved over the seven-month period is mainly due to the continuous drastic drop in primary expenditure by 10.2%, mostly at the expense of the fresh accumulation of state arrears to suppliers, from €3 billion at the end of 2014 to approximately €5 billion at end of July 2015. GG tax revenues decreased by 10.6% y-o-y in January-July 2015, as a result of the relaxation of tax collection mechanism, due to political developments. State Budget execution in 2015 until August 2015

### GG Primary Balance and Targets (% of GDP)



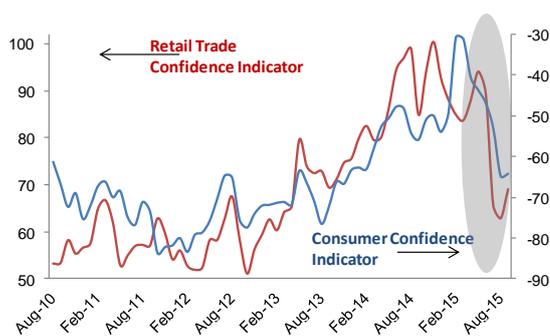
Source: ELSTAT, IMF, Min.Fin

### Economic Sentiment Indicator: Greece and Euro Area



Source: IOBE, European Commission

### Retail Trade and Consumer Confidence Indicators



Source: IOBE

presents a poor revenue collection while primary expenditure continues to underperform against the targets. As a result, State Budget primary surplus continues to record higher amounts than the targets set. State Budget primary surplus amounted to €3.8 billion in January-August 2015, against the target set for the period for a primary surplus of €3.26 billion and versus a primary surplus of €1.95 billion in January-August 2014.

Overall, according to the draft Budget 2016, lower growth in 2015 will result to weaker than initially budgeted revenue collection throughout the year, despite the recently ratified fiscal austerity measures. In particular, the first set of legislation, in the context of the required prior actions of the Euro Summit in 12 July 2015, included, among others, the following:

- A VAT system reform, including three rates, 6%, 13% and 23%, while involving a series of goods and services moving at a higher VAT rate, as well as, the gradual elimination of VAT discounts on islands, starting with the most popular tourist destinations (higher per capita income) from 01.10.2015;
- Increase in the solidarity contribution rates;
- Increase in the corporate income tax from 26% to 29% and increase in the advance tax payment;
- Increase in the luxury tax rate from 10% to 13% and extension of its implementation.

#### Box 3: Budget 2016 towards a milder fiscal adjustment

General Government (GG) Primary Balance targets were revised significantly downwards under the new programme agreement. Political instability and severe delays in policy implementation in H1 2015 deteriorated economic prospects and led to the revision of budget outcomes. The new targets involve a GG primary budget deficit of 0.25% of GDP in 2015 against a surplus of 1.5% of GDP that was previously estimated. Accordingly, budget estimates entail a primary surplus of 0.5% of GDP in 2016 and 1.75% in 2017.

The revision of the targets will have three consequences over the medium term. More specifically:

- The reduction of the primary budget targets will require further sources to cover financing needs during 2015-2018, hence increasing equivalently the public debt-to-GDP ratio. According to the IMF, the debt-to-GDP ratio is expected to peak to 206.6% of GDP in 2016.
- It allows a moderate fiscal stimulus, a scenario that economizes resources available to mitigate the recessionary shock in the economy, amounting to € 19.2 billion in 2015-2018. The drop off in fiscal tightening together with the implementation of structural reforms enhance economic prospects thus leading to a reduction in the debt-to-GDP ratio in the medium-long term.
- The new fiscal consolidation policy ensures that fiscal discipline is maintained in the coming years, allowing a less restrictive impact on the economy.

#### Economic Sentiment bounced back in September

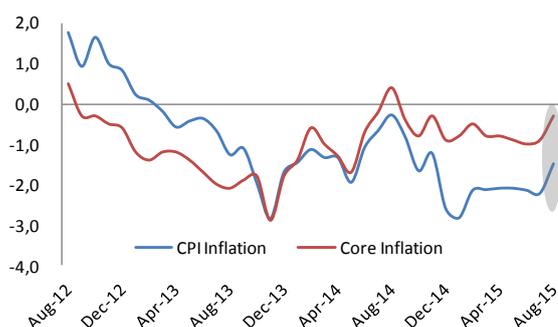
The Economic Sentiment Indicator (ESI) in Greece after four consecutive months on a declining trend, recorded its largest ever month-on-month decline in July 2015 (-9.4) to 81.3, with steep decreases in all five of its underlying components, while further dropped close to historically low levels in August 2015, standing at 75.2.

### Athens Stock Exchange and 10y GGBs Spreads



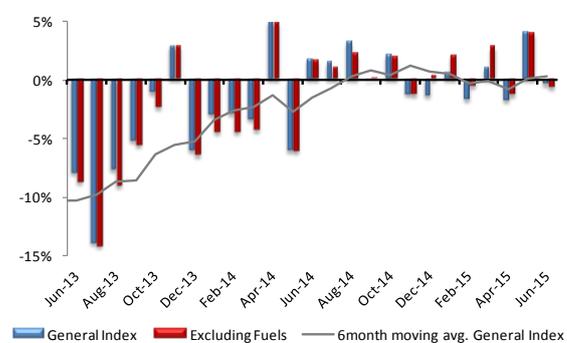
Source: Bloomberg

### CPI Inflation and Core Inflation



Source: ELSTAT

### Retail Sales Volume, % yoy change (2010=100)



Source: ELSTAT

Heightened uncertainty was also mirrored in the 10-year Greek bond spread, reaching in July 2015 its highest level since the beginning of the year. On the contrary, the ESI in the euro area edged up in August 2015, rising to 104.1 from 104.0 in July 2015, while improved markedly to 105.6 in September 2015.

Following the signing of the new agreement in August 2015 and the return of political stability after the elections outcome, the ESI in Greece, recovered to 83.1 in September 2015. The improvement was recorded in all sub-components. The Industry Confidence Indicator recovered to 78.8 in September 2015, from 67.4 in August 2015 and 85.2 in June 2015, standing at a significantly lower level than in September 2014 (95.3). After its abrupt decline in July 2015, the Construction Confidence Indicator increased in September 2015 to the March-June levels, standing at 56.3. The Retail Trade confidence indicator increased mildly to 69 from 62.8 and 89.4 in August and June 2015, respectively. The Services confidence indicator, improved considerably in September 2015 to 75.4 from 50.4 in August 2015. Finally, consumer confidence indicator improved slightly to -64.2 in September 2015, from -64.8 in August 2015, though sub-components of the index reflect ongoing household' fears on their financial situation in the following months.

In line with the above, investors concerns eased, after the agreement on the new ESM programme in August 2015 and the emergence of the new coalition Government following the Parliamentary elections in September 2015, evident in the marked decline of the 10-year Greek bond spread.

### H1 2015 growth coupled with persistent deflation

Following the deflationary trend since early 2013, headline inflation remained negative in July 2015, standing at -2.2% y-o-y for the second consecutive month, against -0.7% y-o-y in July 2014. Greece's deflation rate eased in August 2015, as prices fell by -1.5%, as a result of the recent VAT increase. The annual drop of consumer prices were due to the declining prices in several groups of goods and services (Clothing and Footwear: -6.8%; Housing: -7.3%; Transport: -4.3%) and was partially offset by increases in Food & non-Alcoholic Beverages (+4.3%), Alcoholic Beverages & Tobacco (+2.1% and Hotels Cafés & Restaurants (+1.5%). Weak domestic demand is also reflected in the performance of core inflation, which remained in negative territory in August 2015 (-0.3%), compared to a greater fall of -0.9% in July 2015.

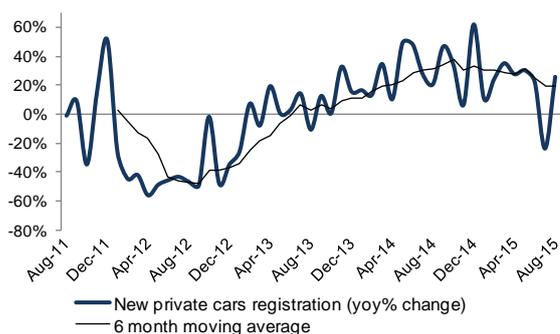
Inflation is expected to remain negative for 2015 as a whole, on the back of low oil prices and weak demand. Inflationary pressures are likely to emerge in the end of 2015 reflecting the one-off impact of the recent VAT hikes in many products and services.

### Hard data in line with growth dynamics in H1 2015

Hard data releases signaled the good GDP performance in H1 2015. However, the capital controls imposed are expected to affect negatively economic activity in H2 2015. More specifically:

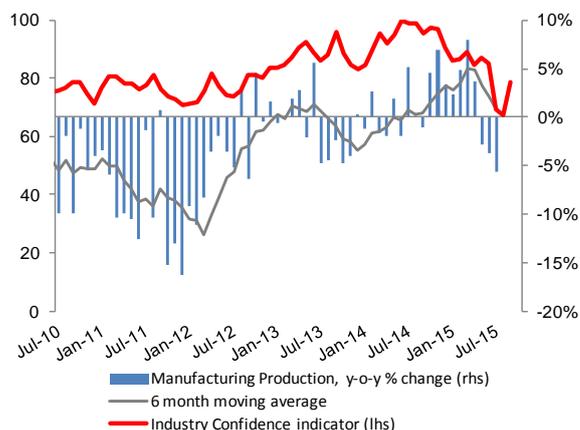
**Retail and Wholesale Sales:** Wholesale and Retail sector (including car trade) is one of the most significant sectors of the Greek economy, both in Gross Value Added (GVA) and employment terms, as it accounts directly for 13.2% of total 2014 GVA and circa 18% of total employment. At the same time, it has been one of the most severely hit sectors from the economic crisis, mainly due to its high dependence on household disposable income, which suffered a sharp contraction during the last six years. In particular, since 2010 and up until Q12015, the turnover index of wholesale trade decreased cumulatively by 37.5% while retail trade dropped cumulatively by 30.2%.

### New Passenger Car Registration



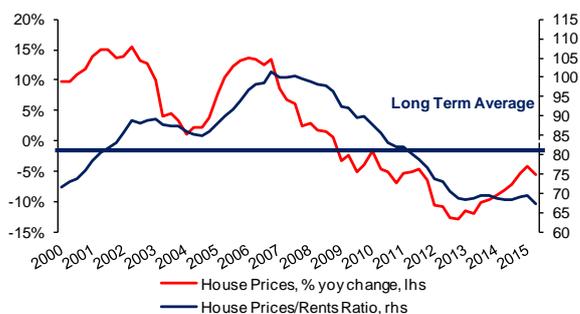
Source: ELSTAT

### Manufacturing Production (2010=100)



Source: ELSTAT, European Commission

### House Prices (%y-o-y change) and House prices to Rents Ratio



Source: Bank of Greece

The volume of retail sales, excluding fuels, decreased marginally by 0.7% y-o-y in June 2015, following the significant increase by 4.0% y-o-y in May 2015 (constant prices), against a 1.6% increase in June 2014. In H1 2015, the volume of retail sales excluding fuels, increased by 1.0% y-o-y, compared to a reduction by 2.2% in the corresponding period of 2014. Turning to the retail trade subsectors, in H1 2015 increases were registered in “Clothing and Footwear” (7.1% y-o-y), “Books-Stationary-Other Items” (6.4% y-o-y) and retail sales in food stores also increased in the same period by 0.7% y-o-y. Regarding wholesale trade, the value of turnover index decreased by 3.5%, in Q2 2015, compared to a slight increase by 0.7% in the corresponding quarter of 2014. The negative impact of capital controls is straightforwardly reflected in the sharp decline of the Retail Trade Confidence Indicator to 62.8 units in August 2015 from 65.7 units in July 2015 and 89.4 in June 2015, suggesting a weak performance over the next months.

**New Passenger Car Registrations:** After 22 consecutive months on an increasing trend, new passenger car registrations declined by 23.6% y-o-y in July 2015 compared to the 26.1% increase in July 2014. In August 2015, new passenger car registrations increased by 25.8% y-o-y against a 23.1% y-o-y increase in August 2014. In the first eight months of 2015, new passenger car registrations increased by 18.9% y-o-y, though at a weaker pace than in the corresponding period of 2014 (28.4% y-o-y). In the first five months of 2015, expenditure on imported cars increased by 19.5% y-o-y, to €0.55 billion, against €0.45 billion over the corresponding period of 2014.

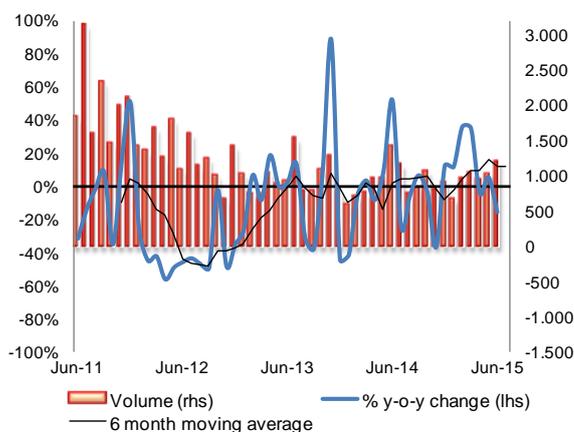
**Industrial Production:** Industrial Production registered a significant increase in August 2015, by 4.5% y-o-y. In January-August 2015, industrial production fell slightly by 0,1% y-o-y, against a fall by 2.4% in the same period 2014. Manufacturing production increased by 4.2% y-o-y in August 2015, against a large decline by 5.7% y-o-y in July 2015. Moreover, PMI manufacturing in Greece reached a record low of 30.2 in July 2015, reflecting a lack of new orders and a sharp drop in production. In August 2015, the index rebounded to 39.1, though still remains well below the threshold of 50 for the 12<sup>th</sup> consecutive month.

**Building Activity:** In accordance with the latest provisional data release, in the first semester of 2015, the volume of private building activity, on the basis of permits issued, recorded signs of recovery, registering a cumulative 7.7% y-o-y increase, against 1.4% increase in the corresponding period of the previous year. In June 2015, the volume of private building activity decreased by 15.1% y-o-y, against the 6.1% y-o-y increase in May 2015 and the 52.7% y-o-y increase in June 2014.

In the first semester of 2015, market values and rents in real estate market remained under pressure, for both residential and commercial properties, given the reduced demand and excess supply. According to the last available provisional Bank of Greece data, the drop in apartment prices continued in Q22015, registering a 5.6% y-o-y decline, at a higher pace than in Q12015 (4.1% y-o-y), albeit at a milder pace than in the corresponding period of the previous year (8.2% y-o-y). In Q22015, the decline is more pronounced in “new” apartments i.e. up to five years old (-7.1% y-o-y), compared to “old” apartments i.e. over five years old, (-4.7% y-o-y) and stronger in Thessaloniki (8.2% y-o-y) and other cities (7.1% y-o-y) compared to Athens (5.2% y-o-y) and other areas (4.0% y-o-y).

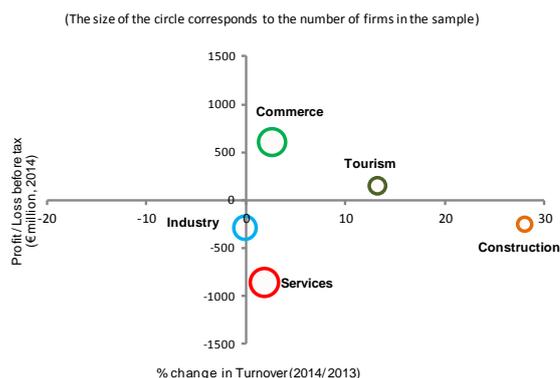
It is worth noting that the period Q1 2009-Q2 2015 was characterized by a cumulative decline in apartment prices of 37.9%. Construction activity will remain a drag in the economy in 2015, while the ongoing

### Private Building Activity



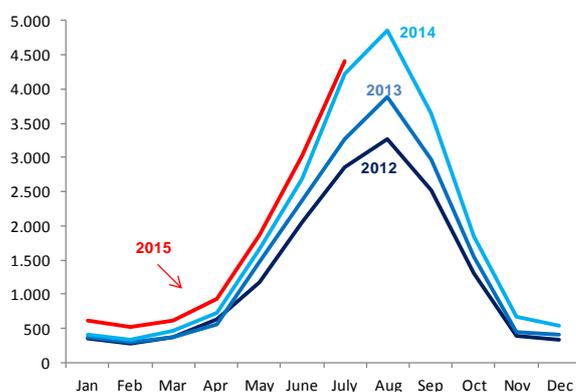
Source: ELSTAT

### Financial Performance in 2014 of main Sectors in Greece



Source: ICAP

### Tourism Arrivals (in th. persons)



Source: Bank of Greece

declining trend in apartment prices is expected to continue in the coming quarters, as the recovery depends, *inter alia*, on the evolution of disposable income, the employment prospects and financing conditions.

According to recent data released by ICAP, the consolidated balance sheet for year 2014, based on a sample of 14.223 Greek companies (excluding banks and insurance companies), recorded losses, though lower than in the previous year. On a sector analysis, it is evident that among the basic sectors of the Greek Economy, only the sectors of tourism and commerce recorded profits before taxes in 2014 in parallel with an increase in turnover.

### Tourism sector performance remains resilient despite political turmoil

Tourism is a key sector for the Greek economy and one of the key drivers of the economic recovery in 2014. According to the *OECD Tourism Trends and Policies 2014 Report*, the contribution of tourism to GDP and employment is the highest among the OECD economies. The remarkable growth of tourism activity over the 2013-2014 period is mirrored both in terms of international tourist arrivals, which increased by 25% y-o-y and 23% y-o-y in 2013 and 2014 respectively, but also in terms of travel receipts, which increased by 17.9% and 12.4% in 2013 and 2014, respectively.

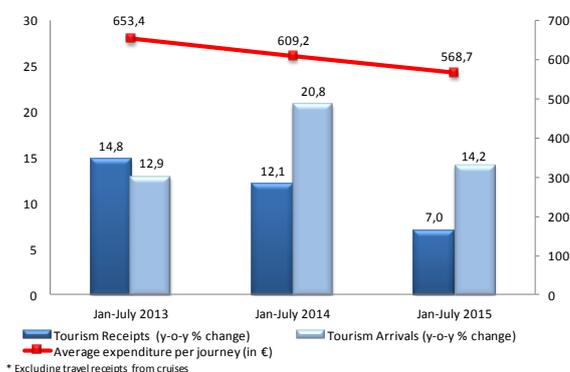
The strong performance of the tourism sector continues in the first seven month period of 2015, as tourist arrivals increased by 14.2% y-o-y against 20.8% y-o-y in the corresponding period of the previous year while, over the same period, travel receipts increased by 6.2% y-o-y, albeit at a slower pace than in the corresponding period of 2014 (+12.1%). However, despite the decelerating increase registered in January-July 2015, especially in July 2015 as a result of the capital controls imposition, travel receipts in absolute terms, reached the highest level of the past years, standing at €7.0 billion from €6.6 billion in the corresponding period of 2014, respectively.

Over the past decade the structure of tourism arrivals by visitor's country of origin altered significantly. Tourism arrivals from EU-28 recorded a gradual decline from 78% as a percent of total arrivals in 2005 to 68.1% and 54.6% in 2010 and 2014, respectively, as a result of the decline in tourism arrivals from eurozone countries. Conversely, tourism arrivals from non-EU countries increased markedly from 22.0% in 2005 to 31.9% and 39.9% in 2010 and 2014, respectively. In the first semester of 2015, tourism arrivals from EU-28, but non – Eurozone countries, increased by 51.3% y-o-y, against 26.5% y-o-y in the first semester of 2014 while tourism arrivals from Eurozone countries rose by 17.8% y-o-y against 11.6% in the corresponding period of the previous year. In the first semester of 2015, the number of inbound visitors from US and Germany rose significantly by 41.6% and 23.5%, respectively, against 22.0% y-o-y and 1.9% in the first semester of 2014.

On the other hand, according to the business expectations of IOBE, the Index of Business expectations in hotels and restaurants was on a declining trend since April 2015, recording a significant decrease in July 2015, to 86.3 units from 98.4 units in June 2015 and 108 units in July 2014. However this downward trend was significantly reversed, reaching 101.5 in September.

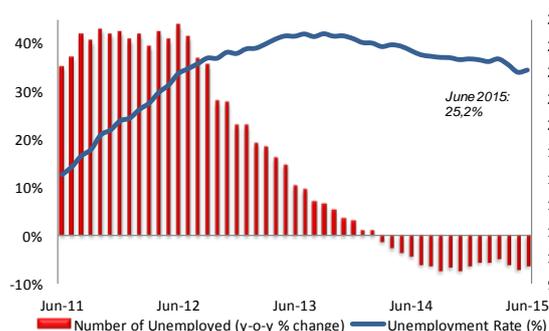
Another worrisome fact though is that the increase in tourism arrivals outpaces the increase in travel receipts. As a result, the average expenditure per journey in January-July 2015 is lower, standing at €568.7 against €609.2 in the corresponding period of the previous year.

### Average expenditure per journey (in €)



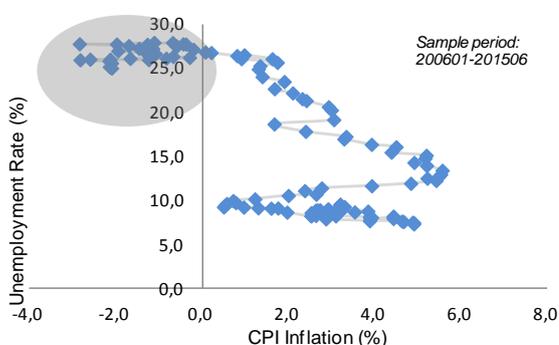
Source: Bank of Greece

### Number of Unemployed and Unemployment Rate



Source: ELSTAT

### Unemployment Rate and CPI Inflation



Source: ELSTAT

## Subdued economic recovery limits labour market prospects

The unemployment rate, since its historical peak at 27.9% in September 2013, has been on a moderate declining trend, reflecting both cyclical factors, such as the sluggish recovery that started in Q22014, but also the persistence of the high structural unemployment.

In May 2015 the unemployment rate declined to 24.8% (seasonally adjusted data) against 25.3% in April 2015 and 27% in May 2014, on account of a moderate improvement in employment, following the early opening of the tourist season. However, in June 2015, the unemployment rate increased to 25.0%, and remained at this high level in July 2015 as well. In particular, in July 2015, the number of employed persons increased by 0.9% y-o-y against 1.7% y-o-y in July 2014 2015, while the number of unemployed persons decreased by 5.6% y-o-y against a 6.1 % fall in July 2014.

Another worrisome factor is the persistently high percentage of long-term unemployed which raise concerns regarding its impact on skill shortage and deprive future employability, especially for young persons. Long-term unemployed (i.e. over 12 months), after reaching the record-high level of 958.7 thousands in Q12014, registered moderate successive declines in 2014 (Q32014: 927.1 thousands; Q42014: 909.4 thousands) before picking up again in Q12015 (910.6 thousands). In Q22015 long-term unemployed fell slightly to 863.2 thousands, which is still alarming taking into account that long-term unemployed represent 73.1% of total unemployed.

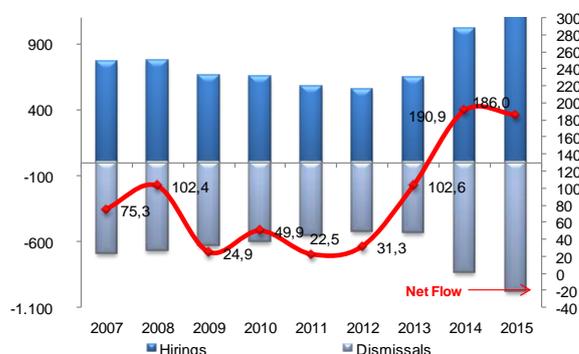
Over the past years, the structure of employment per sector of economic activity changed in line with the adjustment in the shares of each industry in the gross value added of the economy. In particular, the share of employment in the secondary sector reached 15%, on average, in 2014, against 19.6% in 2010, given the marked contraction in the construction and manufacturing sectors, while employment in the tertiary sector increased to 71.5%, on average, in 2014 from 68%, on average in 2010. Finally, agricultural sector is gaining ground as its share to the total employment increased to 13.6% in 2014, from 12.4% in 2010.

The new slippage in growth and further tension in business stemming from capital controls imposition is expected to raise unemployment rate and amplify social distress. This is more than evident in the latest data on private-sector dependent employment flows ("ERGANI" Information System). In particular, in July 2015, new hirings in the private sector decreased by 13.3 thousands compared to July 2014 while dismissals increased by 16.6 thousands y-o-y and as a result, the net dependent employment flow decreased by 29.9 thousands compared to July 2014. The net flow was also negative (-0.4 thousands) in August 2015 and decreased by 1.8 thousands compared to August 2014. In the first eight months of 2015, new hirings in the private sector increased by 144.6 thousands compared to the corresponding period of the previous year, while dismissals increased by 149.4 thousands against the respective period of the previous year. As a result, net hirings budget was lower by 4.9 thousands against the January-August 2014 period.

## Current account continues to improve in 2015 on the back of lower oil imports

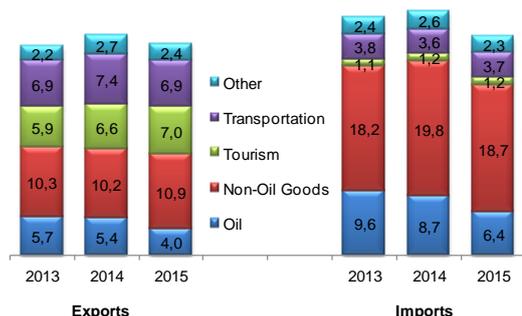
The current account improved significantly in January-July 2015, recording a surplus of €0.35 billion, against a deficit of €2.66 billion in the same period of 2014. This positive development is mostly due to the improved trade balance, on account of reduced imports of goods,

### Private Sector New Hirings and Dismissals January-August



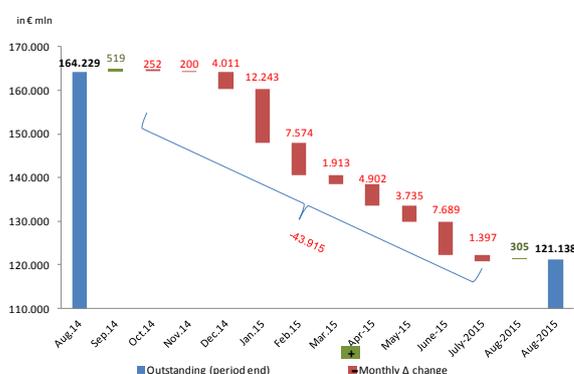
Source: ERGANI Information System

### Current Account (January-July) (in € bn.)



Source: Bank of Greece

### Private Sector Deposits Evolution: Aug-2014-July 2015



Source: Bank of Greece

mainly oil imports.

More specifically, the deficit of trade balance narrowed significantly by € 2.7 billion and stood at € 10.2 billion in January-July 2015. Total exports of goods decreased dramatically by 5% y-o-y in the seven-month period of 2015, while in July 2015 the fall was 9% on a yearly basis. The imposition of capital controls took a heavy toll on export trajectory in July 2015 while the downward trend is expected to continue in the following months. However, exports excluding oil and ships increased significantly by 9.0% y-o-y in January-July 2015. On the other hand, imports of goods fell by 12.3% in January-July 2015, mainly due to dramatically reduced oil imports by 27.2%, on account of the imposition of capital controls and lower oil prices.

The services account surplus decreased slightly by 2.6% y-o-y and stood at €9.1 billion in January-July 2015, though tourism surplus increased noticeably by 7.5%, on top of its significant increase by 12.7% in January-July 2014. Tourism receipts increased by 6.2% y-o-y in January-July 2015, while total receipts from services exports decreased by 2.7%. At the same time, shipping receipts decreased by 7.1% in January-July 2015, compared to an increase by 7.4% in the same period 2014. In January-July 2015 period, the primary income account showed a deficit of €0.2 billion, mainly on account of lower net payments related to investment income (interest, dividends and profits). Moreover, the secondary income account recorded a surplus of € 1.7 billion in January-July 2015, against a marginal surplus of €0.2 billion in the seven-month period of 2014, representing the installment of €1.8 billion income on the Securities Markets Programme (SMP) portfolio accruing to the ECB payable to Greece. Finally, financial account balance showed a surplus of € 1.4 billion in January-July 2015, against a surplus of € 1.1 billion in the corresponding period of 2014.

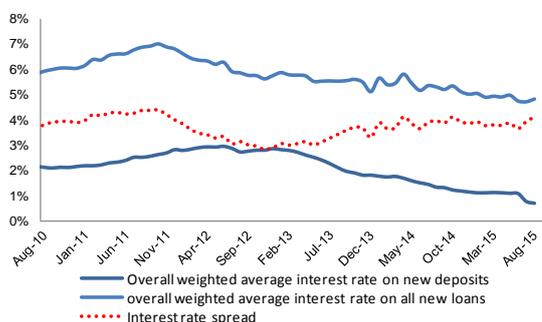
### Banking System, Financing and Liquidity Conditions

Over the past nine months, heightened uncertainty as a result of the early parliamentary elections in January 2015 and the prolonged period of negotiations between the Greek Government and its European creditors that followed, triggered an unprecedented, in terms of both magnitude and duration, deposit outflow episode. In particular, over the September 2014-June 2015 period, before the imposition of capital controls, private sector deposits outflow amounted cumulatively to €42.5 billion, while the deposit base in June 2015 sank to levels last seen in October 2003. The strong deposit decline over the September 2014-June 2015 period was primarily driven by the deposit outflows of households (€31.6 billion), withdrawing €29.9 billion of their time deposits and to a lesser extent of businesses (€10.9 billion). It is worth noting that household's deposits represent historically the largest share of the private sector's deposit base (85% in June 2015).

In July 2015, the first month under capital controls in the Greek banking system, private sector deposit outflows reached €1.4 billion, of which €1.2 billion represent households' deposits and €0.2 billion businesses deposits. The mass deposit withdrawal during the October 2014-July 2015 period, totaled €43.9 billion, representing a loss of 26.7% of the September 2014 private sector deposit base.

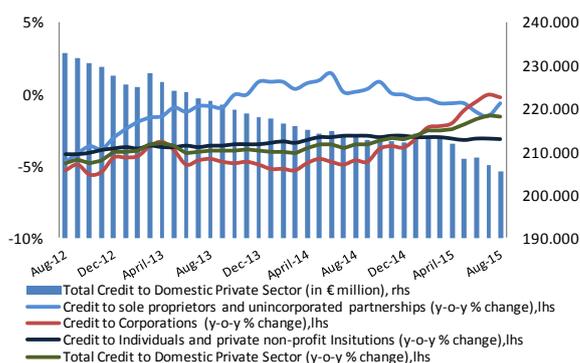
August 2015 was the first month since October 2014 that there was a deposit inflow in the Greek banking system by € 305 million on a monthly basis, as a result of the capital controls that prevented further outflows. Deposit of corporations (inc. insurance companies and other) registered an inflow of € 1.35 billion, while households continue to withdraw deposits by €1.05 billion. In total, private sector deposits

### Loans and Deposits Interest Rates



Source: Bank of Greece

### Credit to Domestic Private Sector



Source: Bank of Greece

totalled € 121.1 billion at the end of August 2015.

During 2015, bank credit to domestic private sector continued its declining trend, albeit at a lower pace than in the previous year. In particular, the annual rate of decline of credit to domestic private sector stood at -1.5% in July 2015, against -1.7% in June 2015. The annual rate of credit to corporations, stood at 0.0% in July 2015, from -0.5% in June 2015 and -4.9% in July 2014, whereas the annual credit growth to households and private non-profit institutions remained broadly unchanged during the first semester of 2015, at -3.1% in July 2015 and June 2015 from -3.2% in May 2015. The annual growth rate of housing loans remained broadly stable in July 2015 at the levels of Q22015 (July 2015: -3.4% y-o-y) while the rate of decline for consumer loans stood at -2.5% y-o-y in July 2015 against -2.3% in June 2015, and -2.8% in January 2015. In August 2015, credit to domestic private sector declined further by 1.6%. The annual rate of credit to corporations deteriorated marginally standing at -0.2%, while households' credit remained at the same pace of decline, at -3.1%.

Credit to corporations represents the largest portion of total credit (47.0% in August 2015), while loans to sole proprietors and unincorporated partnerships, housing loans, consumer loans and other loans to individuals and private non-profit institutions represent 6.6%, 33.2%, 12.5% and 0.7% of total credit, respectively.

While during 2014 the overall weighted average interest rate on new deposits was on a declining trend, in the first semester of 2015 remained rather stable, standing at 1.09% in June 2015, from 1.10% in May 2015 and decreased to 0.78% in July 2015.

The overall weighted average interest rate on new loans to households and corporations remained on declining trend in the first seven months of 2015, albeit not uninterrupted, reaching 4.72% in July 2015 from 4.75% in June 2015. Following the above, the interest rate spread widened to 3.94% in July 2015 from to 3.66% and 3.88% in June 2015 and May 2015, respectively.

According to the Bank Lending Survey (Q2 2015, Bank of Greece) credit standards for loans to non-financial corporations tightened in Q22015, compared to the first quarter of 2015, as a result of the liquidity squeeze and the difficulties in money markets access while are expected to tighten further in the third quarter of 2015. However, credit standards for loans to households remained at the levels of Q12015 and are expected to remain broadly unchanged in the third quarter of 2015.

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## Economic Data – Greece

Macroeconomic Environment	ANNUAL				QUARTERLY					MONTHLY				
	2011	2012	2013	2014	2014		2015			2015				
					II	III	IV	I	II	Apr.	May	Jun.	July	Aug.
<b>AGGREGATE DEMAND</b>														
GDP at current prices (in billions), SA	207,0	191,2	180,4	177,6										
(annual % change)	-8,4	-7,6	-5,7	-1,6	-3,4	0,5	-0,3	-0,4	0,1					
GDP at constant prices (in billions), SA	205,4	191,9	185,1	181,6										
(annual % change)	-9,1	-7,3	-3,9	0,7	0,2	1,4	1,4	0,6	1,6					
<b>Components (annual % change, at constant prices)</b>														
Private Consumption	-10,7	-7,9	-2,2	1,4	0,8	2,9	1,3	1,7	2,5					N/A
Public Consumption	-6,3	-6,6	-5,2	-0,8	2,1	-3,5	-2,5	-1,2	2,3					
Gross Fixed Capital Formation	-17,0	-28,5	-9,5	2,9	-3,3	2,3	19,3	13,9	-3,3					
Residential Investment	-14,7	-33,4	-27,7	-51,4	-58,0	-44,4	-52,4	-29,7	-8,1					
Exports of Goods and Services	1,0	1,0	1,5	8,7	9,2	8,2	9,9	1,1	-1,8					
Imports of Goods and Services	-7,8	-9,4	-2,9	7,4	9,2	3,7	17,5	9,7	-3,5					
<b>LABOUR MARKET (annual % change)</b>														
Nominal Unit Labour Costs <sup>(1)</sup>	-2,6	0,2	-6,6	-1,6	-5,0	0,2	1,4	1,8						
REER Unit Labour Costs <sup>(2)</sup>	0,4	-7,5	-6,1	-2,0	-1,3	-2,2	-3,0							
Unemployment Rate (%) <sup>(3)</sup>	17,9	24,6	27,5	26,6	26,9	26,2	26,0	25,9	24,6	25,3	24,8	25,0	25,0	
<b>PRICES (average annual % change)</b>														
National CPI	3,3	1,5	-0,9	-1,3	-1,5	-0,6	-1,8	-2,4	-2,1	-2,1	-2,2	-2,2	-1,5	
National CPI excl. Fresh Fruits - Vegetables & Fuels (BoG)		0,3	-1,7	-0,7	-1,2	0,0	-0,7	-0,7	-0,7	-0,8	-0,9	-1,0	-0,9	-0,3
GDP Deflator, SA	0,8	0,1	-2,3	-2,6	-3,6	-0,9	-1,7	-1,0	-1,5					
<b>PUBLIC FINANCES</b>														
General Government Primary Balance (in billions, cumulative) <sup>(4)</sup>	-6,8	-1,9	3,9	0,5	1,9	3,1	2,2	1,2	0,2	0,7	0,6	0,2	2,4	
G.G. Primary Balance (% of GDP)	-3,3	-1,0	2,2	0,3	1,0	1,8	1,2	0,7	0,1					
General Government consolidated Gross Debt (in billions)	356,0	304,7	319,2	317,1	322,4	321,7	324,1	312,7	312,8					
G.G. Gross Debt (% of GDP)	171,3	156,9	175,0	177,1										
<b>EXTERNAL BALANCE &amp; COMPETITIVENESS INDICATORS</b>														
Current Account Balance (€ bil.) <sup>(5)</sup>	-20,6	-4,6	-3,7	-4,2	-3,9	-0,3	-4,2	-3,3	-3,9	-1,1	-0,2	0,7	4,3	
Current Account Balance (% of GDP) <sup>(5)</sup>	-9,9	-2,4	-2,0	-2,4	-0,6	2,1	0,9	-1,3	-1,0					
Greece: Real Effective Exchange Rate Index <sup>(6)</sup>	1,0	-3,6	0,0	-1,0	-0,3	-1,5	-3,9							
Greece: Nominal Euro Effective Exchange Rate Index <sup>(6)</sup>	1,0	-1,7	3,1	2,1	3,4	1,1	-0,7							
Tourism Competitiveness Index (rank out of 140) <sup>(7)</sup>	29	-	32	31										

Sources: Hellenic Statistical Authority, EC, UNWTO, BoG, Min Fin

<sup>(1)</sup> NSA, Nominal Unit Labour Cost based on hours worked

<sup>(2)</sup> Compared to 37 countries.

<sup>(3)</sup> Defined as unemployed/labour force (seasonally adjusted data, period average).

<sup>(4)</sup> Yearly data are ESA based statistics, while quarterly and monthly data are compiled from cash based public accounting data (without the impact of the support to financial institutions)

<sup>(5)</sup> The Quarterly Current Account Balance as % to GDP for 2015 is divided with €173.7 bill. \_EC projection Aug 2015. Quarterly data are cumulative.

<sup>(6)</sup> As from reference month July 2015, the Bank of Greece will implement a significant change to its balance of payments compilation methodology, using ELSTAT's trade statistics instead of the settlements data used until June 2015 inclusive.

<sup>(7)</sup> The index is CPI-based and includes the 37/main trading partners of Greece. This index should not be confused with the real Effective Exchange Rate of the euro

which is calculated by the ECB on the basis of the trade shares of the euro area as a total. An increase denotes loss of competitiveness of Greece's trading partners.

<sup>(7)</sup> Refers to 2015 Rank \_ Travel and Tourism Competitiveness Report 2015. The smallest the number, the better

Business Economy	ANNUAL				QUARTERLY					MONTHLY				
	2011	2012	2013	2014	2014		2015			2015				
					II	III	IV	I	II	May	Jun.	Jul.	Aug	Sep
<b>(annual % change unless otherwise indicated)</b>														
<b>INDUSTRY</b>														
Industrial Production Index <sup>(1)</sup>	-5,7	-2,0	-3,2	-1,9	-2,8	-2,9	0,1	1,9	-2,9	-4,3	-4,7	-1,6	4,5	
Manufacturing Production Index	-9,1	-3,5	-1,1	1,8	-0,4	1,8	5,0	5,3	-1,0	-2,9	-3,7	-5,7	4,2	
Turnover Index in Industry <sup>(2)</sup>	6,2	2,8	-5,9	-1,3	-1,5	-0,1	-0,6	-8,9	-6,1	-3,9	-12,9	-15,4		
<b>CONSTRUCTION ACTIVITY</b>														
Production Index in Construction (WDA, 2010=100) <sup>(1)</sup>	-41,3	-33,4	-8,2	15,5	17,2	28,8	18,1	43,1	0,9					
Index of Apartment Prices	-5,5	-11,7	-10,9	-7,5	-8,2	-7,2	-5,4	-4,1	-5,6					
Private Building Activity (volume in 000m <sup>3</sup> ) <sup>(2)</sup>	-37,7	-30,6	-25,6	-5,8	1,4	-3,3	-5,8	29,2	7,7	6,1	-15,1			
Number of Building Permits (Private) <sup>(2)</sup>	-28,4	-36,9	-27,7	-18,1	-20,6	-17,7	-18,1	8,7	-	2,4	-			
<b>TRADE</b>														
Turnover Index in Retail Trade <sup>(3)</sup>	-7,2	-11,0	-8,6	-1,1	-1,4	1,6	-1,6	-1,8	-0,9	2,4	-1,7			
Turnover Index in Wholesale Trade <sup>(3)</sup>	-13,5	-12,1	-12,1	0,1	0,7	1,2	-0,9	-1,0	-3,5					
<b>CAR TRADE</b>														
Turnover Index in Car Trade <sup>(3)</sup>	-29,5	-35,8	-3,3	24,0	34,2	19,8	19,1	17,9	10,4					
New Passenger Car Registrations	-30,0	-40,3	1,0	30,1	2,6	0,0	15,3	19,0	33,3	30,3	22,1	-23,6	25,8	
<b>SERVICES (cumulative)</b>														
Tourism Receipt, BoG (incl. cruises)	9,3	-0,6	16,4	10,2	9,6	13,8	10,2	12,8	8,2	17	1,2	3,5		
Tourism Receipt (in mln euros)	10.505	10.442	12.152	13.393	3.811	12.020	13.393	532	4.122	1.215	1.914	2.872		
Tourist Arrivals, BoG (excl. cruises)	9,5	-5,5	15,5	23,0	15,6	25,8	23	45,6	20,8	13,2	12,4	4,4		
Tourist Arrivals (in thous people)	16.427	15.517	17.919	22.033	6.264	12.723	22.033	1.728	7.566	1870	3033	4409		
Turnover Index in Tourism (hotels & restaurants) <sup>(3)</sup>	-7,4	-17,2	4,8	13,7	6,7	7,6	22,2	6,0	13,4					
<b>EXPECTATIONS INDICES (in units)</b>														
Economic Sentiment Indicator (1990-2014=100)	80,7	79,9	90,6	99,5	99,8	101,5	101,4	96,8	91,6	91,4	90,7	81,3	75,2	83,1
Index of Consumer Confidence	-74,1	-74,8	69,4	-54,0	-50,3	-52,7	-51,6	-37,0	-43,6	-43,6	-46,8	-52,9	-64,8	-64,2
Index of Bus.Expect. in Industrial (1996-2006=100)	76,9	77,2	87,8	94,6	95,6	97,8	94,9	87,1	85,7	87,2	85,2	69,5	67,4	78,8
Index of Bus. Expect. in Construction (1996-2006=100)	34,2	43,2	65,0	80,4	82,1	80,1	79,9	65,0	57,6	57,5	55,7	39,3	39,3	56,3
Index of Bus. Expect. in Retail Trade (1996-2006=100)	58,9	57,1	70,2	89,1	86,9	93,5	95,6	85,5	90,4	94,0	89,4	65,7	62,8	69,0
Index of Bus. Expect. in Services (1998-2006=100)	61,7	54,8	70,4	87,2	87,1	94,1	88,8	76,4	73,2	70,0	76,6	61,3	50,4	75,4
Index of Bus. Expect. In Tourism <sup>(4)</sup>	75,8	69,2	79,8	93,2	100,8	109,2	102,2	93,4	97,3	99,5	92,9	81,2	93,5	101,5

Sources: Hellenic Statistical Authority, Bank of Greece, IOBE, SETE

<sup>(1)</sup> Production at constant prices.

<sup>(2)</sup> Cumulative for quarterly data

<sup>(3)</sup> Turnover at current prices.

<sup>(4)</sup> Accommodation and Restaurants

Blank indicates no available data.