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Greece and Southeastern Europe Economic & Financial Outlook

Executive Summary

1. Greece

- The decision of the Eurogroup on November 26, 2012 for the continuation of unhindered financing of Greece's three years old adjustment program constituted a game changer securing unambiguously both Euro's survival and Greece's Euro membership. It also removed conclusively the unprecedented impediments, which had been blocking Greece's recovery since September 2011. This became possible following: a) the successful completion of March-April 2012 PSI plus, which implied an estimated € 54.9 bn (28.4% of GDP) fall of Greece's general government (GG) debt, b) the national elections on June 17, 2012, in which a pro-reform 3-party coalition government with comfortable parliamentary majority was formed, which boosted the process of implementation of Greece's adjustment program increasing its credibility and c) the much better than planned implementation of Greece's 2012 budget and the legislation in November 2012 of new spending cuts and revenue increasing measures exceeding € 15 bn securing the successful implementation of the 2013-2014 budgets as well. In fact, in December 2012 the new buy-back program of new GGBs was implemented implying an additional fall of Greece's GG debt by 10 pps of GDP. Moreover, there was achieved a much better than planned implementation of the 2013 budget in the first 4-months of the year and also substantial progress in structural reform and in the implementation of the privatization program, securing the collection of the targeted 2013 revenues already from June 2013. Also, the bank recapitalization program is progressing much better than expected with substantial inflows of foreign capital aspiring to participate in this program.
- Greece has endured an unprecedented 20.1% cumulative GDP decline since 2008. However, the fact that the adjustment program is on track, with a huge improvement of Greece's international competitiveness and with the implementation process of its privatization program in an accelerated mode in much more favourable markets, as well as with the restart of works in Greece's major infrastructure projects and liquidity conditions in the economy improving fast, positive yoy growth could resume from Q1 2014. Moreover, a -3.6% GDP fall is still likely in 2013 as whole, following its fall by -5.6% in Q1 2013.
- Internal devaluation since 2009 has recouped 3/4 of competitiveness loss during the 2000s, while the restoration of flexibility and economic performance in the labour market implies further gains in competitiveness in the following years. In this context, net exports of goods and services deficit has shrunk from -14.1% of GDP in 2008, to -3.5% of GDP in 2012 and it is expected to fall further to -2.0% of GDP in 2013 and to -0.1% of GDP in 2014. Also, Greece's current account deficit (including net capital transfers) is expected this year to turn into surplus of 1.0% of GDP, from a deficit of -2.2% of GDP in 2012, 8.6% in 2011 and 10.3% of GDP in 2009.
- The performance in fiscal consolidation is impressive. In fact, there was a significant improvement in the GG primary balance, which in fact recorded a small primary deficit of just -1.0% of GDP in 2013, compared with a planned deficit of 1.5% of GDP. Also, in January-April 2013 the Central Government primary balance registered € 0.31 bn deficit, compared with a planned deficit for the same period of € 3.61 bn and with a deficit of € 1.73 bn in Jan.-April 2012. These developments are in line with projections for a 0.5% of GDP GG primary surplus in 2013, compared with a planned balance of 0.0% of GDP.

2. Romania

- Domestic demand was the main upward driver behind the weak economic growth in 2012. Real GDP advanced by 2.1% yoy in Q1 2013 (unadjusted figures). Improvement in employment and lower inflation are expected to give a boost to domestic demand.
- The implementation of the fiscal consolidation program in the context of the precautionary SBA with the IMF remains on a good track.
- We expect the NBR to change its monetary policy in the second part of 2013 due to favourable medium-term inflation projections and the weak domestic activity.

3. Bulgaria

- The GDP expanded 0.4% (preliminary data) in Q1 2013 over the same quarter of the previous year and 0.1% compared with the fourth quarter of 2012. For 2013, we foresee a growth of 0.8% mainly supported by domestic demand.
- The social protests and the change of the government had a partial negative impact on economic activity.
- The current account posted a deficit of € -421 million or 1.0% of GDP for 2013, in Q1 2013 versus a deficit of € -562 million in the same month a year ago.

4. Cyprus

- The Cyprus economy currently functions under unprecedented uncertainty created by the experimental structure of Eurozone/IMF financial support programme, including bank deposit haircuts.
- The ongoing deterioration of the economic sentiment and consumer confidence, as well as an impaired banking system would have a major impact on the GDP growth in 2013.
- The European Commission (Spring Forecasts) projects a fall of Cyprus GDP by -8.7% in 2013 and by -3.9% in 2014 with a fall of private consumption by -12.3% in 2013 and by -5.5% in 2014.

5. Serbia

- The real GDP flash estimate expanded by 1.9% y/y in Q1 2013 from a decline of -2.0% y/y in Q4 2012. Economy is expected to have a rebound to 1.8% y/y in 2013 supported by normalization in agricultural output, higher car production and infrastructure projects.
- We anticipate monetary policy to ease further if inflation begins to reverse course.
- In March, S&P affirmed its long and short term foreign and local currency sovereign credit ratings (BB-/ B), while the negative outlook indicates that sovereign debt may be downgraded if deficits continue to widen and policy makers fail to implement measures to address public-sector inefficiencies.

6. Albania

- Despite the deteriorating external environment, the Albanian economy continued to perform relatively well in 2012. For 2013, we foresee a modest rebound in economic activity due to the improvement of domestic demand and the increase of government spending ahead of parliamentary elections on June 23, 2013.

- For 2013, the Albanian government targets a deficit gap of 3.4% of GDP and a public debt to GDP ratio at 62.6%. The projected figures sound optimistic and we cannot exclude a supplementary budget during the year.
- The current account deficit is expected to settle around -8.5% of projected GDP in 2013, as export activity will decrease due to the EU stagnating economic situation.

7. Former Yugoslav Republic of Macedonia

- Weak external demand had a negative impact on growth in 2012. The economy contracted by a real -0.3% y/y after an expansion of 2.8% y/y in 2011.
- Inflation surged to 3.3% in April 2013, while on average is expected to fall to 3.0% in 2013 from 3.3% in 2012.
- The current account deficit shrank to € 73.3 million in the first two months of 2013. The improvement reflects a narrower merchandise trade deficit, a reversal to a net inflow in the services account and a narrower current transfers balance.

8. Ukraine

- Gross domestic product declined by -1.3% y/y in Q1 2013 (preliminary data), from 2.5% y/y in Q4 2012. This is the third negative reading since Q4 2009.
- Despite, an average 0.2% y/y inflation in 2012, consumer prices continued to remain in negative territory, in the first months of 2013.
- The Ukraine's current account deficit shrank to $ 1.751 million in Q1 2013 (preliminary data) or about -1.2% of projected GDP.
- The money market conditions returned to normal. O/N interbank rate declined to 1.7% (May 28,2013) from 48.6% (October 26, 2012).

9. Turkey

- Hard landing for the economy is likely as Turkey grew slower than expected in 2012 at a rate of 2.2%.
- The credit rating agency Moody's lifted Turkey's government bond ratings by one notch to Baa3, the lowest investment grade, from Ba1 with stable outlook. The rating change reflects recent and expected future improvements in key economic and public finance metrics.
- The Central Bank has dropped the top end of its interest rate corridor by 500 basis points since September 2012.

1. Greece

Table 1. Basic Conjunctural Indicators (average annual % change)

	2009	2010	2011	2012	2013	
						available period
Retail sales volume (except automotive fuel)	-9.3	-6.9	-8.7	-11.8	-12.3	Jan-Mar
Automobile sales	-17.4	-37.2	-29.8	-22.9	-11.0	Jan-Apr
Tax on mobile telephony	13.2	37.1	-16.8	-8.4	-11.9	Feb
VAT revenue	-9.1	4.8	-2.8	-4.1	-14.4	Jan-Apr
Consumption tax on fuels	18.6	30.3	-18.3	-4.1	-2.5	Jan-Apr
Private Consumption	-1.6	-6.3	-7.7	-9.1	…	
Government Consumption	4.9	-8.7	-5.2	-4.2	…	
Private building activity (volume, according to permits	-26.5	-23.7	-37.7	-30.6	-36.2	Jan-Mar
Concrete production	-25.3	-14.5	-35.9	-40.7	-9.3	Jan
Public investment expenditure	-0.4	-11.3	-21.8	-7.5	-12.6	Jan-Apr
Fixed investment	-11.1	-15.0	-20.7	-17.7	…	
Change in Stocks and Stat. Dis.	-142.9	-26.1	-101.7	-237.6	…	
Unemployment	9.5	12.5	17.7	24.4	27.6	Feb
Manufacturing production	-11.2	-5.1	-8.5	-3.9	-0.3	Jan-Mar
Economic sentiment indicator	82.0	82.0	80.6	80.0	89.2	Apr
-Industry	72.1	75.8	76.9	77.2	90.3	Apr
-Consumer confidence	-45.7	-63.4	-74.1	-74.8	-71.8	Apr
PMI (manufacturing)	45.3	43.8	43.6	41.4	42.1	March
Exports of goods - excluding oil (El.Stat.)	-15.9	9.3	10.4	5.1	-2.3	Jan-Mar
Exports of goods (El.Stat.)	-18.2	11.6	37.0	…	5.1	Jan-Mar
Imports of goods - excluding oil (El.Stat.)	-20.2	-10.7	-12.4	-6.0	-9.0	Jan-Mar
Imports of goods (El.Stat.)	-24.1	-1.9	-6.9	…	-7.6	Jan-Mar
Tourist arrivals (airports)	-7.4	-0.7	8.7	-3.3	-10.5	Jan-Feb
Tourism receipts (BoP)	-10.6	-7.6	9.5	-4.6	-4.2	Jan
Exports goods & services	-19.4	5.2	0.3	-2.4	-0.6	Jan-Mar
Imports goods & services	-20.2	-6.2	-7.3	-13.7	-10.0	Jan-Mar
GDP growth	-3.2	-4.9	-7.1	-6.4	-5.3	Jan-Mar
Inflation (CPI)	1.2	4.7	3.3	0.1	-0.6	Apr
Current Account (% of GDP)	-10.3	-9.2	-8.6	-1.7	-0.7	Jan-Mar

Source: Bank of Greece and Hellenic Statistical Authority (El.Stat.)

Resilient Greece

Greece has already carried out a remarkable adjustment and has laid the foundations for recovering from the greatest economic crisis of its post-war history. Greece has achieved the most severe ever frontloaded fiscal correction in the EU-27 and it has done so in combination with the implementation of growth-friendly structural reforms leading to an unprecedented improvement of its international competitiveness (internal devaluation). Despite a precipitous fall of its real GDP of -20.1% and a surge in unemployment to 24.1% of the labour force by 2012, the overall prospects of Greece recovering from its sovereign-debt crisis, while simultaneously remaining a full member of the Eurozone, are now much more robust than ever.

Greece's debt burden is now manageable

The successful completion of PSI plus project in March-April 2012 implied a nominal net deduction of the Greek GG debt of the order of € 54.9 bn, or by 28.4% of 2012 GDP. In fact, total PSI involved Greek Government Bonds (GGBs) amounting to € 196.2 bn. These bonds were exchanged: i) with an amount of EFSF short term bonds equal to 15% of the initial amount, that is € 29.43 bn and ii) with new GGBs equal to 31.5% of the initial amount that is € 61.3 bn. Therefore, the initial debt of € 196.2 bn was exchanged with new debt equal to € 91.23 bn. The nominal value of Greece's GG debt was reduced by an amount equal to € 104.97 bn. However, taking into account the consequent attribution of € 50 bn for the recapitalization of Greek banks, the PSI operation implied an estimated net fall of Greek GG Debt of € 54.9 bn, or by about 28.4% of GDP. Moreover, the new GGBs issued in the PSI, amounting to about € 61.3 bn had a term of 30 years (final maturity is in 2042) and an amortisation period starting on the 11th anniversary of the issue date. These new GGBs bear a substantially low coupon of 2.0% per annum from February 2012 to February 2015, 3.0% per annum from March 2015 to 2020, 3.65% per annum in 2021 and 4.3% per annum in the period 2022-2042. Private sector holders of new GGBs also received detachable Greek GDP-linked securities issued by the Hellenic Republic with a notional amount equal to the face value of the new bonds. In case of an increase of the Greek nominal GDP above a defined threshold and of a positive GDP growth in real terms in excess of specified targets, the GDP-linked securities provide to their holders an amount of up to 1.0% of their notional amount for all annual payments beginning in 2015.

Moreover, with the far reaching decisions of the Eurogroup of 26 November 2012 – a new buy-back program of new GGBs was implemented by the Greek government in December 2012, in which GGBs of face value equal to € 31.8 bn were recovered (including € 14.5 bn from Greek banks) and this operation was estimated (by the IMF) to imply a reduction of the Greek GG debt in 2020 by about 10.0 percentage points of GDP. Through lowering to 50bps (from 150bps) of the margin over 3-month EURIBOR on the € 53 bn debt provided to Greece through the Greek Loan Facility (GLF) and also the elimination of the 10 bps operating fee on EFSF lending, the Greek GG debt in 2020 was lowered by -2.6 pps of GDP. Finally, through the decision to remit to Greece profits on GGBs purchased by the ECB under the securities market program (SMP), Greece

is estimated (by the IMF) to receive an amount of about € 9.3 bn until 2020, which will reduce the Greek GG debt in 2020 by about 4.6 pps of GDP. Through these important operations and decisions, the Greek GG debt was expected (by the IMF) to be lowered by about 17.2 pps of GDP, down to 126.8% of GDP in 2020. Based on this outcome, the IMF prescribed that the member states of the Eurozone should agree to take additional debt relief measures in favour of Greece in 2014 and 2015, of the order of 4.1% of GDP, in order to reduce the Greek GG debt to the level of 124% of GDP in 2020 and "substantially below" the 110% of GDP in 2022. This meant that in order for the Greek debt to become sustainable, an Official Sector Involvement (OSI) was also needed. In order to secure the appropriate decision towards the long overdue resumption of financing of Greece's adjustment efforts, the Eurogroup agreed to the IMF demands and promised that additional financial support will be available to Greece after 2014 - when Greece will have achieved the required surpluses in its GG primary balance. Optional new measures considered by member states included further GLF interest rate reductions and also the revision of the framework for structural funds for Greece.

Indeed, concerning the resources expected to be received by Greece from the European Structural Funds in the period 2014-2020, the European Council of 8th February 2013 decided that Greece is to receive € 14.5 billion from the community support framework, € 1.8 billion for rural development, and an additional € 2.0 bn in 2016, when Greece's participation in the EU budget will be reassessed in the wake of the substantial fall of its GDP because of the crisis. Overall, Greece is expected to receive now from the structural funds of the EU an amount exceeding € 18.5 bn in 2014-2020, which is higher by € 5.0 bn (2.6% of GDP) from the initial European Commission's proposal of € 11.2 bn

Concerning developments in 2013-2014, the successful completion of the PSI in March – April 2012 and the additional debt relief and reduced borrowing costs agreed by the Eurogroup on 26 November 2012 have resulted to a significant decline of the Greek GG debt/GDP ratio to 156.9% in 2012 from 170.3% in 2011. Moreover, it is estimated that the GG debt/GDP ratio will increase again to 175.2% in 2013 due to a) the inflow of the remaining funds to the HFSF for the completion of the recapitalization of Greek banks in H1 2013 and b) financial assistant trances which will be used in order to pay the Greek state's overdue liabilities to the private sector (amounting to about € 9.0 bn). However, the GG debt/GDP ratio is expected to fall to 175% of GDP in 2014 and to 162.7% in 2016, under the widely pessimistic Troika's assumptions concerning: i) GDP growth, ii) GG revenues, iii) privatization receipts and iv) increasing participation of the private sector in bank capital, in the period 2013-2016.

Finally, it should be noted that the fall of GG Debt/GDP ratio in the period 2013-2020 will be facilitated by the sharp reduction in debt servicing needs of the country, through the low interest rates on the new GGBs and the substantial extension of the average debt maturity. Due to the above debt relief measures, debt servicing costs were reduced substantially, as the effective average cost of Greek debt servicing was brought down to an estimated 5.2% of GDP in 2012 and is expected to be around an average 4.6% in the period 2013-2016, from about 7.0% of GDP in 2011. Therefore, the Greek debt/GDP ratio may be relatively high in 2013 but this ratio has been bloated in the last 2-years by the inflow of the bulk of Eurozone/IMF financial aid trances, including the recapitalization of the Greek banks by the HFSF, which is expected to be quickly reversed in the following 4.5-years through increasing sales of bank stock owned by the HFSF to the private sector.

Greece's unprecedented adjustment

In the last three-years, Greece has fundamentally improved its development prospects through the achievement of: a) an unprecedented fiscal adjustment, turning a general government (GG) primary deficit of 10.4% of GDP in 2009 to a much likely to emerge sizable primary surplus in 2013, b) a striking improvement in competitiveness of its internationally-traded products, measured by an internal devaluation of its unit labour cost based on real effective exchange rate of 18.9% in Q4 2012 in comparison with Q4 2009, which is estimated to reach 23.9% in Q4 2013, creating conditions for dynamic export growth and substantial import substitution and c) significant progress in structural reforms, especially in the labour and product markets, which have facilitated and also secure the gains in fiscal adjustment and international competitiveness.

This impressive adjustment was achieved on the back of extremely adverse economic, political and social conditions, which prevailed in particular from mid 2011 to end 2012. These include, inter alia the following:

(1) The unfortunate effects of the ill-advised tax policy measures introduced with the tax law 3842 of April 2010, in combination with the apparent inability ever since to re-organize and strengthen the revenue collection mechanism of the Ministry of Finance, which led to an exacerbation of tax and social security contributions fraud and evasion in 2011 and 2012. This was in addition to the unavoidable negative effect on GG revenues of the fall in incomes due to drastic fiscal adjustment and labour market reform bringing a surge in unemployment.

(2) The widespread opposition to the adjustment effort from organized interest groups and some political parties, hurting the implementation of significant structural reforms and fiscal consolidation measures, and exerting additional disruptive effects on tourism and other important economic sectors.

(3) Stifling economic and liquidity pressure through the withholding of the disbursement of aid trances in 2012 and the negative Troika projections for Greece's growth prospects, which contributed to the dramatic fall of economic confidence and put in play even the possibility of an end of Greece's membership in the Eurozone. This Greek exit play dominated developments until Dec. 2012.

(4) The dramatic multi-notch debilitating downgrades of the Greek economy and of the Greek banks by credit rating agencies, starting from May 2010, which were in stark contrast to the milder treatment of other countries facing a financial and sovereign bond crisis even more severe than Greece.

It is indicative of extremely negative attitudes against Greece that the Citigroup and Moody's are perhaps the only two organizations left world wide in May 2013, which still consider that there is "an elevated probability of a Greek government re-default" and exit from the Euro. A probability which actually is considered by Moody's to be so high as to justify its decision in May 2013 to maintain it's C-rating for Greece "with no outlook"!! (first awarded on 2 March 2012). In the meantime the price of the 10year GGBs has gone up from 14.7 at end-May 2012 to 60.63 on 9/5/2013.

(5) Increasing political instability in Greece, following the above negative developments and the continuing pressures by the Troika for more and more austerity measures, especially in the period between June 2011 and November 2012. This hurt social cohesion and diminished popular support for the adjustment program. This extremely negative operating environment led to a collapse of confidence and an outflow of deposits that dried up domestic liquidity, exacerbating the negative effect on Greek GDP emanating from drastic fiscal adjustment and structural reform measures. As a result, GDP fell by -7.1% in 2011 and by -6.4% in 2012, notwithstanding the positive effect on GDP growth from the rapidly rising net exports (+3.7 percentage points in 2012). Moreover, the dramatic fall of economic activity, the fall of employment in the public sector (by -150,000 people) and in particular the almost complete stoppage of both public and private investment have led to a surge in unemployment to 24,1% of the labour force in 2012, with youth unemployment exceeding 57%.

Drastic fiscal adjustment

Greece has achieved an unprecedented fiscal adjustment over the period 2010 - 2012, as shown in Table 2 below, under the extremely adverse economic conditions summarized above. Its GG primary balance has reached a deficit of -1.0% of GDP in 2012 from a deficit of -10.5% of GDP in 2009. This constitutes a fiscal adjustment of 9.5 percentage points of GDP within three years, an outcome that was considered impossible by international analysts in early 2010. Total GG deficit reached -6.0% of GDP in 2012 from its abnormally high level of -15.7% of GDP in 2009. More importantly, the stage is now set (the measures needed are already in place) for a GG primary surplus of 0.5% of GDP in 2013 and of the order of 2.5% of GDP in 2014 and 4.5% of GDP from 2015 onwards[1].

In particular, the final outcome of the 2012 budget published by the Hellenic Statistical Authority (ELL. STAT.) on 10 April 2013 in as follows: The GG primary deficit reached € 1.96 bn (1.0% of GDP) in 2012, compared with a planned deficit of € 2.9 bn (1.5% of GDP) and with a GG primary deficit of € 5.57 bn (2.7% of GDP) in 2011, € 11.82 bn (5.3% of GDP) in 2010 and € 24.53 bn (10.6% of GDP) in 2009.

It should be noted here, that the process of restructuring and recapitalization of the domestic financial institutions, which started in middle 2012, has added to the GG government deficit and the GG primary deficit of 2012 an additional amount of € 7.73 bn (4.0% of GDP), which was provided as financial support to these institutions from the Hellenic Financial Stability Fund (HFSF). This is a part of the € 50 billion financial support provided for this purpose by the EFSF, following the loss of capital that Greek banks suffered due to the PSI plus in March 2012. As a result of this support, which has already been added to the GG debt of Greece, the GG deficit and the GG primary deficit of 2012 appear in the ELL. STAT and in the Eurostat's (22 April 2013) statistics to be 4.0 pps of GDP higher - that is 10.0% and 5.0% of GDP respectively. An additional financial support to domestic financial institutions will appear in 2013 as well, which will be of the order of € 35 bn and will also bloat the GG deficit and the GG primary deficit of the year 2013.

Table 2. Fiscal Adjustment in Greece in 2010-2013

	GG Pripary Expenditure (€ Billion)	GG Revenues (€ Billion)	GG Expentidure on wages and pensions (€ Billion)	GG Primary Balance (% of GDP)	GG Deficit (% of GDP)
2008	105,8	94,9	28,0	-4,8%	-9,8%
2009	113,1	88,6	31,0	-10,6%	-15,8%
2010	102,1	90,2	27,8	-5,3%	-11,3%
2011	93,7	88,1	25,9	-2,7%	-9,9%
2012	88,6	86,7	23,9	-1,0%	-6,0%
2013	79,1	79,1	22,0	0,0%	-4,5%

Source: ELL.STAT and IMF Country Report No. 13/20, Greece.

Excluding the above one off financial support, the result for the -1.0% of GDP GG primary deficit was achieved despite the fact that ***the GG revenues have widely underperformed again in 2012,*** and especially in H2 2012, in comparison with the drastic measures (amounting to € 11.0 bn) applied in 2012 for their substantial increase. More specifically, GG revenues fell by -1.6% in 2012, following their fall by -2.4% in 2011 and their slight increase by 1.8% in 2010. This happened despite the fact that substantially increased revenues were expected in August – December 2012 (compared to August – December 2011), which would mainly arise from the following: (i) From an expected substantial increase of revenues from income tax on Individuals (ITI) of the order of € 4.5 bn in H2 2012, given the personal tax assessment in 2012 on incomes earned in 2011. In fact, revenues from ITI were higher by € 1.76 bn (+36.4%) in H2 2012 from H2 2011, which implies that revenues of about € 2.2 bn failed to materialize in 2012 and have turned to either overdue tax liabilities or are scheduled to be paid in trances in 2013. (ii) From the equalization of the excise tax on heating oil to the much higher excise tax on diesel, with expected additional revenue of the order of € 250 million in 2012 and more than € 600 million annually from 2013 onwards. This additional revenue did not materialize in 2012 due to the exceptionally good weather conditions, which led to a substantial fall of sales

[1]. As Martin Wolf points out (FT, May 7, 2013), between 2009 and 2012, according to the International Monetary Fund, the structural fiscal deficit shifted by 15.4 per cent of potential GDP in Greece, 5.1 per cent in Portugal, 4.4 per cent in Ireland, 3.8 per cent in Spain and 2.8 per cent in Italy. Despite of that, Moody's (18 April 2013) indicates that in order to upgrade Greek GGBs from the current C-rating-with no outlook, "fiscal consolidation …. would need to proceed much faster than is currently expected".

of heating oil. The same happened to a great extent in Q1 2013 as well. In particular heating oil consumption in the period 15 October 2012 to 28 February 2013 was drastically down by -67.3% compared with the same period of the previous year. Nevertheless, revenues from the excise tax on heating oil reached the € 244 million in the 5-month period from 15 October 2012 to 28 February 2013, compared with targeted revenues of more than € 650 million, but also with revenues of only € 141.5 million in the corresponding 5-month period of the previous year. (iii) From the collection of additional revenues from 2012 property taxes of the order of € 1.5 bn in 2012 and an additional € 1.0 bn in 2013. In fact, revenues from property taxes reached € 2.86 bn in 2012, from € 2.1 bn in Jan.-July 2012. The main part of the revenues from the special levy on buildings connected to the electricity grid (EETHDE) of the year 2012 is now expected to be paid in instalments in 2013.

Therefore, net current revenues in the 2012 budget reached € 48.33 bn, compared to a planned € 47.7 bn, but registering a fall of -3.7% in 2012 compared with 2011, despite the fact that additional revenue increasing measures undertaken and implemented within 2012 exceeded the € 11.0 bn (5.2% of GDP).

Regarding the implementation of the 2013 and 2014 budgets, Troika's January 2013 projections are presented in Table 3. Under these assumptions, achieving the 0.0% of GDP primary surplus target in 2013 and a 1.5% of GDP primary surplus target in 2014 required additional fiscal measures of the order of 7.15% of GDP, of which 5.1% of GDP will be expenditure reducing measures and 2.06% of GDP will be revenue increasing measures (0.34% tax administration gains). These measures were taken by the Greek government in August – November 2012 and are applied from the beginning of 2013. Moreover, additional fiscal adjustment measures of the order of € 2.8 bn in 2015 and € 3.9 bn by 2016 are required by the Troika in order the primary surplus to reach the required 3.0% of GDP in 2015 and the 4.5% of GDP in 2016.

Table 3. Troika's projections for Greece's fiscal adjustment.

	2011	2012	2013	2014	2015	2016
GG Revenues	88,3	85,0	79,1	79,2	79,8	82,7
GG Primary Expenditure	93,4	87,9	79,1	76,4	76,8	77,6
GG Primary Balance	-5,1	-2,9	0,0	2,8	3,0	5,1
Nominal GDP	208,5	193,7	183,8	184,2	191,0	200,2
%Δ GDP	-6,1%	-7,1%	-5,1%	0,2%	3,7%	4,8%
% of GDP						
GG Revenues	42,3%	43,9%	43,0%	43,0%	41,8%	41,3%
GG Primary Expenditure	44,8%	45,4%	43,0%	41,5%	40,2%	38,8%
GG Primary Balance	-2,4%	-1,5%	0,0%	1,5%	1,6%	2,5%

Source: IMF Country Report: Greece (January 2013).

The above are based on the following assumptions:

First, that nominal GDP will fall further by -5.2% in 2013, with a slight increase of only 0.2% in 2014 and moderate positive growth in 2015-2016 and, second, that the GG revenues will continue falling in the following years even as percent of GDP, from their very low levels in 2012. Such assumptions, promulgated by the Troika have by themselves a depressing effect on the Greek economy and play well on the hands of doomsayers, including some of the rating agencies and also politicians operating on a platform based on the exploitation of the people's anxieties and economic dislocations arising from the further deepening of the recession in the Greek economy. On these grounds similar projections have been self-fulfilled in 2011 and in 2012, with the help: i) of the complete absence of policies aiming to stabilize the Greek economy in these years and ii) of the application of measures stifling the economy of liquidity and of threats insinuating an imminent Grexit and leading to a painful flight of deposits until June 2012.

However, as will be analyzed below, the situation in the Greek economy is substantially different in early 2013, as compared with H2 2011 and 2012 as a whole. Therefore, favourable conditions are now set up, which will enable Greece to succeed an important deceleration of the falling trend of GDP in 2013 and an early recovery of the economy, on yoy basis, from Q1 2014 and to enter a healthy growth path from 2014 onwards. On these grounds, and, on the back of the apparent successful recapitalization of Greek banks and the return of liquidity and confidence, it is expected that both GDP growth and GG revenues growth in the period 2013-2016 will be much better than Troika's depressing projections.

The same applies for 2014 when, contrary to the Troika's assumption, GG revenues may increase both because of the expected positive GDP growth from 2014 onwards and also due to the measures applied for combating tax fraud and arresting tax evasion, which will start eventually paying off, securing additional revenues in the following years. Therefore, the lower (by about € 1.0 billion) deficit in 2012 and the additional fiscal adjustment measures legislated in November 2012 and applied from 2013 are expected to lead to a positive GG primary surplus of more than 0.5% of GDP in 2013 and a higher surplus of 2.5% of GDP in 2014.

Overall, Greece is now well positioned for the successful completion of its fiscal adjustment program in 2013-2016, with GG primary surpluses of about 4.5% of GDP and GG deficits below 2.0% of GDP from 2016 onwards. With these developments in the fiscal front and a healthy recovery of the economy (with nominal GDP falling by less than -4.0% in 2013) and with eventual nominal GDP growth averaging 3.9% annually in 2014-2020, ***the GG debt*** may still be reduced to levels even below 116% of GDP in 2020, even without any additional debt relief measures from Greece's Eurozone partners.

Greece's substantial internal real devaluation within the Eurozone.

Based on data from the European Commission (Price & Cost Competitiveness and European Economic Forecast, Winter 2013), the relative (against 35 trading partner countries) Unit Labour Cost based real effective exchange rate (REER) of the Euro for Greece had appreciated by 21.1% in Q4 2009, versus 2000 (Diagram 1 and Table 4).

Internal devaluation, implemented through the application of Greece's adjustment program reached -19.0% in Q4 2012, compared with Q4 2009 and led to a complete reversal of Greece's REER appreciation from 21.1% in Q4 2009/2000, to a devaluation of -2.0% in Q42012/2000.

Moreover, the European Commission projects a further internal devaluation of the Euro REER for Greece of the

order of -6.1% in 2013 and of -3.5% in 2014, following its fall by -11.5% in 2012. These projections for 2013 and 2014 are based on the following assumptions (see Table 5): a) On an assumed fall of labour productivity by -0.9% in 2013 and by -0.1% in 2014, following its impressive increase by 2.4% in 2012. The fall in productivity in 2013 is due to the projected -4.4% fall of real GDP with a small fall in employment by -3.5% in 2013, following its fall by -8.6% in 2012. b) A fall of compensation of employees per head by -7.0% in 2013 and by -2.0% in 2014, following its fall by -7.0% in 2012. ***These developments will imply that the cumulative internal devaluation of the Euro REER for Greece will reach -24% in Q4 2013/2009 and -7.9% in Q4 2013/2000 and -26.6% in Q4 2014/2009 and -11.2% in Q4 2014/2000.***

However, in an alternative scenario with lower fall of GDP in 2013 and more pragmatic assumptions concerning the rate of change (fall) of employment and of increase in productivity in 2013 and in 2014, as presented in Table 4, internal devaluation of ***the Euro REER for Greece*** may reach -8.2% in 2013 and in addition -6.0% in 2014. In this scenario, the cumulative internal devaluation of ***the Euro REER for Greece will reach -25.7% in Q4 2013/2009 and to -10.0% in Q4 2013/2000 and to an impressive -30.1% in Q4 2014/2009 and -15.4% in Q4 2014/2000.*** In any case, either with the poor European Commission data and estimates or the adjusted scenario by EAD Alpha Bank, internal devaluation with respect to the relative ULC between Greece and its 35-competitor will have reached near -30% in Q4 2014 from Q4 2009 and more than -10% from 2000. This is a huge adjustment, which could not easily be achieved even if Greece had its own currency and had the ability to apply its own independent monetary and exchange rate policies. Therefore, the main argument of the doomsayers predicting Grexit, that is, the presumed inability to devalue without nominal devaluation of the country's own currency, was simply not valid.

Table 4. Unit Labour Cost based REER appreciation (against 35 countries examined by the European Commission)

	Germany	Greece	Spain	Ireland	Italy	Portugal
Q4 2009/2000	-0,3%	21,1%	23,6%	35,4%	26,6%	13,6%
Q4 2011/Q4 2009	-4,7%	-7,9%	-7,4%	-13,9%	-4,0%	-5,4%
Q4 2012/Q4 2009	-5,6%	-19,0%	-14,3%	-17,8%	-6,4%	-10,4%
Q4 2013/Q4 2009	-2,5%	-24,0%	-14,2%	-16,7%	-4,5%	-9,4%
Q4 2014/Q4 2009	-2,2%	-26,6%	-15,8%	-18,4%	-4,8%	-10,0%
Q4 2011/2000	-4,9%	11,5%	14,5%	16,6%	21,5%	7,4%
Q4 2012/2000	-5,9%	-2,0%	5,9%	11,4%	18,5%	1,7%
Q4 2013/2000	-2,8%	-7,9%	6,0%	12,8%	20,9%	2,9%
Q4 2014/2000	-2,5%	-11,2%	4,1%	10,4%	20,5%	2,2%

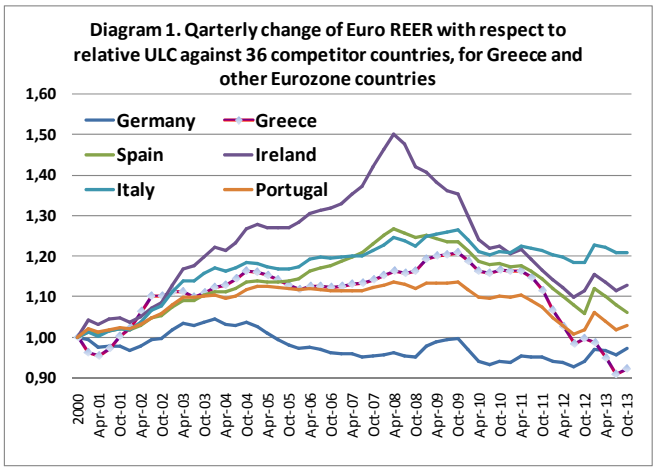
Source: a) European Commission (Price & Cost Competitiveness and European Economic Forecast, Winter 2013).

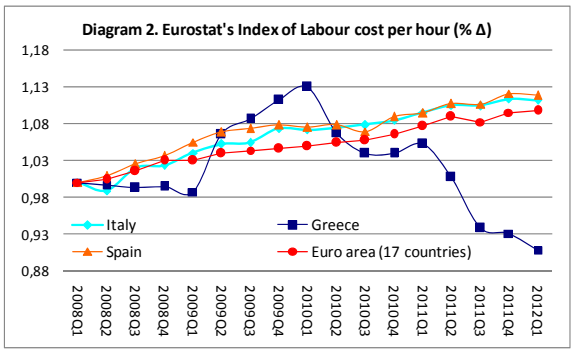
Table 5. Projections of Greece's internal devaluation

	2013		2014	
	Projectios of European Commission	Projectios EAD Alpha Bank	Projectios of European Commission	Projectios EAD Alpha Bank
GDP (%Δ)	-4,4%	-3,5%	0,4%	1,5%
Labour Productivity (% Δ)	-0,9%	1,2%	-0,1%	2,5%
Employment (% Δ)	-3,5%	-4,7%	0,5%	-1,0%
Copensation of employees per head (% Δ)	-7,0%	-7,0%	-2,0%	-2,0%
ULC Greece (% Δ)	-6,1%	-8,2%	-1,9%	-4,5%
ULC of 35 competitor countries (% Δ)	1,5%	1,5%	1,6%	1,6%
Relative UKC Greece (% Δ)	-7,6%	-9,7%	-3,5%	-6,1%
NEER Greece (% Δ)	1,5%	1,5%	0,1%	0,1%
REER Greece (% Δ)	-6,1%	-8,2%	-3,4%	-6,0%

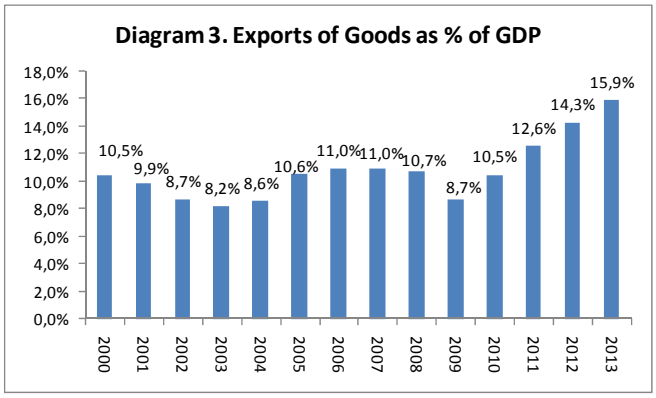
Source: European Economic Forcat, Winter 2013, EAD Alpha Bank

This significant improvement of Greece's international competitiveness in 2010-2012 has taken place in a period in which Greek labour productivity is substantially underestimated by official GDP data, which have been depressed by the surge of economic activity in the unofficial economy in the last 2-years, as well as the destructive impact of a loss in confidence affecting the economy. Therefore, productivity appears to register negative change in 2011 or a very low positive increase in 2012, despite the substantial fall in employment.



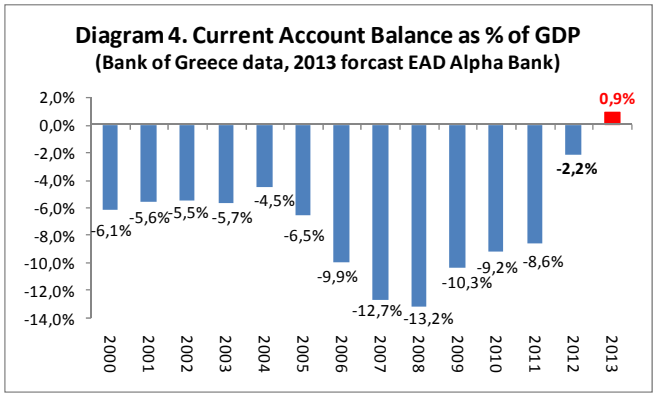


On the other hand, ***the improvement of competitiveness in Greece has already contributed substantially to the impressive increase of exports of goods*** by 16.1% in 2010 and by 12.6% in 2011 and by 5.6% in 2012. In fact e***xports of goods (on national accounts basis) amounted to € 27.76 bn (14.3% of GDP) in 2012,*** compared to € 20.1 bn (8.7% of GDP) in 2009 (See Diagram 3). Also, the sharp fall in imports of goods and services is now partly attributable to a gradual process of import substitution.



Remarkable was also the decrease of the current account deficit of the Greek Balance of Payments, to -2,2% of GDP in 2012, from -8.6% of GDP in 2011 and -10.4% of GDP in 2009. Moreover, the current account is expected to reach a surplus of about 1.0% of GDP in 2013, on the back of the expected surge of revenues from foreign

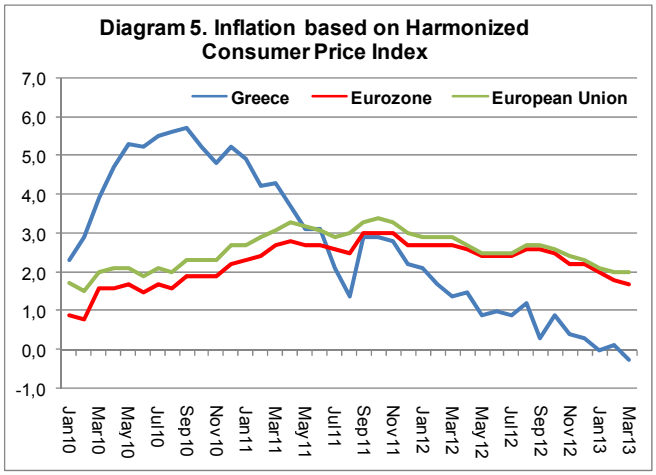
tourism and improved revenues from international transportation (Diagram 4). The capital account will mostly remain in deficit due to the repayment of Greece's debt, to the extent that these outflows are not compensated by the inflow official financial support capital to the general government by the ESM and the IMF and also from net inflow of FDI and other portfolio and bank capital. This means that Greece's current account may remain in surplus in 2014 as well.



Finally, developments in the external sector of Greece have implied a substantial positive impact of net exports to GDP growth of the order of 3.7 percentage points in 2012 (4.1 pps in H1 2012), compared with 2.4 pps in 2011, while an additional positive impact of net exports on GDP growth, of 2.5 pps is expected in 2013 as well.

The case of Greece has proved beyond doubt that restoring competitiveness sustainably by way of internal devaluation is possible, even under the most unfavourable economic and political conditions. This is in contrast to IMF's view (IMF Country Report No.12/57, March 2012, page 49) that "despite deep nominal declines in wages and pensions, real effective exchange rate depreciations have been regularly only modest due to only limited pass-through to prices", citing Greece as evidence. This conclusion is reached by using not the ULC based REER but the Consumer Price Index (CPI) based REER for the first 11 quarters of Greece's adjustment. However, the high CPI inflation in Greece in 2010 and in 2011 was mainly due to the fiscal adjustment effort and had nothing to do with "limited pass-through". In fact, Greek CPI inflation remained high in 2010-2011 due: a) to the 5 pps increase of VAT rates (12 pps increase for restaurant services and other products). b) to the explosive increase of the prices of the services of administered prices of state-controlled entities for the purpose of trimming their deficits and turn them into surpluses, c) to the explosive increases of excise taxes on fuels, electricity, car circulation fees, taxes of local government and a multitude of other surcharges, most of which had indeed a limited pass-through to retail market prices, d) to the substantial upward trend of the international prices of oil and other commodities and raw materials (most of which are main Greek exports) in 2010 and in 2011, affecting domestic prices in Greece. In fact, inflation of Import price index in industry reached 6.6% in 2010, 7.6% in 2011 and 5.1% in May 2012.

Despite the above excessive price movements, the prices of the main non-traded goods and services in Greece are being reduced to levels substantially lower than in 2009 and this fall has started being recorded in the CPI inflation, implying that harmonized CPI inflation in Greece (-0.6% in April 2013) is now and since July 2012, the lowest than in any other Eurozone country and also the lowest from all EU-27 member states. In any case, ***Greece's international competitiveness is now improving fast even in terms of the CPI based REER,*** with devaluation of -5.6% in Q4 2012, compared with Q4 2009. Moreover, we expect that this devaluation process is going to accelerate in 2013 and in 2014, with cumulative devaluation expected to exceed the -10% at the end of 2013 and -15% at the end of 2014.



However, it should be noted that ***CPI based REER is an inappropriate and misleading indicator of competitiveness in very small completely open economies like Greece, which are price takers in the international markets.*** The relevant competitiveness indicator for such countries is the relative price between traded and non-traded products (goods and services) and the most relevant proxy for this price is the ULC based REER. Moreover, the CPI based REER becomes an even more misleading indicator when used in periods in which administered prices in a country are forced upwards through extensive increases in excise tax rates and in the VAT rates in order to reduce fiscal deficits and to clear up existing imbalances in the public and the private sector created mainly by very low (disequilibrium) administered prices in previous periods.

Remarkable progress in structural reforms

Greece has made significant progress in structural reforms, which have contributed greatly to the fiscal adjustment effort and the substantial improvement of its international competitiveness presented above. In fact, important reforms in many sectors (especially in the field of opening up formerly closed professions and more importantly in the health care sector) are still in the process of consolidation and institutionalization, with their results on the efficiency of operation and growth of the economy expected to be felt gradually in the following years. In particular, substantial progress has been achieved in drastically reforming the following sectors of the economy:

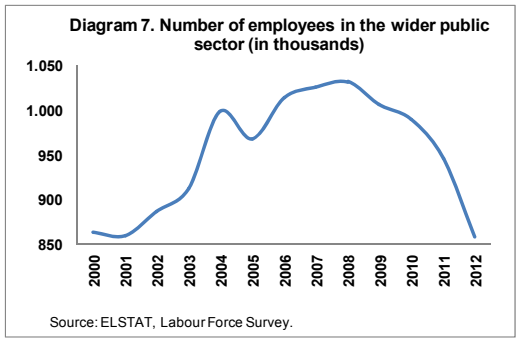
First, in the labour market, the reform program has overhauled labour relations in the private sector, as well as in major state controlled businesses. This program has

already been completed and is in the process of its institutionalization – its acceptance and application by all concerned parties. The new legal and institutional settings of the labour market already contribute to a more efficient functioning of this market (both in the private and in most public sector entities), a fact that is also reflected in the surge of unemployment and increasing labour strife. However, this reform also contributes to the rapid improvement of Greece's international competitiveness, both through the drastic reduction of statutory minimum salaries and wages and the abolition of rigidities in the wage setting process, and also through the established full flexibility of management of human capital in domestic businesses, leading to increases in labour productivity. Finally, the substantial cut in severance payments is an important step towards reducing nonwage costs, which are still relatively high in Greece. From the reports of the IMF and the European Commission, it is easy to conclude that labour market reforms in Greece were drastic and far reaching, both in 2011 and in 2012.

The drastic fall of wages and salaries in the public and the private sectors and of the ULC in the economy as a whole, are the real evidence of the magnitude and importance of the labour market and product markets reforms in Greece. ***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 (2012: +2.1%),*** in an environment of stable, after 2014, wages and salaries and of plentiful supply of low cost labour (960.000 unemployed personnel is less than 44 years old and about 410.000 of them is less than 29 years old).

In fact, the establishment of full flexibility in the Greek labour market has already led to a substantial yoy increase in the number of monthly hirings of new personnel by domestic businesses in the last 10-months (July 2012 to April 2013). Thus, the number of new hirings in the period July 2012-April 2013 reached 689.1 thousand, compared with 591.2 thousand in the period July 2011 – April 2012 (see Diagram 6). Most of these hirings use flexible labour contracts and offers low wages and salaries. Hiring and firing has become substantially easier and less costly in Greece contributing to the fundamental improvement of the functioning of the reformed Greek labour market in resent months.

Secondly, public administration reforms are implemented at a fast pace, implying a fundamental overhauling of labour market relations in the public sector. These reforms have made possible the drastic decrease of expenditure on wages and pensions and other operational costs in the public sector. It should be noted that compensation of employees in the general government has fallen to € 23.9 bn (12.2% of the dramatically reduced GDP) in 2012, from € 31.0 bn (13.4% of GDP) in 2009. An outright reduction of the wage bill in the general government by € 6.1 bn in 3-years is not a minor development in the Greek public sector. In fact, the government has undertaken to reduce further the GG wage bill to € 22.0 bn (11.9% of GDP) in 2013 and to € 20.8 bn (10.9% of GDP) in 2015. This will be achieved through the following drastic measures: First, through further reform of public sector employee compensation, including the reform of special wage regimes legislated in November 2012. Secondly, the GG wage bill will be further cut through the implementation of the target for reducing general government employment by at least 150.000 in the period 2010-2015. It should be noted that employment in the wider public sector had already been reduced by 147.5 thousand persons in July 2012 compared with July 2009, registering an 87.8 thousand fall in July 2012 from July 2011 (Diagram 7).



Overall, the Troika has prescribed a multitude of drastic measures to reduce the size of the Greek public sector, targeting an additional reduction in GG employment count of 150 thousand people in the period 2010-2015. Moreover, it is now required that this reduction must be achieved not merely through natural attrition but also through a significant number of mandatory redundancies and consequent layoffs. To this end, the Greek government had agreed in March 2012 (2nd MOP) to transfer 27.000 employees to a new mobility scheme until the end of 2014. In 2012, only 2.000 employees were transferred to this scheme, instead of 15.000 employees that was the target to be transferred until the end-2012 to the previous (2011) labour reserve scheme. In the April 2013 negotiations with the Troika for the 3rd Review of Greece's 2nd MOP the Government has accepted the target that another 25.000 **public sector employees** will be transferred to the mobility scheme and that 15.000 of these will be laid off by the end of 2014 - *about 4,000 employees by the end of 2013 and another 11,000 in 2014. In fact, t**he Troika has accepted that for each worker that will be laid off as a mandatory redundancy, a new employee will be hired in order to prevent shortages of employment to arise in some crucial sections of the public sector.** Overall, the Ministry of Administrative Reform and Electronic Governance has estimated that, under current trends, the number of employees that are estimated to leave the public sector until the end of 2015 will probably reach 180,000, instead of 150,000 required, while 34.000 public sector employees retired only in 2012.*

The Greek governments are of course widely liable to misconduct and open to criticism for their apparent unwillingness or/and inability to drastically overhaul the absurd system of labour relations in the Greek public sector, notwithstanding the substantial inroads which have been made in the field of wage determination in this sector as well. Mobility of employees between sectors should by now be a permanent institution in the Greek public sector and mandatory redundancies and layoffs should also be possible under specific - well determined - circumstances and efficient procedures.

Until now policy prescriptions appear to be directed mainly to expenditure and personnel reductions, both in central and local government and in public entities, without due consideration to the need for efficient management and performance in terms of services offered by these central government departments and public sector entities. Most importantly, there was not due consideration to the requirement that these organizations should increase their own revenues as well. In fact, many central government departments and entities have suffered a substantial loss of valuable specialized personnel in tandem with the redundant low efficiency personnel, which in the case of some critical public sector departments, organizations and entities have caused significant impediments in the implementation of the adjustment program (e.g. substantial loss of GG revenues). The conclusion is that even justified demands for closing down, downsizing and outsourcing services in a multitude of GG operating units should not be forced upon the present underpowered management to be implemented as self-contained objectives.

For now, the proper functioning of the Greek public sector, has been promoted by the fundamental restructuring of local government organizations and also most of the state controlled entities, with substantial results in cutting the operational costs of these organizations and reducing central government primary expenditure, but the emphasis must now turn to the needed effort for the proper functioning and a boost in own revenues of these organizations. Moreover, public procurement processes have substantially improved while restructuring and evaluation initiatives are undertaken in the Greek universities as well as in state controlled hospitals and other health care institutions.

Overall, Central Government primary expenditure has already registered a € 13.53 bn fall to € 47.14 bn in 2012 from € 60.67 bn in 2009, with a – 8.6% fall in 2012 alone. This indicates that the Government in on target to achieve the GG expenditure cuts. Efforts to reduce personnel crudely and summarily may reduce expenditure on the one side but also destroy any chance to increase net current revenues of the other side of the budget.

Thirdly, there is the drastic reform of the social security system and the reform of the health sector. The social security reform effort had been initially mainly directed towards the rationalization and equilibration of Greece's long term fiscal finances. These reforms have secured that social security expenditure will not increase (due to population ageing) from its 2008 level by more than 2.5 pps of GDP by 2060, compared with a projected increase by 12.5 pps of GDP before the reforms.

However, in 2011 and in 2012 the Government was obliged to apply new drastic cuts on pensions and other social benefits on the back of an impossible task that it was facing in its effort to reduce drastically pension expenditure under a rush to early retirements both in the public and the private sector. On the other hand, current budget contributions to the financing of social security funds remain high, reaching € 14.47 bn in 2012, from € 15.15 bn in 2011 and from € 10.12 bn in 2010, as revenues from social security contributions fell substantially (-7.3% in 2012), due to increased evasion and unemployment and the substantial fall of wages and salaries in the private sector. Thus, mainly due to the drastic fall of current pensions and the substantial health sector expenditure savings achieved in 2010-2012, GG social transfers have fallen to € 45.1 bn in 2012, from € 46.2 bn in 2011 and € 49.0 bn in 2009. However, this expenditure increased to the level of 23.1% of GDP in 2012 (public health expenditure: 6.0% of GDP), from 20.8% of GDP in 2010. Thus, for 2013-2014 the Government has already specified measures amounting to the realization of further savings in social expenditure to the order of 1.8 pps of GDP, following the cuts set to be legislated in September – November 2012. Therefore expenditure for social benefits is expected to fall to € 39.2 bn (21.3% of GDP) in 2013 and to € 38.7 bn (20.9% of GDP) in 2014. The new measures drastically cutting social benefits have been designed appropriately so that the needed savings may be achieved while at the same time improving social protection programs for those who are most in need.

Moreover, extensive reforms have been implemented, or are in progress, in many other sectors of the Greek economy, which gradually change the whole institutional and organizational structure of the country. These may be summarized as follows:

Financial sector reforms, comprising the creation and development of the Hellenic Financial Stability Fund (HFSF) and the substantial progress achieved in the process towards the recapitalization of the banks, the restructuring of the ATEbank and its acquisition by Piraeus Bank, the restructuring and consolidation of the banking system as a whole with the creation of four systemic banks in the process of finalization of their recapitalization until the end of May 2013 using the € 50 billion channelled from the EFSF to the HFSF for this purpose. Overall, as the April 15, 2013 Troika's statement points out, "actions to fully recapitalize the banking sector as envisioned under the program are nearing completion, and the authorities have undertaken to develop a comprehensive strategy for the banking sector following recapitalization. Most of the € 50 billion available under the program for recapitalization has already been disbursed to Greece and injected into each of the four core banks by the HFSF as advances to cover their capital needs. The mission's assessment is that this will provide adequate capital, even under a significantly adverse scenario. These capital buffers will thus ensure the safety and soundness of the banking system and of its deposits". This means that with the finalization of the recapitalization, the Greek banking system will be ready to contribute to the proper financing of the economy.

In the field of product market reforms, substantial progress has been achieved in Greece in increasing competition in transport and network industries by reducing barriers to entry in road and maritime cruises, in phasing out regulated tariffs in electricity and gas, in drastically reducing barriers to entry in professional services, in strengthening the effectiveness of the competition authority and in a multitude of other reforms, especially the privatization program, in which important sectors as energy, water supply, air and sea transport (airports and sea ports) are involved.

In the field of growth-enhancing structural reforms, particular reference should be made to the newly legislated Law 4146/2013 for the "***creation of a development-friendly environment for strategic and private investments***" in Greece. The new law contains provisions for improving liquidity of investing businesses in the present crisis environment, through, for example, an acceleration of the investment grants disbursement procedures. Also, the low provides for procedures aiming to enable the immediate closure of pending audits and the disbursement of outstanding instalments. In fact, the Law provides for interim and final audits performed by certified private sector institutions, such as banks and accounting firms. Moreover, to enhance transparency for large investment projects, the budget of projects that need to be ratified by Parliament is reduced to € 50 million, from € 150 million. Finally, the law provides for the establishment of an independent Auditing Department of Private Investments to continuously monitor compliance with the procedures governing the grants of business plans, and to combat both delinquent and unlawful behaviours. The Department, which will report directly to the Minister for Development, Competitiveness, Infrastructure, Transport and Networks, will also have a consulting role, since through its findings any malfunction of procedures will be identified. Overall, the new investment law, in combination with substantially improved economic sentiment in the country may contribute to a gradual revival of private investment.

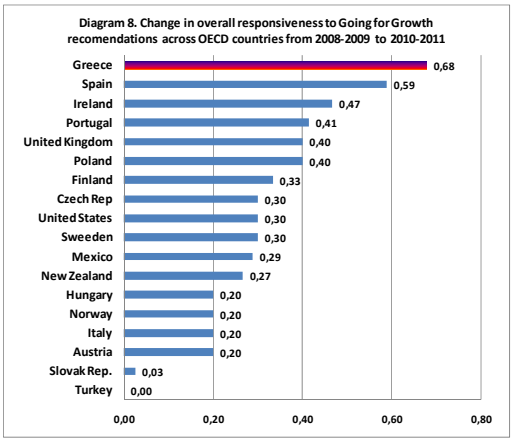
Overall, there are certainly delays in the reform implementation process, as well as in the process of institutionalizing and obtaining the required results from the reforms in many sectors in Greece. In particular, substantial delays are observed: i) in the implementation of the reforms in the judicial system in Greece, where the main target was the gradual clearance of the huge backlog of tax and non-tax cases, ii) in the field of tax and social insurance administration and collection, iii) in the reorganization of central and local government and state controlled entities and, also, iv) in the implementation of Greece's extensive privatization program.

In this respect, the Troika correctly pointed out in January 2013, that in ***the field of tax administration reform progress is still meagre*** as "the rich and self-employed have continued to evade taxes on an astonishing scale", taking into account the bleak performance of the Greek tax collection services in collecting tax revenues and the further bloating of overdue tax and social security contribution liabilities by more than € 10 bn in 2012 and by another € 2.5 bn in January – March 2013. However, in April 2013 the Troika has pointed out the following: "The authorities have made important progress on measures to improve tax and debt collection, through reforms of the revenue administration to provide it with significantly more autonomy, powers and resources, and adoption of more effective and enforceable instalment schemes. This was a major focus of the mission, given the importance of improving tax collection and reducing the scope for evasion and corruption in order to ensure a more balanced and fair distribution of adjustment and to support the achievement of fiscal targets and minimize the need for further adjustment measures".

Also, concerning the undisputed delays in the implementation of the privatization program (one of the few concrete miscarriages of the Greek adjustment program, also referred to emphatically by Troika) the following should be taken into account. In fact, these delays cannot be regarded as unaffected by the sinking of the economic climate created in the economy under the stifling influence of the extremely negative factors accompanying the implementation of Greece's adjustment program and reforms. For example, when an investor is informed by the most authoritative parties (e.g., by the Troika in October 2011) that the public debt in Greece will reach 198% of GDP in 2012 (after the July 2011 PSI) and that essentially the Greek economy is not to recover and grow over the next 20 years, it follows that he will not come to invest in Greece, whether in companies that are privatized or in greenfield operations. This problem, unfortunately, will persist, and affect the Greek economy until domestic and foreign investors will become well-informed and convinced that in fact Greece does have substantial comparative advantages and growth potential and prospects. This will happen when the country's fiscal adjustment will progress further, as mentioned above, and when international and domestic investors' decisions – e.g. whether to operate in Greece - become well entrenched given favourable prospects. The Troika at times affects negatively the prospects for a timely recovery of the Greek economy by not recognizing the magnitude of the adjustment that has already taken place in Greece and also by its depressing predictions concerning the development prospects of the Greek economy. Overall, even in this field in early 2013 substantial preparatory actions have already been completed by the Hellenic Republic Assets Development Fund (TAIPED), the Greek privatizations authority, and a number of important privatization projects have hit the market, attracting already widespread foreign investor interest and bound to be finalized by the end of H1 2013. With economic climate improving, deposits returning in the Greek banking system and financial support from the Eurozone and the IMF flowing into the country in time, the implementation of the privatization program is gaining traction and it can move rapidly, contributing to the timely recovery of the Greek economy and the conclusive consolidation of its fiscal finances.

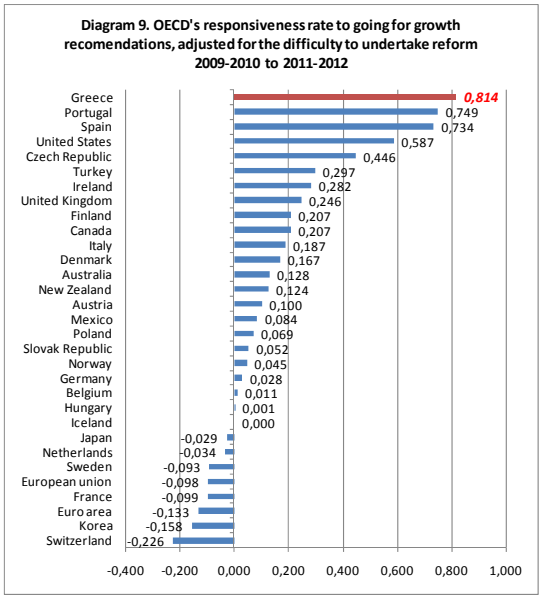
Overall, the above indicate that the Troika's appraisal, in January 2013, that "Greece is still well away from the critical mass of reforms needed to unlock sustained productivity gains, lower prices and protect real incomes" and that this will be "another key area where the government's resolve will be tested as most of the difficult reforms that still lie ahead will challenge constituencies traditionally aligned with the main governing party" is

rather arbitrary and irrelevant, especially considering the realities that the Greek economy and society are facing in early 2013. It is arbitrary and inappropriate for the following reasons: i) It undervalues excessively the big inroads in structural reforms that the Greek governments have already achieved, with great effort and pain both for the political parties involved and especially for the Greek people, notwithstanding also the substantial failures, misjudgements, miscalculations and misapplications, which, however, are natural to appear in the implementation of complicated projects of substantial complexity, as the reorganization of any country's public administration. ii) It also undervalues the extensive successes of the adjustment program, as analyzed above, especially in the crucial fields of fiscal adjustment and competitiveness improvement. Moreover, it is also inappropriate to the extent that its main purpose seems to be to pass the blame of any wrongdoings in the design and application of the Greek adjustment program - which wrongdoings have led to the unprecedented recession and have set in times the whole program in danger - to the Greek governments. In reality, the Greek governments have implemented all the possible targets of the program (impossible targets could not be implemented any way) and they have done that under extremely adverse conditions, as analyzed in the beginning of this Report, that the Troika itself (to a great extent) helped create.



In fact, in the entire IMF Report of January 2013 there is almost no reference to any example that could corroborate and justify the above negative for Greece Troika's statements. These statements fail to take into consideration the results of more fundamental research evaluating Greece's and other countries' reform efforts, as follows:

First, the OECD has now published its ongoing research (Economic Policy Reforms 2012 and 2013: Going for Growth), in which it estimates the degree of responsiveness of OECD and other countries to its recommendations for undertaking economic growth friendly structural reforms by these countries. OECD' results for the periods 2008-2009 to 2010-2011 and 2009-2010 to 2011-2012 are presented in Diagrams 8 and 9 bellow. The conclusion should be obvious even to the Troika. Greece is the undisputed champion in the field of implemented structural reforms in both periods, despite the fact that the dramatic reforms undertaken by Greece in November 2012 are not obviously included in the calculations of the OECD.



Secondly, another effort to estimate the magnitude of structural reforms in Europe was undertaken recently by Berenberg Bank and The Lisbon Council, which in their report "Euro Plus Monitor, Spring 2013 Update, present The Adjustment Progress Indicator which "tracks the progress countries are making on the most important short-to medium term adjustment criteria". In fact, this study focuses on three measures of adjustment: 1) the reduction (or increase) in the fiscal deficit, adjusted for interest payments and cyclical factors, 2) the rise (or fall) in exports relative to imports in the external accounts, and 3) changes in unit labour cost. In addition the results of the OECD's 2013 annual assessment of pro-growth structural reforms are also taken into account in this second study. The main results of the study are presented in Table 6 bellow.

Table 6. Adjustment progress of European Union countries in reducing fiscal and external deficits, in improving international competitiveness and in structural reforms

	Overall adjustment score	Fiscal adjustment	ULC adjustment	External Adjustment	Progress in structural reforms
Greece	**8,2**	**8,7**	**7,4**	**6,6**	**10,0**
Ireland	7,6	4,6	8,5	8,5	8,9
Spain	6,5	4,5	5,8	7,4	8,5
Portugal	6,4	6,2	5,2	6,6	7,8
Esthonia	6,4	2,9	8,2	7,9	...
Slovakia	5,5	4,4	5,8	6,5	...
Poland	4,9	8,3	2,4	4,5	4,3
Italy	4,8	7,2	2,9	4,1	5,0
Malta	4,5	2,6	3,7	7,1	...
United Kingdom	4,4	4,2	3,0	3,9	6,4
Slovenia	4,2	3,7	3,0	5,8	...
EU-17	3,9	4,6	2,6	4,2	4,2
Cyprus	3,8	3,5	2,4	5,5	...
France	2,8	4,4	1,9	3,1	1,9
Netherlands	2,7	2,6	2,8	4,4	0,9
Finland	2,5	0,3	3,5	1,9	4,3
Sweeden	2,5	4,0	1,9	2,9	1,0
Germany	2,3	3,9	1,0	3,7	0,8
Belgium	2,0	2,0	1,8	3,4	1,0
Austria	1,8	1,1	1,8	2,8	1,4

Πηγή: Berenberg Bank, The LisbonCouncil, The Euro Plus Monitor Spring 2013 Update

Thirdly, Greece is among the top 10 economies, out of 185, that improved the most in the Doing Business measures in the 12 months period to May 2012, ranking 78th in the Doing Business 2013 report (see Table 7),

from 89th in the previous report. The improvement will be even more impressive in the Doing Business 2014 report, due to the extensive reforms, which were mostly implemented in H2 2012.

Table 7. Ranking countries on the ease of doing business

	Overall Rank	Construction Permits: Cost (% of Income per Capita)	Starting a business (Days)	Protecting Investors (0-10)	Paying Taxes (total tax rate % of profit)	Enforcing Contracts (Cost % of claim)	Cost to Import (US $ per container)	Cost to export (US $ per container)	Resolving Insolvency: Recovery rate (cents on the $)
Singapure	1	16,7	3	9,3	27,6	25,8	439	456	91,3
USA	4	14,4	6	8,3	46,7	14,4	1.315	1.090	81,5
Un. Kingdom	7	62,4	13	8	35,5	25,9	1.045	950	88,6
Korea, Rep.	8	127,2	7	6,0	29,8	10,3	695	695	81,8
Malaysia	12	17,5	6	8,7	24,5	27,5	420	435	44,7
Ireland	15	626,1	10	8,3	26,4	26,9	1.121	1.135	87,5
Thailand	18	9,2	29	7,7	37,6	15,0	750	585	42,4
Germany	20	48,1	15	5,0	46,8	14,4	937	872	78,1
Japan	24	28,5	23	7,0	50,0	32,2	970	880	92,8
Portugal	30	370,0	5	6,0	42,6	13,0	899	685	74,6
France	34	68,0	7	5,3	65,7	17,4	1.248	1.078	48,4
Spain	44	51,8	28	5,0	38,7	17,2	1.350	1.260	76,5
Mexico	48	322,7	9	6,0	52,5	31,0	1.780	1.450	67,3
Hungary	54	5,7	5	4,3	50,3	15,0	875	885	38,8
Poland	55	49,4	32	6,0	43,8	19,0	1.025	1.050	54,5
Bulgaria	66	293,5	18	6,0	28,7	23,8	1.626	1.551	31,7
Turkey	71	164,3	6	5,7	41,2	24,9	1.235	990	23,6
Romania	72	79,1	10	6,0	44,2	28,9	1.495	1.485	29,2
Italy	73	184,2	6	6,0	68,3	29,9	1.145	1.145	63,4
Greece	78	27,5	11	4,7	44,6	14,4	1.135	1.115	44,5
China	91	375,3	33	5,0	63,7	11,1	615	580	35,7
Brazil	130	36,0	119	5,3	69,3	16,5	2.275	2.215	15,9
India	132	95,0	27	6,0	61,8	39,6	1.200	1.120	26,0

Source: The World Bank and IFC, Doing Business 2013.

Risks for a Greek default are greatly exaggerated.

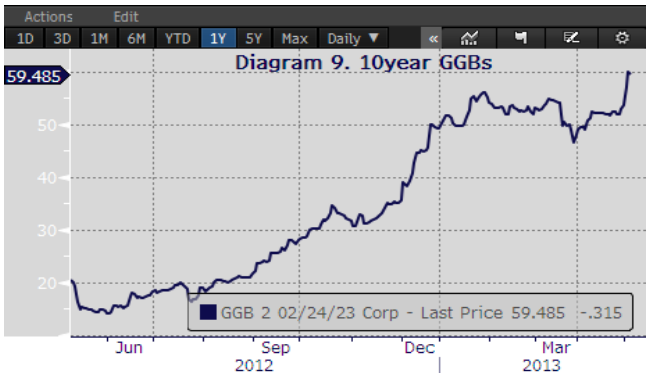
Despite the extremely painful adjustment costs incurred by Greek households and businesses over the past two and a half years, ***the June 17th, 2012 elections enabled the formation of a coalition government among the three parties favouring the continuation of the fiscal consolidation policies and structural reforms, in combination with the change in emphasis towards measures aiming at an early recovery of the economy and exit of the country from the crisis.*** The new government enjoys an overwhelming majority of more than 168 MPs in the Greek Parliament and has a mandate to govern for four years, until June 2016. ***This relatively strong Government has been committed to efficiently implement the Medium-Term Fiscal Strategy 2013-2016 with the necessary adjustments to ensure timely recovery of the economy with positive yoy growth from Q1 2014 and healthy growth from 2014 onwards.***

However, this favourable position of Greece, is currently disputed by rating agencies and especially by Moody's insistence in keeping Greece with a C− rating "with no outlook"!!! *Moody's* reaffirmed on April 18th, 2013 its post-PSI rating on the basis of the following striking assertion: "Our C− rating for Greece incorporates our expectation that there is a high probability of a further default on the remaining private sector debt in the medium term". It has to be noted, of course, that, following the December 2012 buyback operation, the new GGBs held by the private sector do not exceed € 31 bn and most of this debt matures in 10-40 years.

Most other rating agencies proceeded to substantially upgrade Greece following the successful implementation of the PSI plus in March 2012 and of the December 2012 debt buyback, as well as the better than planned implementation of the Budget 2012 and of the Budget 2013 in January-April 2013. Indeed, ***on December 18, 2012 Standard & Poor's upgraded the long-term credit rating of the Hellenic Republic by six notches to B- and the short-term credit rating to B*** with stable outlook, based on the strong commitment of the Euro zone countries to ensure that Greece will remain in Euro and the commitment of the Greek government to achieve the required fiscal adjustment. Also, following the conclusion of the exchange of GGBs under Greek law, on 13 March 2012 Fitch raised the Hellenic Republic's credit rating to B- However, on 17 May 2012 Fitch lowered the rate to CCC (4-nothces above Moody's rating) due to the upheaval caused by Greece's double general elections. Then, on 14 May 2013 ***Fitch upgraded again Greece to B- with stable outlook,*** stating mainly the fundamental stabilization of the fiscal and external deficits of the country and the determination of its Government and the people to conclude and consolidate painful adjustments and get the country out of the crisis situation.

Apparently, Moody's tends to discount :

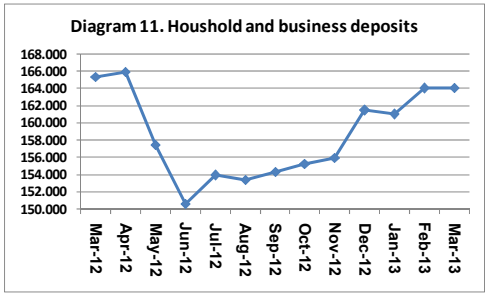
a) The big increase in the price of the new GGBs from 2 March 2012, when Moody's C− rating was initially awarded (Diagram 9). In fact, Moody's C− rating in March 2012 and Greece's own political risks implied a fall of the price of 10-year new GGBs to a low of 14.7 in 31 May 2012. However, ***the election of the new pro-adjustment and reforms (fiscal and structural) government in the June 16, 2012 elections and the successful implementation of the Budget in 2012,*** which led to the decisions of the Eurogroup on November 26, 2012, implied the impressive increase of the price of the new 10-year GGBs to 38.9 on 5 December 2012. Around this price the private sector debt – buyback operation was conducted successfully by the Greek government at a price at least 100% higher than Moody's C-rating was prescribing. The funds that disregarded Moody's rating and bought GGBs in the period between March 2012 and August 2012 were rewarded with substantial capital gains. And this was not enough. Despite the existing C− rating by Moody's, a number of funds and banks abstained from selling their GGBs to the Greek government in the buy-back price and they were again rewarded with a further price increase of more than 65% in the following months, when the price of the 10-year GGBs reached 64.7 on 15 May 2013. In fact the markets are emphatically pricing out default risks, which only Moody's considers now to be very high.



b) The positive performance of the Greek stock exchange, especially in the period between November 2012 and May 2013, despite the uncertainty that surrounded bank recapitalizations and under the negative reminder of the Caa2 rating by Moody's. In fact, developments in the Greek stock exchange show the market's firm perception that something fundamental has changed in the Greek economy, following Greece's reforms and fiscal adjustment in 2012, the Eurogroup's

decisions in November-December 2012 and the implementation of the 2013 Budget in Q1 2013. Not so for Moody's, however.

c) The apparent unambiguous success of bank recapitalizations, despite Moody's extremely inopportune intervention on April 18. In fact, Moody's with this unrequited intervention may have tried to prevent its further embarrassment concerning the abnormal widening of the gap between market performance and perceptions and it's C− rating in the case of Greece. However, recapitalizations were obviously widely successful despite Moody's. And most of the new capital comes from abroad, while domestic funds and private investors are also willing too participate warmheartedly in the capital raising exercise, supplying substantial amounts of new share capital to the Greek banks. It is noteworthy, that following Moody's intervention on 18 April 2013 the ASE General Index surged upwards by 16% on 9 May 2013, while Alpha Bank's share price surged by 101.8%.



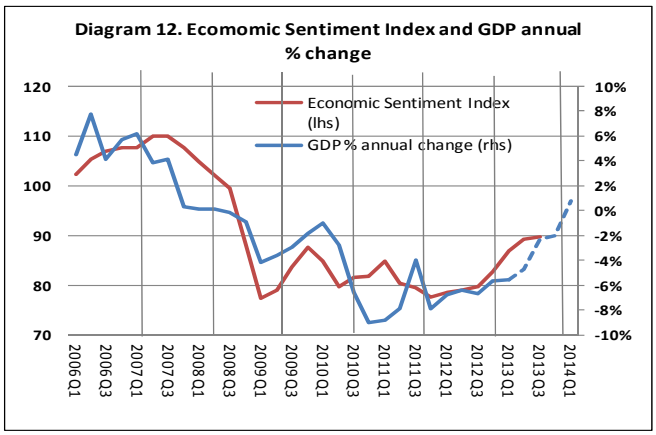
d) The return of Greek bank deposits in the Greek banking system, which have set on a trend monthly inflow in the period July 2012-March 2013, despite Moody's aggressive downgrade of Greek banks, which contributed, in combination with other factors, to the flight of deposits from Greek banks in the period March 2012 – June 2012 (Diagram 11). This return of deposits happened in a difficult period for the Greek economy which remains in a deep recession and despite Moody's C− rating for the GGBs and Caa2− rating for long term bank deposits.

Moody's position rests solely on its assumption that Greece's real GDP will fall further by -5.3% in 2013 and again by -3.6% in 2014, following its fall by -20.1% in the period 2007-2012. The implications of these assumptions are that, in such an extreme depression, unemployment would increase further to more than 32% of the labour force in 2014 and it would still remain above 25% of the labour force in 2020. Moreover, under these assumptions even with an additional net debt reduction of € 50 bn in 2015, the Greek GG debt/GDP ratio would still be above 130% and it will be still unsustainable.

Greece's GDP growth prospects in 2013-2014

According to the more recent Troika's estimates (European Commission, European Economic Forecast; Spring 2013) Greek GDP is projected to fall by -4.2% in 2013 and to register a positive growth of 0.6% in 2014. In fact, the European Commission expects recovery to start by the turn of the year, supported by improved confidence and the return of liquidity. It points out that confidence is supported by the achievement of the fiscal targets for 2012 and Q1 2013 despite recession and by the high credibility of recently legislated (in November 2012 and in April 2013) reforms and of measures supporting fiscal adjustment in 2013 and 2014. Moreover, the strong improvement in competitiveness supporting growth, the return of deposits and of liquidity to the banking system and, finally, the inflow of significant EU/IMF disbursements and debt reducing measures are also referred to by the European Commission as factors contributing to the timely recovery of the Greek economy.

In the present Report, taking into account the better than expected fall of GDP by -5.3% in Q1 2013 and the substantial improvement in the economic climate of the country and the impressive performance of the capital markets in January-May 2013, we argue that these fundamental improvements transforming the economic environment of Greece in the first five months of 2013 (in comparison with the growth depressing conditions in the corresponding period of 2012), are most possibly leading to a real GDP fall of even less than -3.7% in 2013 and to a real recovery, with a positive yoy GDP growth from Q1 2014, leading to a 1.8% GDP growth in 2014 as a whole. In addition to the growth friendly factors presented by the European Commission, GDP growth in 2013 is expected to be positively affected by the following developments in important sectors of the economy:



a) From the already recorded substantial improvement of the economic climate in Greece, as indicated by the substantial increase of the index of Economic Sentiment (ESI) compiled by the Institute of Industrial Studies in Greece (IOBE) and published by the European Commission (See Diagram 12).

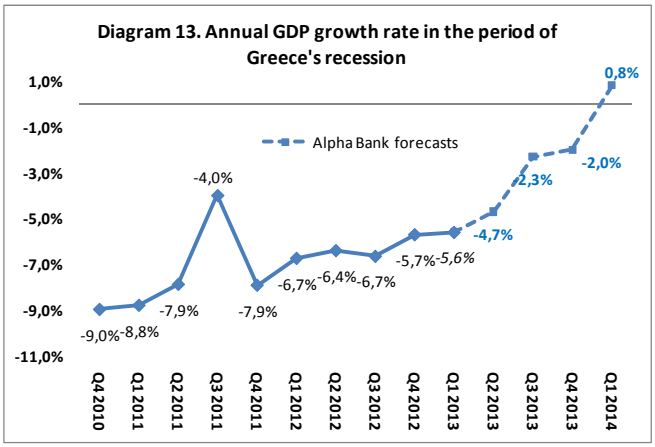
b) From an estimated 10% increase in revenues from external tourism, with a corresponding fall of payments for tourism abroad by about -15%. This may reduce the fall of value added in tourist activities and retail and wholesale trade to -5.8% in 2013, from -13.3% in 2012.

c) A substantial deceleration of the falling trend of gross value added in construction to a fall of about -6.5% in 2013, from -15.6% in 2012. In fact, with this fall in GVA in construction, its share in GDP will fall to 2.4% in 2013 from 8.0% in 2006. In particular we expect full absorption of PIB expenditure in 2013 which will imply an increase of this expenditure by 12% from 2012. The re-activation of works in the 4-big highways of the country will contribute to increasing activity in the construction sector from April 2013 onwards. Recovery of housing construction, from its abnormally low level of 2012 and 2013, may also be expected from early 2014, in combination with the expected recovery of also depressed in 2013 transactions in housing. Recovery of transactions in the real estate market may also arise following the expected substantial fall in real estate prices in 2013.

d) Gross Value Added (GVA) in agriculture is expected to register a small positive growth of 0.5% in 2013, following its fall in 2012 and in 2011 by -3.2% and -5.4% respectively.

e) Also, GVA in industry (manufacturing, mining and quarrying, electricity and water supply) is expected to stabilize in 2013, following its substantial fall in 2011 and in 2012. In fact, manufacturing production registered a small fall by -0.3% in Q1 2013, compared with a much bigger fall by -9.3% in Q1 2012.

These, as expected, positive developments in 2013 should by enough to facilitate the required deceleration of the fall of real GDP in the current year (Diagram 13.) and to produce a positive GDP growth from 2014 onwards.



Also, from the demand side of the economy, the -3.6% fall of GDP is expected as a result of the new substantial fall of private consumption by -5.4% (2012: -9.1%), the fall of fixed investment by -3.2%, the increase in exports of goods and services by 1.5%, the fall in imports of goods and services by -3.9% and the fall of government consumption by -4.0% (Table 9).

Real GDP in Q1 2013 fell by -5.6%, while private consumption declined by -8.7%, following its fall by -9.6% in Q4 2012. From then on the falling trend of real GDP is expected to decelerate on the back of substantial economic sentiment and liquidity improvement and of a much better performance of the tourist sector. Therefore, GDP fall is expected to -4.7% in Q2 2013 (with the fall of private consumption reaching again the -5.7%) and then to -2.3% in Q3 2013 (with GDP growth boosted by the expected booming activity in the external tourist sector) and to a smaller fall of -2.0% in Q4 2013 (due mainly to very favourable base effects and an even bigger boost in confidence from Q3 onwards). The first positive yoy GDP growth quarter is expected to be Q1 2014.

Table 8. GDP, Fixed 2005 prices

	2007	%Δ'09	%Δ'10	%Δ'11	%Δ'12	%Δ'13	%Δ'14
Total Consumption	***184,2***	**-0,3%**	**-6,8%**	**-7,2%**	**-8,1%**	**-5,4%**	**-1,7%**
Private Consumption	145,6	**-1,6%**	**-6,3%**	**-7,7%**	**-9,1%**	**-5,8%**	**-1,5%**
Government Consumption	38,6	**4,9%**	**-8,7%**	**-5,2%**	**-4,2%**	**-4,0%**	**-2,5%**
Fixed Investment	***56,5***	**-13,7%**	**-15,0%**	**-19,6%**	**-19,2%**	**-3,2%**	**7,8%**
Housing	26,1	**-20,7%**	**-21,6%**	**-18,0%**	**-32,9%**	**-19,0%**	**10,3%**
Other Construction	7,9	**1,6%**	**-15,7%**	**-25,1%**	**-7,9%**	**4,0%**	**10,0%**
Equipment	20,1	**-18,4%**	**-8,2%**	**-18,1%**	**-17,4%**	**1,5%**	**5,8%**
Other Investment	***2,4***	**10,2%**	**-18,6%**	**-16,7%**	**-2,9%**	**1,0%**	**5,5%**
Change in stocks (billion €)	0,0	**-3,5**	-0,6	0,6	1,1	-0,1	0,2
Total domestic demand	***240,7***	**-3,0%**	**-8,5%**	**-8,7%**	**-9,4%**	**-5,1%**	**-0,3%**
Exports of goods and services	50,0	**-19,4%**	**5,2%**	**0,3%**	**-2,4%**	**0,5%**	**5,1%**
Imports of goods and services	79,819	**-20,2%**	**-6,2%**	**-7,3%**	**-13,7%**	**-5,2%**	**-2,2%**
Balance of goods and services	***-29,8***	**-21,6%**	**-26,3%**	**-26,6%**	**-52,7%**	**-45,6%**	**-97,9%**
GDP, Fixed 2005 prices	***210,9***	***-3,2%***	***-4,9%***	***-7,1%***	***-6,4%***	***-3,7%***	***1,6%***
% of GDP							
Fixed Investment		20,5	18,3	15,9	13,7	13,7	14,6
Investment in Housing		6,8	5,6	4,9	3,5	3,0	3,2
Total Consumption		92,7	90,9	90,8	89,2	87,6	84,7
Gross Saving		7,3	9,1	9,2	10,8	12,4	15,3
Private Consumption		73,3	72,3	71,8	69,8	68,3	66,2
Balance of goods & services		-11,4	-8,9	-7,0	-3,5	-2,0	0,0
Exports of goods & services		20,1	22,2	24,0	25,1	26,2	27,4
Imports of goods & services		31,5	31,1	31,0	28,6	28,1	27,1
Contribution to GDP growth (percentage points)							
Net Exports		**3,04**	**3,00**	**2,35**	**3,69**	**1,61**	**1,95**
Private Consumption		-1,13	-4,58	-5,58	-6,51	-4,05	-1,02
Government Consumption		0,87	-1,67	-0,96	-0,80	-0,78	-0,48
Fixed Investment		-3,16	-3,08	-3,59	-3,05	-0,44	1,08
Housing Investment		-1,70	-1,46	-1,00	-1,62	-0,67	0,31
Change in stocks		-2,77	1,41	0,64	0,30	-0,06	0,10
GDP, Fixed 2005 prices		***-3,1***	***-4,9***	***-7,1***	***-6,4***	***-3,7***	***1,6***

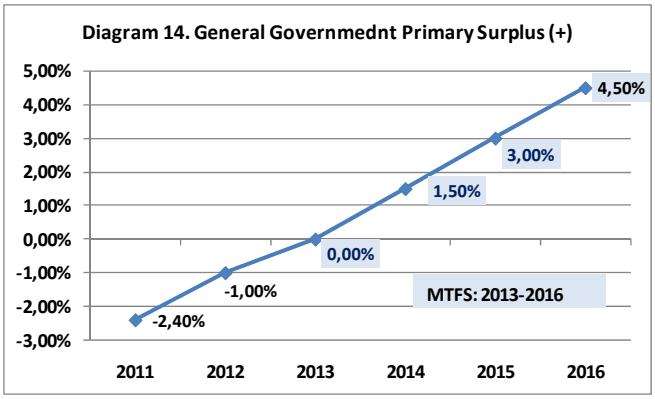
Source: ELL.STAT, Projections EAD Alpha Bank for 2013-2014 (May 2013)

Positive real GDP growth is also expected in 2014-2015, with the rate of growth exceeding 1.8% in 2014 and 3.0% in 2015. Moreover, potential real GDP growth in the period 2014-2030 is expected to exceed 3.0% on the following grounds: ***i) On the existing potential for high rates of growth of employment from Greece's surplus labour force*** which is expected to exist at the end of 2014. This available and competitive labour supply will consist of more than 500.000 very young people - between 15 and 29 years old and more than 950.000 people - between 15 and 44 years old. These people will be unemployed and looking actively for a job, in 2014 and in the following years. In fact, employment is now expected to fall by -4.2% in 2013 and further by -0.1% in 2014 and then to register an average yearly growth of 1.63% in the period 2015-2020. Such a development would lead to a fall of unemployment to 18.8% of the labour force in 2020, from 27.2% in 2013 and 24.9% in 2016. Moreover, with an expected average growth of employment of 0.9% in the 10-year period 2021-2030, unemployment would fall to 9.8% of the labour force in 2030. ***ii) On the potential for high rate of growth of productivity*** due to the restructuring of the economy towards the internationally traded goods sectors and the drastic structural reforms allowing the Greek businesses and the public sector to get rid of surplus labour and to better manage their human and other resources. In fact, in the business environment that is expected to prevail in the medium term in Greece, labour productivity is expected to grow by an average annual rate of 2.0% in the period 2015-2020 and 1.75% in the period 2021-2030. ***Iii) These trends in productivity will also be based on the existing strong possibility for the attraction of substantial FDI*** in sectors in which Greece possesses valuable and dynamic comparative advantages (tourism–including medical tourism, vacation housing,

energy and especially renewables and natural gas, very high quality agricultural products, manufacturing - especially related to the processing of agricultural products, to natural resources and pharmaceuticals, other service industries, international shipping, etc.).

With these projections for GDP growth in 2013-2014 and with healthy growth from 2015 onwards, Greek GG debt is projected to fall below the 115% of GDP in 2020, even without any additional debt relief measures from the part of Greece's official lenders. These projections for a more favourable GDP recovery and fiscal adjustment trends in 2013-2014, which lead unambiguously to Greek GG debt sustainability, are mainly based on the developments in the Greek economy analyzed in the previous chapters of this Report, according to which Greece is now strongly expected that in 2015 will be in a position to show:

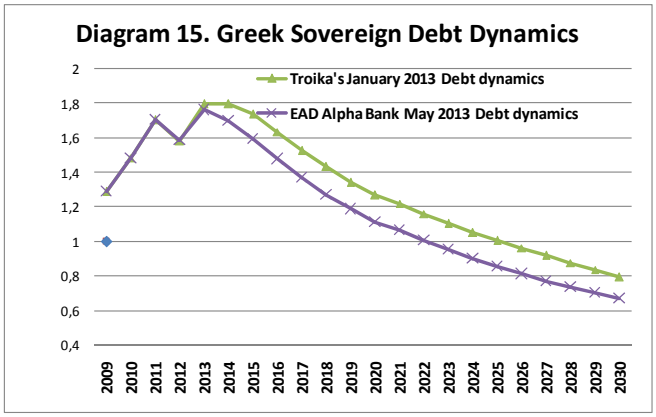
a) A GG primary surplus of more than 3.0% of GDP and with prospects of further improvement in the following years, with a surplus of 4.5% in 2016 (Diagram 14). There is strong possibility to increase GG revenues by more than Troika's depressing assumptions, through the gradual reduction of tax evasion, while there is also great potential to secure sizable additional revenues from the implementation of the privatizations program.



b) A substantial improvement in its international competitiveness, through an internal devaluation of its ULC based REER, which is expected in 2013 to exceed 30% in comparison with 2009 (see Table 4 and Diagrams 1 and 2) and a consequent surplus in the current account of its balance of payments (Diagram 4).

The above constitute the strong basis which indicates why Greece's GG debt may be considered now, in early 2013, as unambiguously sustainable, reaching at levels below the 115% of GDP in 2020 and bellow the 60% of GDP in 2030 (see Diagram 15), notwithstanding Moody's C-rating. These developments are expected to gradually enable Greece to a timely re-entry to the international money and capital markets, a development which may further increase its growth potential and prospects in the period 2015-2020.

It should be noted that improving fundamentals and prospects for healthy future growth within the Eurozone are already attracting certain international investment into selected sectors in Greece, including the agreement between the Hewlett-Packard (HP), the Chinese shipping company Cosco and the Greek railways company TRAINOSE, to distribute HP regional European supplies through the dynamically growing Greek port of Piraeus (partly controlled by Cosco), which is set to become HP's European regional hub. Other multinational companies are also considering a boost of their presence and productive activities in Greece, contributing to the supply of domestic market for a wide array of products through domestic production rather than through imports from their production units in other countries. It is indicative, that net FDI inflows in Greece reached € 1.33 bn in only January-February 2013, from € 2.32 bn in 2012 as a whole.



Finally, a number of big domestic corporates have already re-accessed the corporate bonds market, albeit at expensive re-entering cost levels (see Table 9). All these bonds are now trading at a much higher price, with yields fluctuating below 6.5%. Moreover, substantial amounts o foreign capital was attracted to Greece to participate in the recapitalization of the banks.

Table 9. Recent Bond Issues In Greece

	Company 1	Company 2	Company 3	Company 4
	Dec-12	Jan-13	Jan-13	May -13
Amount	$ 250 mn	€200mn	€700mn	€ 500 mn
Term	8 years	4 years	5 years	4 years
Yield (%)	9,875%	8,750%	7,875%	8,00%

Source: Company Information,

Recent Economic Developments and prospects

As shown in Table 8 above, real GDP fell by -6.4% in 2012 (Q1 2012: -6.74%, Q2: -6.4%, Q32012: -6.65% and Q4 2012: -5.7%), following its fall by -7.1% in 2011, -4.9% in 2010 and -3.1% in 2009. In fact, the falling trend of real GDP decelerated further to -5.6% in Q1 2013 supporting our projection for a -3.7% fall of GDP in 2013 (See Diagram 13). Concerning the path of the recession in 2011 and in 2012, it is evident from Diagram 13 that the performance of the economy deteriorated dramatically in Q4 2011, where GDP fell by -7.92% and it remained depressed all through 2012. This constituted an outright derailment of the recovery process in which the economy had entered in Q3 2011, when the recorded fall of GDP had decelerated to -4.0%, from a fall of -7.9% in Q2 2011 and a fall by -8.8% in Q1 2011 (Diagram 13).

Negative developments in the Greek economy in Q4 2011 and in 2012 were the direct result of the overall turmoil that prevailed in Greece in that period. Negotiations for the approval of the 2nd FSP from the Eurozone and the IMF drugged along for a long time, an almost unending process. Instead of successfully

terminated with the decisions of the heads of state of the EU in 20 July 2011, the 2nd FSP went through another two substantial revisions before its final conclusion in 20 February 2012. From then on, a period of great uncertainty continued with the implementation of the PSI Plus, ending in April 2012, and then with the double Greek general elections in 5 May 2012 and then again in 17 June 2012. After the elections again new prolonged negotiations with Troika until November 2012, stifled the Greek economy from lack of liquidity, allowing a ballooning of the threat of a Greek exit from the Euro, which was also used as an ultimate threat which would materialize in the event in which the Greek Government would dare to disagree in any of the Troika's prescriptions. This situation helped to maintain the falling trend of the economy unabated until Q4 2012.

The decline of production in most of the main sectors of the Greek economy was maintained at an elevated pace in the period September 2011 – September 2012, despite the satisfactory performance of exports of goods, while in Q4 2012 there was a notable positive increase of manufacturing production by 1.7% yoy, and also a +3.4% yoy growth of turnover of manufacturing industry (domestic market: -13.6%, foreign markets: +46.2%). In Q1 2013 manufacturing production stabilized, registering a slight -0.3% fall (March 2013: +1.1%). We turn now to a more detailed analysis of developments in the main sectors of the Greek economy:

Tourism: Following the better than expected performance of the tourist sector in 2011 and especially in the period June-September 2011), tourist activity plummeted in Q4 2011 and in 2012 as a whole, as it has suffered dramatically in the period of great uncertainty and extremely bad publicity plaguing Greece from September of 2011 and until December 2012.

According to data from the Bank of Greece and ELSTAT, arrivals of foreign tourists fell by -5.5% in 2012 to 15.52 million, following their increase by 9.5% in 2011, when they had reached 16.43 million, from 15.0 million 2010. Arrivals from the EU-27 countries registered a substantial fall by -8.5% in 2012, following their increase by 4.9% in 2011. In fact, these arrivals reached 9.79 million in 2012, from 10.89 million in 2009. There is therefore, a great potential to increase arrivals from this substantial market of Greek tourism in 2013 and in the following years, as the unprecedented undermining of Greek Tourism and the Greek economy in general by the international media in 2010-2012 has been completely reversed from 2013 onwards. In particular, arrivals from the UK increased by 9.3% in 2012, after falling by -2.4% in 2011, while arrivals from Germany registered a small fall by -5.9% in 2012, after their increase by 9.9% in 2011. Arrivals from Sweden fell by -4.2% in 2012, following an increase by 18.8% in 2011. Outside the EU arrivals from the USA fell to 373.9 thousands in 2012, from 531.3 thousand in 2009, while arrivals from Russia surged up too 874.8 thousand in 2012 from 276 thousand in 2009. On the other hand, revenue from foreign tourism was also down by -4.6% in 2012, following its increase by 9.3% in 2011 and its fall by-7.6% in 2010.

However, the most extraordinary development is the measured fall of turnover in the sectors of hotel and other accommodation and food service activities (restaurants, etc.) by -17.2% in 2012, following its fall by -7.4% in 2011 (a very good external tourist season), by -8.2% in 2010 and by -9.1% in 2009. In fact, the fall of turnover in these sectors reached -50.3% in Q1 2012 and 56.1% in Q4 2012, compared with the corresponding quarters of 2008. These falls are abnormally high compared with the nominal GDP fall in the same period, which did not exceed the -16.3% and -19.2% respectively. It is evident that tax evasion has played a substantial role in affecting turnover measurements in this and other sectors.

Concerning developments in tourism in 2013, it is indicative that the index of business expectations in the sector of hotels and restaurants is fluctuating from 68.4 in February 2013, to 70.5 in March, 66.4 in April 2013 and to 82.9 in May, from 51.8, 58.9, 64.09 and 57.3 respectively in the same months of 2012, while the index of business expectations in tour operators businesses has reached 98.3 in May, from 83.2 in April 2013 and 67.9 in March 2013, compared with 56.17 in April 2012 and 84.7 in May 2012. Also, arrivals of foreign tourists in the main airports of Greece registered an 18.4% yoy increase in May 2013 and a 9.9% yoy increase in April-May 2013, compared with their fall by -6.0% in Q1 2013. This means that external tourism will have an important positive contribution to GDP change in Q2 2013, following its small negative contribution in Q1 2013 and in 2012.

Shipping: Greece's merchant shipping receipts fell slightly, by -5.74% in 2012, following their fall by -8.57% in 2011. Moreover, outflows from the shipping firms in Greece declined by -12.5% in 2012, on the back of their drop of -11.3% in 2011. These developments implied a strengthening of the Greek net surplus revenue from shipping by 1.42% in 2012, following its fall by -5.5% in 2011. Therefore, in 2012 net shipping revenues had a small positive effect on GDP growth, failing, however, to reverse the negative effect on growth of these revenues in 2011. On the contrary, in Q1 2013 revenues from shipping fell again by -14.4%, compared with their increase by 0.8% in Q1 2012. In the same period, outflows from shipping firms established in Greece for international payments fell by -14.3%, following their fall by -10.9% in Q1 2012. Therefore, the surplus of the shipping account fell in Q1 2013 by -14.5% yoy, following its increase by 16.8% in Q1 2012. These developments indicate that the fall of the shipping surplus had a negative effect on Greece's Q1 GDP change of the order of -0.6 pps. A further increase in confidence in the stability of the Greek economy in the following quarters will also imply a significant improvement of the shipping contribution in the country's economic development.

Industrial Production and turnover: In the manufacturing industry (accounting for about 8% of value added in the Greek economy), the falling trend of production decelerated markedly to -3.8% in Q3 and Q2 1012, from -9.6% in Q1 2012 and -13.4% in Q4 2011 and then it turned positive to 1.7% in Q4 2012 and slightly negative of –0.3% in Q1 2013 (Diagram 15). This is the second attempt of the Greek manufacturing industry to get out of the recession, with the first attempt aborted following the overturn of the strong recovery prospects of the Greek economy in September 2011. In fact, the falling trend of manufacturing production had again decelerated

markedly to a fall of -1.3% in September 2011 and -4.6% in Q3, from falls by -11.8% in Q2 2011 and -7.1% in Q1 2011. This unambiguous trend towards a recovery in Q3 2011 was abruptly reversed by the economic and political turmoil in Q4 2011, with the drop in manufacturing output taking again crisis proportions (-13.4% in Q4 2011 and also -9.5% in Q1 2012). Following current trends, manufacturing production is now expected to register an increase by 1.0% in 2013 as a whole contributing to the recovery of GDP from Q1 2014 onwards.

Overall, industrial production continues mainly to be affected negatively by the substantial fall in production of the following industries (See Table 10): a) The traditional industries, such as textiles, clothing and footwear, facing intensifying competition from low cost countries, for which production indices have fallen in Q1 2013 to 26.9, 34.5 and 29.2 respectively, from 2005=100. However, production of clothing registered a 7.2% increase in Q1 2013, indicating a possible turnaround to positive growth from the low levels of 2012, under the influence of the substantial devaluation of the ULC based REER, as analyzed in a previous chapter of this Report.

Table 10. Basic sectors of the Greek manufacturing industry

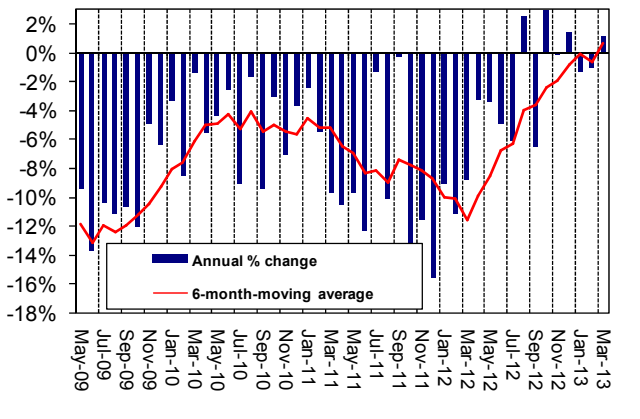
	Weights	Q1 2013	2012	2011	2009	Level 2012 (2005=100)
Food	18,2	-1,5%	-3,8%	-4,3%	-2,7%	92,1
Beverages	6,0	1,7%	-8,3%	-9,3%	-4,8%	80,1
Tobacco	1,9	2,1%	-8,9%	10,5%	-2,7%	75,1
Oil (refineary) products	11,3	10,1%	24,3%	-14,5%	-0,1%	117,7
Chemicals	5,3	-2,2%	-11,9%	-4,7%	-14,6%	71,3
Pharmaceuticals	2,5	10,7%	-5,5%	-0,6%	18,3%	144,5
Basic metalls	8,0	-12,9%	-6,1%	6,5%	-17,9%	92,5
Manuf. of metall products	5,1	-15,0%	-9,8%	-5,4%	-17,7%	68,7
Machinery and equipment	2,1	-6,2%	-13,3%	-6,3%	-27,0%	51,7
Wood and cork products	1,2	1,5%	-11,1%	2,8%	-27,3%	67,1
Plastic products	4,2	-3,2%	-9,5%	-7,3%	-13,7%	71,3
Non-Metallic Minerals	10,3	17,2%	-15,8%	-35,9%	-24,2%	32,1
Electrical equipment	3,0	-4,4%	-6,0%	-13,6%	-20,1%	66,2
Textiles	3,1	-9,7%	-17,4%	-22,0%	-27,8%	27,0
Clothing	3,4	7,2%	-7,0%	-25,4%	-23,6%	34,9
Other transport equipment	1,6	-19,0%	-26,5%	-37,1%	-18,6%	27,2
Vechicles, trailers and others	0,8	-15,4%	-14,7%	-28,8%	-13,3%	42,5
Repair &machinery instalation	4,1	-7,8%	-14,6%	-2,6%	-15,2%	48,9
Manufacturing Industry	**100,0**	**-0,3%**	**-6,7%**	**-9,5%**	**-11,2%**	**73,7**

Source: ELL. STAT.

b) The industries related to the depressed domestic construction activity, with the index of the important for Greece sector of non metallic minerals (including in particular the cement industries), reaching 32.1 in 2012, from 2005=100, despite growing export activities of these industries. However, even in this sector production increased by 18.3% in December 2012 and by 17.2% in Q1 2013 indicating a possible recovery of production in the sector, based on exports until Q1 2013 but also on the recovery of domestic demand from April 2013 based of the restart of production activity in the 4-big highways of the country and also on the initialization of activity in other projects co-financed by EU structural funds.

c) The state-controlled industries in the transportation equipment sector, like shipyards and defence equipment and support industries, which until recently relied mainly on public procurement-defence contracts which are no longer forthcoming. In recent months production in such industries has virtually stopped, despite their undisputed potential for growth in the future under new entrepreneurial management, in the new flexible labour market environment in Greece, especially if it could operate completely independent from government interference. The production index of the other transportation equipment sector has fallen to 27.2 in 2012, from 2005=100 and it fell further to 17.2 in Q1 2013. The government has intensified its effort to re-charge activity in this sector as well.

Diagram 15. Manufacturing Production

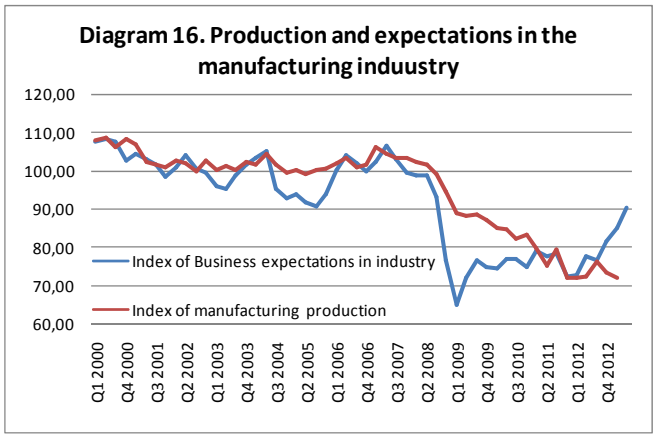


On the other hand, some important sectors of the Greek manufacturing, especially those with substantial export activity, registered a better performance in production in 2010-2013, as shown in Table 7. In particular, the food industry, which is the most important sector of Greek manufacturing, registered a relatively small yearly fall of production in the period 2009-2013, with the falling trend decelerating in Q1 2013 to -1.5%. Production in this sector is affected negatively by the big drop of domestic demand and positively by increasing exports. The same applies for other exporting sectors, as the basic metals and metal products in which production was positively affected by strong exports in 2010-2011, but from 2012 onwards exports and domestic demand (in particular the substantial reduction of domestic construction activity, especially of housing investment) have had a negative effect on the production of these sectors. Higher growth in the last few years has been recorded in the pharmaceutical industry, which registered a -5.5% fall of production in 2012, from a -0.6% fall in 2011 and a 10.7% increase of production in Q1 2013. Its index stands at 144.5 in 2012, from 100 in 2005. On the other hand, chemical industry has been affected by the crisis, registering a continuous fall of production in 2009-2013, with their index falling to 71.3 in 2012. Petroleum products registered a 24.3% increase in production in 2012, from a fall by -14.5% in 2011 and a 10.1% increase in Q1 2013. Its index stands at 117.7 in 2012.

Of particular importance are developments in the index of business expectations in Greek industry in 2012 and in January – April 2013. Manufacturing production shadows to some extent the movements of the business expectations index, but this has not yet happened in January-April 2013 (See Diagram 16, which shows manufacturing production also seasonally adjusted).

In 2011, the index improved substantially to 80.6 in February 2011, from 71.3 in December 2010, but it fell again to 76.2 in June 2011. The Eurozone Heads of State 21 July 2011 decision for a 2nd FSP for Greece contributed to a sizable recovery of the index of business expectations in industry to 77.5 in July and to 81.0 in August (the highest level since 2008). This recovery was

followed by the substantial improvement of manufacturing production in Q3 2011. However, in tandem with the collapse of confidence, the index of business expectations in manufacturing industry fell to 76.2 in September 2011 and to 74 in October 2011, preceding the consequent drop of manufacturing production. The Heads of State decision of 26 October 2011 for a substantially revised 2nd FSP brought an improvement of the index of business confidence in manufacturing once more in November, but the implementation of this decision did not materialize before March 2012, with detrimental effects for Greek manufacturing production and for the economy as a whole until March 2012. In April, following the successful implementation of the PSI Plus by the Greek Government, the index surged again to the level of 81.6 in April 2012, in order to fall again to the level of 77.1 in May 2012 and to 74.1 in June 2012 following the results of the inconclusive 6 May 2012 parliamentary elections. Following the formation of the new Government on 17 June 2012, the index of business expectations in Industry entered a recovery trend from August 2012 and reached again the 80.93 level in September 2012 and the 83.6 in December 2012, in order to surge to 87.1 in March 2013 and to 90.3 in April 2013 (highest level from September 2008). This high level of business expectations in manufacturing industry corresponds to a level of the index of manufacturing production above 85, from a seasonally adjusted 72 recorded in Q1 2013.



The relevant PMI index in manufacturing posted a 21-month high of 45 in April 2013, from 42.1 in March 2013. It had been fluctuating around 45.3 in 2009, 43.8 in 2010, 43.6 in 2011, around 41.2 in 2012 and it went up again to 43 in February 2013 and to 45 in April 2013. The index reflects the falling trend of Greek manufacturing production shown in Diagram 16. The positive effect from the dynamic increase in exports of goods and export orders has been over-compensated from the persistently low level of domestic demand. Now the index is poised to reach higher levels, even above 50, after April 2013 indicating the substantial improvement of business expectations in industry and the expected positive growth of manufacturing production in 2013.

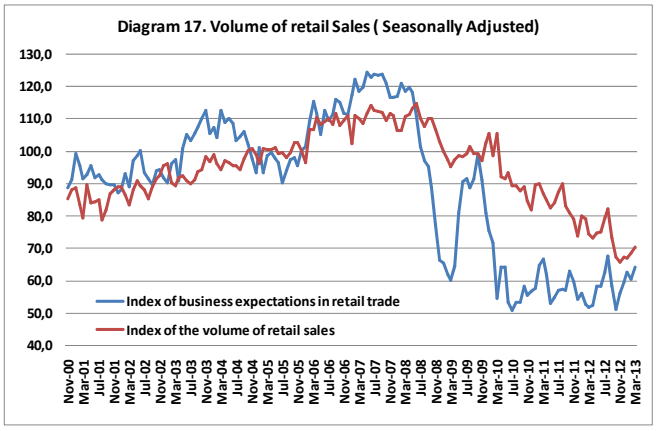
Moreover, ***the index of industrial turnover*** registered a 3.2% increase in 2012 (+6.4% in Q4 2012), on top of a 7.1% increase in 2011 and a 6.0% increase in 2010, following its fall by -23.2% in 2009. This was based to the dynamic increase of turnover in exports by 20.3% in 2012, following an increase by 21.6% in 2011 and 29.3% in 2010. However, the turnover in industry registered a negative growth of -8.5% in Jan.-February 2013, due to a substantial fall in the domestic market by -18.1%.

PRIVATE CONSUMPTION*:* In 2011, the fall of the volume of retail sales decelerated notably to -2.0% in Q3 2011, compared with the substantial fall by -9.1% in Q2 2011 and by -14.7% in Q1 2011. Due to the existing favourable base effects in Q4 2011, it was then expected that the falling trend of the index of the volume of retail sales would continue in the final quarter of 2011 and in 2012. Instead, the falling trend of retail sales accelerated again in Q4 2011, due to the demoralization of the Greek consumer who, due to the dramatic change in Troika's attitude against Greece, was brought face to face with prospects of Greece's default and exit from the Euro, with rapidly rising unemployment and uncertainties about losing its savings. Greek households turned their whole attention on how to cover for these risks, further postponing their consumption, opting at the same time for unrecorded transactions without the payment of VAT.

Therefore, the substantial yoy fall of retail sales by -8.6% in Q4 2011 took place, from the increase of +1.2% in August 2011 and -2.0% in Q3 2011. Thus, for the year 2011 as a whole the fall of the volume of retail sales reached an unprecedented -8.7%, from -6.9% in 2010.

From then on, the falling trend of private consumption accelerated even further, with the volume of retail sales registering an even more dramatic fall of -11.8% in 2012 and of -13.8% yoy in Q4 2012 and to -15% yoy in January – February 2013. On seasonally adjusted terms one could discern some slight improvement in early 2013, with positive m/m change of the volume of retail sales, but this happened from a very low base. In any case the recent improvement of business expectations in the sector of retail trade has not yet been reflected in a corresponding increase of the volume of retail sales.

Overall, the continuing fall of private consumption is expected to remain a substantial contributor to the deepening of recession in 2013, with an estimated fall of the order of -7.5% in Q1 2013 and -5.5% in 2013 as a whole.



Of particular importance was also the fact that the volume of retail sales in the big department stores increased by 2.5% in 2011 and then fell only by -4.6% in 2012, while in the big supermarkets the volume of retail sales fell only by -3.6% in 2011 and by -7.9% in 2012. On the other

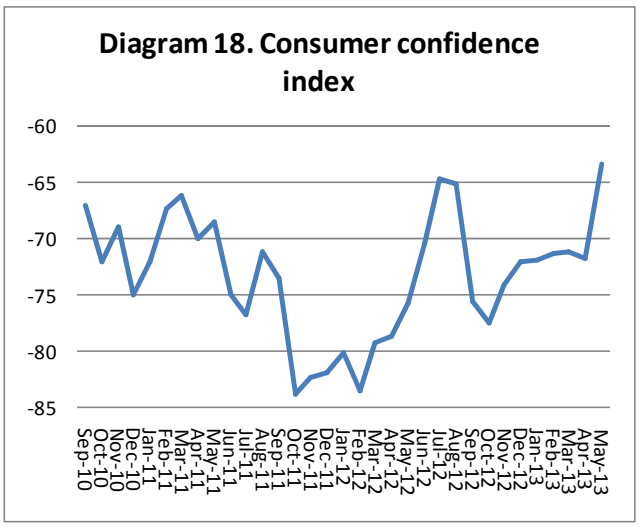
hand, the fall of the volume of sales in the multitude of small shops (of food-beverages and tobacco, or clothing ant footwear, furniture and electrical equipment appliances, etc) accelerated dramatically in 2011 and in 2012 (See Table 11). This development may be partly due to the apparent inability of small shops to compete with the big ones. However, the depressing numbers may also reflect the fact that in the big supermarkets and department stores all sales are recorded. On the contrary, small shops can avoid recording a sizable part of their transactions to evade paying taxes, an act which evidently took explosive proportions in the period following September 2011 and in 2012 as a whole.

Table 11. Index of the Volume of Retail Sales

2005=100	January - December					
Specialized store categories	Index 2009	Index 2010	Index 2011	Index 2012	2011 % Δ	2012 % Δ
Supermarkets	106,9	101,4	97,8	90,1	-3,6%	-7,9%
Department stores	109,2	96,6	99,0	94,4	2,5%	-4,6%
Food-beverages-tobacco	93,2	88,9	75,7	65,4	-14,8%	-13,6%
Pharmaceutical products, cosmetics	109,2	107,7	98,0	85,7	-9,0%	-12,6%
Clothing and footwear	97,6	86,5	70,2	55,7	-18,8%	-20,7%
Furniture, electrical equipment	101,8	88,8	74,9	62,7	-15,7%	-16,3%
Books, stationery, other goods	83,0	79,4	75,4	66,2	-5,0%	-12,2%
Overall Index	**100,0**	**93,7**	**84,2**	**73,9**	-10,1%	-12,2%
Index (except automotive fuel)	**98,8**	**92,0**	**84,0**	**74,1**	-8,7%	-11,8%

Source: Hellenic Statistical Authority

On the other hand, the new fall of sales of durable goods in 2010, 2011 and 2012 is related to the substantial fall of disposable incomes in this period but also to the depressed consumer and business confidence in the Greek economy, which persisted until the end of 2012. In particular, concerning the index of consumer confidence, it reached the -83.8 in October 2011 (the lowest level ever), only to improve slightly to -82.3 in November 2011, from its elevated level of -66.2 in March 2011. In February 2012 the consumer confidence index fell again to -83.5, only to improve markedly in the following months to -64.7 in July 2012, as shown in Diagram 18.



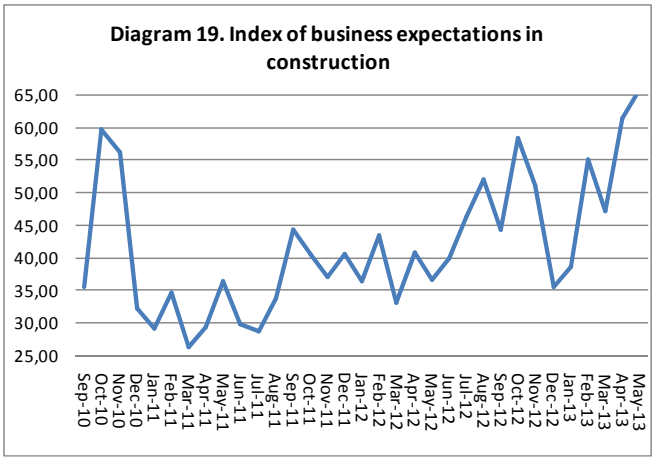
However, the unending discussions with the Troika about Greece's 2nd adjustment program and the formidable announcements of new measures of more than € 15 bn for balancing the Budget in 2013 and in 2014 led to a new deterioration of consumer confidence, with the index falling again to -77.5 in October 2012. From then on, the final decision for the continuation of financing of Greece's adjustment program in 26 Nov. 2012 led to a gradual improvement of consumer confidence, reaching -63.4 in May 2013, which, however, still remains at abnormally low level compared with the Eurozone average.

Pervasive uncertainty and abnormally low consumer confidence have greatly affected ***the new passenger cars market and the housing market.*** New passenger cars registrations dropped to 62.4 thousand in 2012, from 293.8 thousand in 2008 and from 315.8 thousand in 2007. However, even in this sector the falling trend of yoy sales decelerated in Q3 2011 to -4.0% yoy and it turned positive to 0.9% in Q4 2011, from -21.3% in Q2 2011 and the big fall by -55.9% in Q1 2011. But in this case as well the attempt to recovery was aborted by the failure of Troika to decide on a timely implementation of decisions on Greece's 2nd adjustment program from July 2011 to February-March 2012. Therefore, the dramatic deterioration of the economy led to a precipitous fall of new car registrations in Greece by -41.7% in 2012. The falling trend in this market as well has decelerated in Q1 2013 to -12.5%, with the prospect for stabilization to around 63 thousand new car registrations in 2013 as a whole. Finally, expenditure on imported cars is estimated to € 0.7 bn in 2012, from € 1.25 bn in 2011, € 2.18 bn in 2010, € 3.3 bn in 2009 and € 5.26 bn in 2007. These developments in the passenger cars and other imported durable goods markets indicate that the real looser from the current unprecedented recession plugging the Greek and other European economies is not the European taxpayer but the exporting producer in these economies.

Concerning investment in housing, the falling trend of residential construction activity – as measured by the volume (m^3) of building permits – continues unabated with a new -30.6% fall in 2012, on top of its fall by -37.7% in 2011, following its fall by -23.3% in 2010, by -26.5% in 2009, by -17.1% in 2008 and by -5.0% in 2007. In fact, the volume of residential construction fell to 15.7 million m^3 in 2012, from 22.6 million m^3 in 2011, 36.29 million m^3 in 2010 and 102.24 million m^3 in 2005. These developments led to residential investment falling in real terms by -32.9% in 2012, following its fall by -18% in 2011, -21.6% in 2010, -23.5% in 2009 and -33.6% in 2008. Moreover, an additional fall of residential investment of -17.5% yoy is expected in 2013. In fact, residential investment is expected to fall to about € 4.9 bn in 2013, from € 8.85 bn in 2011 (in 2005 prices) and from € 26.1 bn in 2007. This level is extraordinarily low for Greece, falling to 3.0% of GDP in 2013, from 12.4% of GDP in 2007 and a gradual recovery of residential investment due to demographic and other reasons may be expected from H2 2013.

In the current period, the aforementioned adverse developments in consumer and business confidence until the end of 2012 have delayed the revival of both residential investment and economic activity in this sector. In fact, the index of business expectations in construction registered a substantial improvement to 44.3 in September 2011, from 28.8 in July and 35.5 in September 2010. However, this was still a very low level of business confidence and it deteriorated again to 40.6 in October and to 37.1 November 2011. A new improvement to 43.4 has registered in February 2012, in order to fall again dramatically to 33.2 in March 2012. Then it started improving again and it reached the level of 58.3 in October 2012, followed by a new precipitous fall to 35.6 in

December 2012. Then a new upward trend started, which has boosted the index to 61.5 in April 2013 (Dig. 19).



The precipitous fall of construction activity in the private sector is not in any way compensated by a positive increase in investment activity in the public sector. In fact, other construction activity, excluding investment in housing, fell by -7.9% in 2012, following a substantial fall by -25.1% in 2011.

INFLATION: CPI Inflation in Greece fell to -0.6% in April 2013,, from 0.8% in December 2012, 1.7% in August 2012, 2.4% in December 2011, 2.1% in February 2012 and 1.3% in July 2012, dropping from 5.2% in December 2010, with average CPI inflation expected to fall to -0.5% in 2013, from 1.5% in 2012, from 3.4% in 2011 and 4.7% in 2010. Therefore, Greece has now the lower inflation in the EU-27, while it is true that it remained elevated until December 2012. This evolution of inflation until 2012 was mainly due to the fact that fiscal adjustment in Greece initially took the form of raising VAT and excise taxes, as well as through tariff hikes by deficit-ridden public sector entities. Additional increases in VAT rates and other taxes from early 2011, in combination with substantial increases in the international price of oil and other commodities, implied that inflation remained high in 2011 and, to some extent, even in 2012, despite decelerating fast from May 2011 onwards. Overall, inflation is expected to remain negative all through 2013 and even in 2014. Due to the extraordinary low level of domestic demand and the appreciation of the Euro (e.g., against the Japanese Yen), inflation is expected to fall bellow -0.6% in December 2013 and to reach an average of -0.5% in 2013 as a whole. Harmonized inflation is now also fluctuating around -0.6%, while core inflation is expected to reach an average of -1.2% in 2013.

IMPLEMENTATION OF 2013 BUDGET: The Central Government Budget deficit fell to € 3.86 bn in Jan.- May 2013, from a deficit of € 10.88 bn in Jan.-May 2012 and it was significantly lower from the target set by the Government and the Troika for a € 7.06 bn deficit in the 1st 5-months of 2013 (Table 12).

In addition, ***the Central Government Primary Balance*** fell drastically to € 0.98 bn in Jan.-May 2013, from € 2.35 bn in the same period 2012 and it was much lower from the targeted deficit of € 4.17 bn for the 5-month period January-May 2013. For 2013 as a whole the Troika have targeted a deficit of € 2.29 bn in this balance.

This result was achieved despite the fact that the net current revenues have registered a sizable fall by -4.1% yoy in January – May 2013, notwithstanding their surpassing of the target set for this period be € 60 million. In fact, net current budget revenues are expected to fall by -3.3% in 2013 as a whole, following their sizable fall in 2012 by -3.5%. Tax rebates were lower by € 0.59 bn from the target set for January-May 2013, contributing to the better outcome of net current revenues in the first 5-months of 2013. Gross current revenues missed the target by € 0.56 bn in the same period.

Table 12. Inplementation of Budget 2013, January - April 2013

	Jan.-May 2011	Jan.-May 2012	Jan.-May 2013	%Δ2012	%Δ2013	Δ2013	Target Jan-May 2013
Net current revenues	***18.358,0***	***18.171,0***	***17.431,0***	***-1,0%***	***-4,1%***	***-740***	***17.371,0***
Gross current revenues	20.592,0	19.402,0	17.852,0	-5,8%	-8,0%	-1.550	18.414
Concessions	0,0	0,0	62,0				33
Tax rebates	2.234,0	1.231,0	483,0	-44,9%	-60,8%	-748	1.076
Current Budget Expenditure	27.747,0	29.243,0	21.865,0	5,4%	-25,2%	-7.378	23.543,0
Current primary expenditure	21.292,0	20.485,0	18.170,0	-3,8%	-11,3%	-2.315	19.710
Hospital's debts	375,0	0,0	0,0			0	0
Overdue government guarantees	172,0	160,0	711,0			551	694
Defence equipment	64,0	72,0	52,0			-20	140
Total current primary expenditure	21.903,0	20.717,0	18.933,0	-5,4%	-8,6%	-1.784	20.544
Interest payments	5.844,0	8.526,0	2.873,0	45,9%	-66,3%	-5.653	2.897
EFSF loan fees		0,0	59,0			59	102
Public Investment Budget	***-1.028,0***	***196,0***	***577,0***				***-890,0***
Revenues	673,0	1.494,0	1.718,0	122,0%	15,0%	224,0	1.360,0
Expenditure	1.701,0	1.298,0	1.141,0	-23,7%	-12,1%	-157,0	2.250,0
Central Government (CG) Budget							
Revenues	19.031,0	19.665,0	19.149,0	3,3%	-2,6%	-516,0	18.731,0
Expenditure	29.448,0	30.541,0	23.006,0	3,7%	-24,7%	-7.535,0	25.793,0
CG Budget Surplus	**-10.417,0**	**-10.876,0**	**-3.857,0**				**-7.062,0**
CG Primary Budget Surplus	***-4.573,0***	***-2.350,0***	***-984,0***				***-4.165,0***

In fact, the main problems in the implementation of the 2013 budget in the revenues side appear to be following: a) The substantial fall of the VAT revenues by -14.8% yoy in Jan-April 2013, on top of their fall by -12.9% in the first 4-months of 2012. This VAT fall is to a great extent due to tax evasion and explain the fall of the volume of retail sales by -15% in January-February 2013. To some extent it is also due to the fall of VAT revenues from heating oil sales due to the exceptionally good weather conditions in January - April 2013. In fact, the target set by MTFS 2013-2016 for VAT revenues in 2013, is for a -10.5% fall, which is quite easy to be implemented as planned in 2013 as a whole. b) The substantial fall of revenue from excise consumption taxes, by -12.1% yoy in Jan.-April 2013, again due to tax evasion in the specific taxes on tobacco and petroleum products and also due to the lower sales attributed to the good weather conditions. Again, the target set by MTFS 2013-2016 for excise consumption tax revenues in 2013, is for a -1.3% fall, which is could be implemented as planned with a substantial reduction of tax evasion in the sector in the following months of 2013 and with normal weather conditions in the period October-December 2013 facilitating higher tax revenues from the heating oil tax. However, particularly encouraging developments in the implementation of the revenue side of the 2013 Budget appear to be the following: a) The substantial increase of revenues from direct and indirect taxes of past economic years by 37.9% and 28.9% respectively, as a result of the on going efforts of the reorganized tax administration authorities to collect substantial revenues from the huge stock of overdue tax liabilities (exceeding € 54 bn, of which more than € 20 bn are collectable) of businesses and individuals and from unaudited tax cases. Some newly devised settlement schemes of unaudited tax cases and of overdue liabilities are expected to facilitate the repayment, especially of the most recently accumulated overdue liabilities, and cover most of the lost revenue from other sources. b) The transfer of profits from the Bank of Greece to the state,

which are estimated to be extraordinarily high in 2013 due mainly to the operation of the Exceptional Liquidity Assistance (ELA) to the Greek banks in most of 2012. c) Revenues from the income tax on individuals registered a fall by -7.5% in January-April 2013, while for 2013 as a whole the MTFS 2013-2016 has projected a dramatic fall by -22.2%. This fall may be avoided to a great extent if concrete efforts will be undertaken to collect efficiently the verified revenues from this source.

On the expenditure side, ordinary budget primary expenditure dropped significantly by –11.3% yoy in Jan.-May 2013 and they were lower by € 1.54 bn from the relevant target and by € 2.3 bn from Jan-May 2012. In particular, overall salaries and pensions in the public sector were lower by -8.3% yoy in Jan.-April 2012, following their fall by -6.0% in 2012, -6.3% in 2011 and by -9.4% in 2010. Also, grants to social security funds including subsidies to the Single Health Services Organization (EOPYY) and the Manpower Employment Agency (OAED) were lower by –24.0% yoy in Jan.-April 2012, following their fall by -4.5% in 2012 from their substantial increase in 2011 (2010: € 10.1 bn, 2011: € 15.2 bn). In fact, there was overspending in these subsidies in the previous years, which was mainly due to the substantial fall in the revenues of the social security funds (due to the surge in unemployment and the fall in private sector wages, as well as due to increasing social security contributions evasion), and to the increased number of retirees in the period 2010-2012.

In fact, the fall of own revenues of the social security funds continues in 2013, with this fall reaching -15.1% in Q1 2013. This is a particularly disturbing development not only for fiscal adjustment but also for social justice, as a big number of insured individuals and companies have ceased to pay their contributions, while still demanding their social security benefits. The Government had agreed with the Troika to cover the ensuing revenues gap in this sector with the imposition of a solidarity contribution on self employed individuals covered by the corresponding self-employed insurance organization (OAEE), which, however, was not actually implemented. Therefore, the Government has agreed with the Troika to replace the above measure by a tightening of pension requirements for uninsured individuals and through audits of pension entitlements. Again, this new measure has not been implemented by the government until May 2013.

On the other hand, operational expenditure of the central government registered a fall by -3.5% in Jan.-April 2013, while it is budgeted to register a -1.6% fall for 2013 as a whole, following their fall by -8.7% in 2012. Again, the Government has failed in its effort to bring about a significant increase of the own revenues of local authorities and of state controlled organizations, which have been considered as part of the general government. There is a substantial fall of expenditures of these organizations but not yet efforts to increase their own revenues.

Finally, the decrease in the Central Government budget deficit was also due to the substantial fall of public investment budget (PIB) expenditure by -112.6% yoy in Jan.-April 2012, from a fall by -28.0% in the same period 2012. On the other hand, PIB revenues reached € 1.72 bn in Jan.-April 2012, when the targeted PIB revenues for this period were € 1.06 bn. In fact, PIB expenditure is now expected to reach € 6.85 bn in 2013 (as budgeted), compared with € 6.11 bn in 2012 and € 6.6 bn in 2011. The continuous fall of the PIB expenditure is a main contributor to the dramatic fall of GDP in 2010-2012, as well as in Q1 2013. On the other hand PIB revenues are now expected to exceed the budgeted € 5.14 bn in 2013, from € 3.6 bn in 2012.

Regarding the implementation of the general government (GG) budget on a cash basis, data for Q1 2013 have recorded ***a primary surplus of € 0.97 bn in Jan.-April 2013,*** from a surplus of € 2.38 bn in Jan.-April 2012. However, if we adjust for the fall by € 0.6 bn of the overdue liabilities of the Greek state in Jan.-April 2013 and the increase of these liabilities by € 0.6 bn in Jan.-April 2012, then the adjusted GG primary surplus in Jan.-April 2013 will reach the € 1.64 bn, compared with a surplus of € 1.78 bn in Jan.-April 2012. This result was due to the following developments: (i) To the fall of the GG revenues by -8.4% yoy in Jan-April '2012, compared with a projected fall of these revenues by -5..5% in the year 2013 as a whole. (ii) To the substantial fall of the adjusted (for the change of overdue liabilities of the state) GG primary expenditure registered an estimated substantial fall by -8.5% in Jan.-April2012, compared with a projected fall by -8.5% in 2013 as a whole.

Overall, with the assumption of a determined effort to collect accurately the assessed revenues from the personal Income Tax for the year 2011 and 2012 and also to combat VAT and social security contributions evasion in the course of 2013 and to receive the budgeted revenues from the EU structural funds, the implementation of ***the 2013 Budget is expected to continue to be better than planned, with a possible general government primary surplus of at least 0.5% of GDP in 2013,*** compared with the budgeted surplus of about 0.0% of GDP.

BALANCE OF PAYMENTS: The current account deficit including the capital transfers decreased to € 1.25 billion in Q1 2013 from € 3.76 billion in Q1 2012 showing a substantial reduction of € 2.5 billion or -66.6% yoy, after falling by -44.64% yoy in Q1 2012. Thus, the current account deficit fell to -0.68% of GDP in Q1 13, compared with -1.94% of GDP in Q1 2012 and -3.25% of GDP in Q1 2011. In 2013 is now expected that the current account will turn into a surplus of 1.0% of GDP, for the first time in the postwar period, versus a deficit of -2.2% of GDP in 2012 and 9.2% of GDP in 2010.

The reduction of the trade deficit excluding oil and ships was particularly important, to € 1.92 billion or -18.93% yoy in Q1 2013, following its fall by -33.07% yoy in Q1 2012. This reduction in the deficit was due to the further fall in imports of goods excluding oil and ships by -5.57% yoy in Q1 2013, versus -13.76% in Q1 2012 and also to the increase of exports of goods excluding oil and ships by 4.09% in Q1 2013, following their increase by 8.98% in Q1 2012***. Concerning the oil balance,*** it is now important that payments for imports of oil also decreased by -8.54% yoy in Q1 2013, following their increase by 3.30% in Q1 2012. On the other hand, revenue from oil exports surged upwards by 30.58% in Q1 2013 on top of their increase by 29.62% yoy in Q1 2012. So the decrease in oil deficit

to € 2.29 billion compared to € 3.14 billion in Q1 2012 was due mainly to higher growth in exports of refined oil.

Overall, ***the increase in total exports of goods*** (including oil and ships) by 10.46% in Q1 2013, from 13.90% in Q1 2012 is an essential support for the country's economy in the current period of recession. Thus, exports of goods amounted to € 5.45 billion in Q1 2013, compared to € 4.93 billion in Q1 2012 and € 3.57 billion Q1 2010.

Balance of Services: The surplus in Q1 2013 was reduced by -1.03% yoy after a sharp increase by 52.15% in Q1 2012. The increase in the surplus was due to the drop in imports of services to € 2.64 billion in Q1 2013 from € 3.20 billion in Q1 2012, which offset the decline in revenues from the export of services which amounted to € 4.14 billion in Q1 2013 from € 4.71 billion in Q1 2012. More specifically:

A. The revenues from tourism abroad contracted to € 392.2 million in Q1 2013 versus € 407.3 million in Q1 2012 and € 466.7 million in Q1 2011. On the other hand, the payments of domestic residents for tourism abroad fell by -21.29% in Q1 2013, versus -21.89% in Q1 2012. Therefore, the tourism balance recorded a surplus of € 66.1 million in Q1 2013, against a deficit of € 7.1 million in Q1 2012 and also a deficit of € 63.9 million in Q1 2011. For the year 2013 as a whole tourist revenues are expected to reach € 10.8 bn from € 10.03 bn in 2012, with the tourist surplus reaching € 9.2 bn, an 11.8% increase from 2012. An increase in foreign tourist arrivals are expected from May 2013, with advanced booking in Greek hotels for the summer season appearing around 15% higher than in 2012.

B. However, the receipts of the Greek shipping recorded a further reduction of -14.39% yoy in the Q1 2013 after their increase by 0.80% in Q1 2012. On the other hand, the payments of shipping companies abroad registered a similar fall by -14.26% in Q1 2013, implying a further reduction in the surplus of international transport services (mainly shipping) at -14.51%.

C. A decrease in receipts from exports of other services by -8.14% occurred in Q1 2013 after their big increase of 13.28% in Q1 2012. Also, payments for imports of other services decreased by -20.85% in Q1 2013 from their fall by -8.41% in Q1 2012. Therefore, the deficit of the external balance of other services fell by -66.4%.

Incomes Balance: Its deficit fell by -43.96% in Q1 2013 versus its increase by 8.01% in Q1 2012. This development is mainly due to a sharp drop in interest payments, dividends and profits to foreign investors reaching -31.60% yoy in Q1 2013, compared to its increase by 6.62% in Q1 2012 (due to increased interest payments in the implementation of the PSI plus). The receipts of interest, dividends and profits of domestic residents from abroad recorded also a slight fall of -1.79% yoy, following their increase of 4.72% in Q1 2012.

The receipts from the European Union increased marginally by 0.87% yoy to € 2,38 billion in Q1 2013, while remittances rose significantly by 46.25% yoy, versus -3.86% in Q1 2012. Also, the payments (transfers) remittances abroad decreased by -51.47%, to € 158.0 million in Q1 2013 from € 325.5 million in Q1 2012.

In the capital transfers balance receipts from EU-27 structural funds amounted to € 1.17 billion in Q1 2013 from € 1.10 billion in Q1 2012. The receipts are still at low levels compared to the amount of funding from the structural funds of the EU-27 available for Greece until 2015. The proceeds of the country from this source were virtually halted in May 2012, creating the conditions for the large drop in GDP in H2 2012. Following the favorable resolution of the issue of the continuation of financial assistance to Greece from the Eurozone and the IMF in December 2012, it is expected to be re-established the flow of resources from the Structural Funds of the EU-27 towards Greece. Thus the receipts from this source, will now take place in 2013 and 2014, contributing to the further improvement of the Greek current account but mainly to the recovery of the Greek economy.

In the capital account, a surplus of € 125.1 million was recorded in Q1 2013, against a surplus of € 4.98 billion in Q1 2012. Developments in individual categories of capital flows in Q1 2013 were as follows:

(A) In the field of Foreign Direct Investment (FDI), a substantial net inflow of € 1.29 billion was recorded in Q1 2013, compared with a net outflow of € 518.3 million in the same period of 2012. In particular, direct investment by non-residents in Greece showed a net inflow of € 608.3 million, while domestic firms contributed to a net inflow of € 685.1 billion from the sale of their direct investment abroad.

(B) In the field of portfolio investment a net inflow of € 542.7 million was also recorded, against a net outflow of € 37.0 billion in the corresponding period of 2012. In particular, inflows were recorded due to a liquidation of residents' investments abroad in bonds and foreign shares of € 1.8 billion and € 357 million respectively. Also inflows were recorded from the increase in non-residents' investments in shares and financial derivatives of Greek firms in the domestic market of € 107 and € 147 million respectively. During the same period there was an increase in residents' investments in Treasury bills and financial derivatives abroad by € 217 and € 173 million respectively (outflow) and a decrease in non-residents investments in Greek bonds at € 1.4 billion (outflow).

Table 13. Greek Balance of Payments (€ Billions)

	Jan-March2013	Jan-March2012
Trade Balance (TB)	-4,52	-5,87
Exports	5,45	4,93
Imports	9,97	10,80
Services Balance	1,50	1,52
Tourism Receipts	0,39	0,41
Shipping Receipts	2,88	3,37
Income Balance	-1,03	-1,83
Payment of Interest, Divid. & Profits	1,74	2,54
Transfers' Balance	2,79	2,43
Current Account (CA)	-1,25	-3,76
CA (% of GDP)	-0,68%	-1,94%
Capital Account	0,13	4,98

Source: Bank of Greece

C) Concerning capital flows in the category of "other investment", a net outflow of € 1.7 billion was recorded, against a net inflow of € 42.5 billion at the corresponding quarter of 2012. This was almost entirely due to the decrease by € 25.4 billion of investments of foreign credit institutions and institutional investors in deposits and repos in Greece (outflow). This partly offset by a

reduction by € 15.8 billion of resident credit institutions' and institutional investors' deposits and repos abroad (inflow). Moreover, GG borrowing from the official sources (the EFSF and the IMF) reached € 9.94 bn in Q1 2013.

MONEY & FINANCIAL MARKETS: Credit expansion to businesses and households fell by -3.5% at end-March 2013, from -3.9% at end-Feb. 2013, from its fall by -4.0% at end-December 2012 and at end-March 2012. In particular, the annual rate of change of mortgage and consumer lending fell to -3.2% and -5.3% respectively at end-March 2013, from -3.4% and -5.1% respectively at end-December 2012 and from -3.4% and -6.8% respectively at end-March 2012. Moreover, lending growth to businesses decreased to -2.8% at end-March 2013 and Feb.2013, from -4.4% at end-December 2012 and -3.3% at end-March 2012. Overall, the annual rate of change of credit to the private sector is expected to decelerate further to around -1.5.0% by year-end 2013, from -4.0% at year-end 2012.

Diagram 20. Credit Expansion

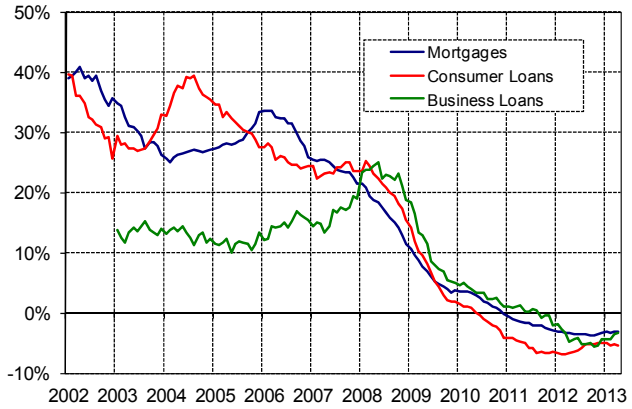
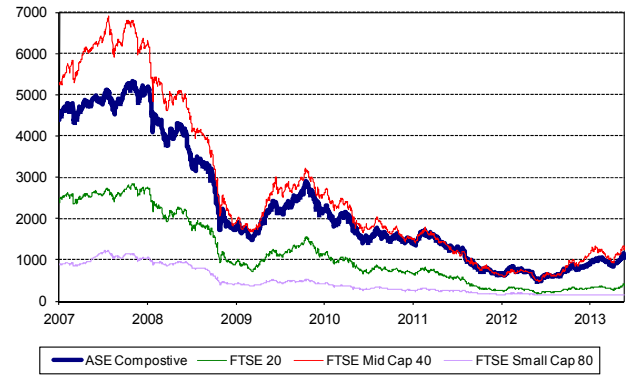


Diagram 21. Athnes Stock Exchange Indices



By the end of April 2013, the main ASE composite index was up by 39.2% on a yoy basis (FTSE-20 stocks: +20.4%, FTSE-40 mid-cap: +63.4% and FTSE-80 small caps: -69.4%), from an increase of 33.4% at end-2012 (FTSE-20 stocks: -19.8%, FTSE-40 mid-cap: -79.7% and FTSE-80). Following these developments, at end April 2013 52.3% of the total stock exchange value of listed firms was in the hands of foreign investors, up from 52.0% at end-April 2012.

2. ROMANIA

ECONOMIC OVERVIEW: According to preliminary data released by the National Statistical Office (INS), real GDP expanded by 2.1% yoy in Q1 2013 (unadjusted figures). Real GDP advanced by 0.7% (unadjusted figures) in 2012, as the plunge in agricultural output due to volatile weather conditions (severe winter, summer drought) had a strong impact on it. In 2011, Romania's economy expanded by 2.2% supported by the buoyant agriculture sector and industry. Domestic demand was the main upward driver behind the weak economic growth in 2012. The Q4 2012 not seasonally adjusted real GDP totaled an estimated RON 172.1 billion (€39.5 billion) at current prices, while for the whole year totaled RON 587.5 billion (€134.8 billion), INS reported. The main drivers of the economy in the fourth quarter of last year were the information & communications sector which recorded an annual increase of 43.3%, followed by professional, scientific and technical activities; activities of administrative services & support services, which expanded by 9.9% y/y. The agriculture sector output registered a -24.6% y/y fall, while the industry and construction sectors by -0.8% y/y and -1.7% y/y respectively. Private consumption rose by 1.4% y/y in Q4 2012, while government expenditure dropped by 0.8% in Q4 2012. On the other hand, gross fixed investment remained weak, decreasing 0.6% y/y in Q4 2012 due to the decline of the investments in public sector. The external sector made a slight positive contribution to economic growth, as exports of goods and services fell by -4.7% y/y in Q4 2012, while imports decreased by -3.8% y/y in Q4 2012. Assuming a normal agricultural harvest this year, we expect real GDP to advance by 1.5%, given the positive contribution from the agriculture sector. We expect economic recovery in Romania to stay moderate in H1 2013 and to start gaining momentum in H2 2013 given the improvement of the external demand and the increase of the absorption rate of EU structural and cohesion funds. Romania reached an absorption rate of 11.47 percent on EU structural and cohesion funds at the end of 2012, representing €2.2 billion that have been paid from EU funds in the last five years, with €1.1 billion granted only last year. The negative manufacturing climate in the Eurozone (the main trading partner of Romania), is not encouraging for Romanian industry and exports in H1 2013, while the investment sentiment is likely to remain sour amid fears over the economic developments in Europe.

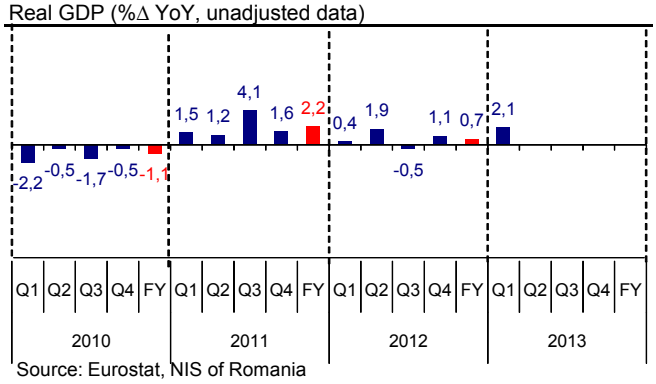
The International Monetary Fund (IMF) and the European Commission project both a GDP growth at 1.6% in 2013. Improvement in employment and lower inflation are expected to give a boost to domestic demand. In 2013, public consumption is anticipated to advance a bit faster as a result of the salary increases granted in 2012.

During January 15–29, a joint team from the International Monetary Fund (IMF) and the European Commission (EC) visited Romania in order to conduct discussions on the 7th and final review by the IMF and the last review by the EC of Romania's economic program. In March, Romania's Government and the Central Bank (BNR) send an official letter to the IMF asking for a three-month extension of the existing loan agreement and for a new loan. The Romanian authorities are treating the Stand-By

Arrangement (SBA) as precautionary, thus they do not aim to draw on the available resources.
On March 25, 2011, the Romanian authorities signed up a 24-month IMF SBA of about € 3.5 billion, which also included additional precautionary support from the EC of € 1.4 billion and a loan of € 0.4 billion from the World Bank. The IMF/EC agreed to extend the SBA programme by three months (from end-March to end-June) to allow the government to meet its overdue commitments. The Executive Board of the IMF approved on March 15, 2013 the three-month extension of Romania's SBA to June 30, 2013. The extension of SBA will provide the necessary time to Romanian authorities to implement the measures needed to complete the 7th and 8th review under the SBA.
According to IMF and EU delegates, the Romanian authorities have made big steps for electricity and gas price liberalisation, while measures to protect the most vulnerable households are needed. The calendar for privatization of State Owned Entities (SOEs) continues to stay back although the authorities expressed their commitment to restart public enterprise reforms (secondary public offer for 15% of Transgaz, strategic investor for a majority stake in CFR Marfa, Oltchim to become insolvent) and the search for private independent managers in SOEs. Another new precautionary arrangement with IMF/EC could be sealed in H2 2013.

The rating agency Standard & Poor's (S&P) in May 2013, affirmed country's rating at BB+ for long-term issues in foreign and local currency, and rating at B for short term issues in foreign and local currency, with a stable outlook. According to S&P the rating decision reflects government's commitment to continue its fiscal consolidation efforts while maintaining a much moderate current account deficit compared to prior years. S&P's decision came after Fitch's decision in mid-April, to maintain Romania's long-term foreign currency credit rating to BBB- with a stable outlook.

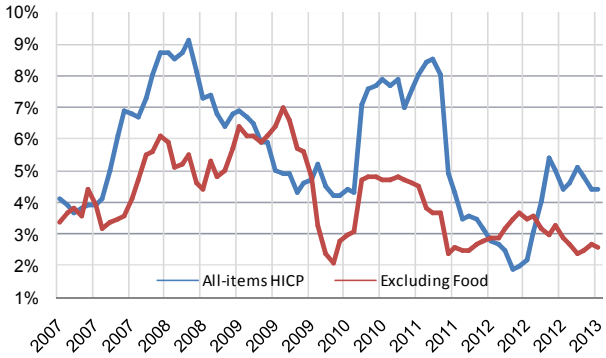
Real GDP (%Δ YoY, unadjusted data)



Source: Eurostat, NIS of Romania

FISCAL POLICY: Although, the budget execution demonstrates some weaknesses, the implementation of the fiscal consolidation program in the context of the precautionary SBA with the IMF remains on a good track.
Last year, it was the third in a row with a sustained decrease in the public budget deficit. Budget deficit target agreed with the IMF was marginally missed. Romanian authorities pledged to keep the consolidated budget deficit in a limit of RON 13.66 bn or RON 14.66 bn when including expenditures with the National Development and Infrastructure Program (PNDI). Preliminary figures indicate that the 2012 budget deficit was declined below 3% of GDP, as it was targeted. In cash terms, the freeze in EU-funded projects, reimbursements by the European Commission in H2 2012 had a substantial impact on the budget deficit, so the deficit target was missed. Consolidated budget deficit (in cash terms) amounted to RON 14.77 bn in 2012 or -2.5% of nominal GDP against a target of -2.1% of GDP.
The new Socialist-Liberal government decided to raise public wages by 7.4% in January 2013, following an increase of around 8.0% in June 2012, ensuring a return to pre-July 2010 levels. Furthermore, the government increased the state pension by 4%, effective January 2013, in line with its pre-election campaign. The Romanian government in 2013 will attempt to keep budget deficit at -2.4% of GDP in accrual terms and at -2.1% of GDP in cash terms. However, the targets set by the local authorities sound very promising and for this reason we cannot exclude a slight fiscal slippage.

Consumer Price Inflation - (%Δ yoy)



Source: Eurostat, National Statistical Office

INFLATION: Harmonized consumer price (HCPI) inflation pressures resurged in 2H12 due to hikes in food prices and administered energy prices. The National Bank of Romania (NBR) halted a rate cutting cycle in May 2012 due to inflation pressures and a weak currency. We expect NBR to keep unchanged its basic interest rate (5.25%) in the first semester of 2013, although a cut could be possible in H2 2013 if this year is a good agricultural year and inflation pressures heading lower. The annual average inflation, measured by HICP, in 2012 was 3.4% compared to 5.9% in 2011. A combination of high energy costs and elevated food prices caused by the drought last summer, rocketed inflation to 5.1% in January 2013. The maximum inflation rate last year, 5.4% was reached in September 2012.
HICP inflation drifted up in January 2013 amid a further rise in the electricity tariffs and the prices of vegetables & fruits but slowed at 4.4% in April 2013. In April 2013, HICP prices remained unchanged against March 2013. Dropping fuel prices, RON's minor appreciation and a marginal reduction in electricity tariffs, kept inflation pressures away. HCIP excluding food inflation rate decelerated to 2.6% in April 2013 from 2.9% in November 2012. Average annual monthly HICP inflation rate over the first 4 months of the current year was 4.7%, compared with 2.5% in the corresponding period a year before. In April 2013 headline inflation remained at 5.30% for a second month in a row and well below the 6.0% posted in January 2013. On a monthly base, consumer price index (CPI) climbed to 0.11% in April 2013, after

rising 0.04% in March 2013. The hike in excise duties affected mainly tobacco products (weighting more than 8% in the CPI basket) and prevented inflation falling further. According to BNR headline inflation rate should be within the 1.5-3.5% target by the end of 2013, as any increases in energy prices are expected to be balanced by slow price growth (base effect) in the second half of the year. We are expecting headline inflation to slope downwards more markedly in the second half of the year, following a more propitious agricultural harvest. The National Bank of Romania (NBR) forecasts an annual inflation rate of 3.2% by year-end.

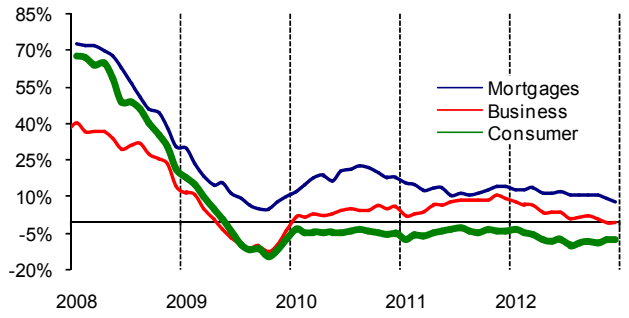
BALANCE OF PAYMENTS: Romania's current account balance posted a surplus of € 69 million in Q1 2013, versus a deficit of € 796 million in the same period of 2012 due to the decrease in trade balance & income deficits by €640 million and €347 million correspondingly, as well as thanks to a surplus in services balance of € 153 million from a deficit of € 79 million, the corresponding period a year ago. The trade balance deficit reduced to € -552 million in Q1 2013 from a deficit of €-1.192 million the corresponding period a year ago, on robust exports. Romania's exports rose by 4.6% y/y to € 11.579 million and imports decreased by 1.1% y/y to € 12.131 million in the first quarter of this year, according to the National Bank of Romania. The current transfers balance dropped by 31% y/y while the foreign direct investment, amounted to € 211 million in Q1 2013 from € 360 million in the same period of 2012. Looking forward, we expect the trade deficit to remain around to 4.1% of GDP in 2013, in line with a modest recovery in external demand and a stronger domestic demand. According to European Commission Spring 2013 forecasts, the current account deficit is expected to contain at -3.9% of GDP in 2013. The current account balance ended 2012 at a 10-year low of 4.0% of GDP (against 4.5% in 2011).

Current Account: Q1 2013 (€ million)			
	Q1 2013	Q1 2012	%Δ
Exports (fob)	11.579	11.073	4,6%
Imports (fob)	12.131	12.265	-1,1%
Trade Balance	-552	-1.192	-53,7%
Services Balance	153	-79	-293,7%
-Tourism-travel	-67	-63	6,3%
Income Balance	-321	-668	-51,9%
Current Transfers Balance	789	1.143	-31,0%
Current Account Balance	69	-796	-108,7%
Source: National Bank of Romania			

EXTERNAL DEBT: Total external debt rose at the end of March 2013 and it was standing at €101.1 billion from €98.9 billion in December 2012. In terms of GDP the total external debt in December 2012 increased to 73.4% from 74.4% at end-2011. Medium & long- term external debt service ratio was at 33.1% in March 2013 versus 33.5% in 2012. Borrowing from the IMF decreased to € 8.4 billion at end-January 2013 from € 8.7 billion at end-2012. Finally, at end April 2013, the National Bank of Romania's foreign exchange reserves stood at € 32.41 billion, up from € 31.21 billion at end-December 2012.

MONEY & FINANCIAL MARKETS: The depreciation of the domestic currency (RON) against euro and US Dollar during 2012 relates to the political developments (president's impeachment, parliamentary elections) and the sovereign debt crisis in Eurozone. The National Bank of Romania (NBR) intervened prudently in order to limit currency pressure causing speculation that NBR was comfort to allow RON to depreciate within a certain zone. The domestic currency (RON) depreciated in nominal terms against the US Dollar and the Euro in 2012 by 13.8% and 5.2% respectively (average levels). Since the begging of the current year (16.5.2013), the RON had appreciated against the US Dollar and the Euro by 0.05% and 2.4% correspondingly. The FX reserves are stabilized around €32 billion in April 2013 and make NBR's any potential currency action job painful. The National Bank of Romania (NBR) on the back of recent political and economic developments decided to keep its key rate unchanged at 5.25%. We expect the NBR to change its monetary policy rate in the second part of 2013 due to favourable medium-term inflation projections and the weak domestic activity. Liquidity in the money market remains a major issue. Outstanding daily average volume of repo operations declined to RON 744 million in April 2013 from RON 3.9 billion in March 2013 and RON 3.9 billion in December 2012.

Credit Growth (%Δ YoY)



Source: National Bank of Romania, ALPHA BANK Reasearch

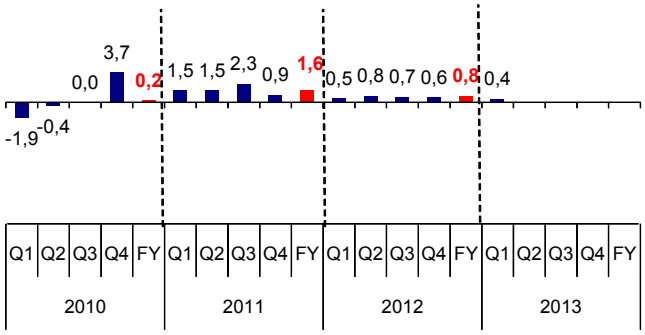
The NBR might be enforced to cut the minimum reserve requirements ratio for RON liabilities from its current 15% in order to enhance liquidity but a cautious action is needed as to avoid currency weakness. ***Credit expansion (in euro terms) to the private sector showed a deceleration in the first quarter of 2013. In particular, credit expansion stood at -0.9% y/y in March 2013 (businesses: -0.5%, households: -1.4%) from -1.4% y/y in December 2012.*** Households continued to prefer foreign currency loans. Non-performing loans (NPLs) remained on a clear upward trend in 2012 (amounting to 18.2% at the end of the year, up from 14.3% at the end of 2011).The commercial banks remain well capitalized and liquid, with the capital adequacy and loans to deposits at 14.6% and 154.5% respectively at end-December 2012.

3. BULGARIA

ECONOMIC OVERVIEW: The Gross Domestic Product (GDP) expanded 0.4% (preliminary data) in Q1 2013 over the same quarter of the previous year and 0.1% compared with the fourth quarter of 2012. Gross Value Added (GVA) at current prices amounted to BGN 13,708 million. The services sector has the largest share (63.4%) in total value added, followed by industrial sector (31.9%) and agricultural sector (4.7%). More specifically, the GDP at current prices in Q1 2013 amounted to BGN 16,161 million or € 8,263 million. In 2012 GDP at current prices

amounted to BGN 77,583 million or € 39,667 million. GDP for 2012 in real terms increases by 0.8% compared to 2011. On the supply side, growth rate in Q1 2013 was determined mainly by the increase registered in the agricultural sector 3.3% y/y and industry 1.3% y/y. Exports increased by 8.9% y/y and imports by 4.4% y/y. Although, exports in Q1 2013 turned to positive territory, the recession in the Eurozone continues to weigh on the Bulgarian export industry and it is still in doubt if exports will continue its upward path for the rest of the year. ***The rapid growth of exports in the years 2010 and 2011 was reversed in 2012 due to Eurozone debt crisis leaving the domestic demand as the major driving force of the economic recovery.*** Due to unfavourable labour market developments (demographic trends, emigration) personal consumption dropped by -0.8% q/q and -1.6% y/y in Q1 2013. Additionally to the external demand, a positive contribution to GDP growth in Q1 2013 was brought by gross fixed capital formation, whose growth rate rose by 2.4% q/q and 4.8% y/y. The social protests and demonstrations and the change of the government had a partial impact on economic activity.

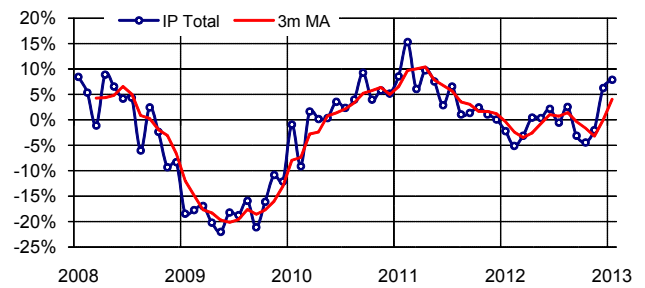
Real GDP (%Δ YoY, seasonally and calendar adusted data)



Source: National Statistical Institute

We foresee Bulgaria's GDP growth to expand by 0.8% in 2013 unchanged from the prior year, mainly supported by domestic demand. However, the rising unemployment rate in 2012 to 12.3% from 11.3% in 2011 remains a downside risk for the domestic demand. The European Commission (Spring 2013 Forecasts) expects growth to reach 0.9% in 2013 and to rise at 1.7% in 2014.

Industrial Production - (%Δ yoy swda)



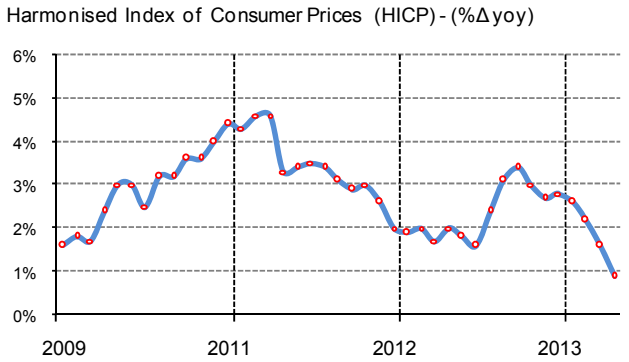
Source: Bloomberg

FISCAL POLICY: The government's budget balance posted a deficit of BGN -795.6 million (1.0% of Alpha Bank's forecast GDP for the year) in Q1 2013. The European Commission and the Bulgarian government have forecasted a deficit around 1.3% of GDP for the whole 2013. Although, Bulgaria's economic fundamentals are sound the political uncertainty caused after the resignation of the centre-right Government on February 20th, amid violent nationwide protests for high energy prices and low wages, could undermine fiscal discipline. The budget balance result for the year will depend by the new government which will be established after the May 12, elections. Meanwhile, S&P rating agency affirmed Bulgaria's long-and short-term foreign and local currency Issuer Default Rating (IDR) at BBB/A-2 with stable outlook. The affirmation reflects Bulgaria's successful fiscal consolidation, low and declining deficit and debt stock. Bulgaria's budget deficit increase by 16% in Q1 2013 compared to the same period a year earlier. The cumulative fiscal deficit stood at BGN -796 million (€ 407 million) at the end of March 2013 from BGN 687 (€ 351 million) in the same month in 2012. The Q1 2013 budget deficit resulted from a national budget deficit of BGN 474.8 million and an EU funds deficit of BGN 320.9 million. On an annual basis it increased by BGN 108.4 million, which is in line with the expectations during a pre-election period. The main reasons for the higher deficit were greater interest payments to service government debt, increased health care benefits, as well as increased wages & salaries in the public sector.

Consolidated Budget revenue in January-March 2013 stood at BGN 6.15 billion. Tax revenue was up 3.3% compared to the same period of 2012. Value-added tax (VAT) revenue offset some of the decreases in other areas and stood at BGN 1.79 billion or 15.1% higher than in the same period of last year and accounting for 22.7% of the amount targeted for 2013. VAT accounted for 48.9% of total tax revenue, compared to 44.1% in the same period of 2012. Consolidated Budget expenditure, in Q1 2013 stood at BGN 6.62 billion, an annual increase of 4.5%. Interest payments during the same period stood at BGN 319.2 million or about 37.9% of the amount estimated for 2013. The fiscal reserve, which Bulgaria is obliged to keep under its currency board regime, stood at BGN 4.2 billion in March 2013 from BGN 4.1 billion in January 2013. Bulgaria has pledged to maintain fiscal discipline in order to avoid pressure on its currency regime and to run a deficit of 1.3% of GDP in 2013 from 0.5% in 2012 where strong budget commitment mainly on the expenditure side outperformed the annual deficit target.

INFLATION: The harmonised consumer price index (HICP) dropped by -0.4% m/m in April 2013 following a similar decrease in March 2013. On an annual basis HICP was up 0.9% in April 2013. The inflation rate since the beginning of the year (April 2013 compared to December 2012) had been -0.5% and the annual inflation in April 2013 compared to April 2012 was 2.0%. The rise was due mainly to the 4.5% m/m hike of clothing and footwear prices and to the 0.1% m/m increase of communications prices. Prices for food and non-alcoholic drinks with a strong weight in the index decreased by 0.7% m/m. The European Commission's Spring-2013 forecast predicted HICP inflation to be at 2.0% on average in 2013 and to rise marginally at 2.6% in 2014. At the end of 2012, the annual headline inflation reached 4.2% from 2.8% in

December 2011, while the annual average inflation for the whole 2012 totalled 3.0%.

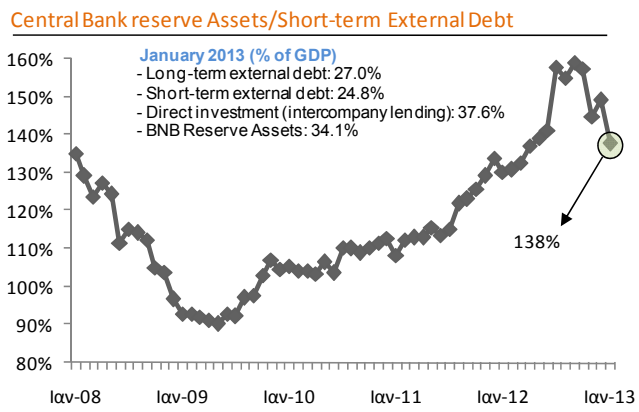


Source: Eurostat

BALANCE OF PAYMENTS: The current account showed a deficit of € -421 million or 1.0% of Alpha Bank's forecast GDP for 2013, in Q1 2013 versus a deficit of € -562 million in the same month a year ago. In particular, the trade balance registered a deficit in Q1 2013 amounted to € -478 million (-4.8% of GDP), compared with a deficit of € -942 million in Q1 2012. In Q1 2013 exports reached €5,217 million (up 13% y/y), while imports reached € 5,695 million (up 2% y/y). Moreover, the services surplus decreased to € 73 million (0.8% of GDP) in Q1 2013, against a surplus of € 90 million (0.9% of GDP) in the same period a year before. In the capital account, the net foreign direct investment (FDI) decreased to € 247 million in Q1 2013 from € 641 million in the same period of 2012.

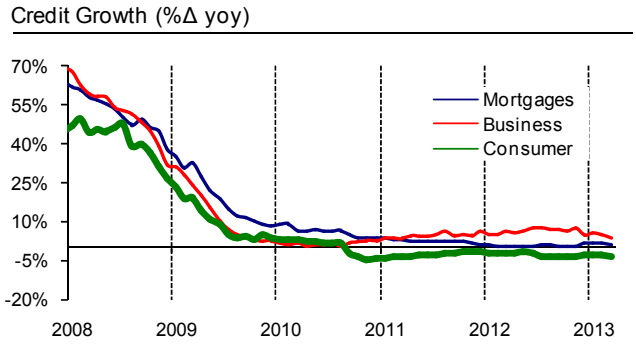
Current Account: January-March 2013 (€ million)			
	Q1 2013	Q1 2012	%Δ
Exports	5.217	4.620	13%
Imports	5.695	5.561	2%
Trade Balance	-478	-942	-49%
Services Balance	73	90	-19%
Income Balance	-211	-312	-33%
Current Transfers Balance	195	602	-68%
Current Account Balance	-421	-562	-25%
Source: Bulgarian National Bank			

EXTERNAL DEBT & INT. RESERVES: Total gross external debt stood at € 37.1 billion at the end of February 2013 from € 37.6 billion (94.8% of GDP) at the end 2012. The ratio of foreign reserves with the Central Bank to short-term debt was 135.5% at end of February 2013 from 144.7% at the end of December 2012.



Source: Bulgarian National Bank, MoF

MONEY & FINANCIAL MARKETS: Bulgaria continues the currency board regime, pegging the Bulgarian Lev (BGN) to the Euro at a fixed exchange rate of 1.95583 BGN to 1 Euro. Although, country fulfils the criteria for joining ERM II, the Eurozone waiting room, Bulgaria is not intending to make any move toward the euro adoption within the next years. Domestic demand for credit remained subdued amid rising unemployment. In March 2013 credit expansion stood at 2.1% y/y, from 2.8% y/y in December 2012. Business financing grew by 3.9% y/y in March 2013 and credit to households declined by -1.3% y/y. Consumer credit declined by -3.6% while mortgages grew by 1.3%.

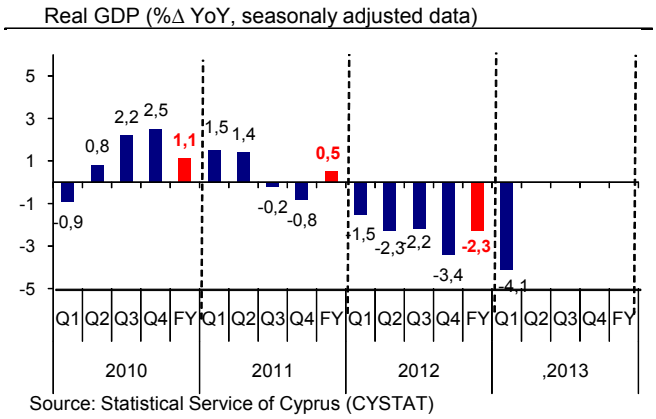


Source: National Bank of Bulgaria

4. CYPRUS

ECONOMIC OVERVIEW: The recession in the Cyprus economy deepened with a yoy fall of GDP of -4.1% in Q1 2013, following its fall by -3.4% in Q4 2012, -3.4% in Q3 2012 and by -2.4% in 2012 as a whole, from a moderate 0.5% increase in 2011. In fact, the economic activity in Cyprus in the year 2011 was badly affected by Greece's sovereign debt crisis and also by the explosion at Mari naval base in July 2011, which destroyed the Vassilikos electric power plant, the island's main power station. Then, in early 2012 Cyprus banks and the economy as a whole was hit by Greece's PSI plus and then by the talk of Greek exit from the Euro and the further deepening of recession in Greece, which implied Cyprus' exclusion from the capital markets and the revelation of its need for official financial aid from the Eurozone and the IMF. The application of a fiscal adjustment program had started in 2011 and it was intensified in 2012. Therefore, domestic demand, a fundamental pillar of the economic growth in the period 2000-2008, fell by -6.6% in 2012, following its fall by -1.6% in 2011. This was mainly due to the tightening of fiscal policy in 2012 and of negative credit conditions and increasing unemployment in both 2011 and 2012. Positive contributor to growth was net exports of goods and services by 2.21 pps in 2011 and by 4.43 pps in 2012, on the back of positive developments in the tourism sector and in other exporting activities – contributing to an increase of the exports of goods and services by 4.4% in 2011 and also by 2.3% in 2012. On the other hand, the substantial contraction of domestic demand (comprising a huge fall in investment by -23%

and a fall in private consumption by -3.0% in 2012, implied also a contraction in imports of goods and services by -0.7% in 2011 and by -7.2% in 2012.



Source: Statistical Service of Cyprus (CYSTAT)

Following the Greek PSI Plus, the two big systemic banks of Cyprus - the Bank of Cyprus (BoC) and the Cyprus Popular Bank (CPB) suffered substantial losses amounting to around € 3.7 bn. through this unprecedented Greek debt exchange. According to the IMF, the GGBs holdings of the two banks at the end of 2011 amounted to about 30% of Cyprus GDP that is around € 5.3 bn. These holdings have implied a capital loss for the banks of the order of € 3.7 bn. Anticipating these developments already from August 2011, the markets assumed a government bail out of the banks and the Cyprus's Government lost market access as its sovereign debt spreads soared. Therefore, the needed recapitalization of the Cyprus's banks could not be attempted without a formal request of Cyprus from the Eurozone for the needed financial assistance, which until the middle 2012 was estimated to reach the level of € 10.5 bn, that is € 6.0 bn for the recapitalization of the Cyprus' banks and an additional € 4.5 billion, which was needed in order to cover Cyprus' financing needs by the end of 2014.

However, in order to determine the Bank's recapitalization needs, the Troika requested from the Central Bank of Cyprus to impose a bottom-up stress test for each bank by an independent organization in order to estimate possible capital losses of the banks in the following years under extraordinarily distressed economic conditions. The exercise would include a detailed asset quality review with completely uncertain outcome, which, under the prevailing conditions in 2012, would deteriorate exponentially with the time that it would take to reach a conclusion. From early 2012 negotiations were under way with Troika and everyone was expecting a decision for awarding to Cyprus the needed economic assistance, which would put a stop to the bleeding both of the economy and of its banks. In fact, in September 2012 the recapitalization of the banking system was expected to increase the government debt ratio to around 90%-95% of GDP in 2012, from 71.1% of GDP in 2011. The additional resources needed for covering the financial needs of the Government (manly for the refinancing of old debt) would also add another 25 pps of GDP to Cyprus's debt in the following years until the end of 2014, assuming also negative GDP growth.

More specifically, Standard & Poor's, the ratings agency on 2 August 2012, lowered Cyprus' long-term sovereign credit rating by one notch from BB+ to BB, while it also placed Cyprus on CreditWatch with negative implications. The ratings agency believed then that Cyprus - despite an international bailout, would remain in a weak fiscal position due to its banking system, which had been unable to cope without state assistance. ***The agency estimated that Cyprus' financial assistance from EC-ECB-IMF would reach € 11 billion (60% of GDP)*** in order to recapitalise the banking system, to absorb further bank losses, and to meet 2012-2014 state borrowing needs. About € 6.6 billion would be absorbed by the state to cover maturing debt and underlying deficits during 2012-2014 and the rest would be used for the recapitalization of the banks. Finally, Cyprus' real GDP growth was expected to contract by -1.5% in 2012 and, at best, to stagnate in 2013. Standard & Poor's estimated in August 2012 that Cyprus' GG debt would increase by nearly 12% of GDP on average in 2012 and in 2013, peaking at over 105% in 2013.

Also, Moody's, on 9 October 2012, lowered Cyprus' long-term sovereign credit rating by three notches from Ba3 to B3 with negative outlook, citing the difficulties in the Country's banking sector. According to Moody's, the three largest Cypriot banks would require more than € 8 billion in capital (equivalent to over 47% of GDP). From then on, just five weeks after its last rating cut, Moody's warned that it would review Cyprus's rating for a possible downgrade, due to the slow pace of negotiations with the international lenders and the resulting uncertainty regarding the likelihood and timing of a support package.

Despite the above alarming developments, nothing happened towards a decision to cover the financing needs of the economy and banks during 2012. In fact, the Cyprus economy and the banks were left to their fast deteriorating state until March 2013. Then the long expected Report of PIMCO estimating the total capital losses of the Cyprus's banks until the end of June 2015 (from July 2012), under a basic and an adverse scenario, was published. The conclusion of Pimco was that the expected losses of the banks would reach € 5.98 bn under the basic scenario, in which unemployment would peak at 13.5% in 2014 and € 8.87 bn in the adverse scenario in which unemployment would reach 14.6% in 2014. With these Pimco estimates and with the acceptance of only its adverse scenario, the needs of Cyprus for financial aid from the Troika would reach as high as € 13.5 bn, that is € 8.87 bn for the banks and € 4.5 bn for the Cyprus' state itself.

And then things started getting ugly. In the Eurogroup of 15 March 2013, the new Cyprus Government was presented with a decision according to which the Troika could provide financial aid to Cyprus amounting to € 10 bn and also the required ECB financing for its banks, but only under the condition that Cyprus itself would secure the collection of an additional amount of € 5.8 bn from taxing the deposits held in Cyprus by its banks. The Cyprus government sensing that such an action would bring the country's entire financial system in complete debasement, tried to ameliorate to some extent the

implied disaster by consenting to a questionable tax scheme affecting both secured and unsecured deposits with a tax rate of 6.7% and 9.9% respectively. And then in an unbelievably irresponsible move the Eurogroup accepted and announced this outrightly catastrophic decision, mainly for Cyprus, but also for the Euro and for the world as a whole.

Following this extraordinary decision, the Cypriot Parliament had two roads to take both leading to dramatically negative consequences for the economy of the country and for the welfare of its people. However, the negative consequences of the second road would be much more damaging for Cyprus than the also damaging consequences of the first road. More specifically:

The first road was to duly ratify the March 15 decision of the Eurogroup and implement it (take the money from the depositors accounts) immediately during the extended holiday weekend in March 16-18. Then, the economy and the banks would resume normal operations from Tuesday 19 March 2013. In this road was taken, the Cyprus's banking system would have been fundamentally shaken, implying an additional fall of Cyprus' GDP, reaching -4.8, higher even from the adverse scenario of Pimco. In fact, the amount of the rescue package increased further from € 13.5 bn to € 15.8 bn due to the negative effect on the economy that would be implied by the tax on total deposits. The unwillingness of the Eurogroup to plug an additional € 3.5 bn hole implied the extension of the gap to an estimated € 5.8 bn. ***The second road*** for Cyprus Parliament was to reject the 15 March 2012 Eurogroup financing deal as unacceptable and then to seek to renegotiate the deal with the Eurogroup itself, or with the Russian government.

In the event, the second road was actually taken. This implied the closure of all banks in Cyprus for about 10-days with simultaneous virtual stoppage of all economic activity in the country. The expected by many financial aid from Russia never materialized. In the ensuing debacle, the Eurogroup was quick to announce that the policy of taxing the insured deposits of the Cyprus' banks was not its preferred policy, but that it was Cyprus' responsibility to secure the availability of the € 5.8 bn, of the total € 15.8 bn needed to fully cover Cyprus' financial gap. Of course these resources could not be found in a country with a € 17.9 bn GDP. On the other hand, Cyprus needed desperately the € 10 bn that were offered generously from the Eurozone and the IMF financial support. The problem was that this support was on offer only under the strict condition of Cyprus accepting to sequestrate € 5.8 bn from unsecured depositors in the BoC and CPB, which would destroy depositor's and investor's confidence in its financial system and the economy as a whole.

Nevertheless, the Cyprus' Government and Parliament proceeded, in the days between March 15 and March 25, 2013 to legislate the following: a) The closure of the CPB to new business and its wounding down with "the full contribution of equity shareholders, bondholders and also its uninsured depositors". CPB would be split into a good bank and a bad bank. The good bank would be folded into the Bank of Cyprus, along with secured deposits and performing loans and also the € 9.0 billion of emergency liquidity assistance (ELA) backed by the ECB. The bad bank would incorporate CPB NPLs and unsecured deposits and it would be put into liquidation. With this operation € 4.2 bn would be seized from CPB's unsecured depositors. b) Uninsured deposits in the BoC would remain frozen in order to be used for its recapitalisation, which aimed to give the bank a Tier 1 capital ratio of at least 9.0% of its risk weighted assets. With this provision, depositors in the BoC with deposits exceeding €100,000 were to get shares in the BoC in exchange for at least 37.5% of the amount of their uninsured deposits. Moreover, an additional 22.5% of uninsured deposits would remain frozen until the finalization of a more detailed and updated independent valuation of the assets of BoC. This later percentage might be seized as well if needed with a decision by the BoC. Therefore, about 60% of uninsured BoC deposits were about to be seized in order mainly to finance insured depositors (of the CPB and the BoC), waiting for the lifting of the strict controls on bank withdrawals in order to get their deposits out of Cyprus. Finally, another 30% of uninsured deposits in the BoC were also frozen temporarily and could also be subject to a total or partial conversion to BoC shares, if needed and should the CBC decide to do so. These sums amounted to some € 7.0 - € 9.0 billion of uninsured deposits which could potentially be confiscated at the BoC alone, that is, the bank that was "rescued." c) The third pillar of the "rescue" operation was the unavoidable imposition of strict controls on bank deposits withdrawals as well as on money transfers abroad. This was a substantial impediment on the normal functioning of the Cyprus economy. It became even more important due to the great uncertainty as to when these controls would be lifted and ow this would impact on BoC and the Cyprus' financial system as a whole.

In this context, the argument that the seizing of deposits was needed in order to prevent the unsustainability of Cyprus' sovereign debt is ill conceived to say the least. Cyprus' debt would be to a great extent sustainable the needed financial support for the period 2013-2015 (about € 12 bn) would have been handed out on time and the Cyprus' financial system remained fully operational. Following the act of outright seizing of unsecured deposits and the consequent debasement of Cyprus' financial system and the inability of the economy to function in the following years, the sovereign debt of the country can hardly be thought as sustainable.

Following the above dramatic developments, the European Commission (Spring Forecasts) projects now a fall of Cyprus GDP by -8.7% in 2013 and by -3.9% in 2014 with a fall of private consumption by -12.3% in 2013 and by -5.5% in 2014. These results will be achieved with a positive contribution of net exports on GDP change of the order of 5.0 pps in 2013 and by 1.6 pps in 2014. This result is based on the assumption that exports of goods and services will fall by -5.0% in 2013 and by -2.5% in 2014, compared to their increase by 2.3% in 2012. Moreover, the European Commission projects an increase in the general government (GG) deficit to -6.5% of GDP in 2013 (2012: -6.3%) and to -8.4% in 2014, with the GG debt reaching 124% of GDP in 2014, despite the confiscation of deposits of more than € 10 bn from the BoC and the CPB.

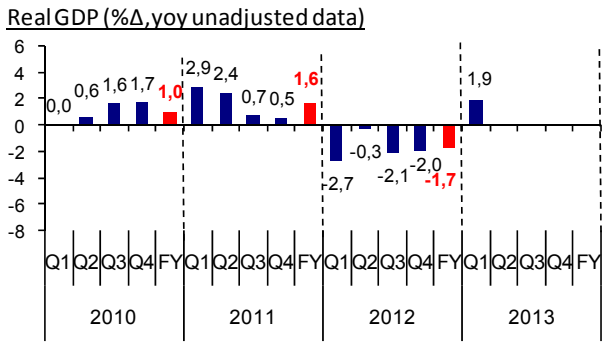
5. SERBIA

ECONOMIC OVERVIEW: Serbia's real GDP according to a flash estimate of the Statistical Office, increased by 1.9% y/y in Q1 2013 from a decline of -2.0% y/y in Q4 2012. Real GDP fell by -2.1% y/y in Q3 2012 having already recorded declines of -0.3% y/y in Q2 2012 and -2.7% y/y in Q1 2012. This brought the full year 2012 GDP contraction to -1.7% (3-year low) after having posted a positive growth in 2010 and 2011 of 1.6% and 1.0%, respectively. Economy is expected to have a rebound to 1.8% y/y in 2013 supported by normalization in agricultural output, higher production by carmaker FIAT in Kragujevac, new highways, railways modernization, increased production by NIS oil refinery, and the construction of the Serbian part of Russia's South Stream gas pipeline. Economic activity will also be supported by competitiveness gains due to the dinar depreciation. However, domestic demand is likely to be subdued due to fiscal consolidation measures and a weak labour market. Unemployment rate is estimated to reach 26% in 2013, against 24% in 2012. European Commission in Spring 2013 forecasts expects GDP to grow by 1.7% y/y in 2013 and by 1.9% in 2014.

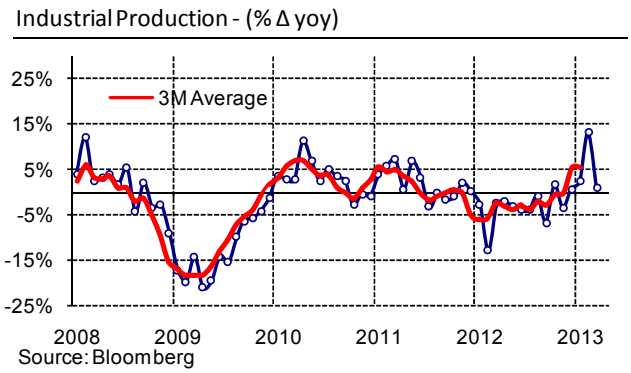
Our growth scenario incorporates the signing of a new SBA with the IMF in H2 2013. Recall that Serbia's current SBA, worth EUR 1.1 billion, expired in March and has been suspended since February 2012, after the country didn't keep its promises to reduce the fiscal deficit to 4.25% of GDP.The IMF will examine the 2012 budget and the implementation of fiscal measures in 2013 before signing a new loan.

The annual rise of industrial production by 0.7% in December 2012 from a drop of -3.4% y/y in November 2012, as well as, the monthly and seasonally adjusted increase by 2.0% in December 2012, from 0.5% m/m in November 2012, outlined a positive development for the future trend of industrial production in 2013. In 2012 industrial output fell by 2.9% y/y mainly affected by manufacture of basic metals, generation of electricity, and manufacture of chemicals and chemical products. In March 2013, the industrial production in Serbia has increased by 0.8% compared to March 2012. Electricity, gas, steam and air conditioning supply sector registered the highest annual increase (13.6% y/y), while the automotive industry continued its exceptional performance (193.9% y/y), as the carmaker Fiat started producing its new 500L model. The March output figures partially reflected a low base effect, as well.

Going forward, the base metals sector could contribute to the recovery of industrial production this year. Recently, the Serbian government revealed plans to restart the operation of a steel plant at Zelezara Smederevo, which closed down in July 2012 after US Steel sold it back to the government for $1 after suffering significant financial losses. The economic slowdown in 2012 increased the budget deficit, the current account gap and the public debt. The European Commission forecasts (Spring 2013) the fiscal deficit to be reduced at -4.5% of GDP in 2013 from -6.8% of GDP in 2012, while the current account deficit to -8.0% of GDP in 2013 from -10.6% of GDP in 2012.



Source: Statistical Office of the Republic of Serbia, Bloomberg

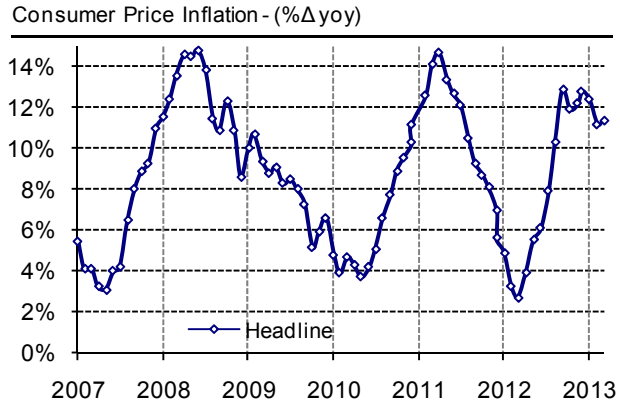


Source: Bloomberg

FISCAL POLICY: The fiscal performance deteriorated in Q4 2012, due to a revenue underperformance, bringing the consolidated budget deficit to 6.7% of GDP (Serbian authorities) for the whole 2012, despite the introduction of revenue enhancement measures, through a supplementary Budget on September 25th 2012. The latter included a 2 percentage points rise in non-food VAT to 20% in October 2012, excise tax increases from October 2012 and a 5 percentage points hike in the tax levy on interest, dividends and capital gains to 15%.The revenue shortfall was compounded by higher spending ahead of the presidential and legislative elections. The 2013 Budget target of RSD 122 billion from RSD 220 billion is feasible provided that additional corrective fiscal measures are implemented. The deficit reduction is necessary in order to halt the public debt growth. The public debt is expected to reach 62.1% of GDP in 2013 according to European Commission from 59.3% in 2012 and 48.2% in 2011.The deficit reduction will be achieved basically by hiking taxes and reducing the increase in pensions and public sector wages. Specifically, the corporate income tax will increase from 10% to 15%, while the increases in public sector wages and pensions will not exceed 2%. Revenue growth is projected at 15% y/y and expenditure growth to be contained at 7.6% y/y. The budget restrictions in 2013 will also require a significant reduction of the expenditure for the procurement of goods & services and for subsidies. We foresee this year's fiscal deficit to reach 4.5% of GDP if financial aid to steel industry or subsidies to IT companies are included. The biggest items regarding expenditures are salaries and transfers to social insurance funds such as the Fund for Pension and Disability Insurance (PIO), the Serbian Health Insurance Office (RZZO), and the

National Employment Service. According to IMF, Serbia's 2013 budget deficit (including public bank resolution costs, arrears and payments of called guarantees) will rise to 8.0% of GDP from an estimated 7.8% of GDP in 2012 amid the absence of additional budget consolidation measures, lower tax revenue and unbudgeted spending. At the same time IMF expects, public debt to increase by 65% of GDP in 2013 from 62% a year before, well above the legal ceiling of 45% of GDP. The Serbian authorities, therefore, should identify additional budget consolidation measures of 1% of GDP in 2013 while a cumulative adjustment effort of at least 7 % of GDP over the medium term would be needed to reduce public debt to 45% of GDP by 2020. Serbian government expects the IMF to return in the autumn to continue talks on a new precautionary agreement which could serve as additional support to macroeconomic stability.

During the first four months of 2013, the cumulative budget shortfall was RSD 75.9 billion (€ 686.1 million). Revenues amounted to RSD 249.8 billion (€ 2.3 billion) and expenditures to RSD 325.8 billion (€ 2.9 billion). Revenue from the value-added tax increased by RSD 8.2 billion to RSD 40.4 billion in April 2013 from RSD 32.3 billion a month ago, while collections from excise duties rose 17.5% m/m. The biggest items regarding expenditures in the first four months of the year were transfers to social security funds, expenditures for employees and social assistance from the budget.



Source: Statistical Office of the Republic of Serbia

INFLATION: Serbia's annual CPI inflation decelerated to 11.4% in April 2013 from 12.8% in January 2013. On monthly basis, consumer prices edged up 0.8% in April 2013 after stagnating in March 2013. April's hike was basically driven by a monthly increase of food and non-alcoholic beverages of 2.0%, and health prices of 0.5%, which participate over 40% in the CPI basket. On the other hand, decreases of prices were noted in the groups of transport by -0.3%, furnishings, household equipment and routine household maintenance by -0.2% and communication & education by -0.1%. We expect inflation to continue moderately rise in the coming period mainly reflecting high comparison base, the expected increase in electricity prices in Q2 2013 and agriculture product prices. Inflation will continue staying outside National Bank's (NBS) targeted band (4% +/-1.5%). According to European Commission (Spring 2013 forecasts) inflation is on a upward path, average inflation is expected to accelerate to 8.4% in 2013 from 7.3% in 2012 before drop to 5.7% in 2014.

BALANCE OF PAYMENTS: Bursting remittances flow (+27% y/y) and narrowing foreign trade gap (-26% y/y) underpinned Serbia's current account gap tapering in Q1 2013 (-48% y/y). The trade gap reduced by 26% y/y in Q1 2013 as exports increased by 22% y/y to €2.26 billion and imports marginally by 0.2% to 3.41 billion. Portfolio investment rose by 1,750% y/y to € 1,402 million in Q1 2013 from € 76 million in Q1 2012 which primarily relate to risk appetite for Government's Eurobonds issues, worth $ 1.5 billion by foreign investors. Remittances, an important source of current account gap financing, increased to € 470 million in Q1 2013 from € 370 million in Q1 2012. Net FDI registered an annual decrease of 143% to € 155 million in Q1 2013 compared to €362 million in Q1 2012. We expect FDI flows to be improved in the coming months as the initiation of the agreement on normalization relations with Kosovo, opens the way for the beginning of the accession negotiations with EU. The latter will act as a stability factor for the country. We foresee current account to fall in 2013 but to remain at relatively high level (-8.6% of GDP) driven by weaker transfers and income balances, as well as, a higher export activity from FIAT's automobile factory.

Current Account: January-March 2013 (€ million)			
	Q1 2013	Q1 2012	%Δ
Exports	2.265	1.854	22%
Imports	3.410	3.403	0%
Trade Balance	-1.145	-1.549	-26%
Services Balance	39	29	36%
Income Balance	-190	-229	-17%
Current Transfers Balance	681	574	19%
Current Account Balance	-615	-1.176	-48%
Source: National Bank of Serbia			

Stock of External Debt as of 31.3.2013 (in million of EUR)	
Total External Debt	**26.721**
Public Sector External Debt	**13.483**
Medium and long-term debt	**13.483**
of which IMF sba	1.246
Short-term Debt	**0**
Private Sector External Debt	**13.239**
Medium and long-term debt	**12.878**
of which Banks	3.530
of which Enterprises	9.348
Short-term Debt	**361**
of which Banks	303
of which Enterprises	58
Source: National Bank of Serbia	

EXTERNAL DEBT & INT. RESERVES: In March 2013 the stock of external debt rose by 11.0% y/y to € 26.7 billion (preliminary data). The split between public and private sector debt, as a percent of the total, stands at 50.5% and 49.5% respectively. The level of National Bank of Serbia's (NBS) foreign exchange reserves stood at € 11.2 billion at end-April 2013, up by € 760 million from April 2012. The largest inflow to Fx reserves came from the sale of government securities in the international and domestic financial markets in February 2013. Short term Debt/ Fx reserves stood at 3.1% in March 2013 while short term debt/total debt at 1.4%.

MONEY & FINANCIAL MARKETS: In response to intensifying inflationary pressures, the National Bank of Serbia (NBS) continued its tight monetary policy stance in the first months of 2013. More specifically, NBS raised its key policy rate (2-week repo) by 25 bps to 11.75% at its February meeting, bringing cumulative policy rate hikes to 50 bps since the beginning of 2013 and 225 bps since its first hike by 50 bps in June 2012. The rate hike was

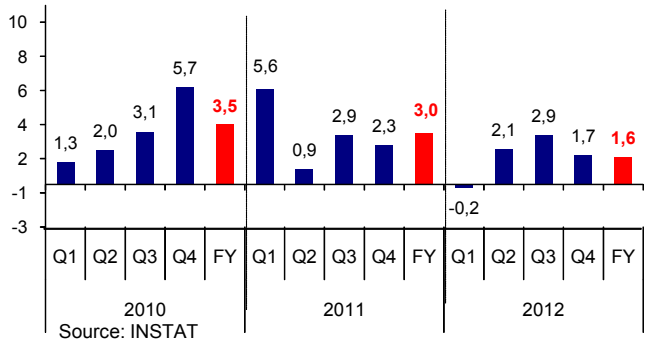
largely induced by inflation increase mainly due to dinar's depreciation in Q3 2012. Dinar's depreciation was due to the suspension of standby arrangement (SBA) with the IMF, the increased budget deficit, the widening of the current account deficit, and the debt crisis in Eurozone. In May 2013, the NBS decided to cut its key policy rate for first time in more than a year by 50 bps to 11.25%, which is in line with the global and regional developments. According to NBS the ongoing weakness in aggregate demand, the stable behaviour of dinar, the improved country's risk profile, coupled with monetary constraints will support a further drop of inflation. NBS reiterated that inflation will ensure a return within the target tolerance zone, by the end of the year. Looking forward, we anticipate the monetary policy to ease further if inflation begins to reverse course. The dinar's behaviour as well as, the fiscal consolidation developments will affect NBS's future monetary stance. The dinar has depreciated 1.1% against US Dollar from the beginning of the year until May 24, while has gained almost 1.0% against euro. EUR/RSD interest rate differential and the key policy rate cut, encouraged investors with liquidity excess in the dinar market which in turn boosted RSD.

Credit expansion to the private sector increased by 1.7% y/y in December 2012 from 4.2% y/y in December 2012 (in euro terms). Loans to businesses increased by 0.9% and loans to households by 3.2% y/y. On the other hand, private sector deposits marginally increased by 9.0% increase in March 2013 from 5.2% y/y increase in December 2012. The loan to deposit ratio stood at 128% in March 2012 from 129% in December 2012, whereas NPL ratio was at 18.6% in December 2012 from 19.0% in December 2011. In March 2013, S&P Ratings Services affirmed it's long and short term foreign and local currency sovereign credit ratings on Serbia at BB- and B respectively. The outlook remains negative, indicating that sovereign debt ratings may be downgraded if deficits continue to widen and policy makers fail to implement measures to address public-sector inefficiencies.

6. ALBANIA

ECONOMIC OVERVIEW: Albanian economy has shown extreme resilience in 2010-12, having recorded an annual average GDP growth of 2.7%. Economic growth was mainly generated by domestic demand. Despite the deteriorating external environment in neighbouring Europe and in particular in Greece in 2012, Albanian economy continued its positive performance. Its GDP rose for a third consecutive quarter in Q4 2012 to 1.7% y/y from 2.9% y/y in Q3 2012. On a seasonally adjusted basis, the GDP expanded by 0.1% q/q compared with an increase of 2.1% y/y in Q3 2012. Positive growth rates in Q4 2012 registered the sectors post & communications (+24.0% y/y), industry (+7.8% y/y), other services (+7.8% y/y) and agriculture (+6.1% y/y). On annual basis, negative growth during Q4 2012 was registered in construction (-15.4%) and in transport (-8.4%). The post & communication and transport sectors expanded by 6.3% q/q and by 5.0% q/q in Q4 2012. Albania's economic growth deceleration in Q4 2012 brought the annual growth for 2012 to 1.6%.

Real GDP (%Δ yoy, unadjusted data)



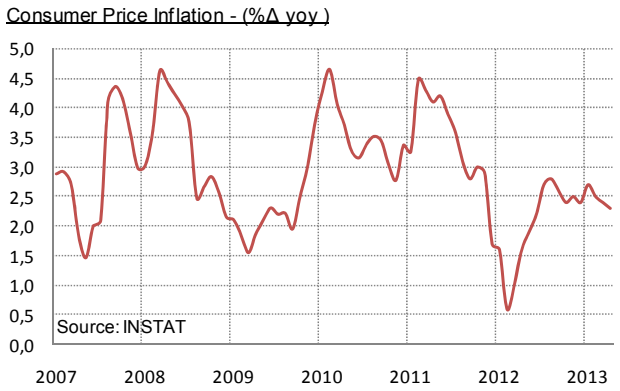
Source: INSTAT

The unemployment rate remained almost unchanged at 13.26% in Q4 2012 from the prior quarter. The IMF in its projections forecasting a real GDP growth of 1.8% in 2013 and a pickup in 2014 to 2.5%, while the EBRD is predicting a real GDP growth of 1.5% in 2013 and 1.9% in 2014. On the other hand, the Albanian government is more optimistic forecasting of 3.1% in 2013, 3.9% in 2014 and 4.1% in 2015. For 2013, we foresee a modest rebound in economic activity due to the improvement of domestic demand and the increase of government spending ahead of parliamentary elections on June 23, 2013. We expect real GDP annual growth to rise at 1.9% this year from an estimate of 1.6% in 2012.

FISCAL POLICY: The budget deficit stood at ALL 45.9 billion (€ 328.0 million) in 2012, although the Budget 2012 was predicted a total deficit of around ALL 49.5 billion. Total revenues in 2012 reached ALL 330.4 billion from ALL 330.5 in 2011, although the pace of growth decelerated. On the other hand, government spending was almost unchanged at ALL 376.2 billion in 2012 from ALL 376.3 billion in 2011. The deficit in 2012, accounted for -3.4% of GDP from -3.5% of GDP in 2011. On the revenue side, the fall in tax revenue (VAT, excise tax, profit tax) was covered by an increase of grants and nontax revenue. On the expenditure side, the increase of current expenditures (social insurance outlays, personnel expenditures) was offset by the fall in capital expenditures. In April 2013, the consolidated cumulative budget posted a deficit of ALL -22,787 million (€ 161.9 million) in January-April 2013, up from ALL -11,599 million a year earlier. Total budget revenues increased by 0.3% y/y to ALL 106,677 million, reflecting an annual rise in non-tax revenues. In addition, receipts from social contributions also advanced in January-April 2013. Regarding tax receipts, the combined revenue from indirect taxes fell by 3.4% y/y, as VAT revenues was down by 6.1% y/y and customs duties edged down by 9.5% y/y. Lower revenues from indirect taxes signals for a continued stagnation of the domestic consumption. By contrast, corporate tax revenues increased by 1.6% y/y and revenues from personal income tax also advanced by 7.5% y/y in January-April 2013. On the expenditure side, total budget spending grew by 9.8% y/y, which was due to higher current (up by 5.6% y/y) and capital expenditure (up by 45.0% y/y). For 2013, the Albanian government is targeting a deficit gap of 3.5% of GDP and a public debt to GDP ratio at 62.6%. Revenue and expenditure are projected to rise by 9.3% y/y and 9.2% y/y correspondingly. The projected figures sound optimistic

and we cannot exclude a supplementary budget during the current year. Undoubtedly, fiscal discipline is required in order country's credibility to be enhanced and funding costs to be reduced. The cabinet has already decided to move away VAT on cement and steel used for the construction of hydropower plants and expressed commitment to remove the VAT on imported machinery and equipment, used in agriculture production. Another major tax change which already approved refers to the personal taxation and particular the introduction of a non-taxable minimum of ALL 30,000 (€ 213) per month for personal income. Rating agency Standard & Poor's (S&P) retains country's B+ (long-term foreign and local currency) credit ratings with a stable outlook. Moody's also, rates Albania at B1 with stable outlook.

INFLATION: According to National Statistical Office (INSTAT) CPI inflation decreased to 2.3% y/y in April 2013, from 2.7% in January 2013. The growth, however, was above the 1.6% y/y rate recorded in April 2012. In monthly terms, food prices which comprising the largest component of the CPI basket (about 40%) decelerated, driven exclusively by the volatile fruit & vegetable prices. In particular, Food and non-alcoholic beverage posted a decrease by 0.4%, with the highest decrease of 2.4% recorded in vegetables include potatoes. The group of Clothing and footwear registered a decrease in prices of -0.1% whereas the group of Transport registered an increase in prices by 0.4% due to higher prices in diesel and petrol. The average annual inflation rate was equal to 2.5% in January to April 2013, up from 1.2% in the same period of 2012. Looking ahead, we foresee subdued inflationary pressures and the average headline inflation to settle to about 2.2% in 2013, well in line with the Bank of Albania's target zone (3% +/-1%) for 2013.



BALANCE OF PAYMENTS: In 2012, the current account deficit reached USD 1.314 million or -10.4% of GDP from a deficit of USD 1.650 million or 12.7% of GDP in 2011.The main factor for the narrowing of the current account was the shrinkage of the trade balance, as exports increased marginally by 0.3% y/y and imports fell by -11% y/y. At the same time, the services account posted a surplus of USD 247 million from a surplus of USD 189 million in 2011, as the decline of travel outflows surpassed the rise in inbound tourism. In 2012, current transfers balance fell by 10.0% y/y. Net inflows of remittances, which represent 78% of current transfers, declined by -6.1% compared to the same period a year earlier. In particular, net remittances decline in 2012 to USD 869 million from USD 925 million a year ago. FDI decreased in 2012 to USD 959 million from USD 1,037 million in 2011. The major contributor to FDI remains equity capital and reinvested earnings (2012: USD 992 million). According to our estimates the current account deficit is expected to settle around -10.0% of projected GDP in 2013, as export activity will decrease due to the economic situation in EU.

Current Account: January- December 2012 ($ mn)			
	2012	2011	%Δ
Exports	1.960	1.954	0%
Imports	4.527	5.076	-11%
Trade Balance	-2.567	-3.121	-18%
Services Balance	247	189	31%
Income Balance	-115	31	-470%
Current Transfers Balance	1.121	1.252	-10%
Current Account Balance	-1.314	-1.650	-20%
Source: Bank of Albania			

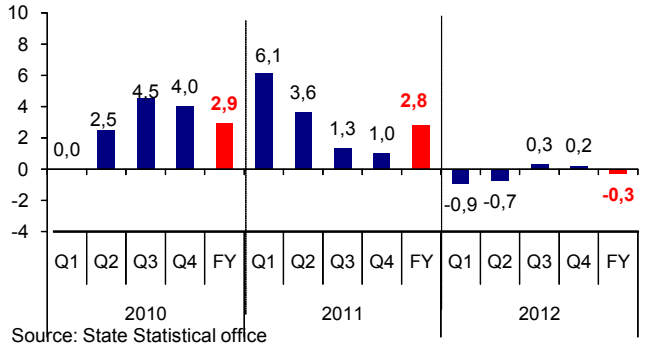
MONEY & FINANCIAL MARKETS: The Albanian Lek (ALL) appreciated Euro by around 0.2% and depreciated against USD by 3.1% in Q1 2013. The Supervisory Council of the Bank of Albania (BoA) at its January 2013 meeting cut its key repo rate by 25 bps to a record low level of 3.75% in order to stimulate domestic demand amid weak inflation outlook. The cut was the 6th since September 2011. The monetary stance would become more accommodative this year. Amid benign inflation outlook and weak economic activity, we expect the BoA to continue its accommodative monetary stance and to lower its key policy rate by 25 bps to a new low of 3.5% in Q3 2013. The BoA continued to carry out its regular open money market operations by injecting liquidity of 7-day and 1-month maturity during Q4 2012. The liquidity injected into the system was slightly lower than in the prior periods. In particular, the BoA used its main instrument, the 1-week reverse repurchase agreement, at an average of ALL 7.12 billion per week. The spread between overnight rate (O/N) and key repo rate narrowed during Q4 2012 while overall, pointing to a lower volatility than in Q3 2012. In Q4 2012, O/N rate averaged 3.82%, or 0.02% higher than in Q3 2012, while the 7-day rate declined to 4.05% from 4.12%. Credit expansion in euro terms increased in March 2013 by 1.8% y/y compared to an increase of 10.8% y/y in March 2012, due to tighter credit standards and weak loan demand. In particular, loans to households on annual basis remained unchanged, while loans to businesses increased by 2.5% y/y in March 2013 from 2.0% y/y in December 2012. In December 2012, the ratio of NPLs to total gross loans amounted to 22.5%, from 18.8% in December 2011. The loans to deposits ratio stood at 59.7% in March 2013 from 62.1% in March 2012 and 59.5% at the end-December 2012.Going forward, banks appear more optimistic in 2013. They expect loosing of lending standards applied to households (mortgages, consumer loans), while the lending standards applied to business to tighten.

7. FYROM

ECONOMIC OVERVIEW: For 2012, the economy contracted by a real -0.3% y/y after an expansion of 2.8% y/y in 2011 according to State Statistical Office. Weak external demand had a negative impact on growth in 2012, as exports of goods and services declined by 0.4% y/y, personal consumption fell by -1.2% y/y, whereas the government spending was up by 1.2% y/y. After a sluggish H1 2012 due to anaemic external demand and

public expenditures the economy returned to slight higher growth rates in H2 2012. In particular, in Q3 2012 and Q4 2012 the economy expanded by a real 0.3% y/y and 0.2% y/y respectively, compared to a growth of 1.3% y/y and 1.0% y/y accordingly a year before. In January 2013, the National Bank of FYROM revised downwards its forecast for the country's GDP growth in 2013 to 2.2% and to 3.0% in 2014 from an initial estimate of 2.6% and 3.4% respectively. The revision has been prompted due to deterioration of economic situation in the Eurozone. In our view exports and investments to be the lead drivers of the economy in the coming years. We anticipate a growth of 1.6% in 2013. European Commission (Spring 2013) foresees an expansion of GDP in 2013 by 1.5% and 2.0% in 2014, while European Bank for Reconstruction and Development (EBRD) predicts 1.5% and 2.6% for 2013 and 2014 accordingly. On May 24, 2013 the rating agency Standard & Poor's cut by one notch its long-term foreign and local currency sovereign ratings on FYROM to BB-minus, citing less predictable growth and fiscal policy outcomes. S&P affirmed its short-term rating of B. The outlook on the ratings is stable.

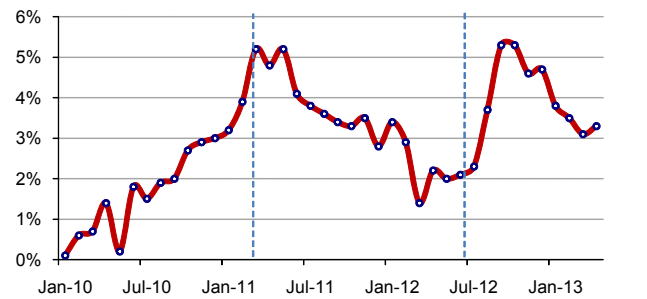
Real GDP (%Δ yoy, unadjusted data)



Source: State Statistical office

FISCAL POLICY: In the first four months of 2013, the budget deficit reached MKD -11.2 billion (€ -182 million) or -2.3% of Alpha Bank's projected GDP. Total revenues slightly decreased by 5.4% y/y in real terms to MKD 44.6 billion (€ 725 million) and total expenditures rose in real terms by 8.4% y/y to MKD 55.8 billion (€ 907 million). Note, that the local authorities target a budget deficit equivalent to 3.5% of GDP this year. The January-April 2013 budget deficit already accounts for over 63% of the full-year deficit target of MKD -17.7 billion (€- 288 million).

Consumer Price Inflation - (Δ% yoy)



Source: State Statistical Office

INFLATION: In April 2013, CPI inflation increased by 3.3% y/y. On a monthly basis, the CPI rose by 1.3%. In particular, on a monthly basis an increase has been registered in food by 3.2%, in tobacco & beverages by 1.8% and goods by 1.5%. On the other hand, a decrease was recorded in the prices of fuel & lighting by -0.1%, and clothing & footwear by -0.1% and transport & communication services by -0.2%. The National Bank of FYROM expects an annual average inflation of 3.2% in 2013, and further drop to 2.3% in 2014, from 3.3% in 2012. Recent data indicate that the average inflation for 2013 will lie around 3.0%.

BALANCE OF PAYMENTS: The current account deficit shrank to € 73.3 million in the first two months of 2013 from € 79.6 million the same period in 2012. The improvement in current account deficit reflects a narrower merchandise trade deficit, a reversal to a net inflow in the services account and a narrower current transfers balance. The merchandise trade deficit reduced to €-250.6 million from €-252.5 million in 2011 as exports rose by 3% y/y and imports by 2% y/y. Current transfers dropped by 5.1% y/y to € 98.4mn in the first two months of this year.

In January-February 2013 import coverage by export in euro terms, was 35.3% from 36.6% in 2012. In the capital account, net FDI inflows dropped by 36.7% y/y to € 46.2 million. At the end of March 2013, foreign currency reserves totalled € 2.2 billion registered a small increase by €37.1 million compared to the end of 2012. The current macroeconomic picture indicates a marginal improvement of the current account deficit to -3.8% of GDP in 2013 from -3.9% in 2012.

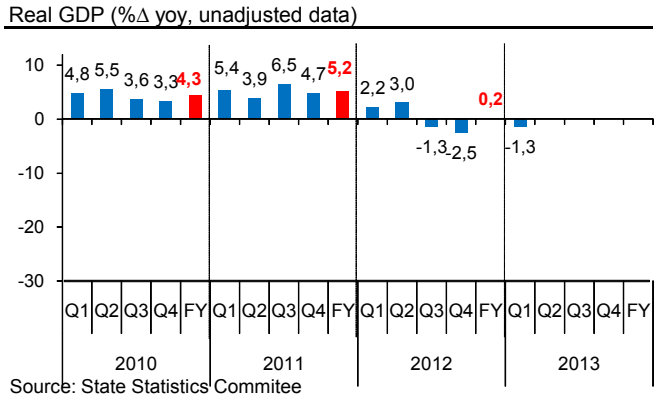
Current Account: January-February 2013			(€ mn)
	Jan.-Feb.2013	Jan.-Feb.2012	%Δ
Exports	459	444	3%
Imports	710	697	2%
Trade Balance	-251	-253	-1%
Services Balance	9	-14	-163%
Income Balance	-32	-24	30%
Current Transfers Balance	200	211	-5%
Current Account Balance	-73	-80	-8%
Source: National Bank of FYROM			

MONEY & FINANCIAL MARKETS: The acceleration of inflation in H2 2012 assisted the National Bank of FYROM to keep its key policy rate stable at 3.75%. The latter, it has been kept on hold since May 2012, when it was lowered by 25 bps to 3.75%. Interest rates on the interbank market fell moderately, following the modest declining in the weighted average interest rate on Central Bank-Bills. In April 2013, the National Bank 28 days-bills weighted average interest rate fell to 3.38% from 3.73% in December 2012. We expect the National Bank of FYROM to maintain its basic interest rate steady through H1 2013. ***Credit expansion*** grew by 2.2% y/y in April 2013 from 4.6% y/y in December 2012 (in euro terms). In April 2013 loans to businesses dropped marginally by -0.1% y/y whereas to households rose by 5.9% y/y. Foreign exchange lending continued to have more considerable share to the total loans. The ratio of non-performing loans to total loans accelerated to 10.1% at the end of December 2012 from 9.5% at the end of December 2011, whereas the loan to deposit ratio increased to 91.2% in April 2013 from 89.2% in December 2012, which can be explained by the higher growth of loans against the growth of deposits. The solvency of the banking sector improved more during

2012, with the capital adequacy ratio reaching 17.1% at the end of December 2012 from 16.8% at the end of December 2011.

8. UKRAINE

ECONOMIC OVERVIEW: Ukraine's gross domestic product (GDP) declined by -1.3% y/y in Q1 2013 (preliminary data), from 2.5% y/y in Q4 2012. This is the third negative reading since Q4 2009. In Q1 2013 seasonally adjusted GDP rose by 0.5% q/q. According to the State Statistics Service, Ukrainian economy expanded by an annual rate of 0.2% in 2012. Weak external demand, sluggish investment activity and inventories were the major drivers of the strong growth deceleration in 2012. Noticeable growth deceleration recorded in agricultural, construction, manufacturing and financial industry. At the same time, sound private consumption growth, supported by significant public spending especially in Q3 2012 ahead of October's parliamentary elections, prevented economy to enter into negative growth. In particular, consumption growth decelerated from 12.7% y/y in Q3 2012 to 5.1% in Q4 2012 bringing the average growth for the whole 2012 to 9.6% y/y, as household consumption declined from 15.7% y/y in Q2 2012 to 6.9% y/y in Q4 2012, whereas public consumption fell to -1.3% y/y in Q4 2012 from 7.9% y/y in Q3 2012. Decline in exports is posted in three main sectors (engineering, chemistry, metallurgy). Ukraine's main exports comprised steel, ferrous metals, agricultural goods and machinery. Exports dropped by 7.7% y/y in 2012 (after growing by 4.3% y/y in 2011) amid the fall in external demand, caused by the sovereign debt crisis in Eurozone and global demand deceleration for steel and iron ore. On the other hand, imports' annual acceleration by 1.9% y/y in 2012, was significantly less compared to a rise of 17.7% y/y in 2011.The government in its budget for 2013 predicts a real GDP growth of 3.4% and nominal GDP of UAH 1.576 billion with 4.8% inflation.

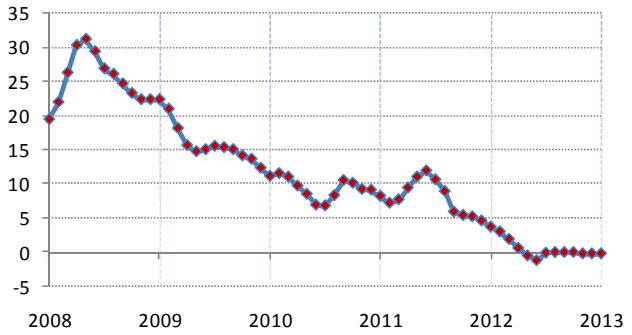


An International Monetary Fund (IMF) mission visited Ukraine during March 27-April 10, to consider economic policies that could be supported by a SBA with the IMF. The point of this mission was to continue negotiations with the local authorities on a new SBA. According to IMF large subsidies on gas and heating for households continue to cause asymmetries in Ukraine's budget and its balance of payments. As Ukraine, failed to implement pension reforms and to hike gas tariffs (IMF demanding hikes for households and enterprises by 30% and 60% respectively) a scheduled $ 1.5 billion tranche in March 2011 part of the $ 15.2 billion Stand-By Arrangement, was frozen. On the other hand, the Ukrainian government which formed after the parliamentary elections (October 28, 2012), considers seeking a new financial assistance from the IMF. Ukraine's credit spreads narrowed; indicating a declining probability of default, after the elections. Five-year CDS spreads on Ukraine tightened to 592 bps, according to Markit (May 27, 2013) from 648 bps at the end of December 2012 and 855 bps at the end of December 2011. With a stagnated industry, due to subdued exports because of the economic situation in Eurozone, a resumption of IMF lending and modest expectations regarding the agriculture harvest, we expect GDP growth to return to positive territory in H2 2013. We anticipate economy to expand by 0.8% y/y in 2013. According to IMF, GDP growth in 2013 will rise between 0-1.0%. The European Bank for Reconstruction and Development (EBRD) in April 2013 downgraded the assessment of Ukraine's GDP for the current year to -0.5% from 1.0% and the rating agency Standard & Poor's in May 2013 its average forecast for 2013-2015 GDP growth to 2.5% from 4.1%.

FISCAL POLICY: In 2012, the state budget deficit widened to UAH 53.4 billion, or -3.8% of GDP, against a target of -2.8% of GDP. Deficit's widening is due to budget's revenue shortfall and loose fiscal policy. State budget revenue rose by 10% y/y to UAH 346 billion (or USD 43.3 billion) in 2012, lower from the targeted figure by almost 7.5%. In particular, revenue from corporate income tax were up by 1.1% y/y due to the economic downturn, while VAT revenue rose by 6.7% y/y. Significant support to budget revenue was offered by National Bank (NBU) through the transfer of UAH 23.6 billion of its profits. The NBU profit transfer surpassed the budgeted figure by about 2.5 times. On the expenditure side, state budget expenses increased by 18.7% y/y in 2012, against a rise of 10% y/y in 2011. The boost in budget expenditure was mainly driven by pre-election spending on social care and social protection. On a consolidated basis, the budget deficit reached 6.0% of GDP in 2012. Total revenue of the consolidated budget increased by 11.8% y/y to UAH 445.4 billion, while total expenditure by 18.1% y/y to UAH 492.4 billion. It is noted that consolidated budget includes Naftogaz and Pension Fund. Naftogaz and the Pension Fund is where imbalances are caused due to the government's resistance to hike gas tariffs and to implement pension changes. At the same time, the Pension Fund, an important element of the consolidated budget, recorded a deficit narrowed to UAH 16.4 billion, or 1.2% of GDP, in 2012, from a deficit of 2.3% of GDP in 2011. According to the Budget for 2013 the Pension Fund revenue were estimated at UAH 230.3 billion, while expenditure at UAH 252.1 billion. The fund budget deficit is estimated at UAH 21.8 billion, which is UAH 5.4 billion or 24.8% less from the actual deficit in 2012. Taking into account the negative economic growth in Q1 2013, the Ukrainian budget for 2013 incorporates optimistic figures on the level of income and GDP expansion (+3.4% y/y). Although, in the first four months of 2013, Ukraine's state budget revenue increased by 4.9% y/y it is too early to obtain a clear picture about downside risks to the budget deficit during the upcoming months. The government's initial target was 3.1% of GDP.

INFLATION: Despite, an average 0.2% y/y inflation in 2012, consumer prices continued to remain in negative territory, in the first months of 2013. The annual price index decreased by -0.8% in April 2013 at the same pace as a month ago mainly due to continued food price deflation (down by 3.1% y/y) and a slight increase in utility tariffs (0.3% y/y) as the government kept delaying raising natural gas and heating tariffs. Downward pressure on food prices was exerted by fruit, vegetables and sugar. Price adjustment on regulated products was likely the primary reason of a 4.6% y/y increase in bread prices. The low global energy prices supported the gradual decrease of domestic fuel prices in April 2013 (1.5% y/y). Considering inflation developments during the first months of 2013, we do not expect a different price pattern in Q2 2013. Inflationary pressures are expected to emerge in H2 2013 due to base effect and possible gradual hikes in energy tariffs bringing the average rate for the year at 1.7% without a large increase in the flexibility of the exchange rate. The hike in gas and heating tariffs remain crucial condition for continuation of IMF's SBA programme.

Consumer Price Inflation - (%Δ yoy)



Source: State Statistics Committee, Bloomberg

BALANCE OF PAYMENTS: Ukraine's current account deficit shrank to $ 1.751 million in Q1 2013 (preliminary data) or about -1.2% of projected GDP, from a deficit of $ 2.053 million in Q1 2012. The improvement in current account deficit reflects a narrower merchandise trade deficit and a narrower current transfers and services account balances. In Q1 2013, Ukraine's trade account deficit narrowed to USD -3.065 million, considerably lower than a deficit of USD -3.867 billion, a year earlier. Exports fell by 2.0% y/y and imports by 6.05% y/y in Q1 2013. In particular, agricultural exports rose by 10.9% y/y in Q1 2013 from an increase of 26.4% y/y in Q1 2012 while exports of mineral products decreased by -10.7% y/y in Q1 2013. Imports declined mostly due to decrease of mineral products by -25.8% y/y. The surplus of capital and financial account, of $ 3.6 bn, offset the negative current account, so the balance of payments posted a surplus of $ 1.8 million against a deficit of $ 569 million in Q1 2012. Net FDI declined to $ 1.2 bn in Q1 2013 (-25.9% y/y) from $ 1.7 bn in Q1 2012. Supposing the positive trend which started in the first quarter of 2013 for metals continues, we could anticipate a gradual shrinkage of the current account deficit in the coming months. We anticipate the current account deficit in 2013 to reach -6.5% of GDP. The World Bank downgraded its forecast for the current account deficit of Ukraine from -3.0% of GDP to -6.6% of GDP in 2013.

Current Account: January - March 2013* ($ million)			
*preliminary data	Q1 2013	Q1 2012	%Δ
Exports	16.016	16.387	-2%
Imports	19.081	20.254	-6%
Trade Balance	-3.065	-3.867	-21%
Services Balance	1.161	1.299	-11%
Income Balance	-405	-168	141%
Current Transfers Balance	558	683	-18%
Current Account Balance	-1.751	-2.053	-15%
Source: National Bank of Ukraine			

MONEY & FINANCIAL MARKETS: Last year, the National Bank of Ukraine (NBU) in order to keep the hryvnia (UAH) stable lost about USD 7.2 billion of its international reserves. The UAH weakened moderately from UAH8.03/1USD in early January 2012 to UAH8.23/1USD in mid-November 2012. The gross international reserves of National Bank of Ukraine (NBU) were marginally increased at the end of March 2013 to $ 24.7 billion, from $ 24.6 billion in December 2012 and from $ 31.8 billion in December 2011. USD/UAH is trading in 8.130-8.16 range (end-May 2013), while the National Bank continued to monitor the FX market in order to support the local currency. In the short-term we might see some pressure in FX market due to seasonal factors (dividends repatriation, end of grain export season).

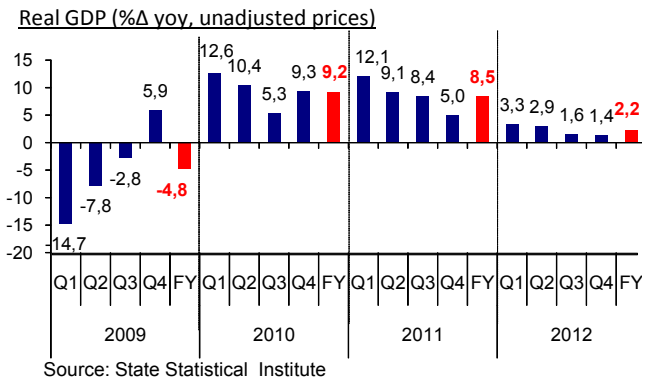
At the beginning of February 2013, Ukraine placed an additional $ 1 billion tranche of 10-year Eurobond issued in last November with a yield of 7.625%, while NBU administrative restrictions on foreign currency trade and other efforts to support Hryvnia exchange rate reduced the currency volatility. This helped the NBU to continue maintaining the UAH at favorable rate and also to increase its gross international reserves. The Ukrainian government on April 10, tapped the market again with a similar Eurobond issue of $1.25 billion in order to cover in IMF redemptions. In the meantime, the net demand for cash foreign exchange was reduced from USD -210 million in December 2012 to USD 2.7 million in March 2013 i.e. the households sold more FX than purchased. Financial account developments were rather favorable during the first months of the current year. Despite the absence of IMF financing, Ukraine was able to attract sufficient external funds to cover its financing needs. Ukraine's external refinancing needs formed by private and public sector in 2013 reaching about USD 42 billion. In particular, public debt repayments will represent a significant component of the total external financing need principally due to maturity of USD 5.8 billion of IMF loans and $1.0 billion of Eurobonds, while private sector redemptions are approaching USD 32 billion. In general, the liquidity conditions stand at an acceptable level. The money market conditions returned to normal and O/N interbank rate fell to 1.7% (May 28) from 48.6% (October 26, 2012). We expect the NBU to maintain its peg currency regime this year and possibly until the next presidential elections in 2015.

Credit expansion (in euro terms) grew by 4.6% y/y in April 2013 from a rise of 0.9% in December 2012. Loans to corporate accelerated to 6.5% y/y in April 2013, while loans to households were down by -1.7% y/y. Private sector deposit growth grew by 16.7% y/y in April 2013,

while the loan to deposit ratio was standing at 149.8% in April 2013 from 156.5% in December 2012. Moody's on December 2012, cut Ukraine's rating by one notch to B3, six levels below investment territory, while it retained its negative outlook. The agency cited deterioration of the country's institutional strength, a shortage of external liquidity and reduced data transparency. In May 2013, the rating agency S&P affirmed Ukraine's sovereign rating at B, five steps below investment grade, citing political uncertainty, financial sector stress and significant external financing needs. The agency retained its negative outlook, suggesting the possibility of a further downgrade from the current level.

9. TURKEY

ECONOMIC OVERVIEW: Turkey's GDP growth eased down to 1.4% y/y in Q4 2012, below the market expectations for an annual growth rate of 2.3%, recording its worst growth performance since Q3 2009. According to data released by the State Statistical Institute (TurkStat), annual GDP in 2012 reached TRY 1,416.8 billion (about USD 782.5 billion), increased by 2.2% from the previous year. The per capita GDP in 2012 was TRY 18,927 and USD 10,504 at current prices. Calendar adjusted gross domestic product in fourth quarter of 2012 increased by 1.4% compared to the same quarter of previous year, seasonally and calendar adjusted GDP was 0.0% compared to the previous quarter. More details about the breakdown of growth elements in Q4 2012 will be available in the coming months.



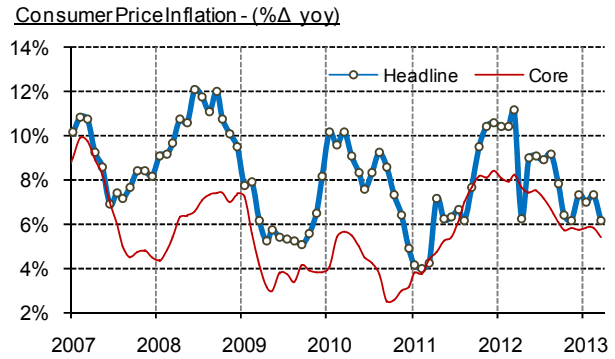
Source: State Statistical Institute

Turkey was among the world's fastest-growing economies in 2010 and 2011, with 8.9% and 8.5% annual growth, respectively. The average growth from 2007-2011 was 3.5%. Following this speedy growth, Turkish government stepped up measures to engineer a soft landing in 2012. In Q3 2012 GDP grew by 1.6% yoy in constant prices to TRY 31.6 million ($17.6 million). Weak domestic demand undermined economic growth, notwithstanding a relatively stronger export performance. The contribution of exports was limited as industrial output in almost all of the export-oriented sectors was contracted. Domestic private consumption declined by -0.5% in Q3 2012 and non-financial sector's capital investment by -11.1%. On the other hand, public sector investment grew by 11.2%, supporting overall growth. Turkey's manufacturing sector, which posted a 2.8% increase in productivity in the first nine months of 2012, contributed 24.5% of country's overall GDP. In January 2013, the Industrial Production Index (IPI) increased by 2.3% compared with the previous month and by 1.9% compared with the same month last year. Export and import volume, also increased by 12.0% and 7.0%, respectively. Strong domestic demand and exports will be the two major growth drivers in 2013. Turkish authorities project GDP growth to be around 4.0% in 2013 while International Monetary Fund and European Commission foresee a GDP about 3.2% due to acceleration in credit growth.

FISCAL POLICY: Turkey's budget posted a surplus of TRY 595 million ($332 million) in April 2013 from a surplus of TRY 1,412 million ($ 804 million) in the same month a year ago. However, in the period January-April 2013 the budget registered a deficit of TRY -302 million ($ 169 million) compared to TRY -5,019 million ($ 2,856 million) a year ago, while primary surplus at TRY 17,922 million was higher than that of last year's TRY 16,949 million. Over the first four months of this year, revenue was up by 17.0% than in the same period of 2012, at TRY 124.6 billion and expenditure by 12.0% to TRY 124.9 billion. On the revenue side, tax revenues were up by 20.2% y/y against 30.4% y/y rising non-interest expenditures. Tax on goods and services as well as foreign trade seems to be the main trigger of tax revenue growth. VAT and Special Consumption Tax posted 32.2% and 28.0% real growth over previous year while tax on imports rose by 17.6%. We anticipate tax revenues to grow at an accelerating pace the next months thanks to recovering economic activity. On the expenditure side, surge in capital expenditures continues with 94.0% increase. Note that this constitutes 18.8% of annual allocation for investment expenditures. Besides, there is a noticeable increase (18.0% y/y) in current transfers like social security, aid to provincial offices and transfers to households. Positive impact had the lower interest payments (-17.0% y/y). The government target for end-year remains at TRY 33.9 billion (2.2% of GDP) from TRY 28.8 billion, or 2.2% of GDP last year, whereas the European Commission expects a budget deficit of 2.1% of GDP. We foresee the budget deficit to stay around TRY 40 billion (2.5% of GDP). The lowering of the budget deficit will depend on economic growth, the progress of the privatisation projects and government's stance on public spending during next year's local elections (March 2014.)

INFLATION: Turkey's Consumer Price Index (CPI) increased in April 2013 by 0.42 % over March 2013, bringing the annualized CPI to 6.13% from a 7.29% annual increase in March 2013. The fall attributed to the base effect arising from electricity and gas hikes in April 2012. Annual inflation according to 12 months' averages regressed to 7.29% in April 2013 from 8.08% a month ago. The highest monthly increase was recorded in clothing and footwear group by 12.75%, following by recreation & culture by 0.71% and On the other hand, there was -0.63% decrease in transportation, -1.30% in food & non-alcoholic beverages and -0.89% in miscellaneous goods & services. The highest annual increase in CPI was posted in alcoholic beverages & tobacco group by 16.25%, in restaurants & hotels group by 8.97%, in communication group by 6.85% and in food & non-alcoholic beverages by 6.83%. The core inflation

that includes the products except energy and food, alcoholic beverage and tobacco, and gold rose by 1.73% m/m in April 2013. On annual basis the core inflation decreased to 5.44% in April 2013 from 5.80% a month ago. We anticipate the CPI to rise temporarily in the coming months but to return to its downward trend when the low base effect incorporated and to reach December-end at 6.4%. According to European Commission forecasts (Spring 2013) the average inflation in 2013 will drop to 6.6% from 9.0% in 2012. The Central Bank foresees inflation will end this year at 5.3% and at 4.9% in December 2014, while keeps inflation target at 5% ±2 pps both for 2013 and 2014.



Source: Turkish Statistical Institute

BALANCE OF PAYMENTS: Current account balance recorded a deficit of $15.9 billion in Q1 2013, posting a decline of 2.3% from a year ago. Exports of goods expanded by 7% and imports by 5% in annual terms.

Current Account: January-March 2013 ($ mln)			
	Q1 2013	Q1 2012	%Δ
Exports	39.889	37.450	7%
Imports	56.936	54.233	5%
Trade Balance	-17.047	-16.783	2%
Services Balance	2.873	2.050	40%
Income Balance	-1.975	-1.929	2%
Current Transfers Balance	232	362	-36%
Current Account Balance	-15.917	-16.300	-2,3%
Source: Central Bank of Turkey			

Export/Import coverage ratio was standing at 70.1% in Q1 2013 from 69.1% a year before. Services balance improved significantly (up 40%) due to the rise of net tourism revenues by 38.5% y/y in Q1 2013. On the financing side, there was a $1,103 million Foreign direct investment (FDI) inflow towards mainly equity capital in Q1 2013 from $3,902 million a year before. FDI in Turkey decreased by 55% from $4,562 million in Q1 2012 to $2,043 million in Q1 2013. The biggest fall in FDI in Turkey occurred in the industrial sector with 72.7%, decreasing from $2,571 million in the first three months of 2012 to $701 million in the same period of 2013. The net FDI to current account deficit stood at 8.56% in Q1 2013 from 14.1% the same period a year earlier. After narrowing from 9.9% of GDP in 2011 to 5.8% of GDP in 2012, thanks mainly to very strong growth in net exports, the current account deficit will likely widen to about 6.8% of GDP in 2013 as import growth (goods & services) is likely to outpace export growth.

MONEY & FINANCIAL MARKETS: The Central Bank (CBRT) decided at its meeting in May 2013, to cut short term rates further to counter the slowdown in the economy. In particular, CBRT decreased its O/N borrowing and lending rate from 4.00% and 7.00% to 3.50% and 6.50% respectively. Late liquidity lending rate was lowered by 50 bps to 9.50%, while borrowing rate has been kept at 0%. At the same time, key monetary 1-week repo rate was reduced from 5.0% to 4.50%. Turkey's Central Bank has dropped the top end of its interest rate corridor by 500 basis points since September 2012. Assuming that global risk appetite will remain strong, capital inflows to Turkey look likely to remain sufficiently large such that appreciation pressures on the Turkish lira (TRY) should persist in 2013. In Q1 2013, TRY depreciated against US Dollar by 1.5% and appreciated against Euro by 1.7%.

In May 2013, the CBRT cut the benchmark rates to stimulate growth and prevent an appreciation of the TRY amid strong capital inflows. The Bank cut its main policy rate (1-week repo rate) by 50 bps to 4.5%. It also lowered the O/N borrowing and lending rates by 50bps to 3.5% from 4.0% and to 6.5% from 7.0%, correspondingly.

On May 16, the credit rating agency Moody's lifted Turkey's government bond ratings by one notch to Baa3, the lowest investment grade, from Ba1 with stable outlook. The rating change reflects recent and expected future improvements in key economic and public finance metrics. According to Moody's Turkey's progress on structural and institutional reforms will reduce existing vulnerabilities to shocks to international capital flows over time. The ratings agency also noted that Turkey's debt burden had reduced by 10 percentage points to 36% of GDP since early 2009, a trend that is expected to maintain. The move was long delayed, as the market for quite long time traded Turkey as investment grade.

The Moody's upgrade comes six months after Fitch Ratings raised country's sovereign rating to investment grade. Standard & Poor's Ratings Services also raised its sovereign credit rating on Turkey in March to BB+, one level below investment grade. According to S&P the upgrade took into account improved export performance and a steady and sustained decline in external financing requirements. The ratings firm added that economic growth eased to a more sustainable level, without undermining Turkey's relatively strong fiscal performance. The upgrade also reflects progress made on resolving Kurdish issues, which will reduce security-related costs and will boost regional trade flows. S&P expects the country's GDP will pick up over the coming years, reflecting a steady expansion in domestic demand and strong exports. S&P also noted risks from municipal and presidential elections in 2014 and parliamentary elections in 2015.

9. Economic Data – Greece

Yearly Data	2007	2008	2009	2010	2011	2012	2013
Real GDP Growth	3,5	-0.2	-3,1	-4.9	-7.1	-6.4	-3.7
Gross Fixed Capital Formation	22.8	-14.3	-13.7	-15.0	-19.6	-19.2	-3.2
- Equipment	27.4	-4.8	-18.4	-8.2	-18.1	-17.4	1.5
- Residential	25.6	-33.6	-20.7	-21.6	-18.0	-32.9	-19.0
Unemployment (percent)	8.3	7.7	9.5	12.6	17.7	24.2	27.0
Employment	1.4	1.2	-0,6	-2,6	-5,6	-8,3	-3.5
Consumer Price Index (year average)	3,0	4.2	1.3	4.7	3.3	1.5	-0.5
Unit Labor Costs	3.1	5.1	6.2	-0.1	-1.8	-6.2	-6.3
Credit Expansion (Private Sector)	21.5	15.9	4.1	0.0	-3.1	-4.0	-2.0
Government Deficit (as % of GDP)	-6.5	-9.8	-15.6	-10.7	-9.5	-6.0	-4.1
Current Account (as % of GDP)	-12.4	-13.3	-10.3	-9.2	-8.6	-2.2	1.0

Source: Hellenic Statisticsl Authority (ELSTAT.)

Quarterly Data	2011	2012	2012	2012	2012	2012	2013
	year	Q1	Q2	Q3	Q4	year	available period
Economic Activity (avg)							
Retail Sales Volume	-8.7	-12.1	-11.4	-9.9	-13.8	-11.8	-12.3 (Jan-Mar)
Construction Activity	-37.7	1.9	-26.2	-43.7	-44.1	-30.6	-43.6(Jan.-Mar)
Industrial Production (Manufacturing)	-8.5	-9.6	-3.9	-3.8	1.9	-3.9	-0.7 (Jan-Apr)
PMI (manufacturing)	43.6	40.0	41.3	42.0	41.4	41.2	45,3 (May)
Economic Sentiment Indicator	80.6	78.5	79.0	79.7	82.7	80.0	88.8 (Jan-May)
Index of Business Expectations in Manufacturing	76.9	72.9	77.6	76.7	81.6	77.2	87,6 (Jan-May)
Consumer Sentiment Index	-74	-81	-75	-69	-74,8	-74,8	-69,9 (Jan-May)
Credit Expansion (eop)							
Private Sector	-3.1	-4.0	-4.8	-4.5	-4.0	-4.0	-3.4 (Apr)
Consumer Credit	-6.4	-6.8	-5.3	-5.3	-5.1	-5.1	-5.4 (Apr)
Housing	-2.9	-3.4	-3.6	-3.7	-3.4	-3.4	-3.2 (Apr)
Business	-2.0	-3.3	-5.3	-4.9	-4.4	-4.4	-3.4 (Apr)
Tourism	-2.3	-0.5	-0.2	-0.2	1.1	1.1	-0.1 (Apr)
Prices (eop)							
Consumer Price Index	3.3	-0.9	1.9	-1.5	1.7	1.5	-0.4(May)
Core Inflation	1.5	1.5	1.9	-1.6	1.2	0.3	-1.4 (May)
Interest Rates (eop)							
Savings	0.40	0.41	0.42	0.42	0.42	0.42	0.42 (Apr)
Short-term Business Loans	7.46	7.81	7.67	7.52	7.45	7.61	7.44 (Apr)
Consumer Loans (with charges)	12.37	11.41	11.26	11.22	10.76	11.16	10.07 (Apr)
Housing Loans (with charges)	4.71	4.13	3.78	3.31	3.16	3.60	3.22 (Apr)
3 month Euribor	1.39	1.04	0.74	0.43	0.21	0.57	0.21 (Apr)
10 year Bond Yield	15.75	24.74	25.40	23.69	16.16	16.16	9.19 (May)
National Accounts							
Real GDP	-7.1	-6.7	-6.4	-6.7	-5.7	-6.4	-5.6 (Q1)
Final Consumption	-7.2	-7.4	-7.2	-8.9	-8.7	-8.1	-8.3 (Q1)
Investment	-19.6	-22.8	-21.5	-21.5	-10.3	-19.2	-5.6 (Q1)
Exports of goods & services	0.3	4.2	-3.0	-4.2	-4.8	-2.4	-2.6 (Q1)
Imports of Goods & services	-7.3	-14.9	-12.9	-18.7	-8.1	-13.7	-7.8 (Q1)
Balance of Payments (in € bn - Cumulative)							
Exports of Goods	20.2	4.9	10.4	16.1	22.0	22.0	5.4 (Jan-Mar)
Imports of Goods	47.5	10.8	21.5	31.7	41.6	41.6	9.9 (Jan-Mar)
Trade Balance	-27.2	-5.9	-11.1	-15.7	-19.6	-19.6	-4.5 (Jan-Mar)
Invisibles Balance	8.8	2.2	5.0	13.8	16.3	16.3	3.3 (Jan-Mar)
Invisibles Balance / Trade Account	32.4	37.5	45.5	88.0	83.4	83.4	72.3 (Jan-Mar)
Current Account	-18.4	-3.7	-6.0	-1.9	-3.3	-3.3	-1.3 (Jan-Mar)
Direct Investments	0.03	-0.4	0.3	2.0	2.3	2.3	1.3 (Jan-Mar)
Portfolio Investments	-17.3	-37.0	-72.0	-76.0	-100.5	-100.5	0.5 (Jan-Mar)
Athens Stock Exchange (eop)							
Composite Index	680.4	729.0	611.0	739.0	908.0	908.0	1,014.5 (May)
% change	-51.9	7.1	-10.2	8.6	33.4	33.4	93.1
Market Capitalization ASE (% of GDP)	11.8	13.4	11.5	13.6	17.7	17.7	32.7

Source: Hellenic Statisticsl Authority (ELSTAT.), Bank of Greece

10. ECONOMIC DATA – SOUTHEASTERN EUROPE

Romania	2008	2009	2010	2011	2012	2013 (f)
Real Economy						
Real GDP	7.3	-6.6	-1.6	2.2	0.7	1.6
Private Consumption	9.0	-10.1	-0.4	1.1	1.1	1.8
Government Consumption	7.2	3.1	-4.4	0.2	1.7	1.9
Gross Fixed Investment	15.6	-28.1	-2.1	7.3	4.9	3.9
Exports (Goods & Services)	8.3	-6.4	14.0	10.3	-3.0	3.0
Imports (Goods & Services)	7.9	-20.5	11.9	10.0	-0.9	3.4
Prices						
HICP Inflation (%Avg)	7.9	5.6	6.1	5.8	3.4	4.4
General Government (%GDP)						
Overall Balance	-4.8	-9.0	-6.8	-5.6	-2.9	-2.7
Balance of Payments (% GDP)						
Current Account Balance	-11.6	-4.2	-4.4	-4.5	-4.0	-4.1

Bulgaria	2008	2009	2010	2011	2012	2013 (f)
Real Economy						
Real GDP	6.2	-5.5	0.2	1.7	0.8	0.8
Private Consumption	3.4	-7.6	-1.2	-0.6	2.6	1.2
Government Consumption	-1.0	-6.5	-1.0	0.5	-1.4	3.0
Gross Fixed Investment	21.9	-17.6	-16.5	-9.7	0.8	2.9
Exports (Goods & Services)	3.0	-11.2	16.2	12.8	-0.4	2.4
Imports (Goods & Services)	4.2	-21.0	4.5	8.5	3.7	4.0
Prices						
HICP Inflation (%Avg)	12.0	2.5	3.0	3.4	2.4	2.1
General Government (%GDP)						
Overall Balance	3.0	-4.3	-3.1	-2.0	-0.8	-1.5
Balance of Payments (% GDP)						
Current Account Balance	-24.0	-9.0	-0.4	0.1	-1.1	-2.5

Cyprus	2008	2009	2010	2011	2012	2013 (f)
Real Economy						
Real GDP	3.6	-1.9	1.3	0.5	-2.4	-8.7
Private Consumption	7.8	-7.5	1.3	0.2	-3.0	-12.3
Government Consumption	6.1	6.8	0.8	-4.4	-1.7	-8.9
Gross Fixed Investment	6.0	-9.7	-1.7	-13.8	-23.0	-29.5
Exports (Goods & Services)	-0.5	-10.7	3.7	3.6	2.3	-5.0
Imports (Goods & Services)	8.5	-18.6	4.9	-5.0	-7.2	-16.0
Prices						
HICP Inflation (%Avg)	4.4	0.2	2.6	3.5	3.1	1.0
General Government (%GDP)						
Overall Balance	0.9	-6.1	-5.3	-6.3	-6.3	-6.5
Balance of Payments (% GDP)						
Current Account Balance	-12.2	-10.7	-9.2	-4.8	-4.8	-1.9

Serbia	2008	2009	2010	2011	2012	2013 (f)
Real Economy						
Real GDP	3.8	-3.5	1.0	1.6	-1.7	1.8
Private Consumption	5.4	-2.3	-3.8	-0.5	-1.9	-1.5
Government Consumption	1.6	-5.1	-2.4	-0.9	1.8	-2.8
Gross Fixed Investment	1.9	-9.1	2.0	9.3	-3.4	2.5
Exports (Goods & Services)	8.9	-14.9	19.1	7.1	4.5	13.1
Imports (Goods & Services)	9.3	-22.9	4.1	7.4	4.2	3.8
Prices						
Consumer Price Inflation (%Avg)	12.4	8.1	6.1	11.1	7.3	8.6
General Government (%GDP)						
Overall Balance	-2.6	-4.5	-4.7	-4.9	-6.4	-4.6
Balance of Payments (% GDP)						
Current Account Balance	-21.6	-7.2	-7.4	-8.8	-10.6	-8.1

Albania	2008	2009	2010	2011	2012	2013 (f)
Real Economy						
Real GDP	8.3	3.3	3.5	3.0	1.6	1.9
Private Consumption	-	-	-	-	-	-
Government Consumption	-	-	-	-	-	-
Gross Fixed Investment	-	-	-	-	-	-
Exports (Goods & Services)	-	-	-	-	-	-
Imports (Goods & Services)	-	-	-	-	-	-
Prices						
Consumer Price Inflation (%Avg)	3.4	2.3	3.6	3.4	2.4	2.2
General Government (%GDP)						
Overall Balance	-5.5	-7.4	-3.7	-3.5	-3.4	-3.4
Balance of Payments (% GDP)						
Current Account Balance	-15.3	-14.0	-11.4	-12.7	-10.4	-8.5

FYROM	2008	2009	2010	2011	2012	2013 (f)
Real Economy						
Real GDP	5.0	-0.9	2.9	2.8	-0.3	1.6
Private Consumption	6.6	-4.7	1.3	4.0	-1.2	-0.1
Government Consumption	10.6	0.5	-2.0	-2.8	1.2	0.2
Gross Fixed Investment	5.4	-4.3	-2.7	12.3	12.1	9.0
Exports (Goods & Services)	-6.3	-15.8	23.6	11.2	-0.4	5.0
Imports (Goods & Services)	0.8	-14.3	9.5	13.2	3.6	4.0
Prices						
HICP Inflation (%Avg)	8.3	-0.8	1.6	3.9	3.3	3.0
General Government (%GDP)						
Overall Balance	-0.9	-2.7	-2.5	-2.5	-3.8	-3.5
Balance of Payments (% GDP)						
Current Account Balance	-12.9	-6.8	-2.0	-3.0	-3.9	-3.8

Ukraine	2008	2009	2010	2011	2012	2013 (f)
Real Economy						
Real GDP	2.3	-14.8	4.2	5.2	0.2	1.9
Private Consumption	12.8	-14.9	7.1	14.8	3.1	4.0
Government Consumption	1.1	-2.4	4.0	-2.4	1.0	1.0
Gross Fixed Investment	-1.2	-50.5	3.9	10.1	4.1	5.1
Exports (Goods & Services)	5.7	-22.0	3.9	2.2	1.0	3.1
Imports (Goods & Services)	17.0	-38.9	11.3	16.8	4.8	3.9
Prices						
Consumer Price Inflation (%Avg)	25.2	15.9	9.4	8.0	0.2	5.5
General Government (%GDP)						
Overall Balance*	-3.2	-6.3	-5.7	-4.3	-3.8	-3.0
Balance of Payments (% GDP)						
Current Account Balance	-7.1	-1.5	-2.2	-5.7	-8.4	-6.5

Turkey	2008	2009	2010	2011	2012	2013 (f)
Real Economy						
Real GDP	0.7	-4.8	8.9	8.5	2.2	4.1
Private Consumption	-0.3	-2.3	6.6	7.7	-0.7	
Government Consumption	1.7	7.8	2.0	4.5	5.7	
Gross Fixed Investment	-6.2	-19.0	29.9	18.3	-2.5	
Exports (Goods & Services)	2.7	-5.0	3.4	6.5	17.2	
Imports (Goods & Services)	-4.1	-14.3	20.7	10.6	0.0	
Prices						
HICP Inflation (%Avg)	10.4	6.3	8.6	6.5	9.0	6.2
General Government (%GDP)						
Overall Balance	-2.2	-6.9	-2.6	-2.2	-2.3	-2.2
Balance of Payments (% GDP)						
Current Account Balance	-5.7	-2.2	-6.4	-9.9	-5.8	-6.9

Source: Central Banks, National Statistical Institutes, IMF, Economist Intelligence Unit, Eurostat, World Bank, Alpha Bank Economic Research
Note: Data for a 2012 are preliminary * Excluding Naftogaz
(f): Forecast Alpha Bank Economic Research

note: budget balance on cash basis (IMF)