**Platon Monokroussos**
*Assistant General Manager*
*Head of Financial Markets Research*
pmonokrousos@eurobank.gr

**Galatia Phoka**
Emerging Markets Analyst
gphoka@eurobank.gr

# Trip Notes Cyprus

## *28-29 January 2013*

**Earlier this week we visited Nicosia, Cyprus and held a number of meetings with key policy makers, government officials and prominent domestic analysts. Our discussions primarily focused on the outlook of the Cypriot economy, the upcoming presidential election and the prospect of reaching a final agreement with the EC/ECB/IMF troika of official lenders on a sovereign bailout package. In this note we highlight some of the main issues discussed during our trip and provide a brief assessment of the domestic political and economic outlook going forward. For additional analysis on *Cyprus please see Eurobank Research, "Final deal on Cyprus rescue package still pending", 24 January, 2013.*[1]**

***Past macroeconomic trends, current trajectory and outlook***

After an initial output slump following the Turkish invasion in the northern part of the island (July 1974), the Republic of Cyprus experienced a long period of positive GDP growth, low unemployment, relatively benign twin deficits and a broadly manageable public debt burden. This favorable backdrop culminated in the country's entry to the euro area in January 2008 (***Graphs 1, 2, 3 & 4*** at the end of this document).

Unluckily, the strong growth trajectory experienced in the period leading to the 2007/2008 global financial crisis was accompanied by a significant acceleration of domestic bank credit and overheating conditions in key sectors of the domestic economy (e.g. construction and retail trade).

These problematic trends conspired with public sector over-spending and broadly untargeted social transfers to aggravate domestic and external imbalances. The current account shortfall hit a record high of 15.6%-of-GDP in 2008, while the general government balance swung from a surplus position to deficits in excess of 5.0%-of-GDP in every single year since 2009 (***Graph 3*** at the end of this document).

On the back of these trends, the public debt ratio rose from 71.1%-of-GDP at the end of 2011 to 83.3%-of-GDP after the (partial) recapitalization of Cyprus Popular Bank by the Cypriot government in June 2012. The debt ratio is estimated to have increased further since then, reaching around 85.8%-of-GDP at the end of 2012, with further significant increases expected this year and the next. The latter will be mainly as a result of the use of public funds to recapitalize domestic banks (expected to be provided under a formal bailout agreement with the troika) and the continuation of negative GDP growth dynamics in 2013-2014 (as per the current official projections).

[1] http://www.eurobank.gr/Uploads/Reports/New%20EuropeFocus%20CYPRUS%20Jan2013.pdf

Faced with worsened domestic fundamentals and an increasingly difficult external environment (lingering sovereign debt crisis in the euro area and heightened market worries over Greece) the Cypriot government formally requested in June 2012 a bailout package from its euro area partners and the IMF. A big chunk of the package is meant to cover losses incurred by the domestic banking sector as a result of the Greek PSI (estimated in excess of €4.5bn or 25%-of-GDP), the sector's exposure to the Greek banking system and loan market (in excess of €4bn or 22%-of-GDP) as well as its exposure to the ailing domestic real estate sector.

Note here that the financing request from the troika comes on top of a €2.5bn loan from Russia secured in late 2011. The said loan was earmarked to fill in the country's debt servicing costs for FY-2012 and did not bear strict conditionality. It has 4.5-year maturity and carries an interest rate of 4.5%. In parallel with the official request for a sovereign bailout package from the euro area and the IMF, the Cypriot government also tried to secure an additional €5bn loan from Russia. The Russian government has hinted that new financial aid to Cyprus would only be granted in partnership with the troika. Yet, Cyprus requested a 5-year maturity extension to the earlier €2.5bn Russian loan with principal payments beginning in 2018. Given the close relations between the two countries, the latter request is expected to receive a positive response.

On the back of these negative developments and also reflecting worsening consumer and business sentiment in the domestic market, the Cypriot economy entered a new recessionary phase in Q3 2011, with domestic GDP declining by a cumulative 2.1% YoY in the first three quarters of last year (***Graphs 5, 6*** at the end of this document). According to latest finance ministry forecasts, Cypriot GDP is estimated to have contracted by 2.4% in the full-year 2012. The domestic economy is also expected to remain in recession both this year and the next (official real GDP growth forecasts: -3.5% in FY-2013 & -1.3 in FY-2014), before embarking on a gradual recovery thereafter (+1.1% in FY-2015).

***Fiscal developments & draft MoU conditionality***

Following a two-week troika visit to Cyprus in November 2012, the government said that a preliminary agreement on the terms of a Memorandum of Understanding (MoU) with official lenders was reached. A troika statement released shortly after read that significant progress was indeed made in the negotiations with domestic authorities although a final agreement was still pending. According to the preliminary MoU that leaked to the press in late November, the proposed programme will span four years, targeting a primary surplus of 4.0%-of-GDP by 2016 vs. an expected shortfall of ca 0.7% in 2013. It also envisages the implementation of a new *frontloaded* fiscal austerity program as well as a package of structural reforms and financial sector policies (***Table 1*** at the end of this document).

The agreed fiscal package includes, among others: (i) scaled reductions of 6.5%-12.5% in the emoluments of public and broader public sector pensioners and employees; (ii) a reduction in public sector headcount *via* a 3-year hiring freeze to first-entry posts in the broader public sector, the application of a 1:4 hiring rule (only one new entry per four retirements); an enhancement of civil servant mobility within and across line ministries and the implementation of a 4-year plan envisaging the elimination of at least 1,88o permanent posts; (iii) increases in VAT and excise duties on tobacco, energy & alcohol products; and (v) an increase in a levy applied to domestic bank deposits from 0.095% to 0.110%. Separately, the agreed package of structural measures incorporates, among others: i) an extension of an earlier suspension applied to the wage indexation mechanism (i.e., the so-called Cost of Living Allowance or COLA); (ii) pension reforms; (iii) the enactment of legislation introducing the provisions of the Treaty on Stability Coordination and Governance (TSCG); (iv) a Medium Term Budgetary Framework; and (v) the endorsement of legislation on Debt Management.

Importantly, out of the total fiscal adjustment of 7¼ppts-of-GDP envisaged for the entire programme period (2012-2016), some 5½ppts-of-GDP worth of measures have already been specified and incorporated in the preliminary MoU. The Cypriot Parliament has legislated - along with the 2013 Budget & the updated medium-term fiscal plan - the main bulk of structural and fiscal (5.5ppts-of-GDP) measures identified and agreed with the troika. That is, even for measures coming into effect in subsequent years (2014). Furthermore, and in relation to recent calls from a number of euro area politicians to strengthen Cyprus's anti-money laundering rules, a number of related measures proposed by the troika were legislated in December 2012.

One key reform agreed with the troika, but not yet implemented, relates to a new system of property taxation. Our Cypriot contacts emphasized that the government has already made two related proposals, which failed to come into fruition, arguably as a result of their complexity and their potential (unintended) consequences for *e.g.* developers presently stuck with a sizeable inventory of unsold summer houses (5,000-7000 pieces) as well as business that use big pieces of property as working capital (hotels, factories etc).

Two other important (and interrelated) issues we discussed with a number of domestic policy-makers relate to: (i) the attainability of the 2013-2016 fiscal targets agreed with the troika; and (ii) the potential impact of the new austerity package on the domestic economy. On the latter issue, our understanding is that the troika and the government assumed a fiscal multiplier in the vicinity of 0.8-0.9 in deriving the 2012-2016 macro baseline scenario laid out in the draft MoU. Responding to our concerns about the possibility of an even higher fiscal drag on domestic output relative to that assumed in the preliminary MoU, a couple of our contacts emphasized that a significant part of the recessionary impact of the fiscal austerity measures has already been felt in the domestic economy, as attested by *e.g.* the recent sharp declines in consumer and business confidence and the notable retrenchment of household spending. In that sense, the argument goes, the future impact of the implementation of the agreed austerity package may not prove significantly higher than that currently anticipated by the authorities, as part of that impact has already been felt in the domestic economy.

In our view, one should not exclude the possibility of an even higher fiscal drag on domestic output, in view of the tightened domestic financial conditions, rising unemployment, the ongoing recession in construction, retail trade and other important sectors of the domestic economy (3-4 small & medium-size business closures per day were cited by one of our industrial-sector contacts). On a more positive note, tourism is broadly expected to be a mitigating factor to the domestic recession, with most of our contacts expecting positive growth in tourism arrivals and revenues this year. In 2012, the number of foreign visitors to Cyprus grew by 3% to 2.5 million, following a 10.1% increase in the prior year. Moreover, according to the latest official data, tourism revenues grew by ca 11% YoY in January-October 2012, reaching around €1.8bn or 10%-of-projected GDP.

The domestic sector of financial services such as business consulting, accounting and logistics is also expected to continue performing well this year. Moreover, some mobilization has lately been evidenced in the market of vacation houses, with a number of our contacts citing an increasing interest by Chinese buyers (700-1,000 vacation houses in the medium-price range of €300-€400k have reportedly been sold to such buyers). From a longer-term perspective, Cyprus is uniquely positioned to benefit from future revenues from natural gas (and oil) exploration (see additional analysis below). Related to the latter issue, the Cypriot government is planning to begin in 2015 the construction of a natural gas liquidation plant in the region of Vasilikos. The said investment is expected to amount between €6bn and €10bn, providing a significant boost to domestic employment and medium-term growth.

***Is money-laundering a real problem in the domestic financial system?***

Exacerbating market uncertainty over the timing of a final bailout agreement with the troika, recent international media reports cited German official sources as voicing doubts over whether Bundestag is ready to endorse a bailout for Cyprus, in view of lingering financial transparency and money laundering-related concerns. These voices came from deputies from both the coalition government and the opposition Social Democrats (SPD). On its part, the Cypriot side believes that, to a large extent, there is currently a misconception about the real dimensions and potency of the aforementioned arguments. On one hand, a number of anti-money laundering proposals agreed with the troika have already been legislated by the Cypriot Parliament (Dec. 2012). One the other hand, Cyprus's anti-money laundering (AML) system complies fully with EU regulations. In addition, the country was favorably rated in December 2011 by the Council of Europe Committee of Expert on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and by the Financial Action Task Force. In regards to transparency and exchange of information, Cyprus is currently in the OECD's White List. In view of these developments, we were told that the government has already began a campaign to inform foreign officials and ambassadors in Cyprus about the progress made so far in complying with anti-money laundering regulations.

***Domestic political developments and election outlook***

Cyprus's next Presidential election is scheduled for February 17, 2013. Eleven candidates will participate in the first election round. However, only three of them appear to score well in recent opinion surveys. Namely, Nicos Anastasiades, President of Democratic Rally Party (DISY) and also backed by Democratic Party (DIKO); Stavros Malas, an independent backed by the ruling communist party, Progressive Party of Working People (AKEL); and Giorgos Lillikas, an independent supported by Movement for Social Democracy (EDEK). Incumbent President Demetris Christofias has announced that he will not participate as candidate in the upcoming election.

According to the Constitution of the Republic of Cyprus, a candidate must receive more than 50% of the valid votes in order to take over the Presidential post in the first round. Notably, the most recent opinion polls suggest that no candidate is tipped to win such a high share (see ***Graph 7*** at the end of this document).

Hence, a run-off will likely be held on February 24th between the two candidates that win the highest share of the first round, as dictated by the Constitution.

Frontrunner Nicos Anastasiades has signaled that, if elected, he will sign the final agreement with the troika, with his political agenda including pro-reform pro-growth policies and close ties with the European Union partners and the IMF. Yet, he has abstained from clearly indicating his stance on potential privatizations of semi-state organizations, which the troika has requested and the incumbent President has staunchly opposed. Separately, AKEL candidate Stavros Malas has also suggested that he would sign the MoU, without however accepting any new austerity package besides the one preliminarily agreed with the troika in November 2012. On his part, Georgios Lillikas, has expressed optimism that an exit from the MoU is possible in 2013 with the assistance of funds raised through the sale of natural gas exploitation rights to foreign companies.

As a concluding remark to this section, we touch upon three additional points that were reflected to us by our Cypriot contacts:

i) Bringing forward future State receipts from natural gas exploration would involve huge price discounts (some relevant studies have already been published by a number of domestic academics and specialists). It would also be unfair from an inter-generational standpoint.

ii) The preliminary MoU agreed in November 2012 states clearly that privatizations of State-run companies would be required if sovereign debt dynamics were deem unsustainable post the banking system recapitalization. According to our contacts, privatization revenue of up to €1bn could be potentially raised by selling stakes in three public enterprises, including telecom company, Cyta, the ports' authority and the Electricity Authority of Cyprus. Moreover, an additional €2bn could be arguably raised via the divesture of State assets acquired during the bank recapitalization process.

iii) At this point, considerable uncertainty appears to exist, not only regarding the potential size of future privatization revenue, but also in relation to the method(s) that will be used in future State asset sales (*e.g.* securitizations vs. sale of stakes to strategic investors).

***Banking sector developments***

The sear size of Cypus's banking system is arguably one of the most significant risks to the domestic economy. According to the latest available data (December 2011), total banking sector assets amounted to ca €146.2bn or 820%-of-GDP. The two largest domestic banks, Bank of Cyprus and Cyprus Popular Bank, posted respective net losses to the tune of €211mn and €1.09bn in the first three quarters of 2012, as a result of the Greek debt restructuring (PSI) and higher provisions for non-performing loans. *The situation was aggravated further by a new classification methodology for NPLs agreed with official lenders as part of the conditionality laid out in the preliminary MoU.*

NPLs for these two banks have increased significantly over the last four years. This trend has gained momentum since mid 2011 and, more recently, is has been aggravated by rising NPLs in the Greek market. It is worth noting here that loans to Greek residents account between 34% and 44% of the total loan portfolios of the aforementioned banks. In order to align their capital position with the European Banking Authority (EBA) recommendations, Bank of Cyprus and Cyprus Popular Bank had to meet a 9% core Tier 1 capital ratio by June 30, 2012. To fulfill the said target they had to plug respective capital shortfalls of €1.56bn and €1.971bn. The banks were not able to fully cover these amounts on their own means, in spite of undertaking a series of actions. They proved to be short of a cumulative amount of €2.3bn (€0.5bn and €1.8bn, respectively) as their regulatory capital was depleted by the Greek debt exchange. As a result, they sought financial assistance from the government.

In June 2012, the government bailed out CPB, injecting €1.8bn into the bank. Reportedly, the State now owns around 84% of CPB's shares. Bank of Cyprus's request for official assistance will be discussed in the context of the recue package with the troika. To complicate things further, recapitalization needs for the two largest domestic lenders may prove higher than estimated earlier. According to an EBA report, CPB needed another €1.125bn as of June 2012 in order to increase its core Tier 1 ratio to the regulatory threshold of 9.0%. Likewise, the BoC exhibited a €730mn capital shortfall, with a core Tier 1 ratio at 6.9%.

Another potential vulnerability for the domestic banking system lies in the face of the relatively high private sector indebtedness. Private sector loans reached €48.5bn in December 2012, corresponding to ca 270%-of-projected-GDP. Nonetheless, it is worth noting that the net financing position of domestic households remains positive, with the overall Loans-to-Deposits ratio remaining close to 100% (103.3% end- 2012).

A significant slowdown in domestic bank deposits has been evident since late 2010, amid heightened worries over the domestic macroeconomic outlook. Nonetheless, the year-on-year growth of total (i.e., resident + non-resident) deposits to domestic banks was marginally positive in December 2012 (latest available data).

In view of the worsened domestic financial conditions, Cyprus's sovereign credit ratings came under significant pressure since late 2010. Following a series of rating downgrades the country has lost access to international credit markets. In June 2012, Fitch was the last of the three major rating agencies to downgrade Cyprus's long-term foreign currency bonds to non-investment grade status. Shortly after the latter downgrade, the European Central Bank announced that the Republic of Cyprus bonds were no longer eligible as collateral for the domestic banking sectors' refinancing operations via its regular liquidity facilities. Note that the ECB's minimum eligibility criterion is for at least one of the major ratings agencies to value government bonds as investment grade.

In view of the tightened liquidity conditions and the lack of adequate collateral for refinancing through the regular ECB liquidity facilities, Cypriot banks have increasingly relied to more expensive funding options, such as the Emergency Liquidity Assistance (ELA). Notably, ELA borrowing increased by approximately €3.7bn in H2-2012, while the outstanding amount of ECB lending fell by €5.7bn over that period.

***Bank recapitalization outlook***

One of the main reasons delaying a final bailout agreement on Cyprus is lingering uncertainty about the exact size of bank recapitalization needs. The latter will be determined by the final results of a due-diligence exercise conducted by investment firm PIMCO, originally expected to be published in mid-January 2013. According a number of preliminary PIMCO findings leaked to the press last December, domestic banks' recapitalization needs under an extreme scenario are estimated at ca €10bn or nearly 50% of the country's GDP. This amount is in line with earlier press reports estimating the total size of the rescue package to amount to around €17.5bn, including up to €10bn for banks, €6bn for servicing public debt and €1.5bn for plugging other budgetary holes. With Cyprus's gross domestic product at current prices coming in at around €18bn in 2011, the financial aid package will amount to ca 100% of GDP, if the above figures are eventually vindicated.

In early January, the Cypriot government called BlackRock to provide a separate assessment on the methodology PIMCO used to determine the domestic banking system's capital requirement. They have noted that the aim is not to oversee PIMCO, but to achieve a better understanding of the methodology used to evaluate the sector's recapitalization needs and to examine whether different results from those of PIMCO may be drawn. Reportedly, this procedure is being followed amid hopes that it may yield recapitalization estimates that fall at the lower end of PIMCO figures, so as to provide some additional flexibility in the upcoming negotiations with the troika.

Note here that in the absence of some form of direct bank recapitalization from the ESM, any troika funds utilized to recapitalize Cypriot banks would add up the government's balance sheet, further exacerbating public debt dynamics. National authorities see direct bank recapitalization of domestic banks via the ESM as one potential strategy that could facilitate an eventual return to a more sustainable fiscal position. That is, provided that a final bailout agreement has been reached with the troika. On the latter issue we note that: (i) conditions for direct capital injections to euro area bank from the ESM are not yet in place; (ii) several Member States including Germany, Netherlands and Finland, have reportedly opposed the mechanism's retrospective application; and (iii) even in the case of direct bank recapitalizations, the ESM is unlikely to take any losses incurred as a result of the difference between the overall size of capital injections and the future revenue raised from the divesture of bank assets acquired through the recapitalization process.

***Without external financing, State cash reserves may not last beyond May 2013***

Cyprus has been unable to access international funding markets for more than a year now. The yield of the 4.625% February 2020 government bond currently stands at around 12%, up sharply from levels near 6% in late 2010. Yet, the government has so far managed to cover its financing needs through issuance of Treasury bills (bought mainly by domestic banks) and short-term loans provided by semi-state organizations, such as the Electricity Authority of Cyprus (EAC), the Cyprus Telecommunications Authority (Cyta) and the Cyprus Ports Authority. With a final agreement on a sovereign bailout package for Cyprus still some way off, the Cypriot government said recently that it has secured the necessary funding to meet its immediate financing needs until March 2013. Our understanding is that some future revenue (up to €150mn) in the form of signature fees from natural gas exploration may provide some additional breathing space, but a final agreement with the troika (or some other form of external financing) to avoid a complete depletion of State coffers would be necessary to prevent an inability to meet payments after May 2013. Note that the first major bond redemption comes in early June, when a €1.4bn issue expires. Another debt maturity of €715mn is due in the month after (***Table 2*** at the end of this document).

***Natural gas exploration***

Cyprus announced its first natural gas discovery in December 2011 following a concession to U.S. Noble Energy to explore Block 12, an area offshore Mediterranean Exclusive Economic Zone (EEZ). Notably, Noble reported significant gas findings in the tune of 5-8 trillion cubic feet. In late January 2013, the government offered licenses to Italian ENI and South Korea's Kogas for the exploration of hydrocarbons in two additional offshore blocks in the south and south-east of the island. The new contracts are expected to generate €150mn of revenue for the government (in the form of signature fees), assisting it with meeting its financing needs through to May 2013. Additional income may also be generated from another license to French company Total, which is bidding for the exploitation of two more blocks. Talks on the latter are currently in progress.

Apart from the short-term favorable impact of gas exploitation, such as income from licensing contracts, significant benefits are also seen longer-term. Government officials have expressed hopes that gas findings will be available for domestic consumption as early as in 2017, while by 2019 the country will be in a position to proceed with gas exports. A state company responsible for handling the sales of gas reserves was established in 2012. According to current planning, a liquefaction facility will also be constructed for export purposes, which will also boost domestic investment. The government has noted that revenue generated from hydrocarbons exploitation will be partly used to finance investments in infrastructure in the energy sector, while another portion will be destined to the state budget.

**Debt *sustainability analysis (DSA) and outlook***

According to the Cypriot finance ministry's estimates, under an adverse scenario, the gross public debt ratio would hit a sub-140%-of-GDP peak in 2014, before embarking on a descending path towards ca 100%-of-GDP by 2020. Apparently, the expected sharp rise in the debt ratio from an estimated 85.8%-of-GDP at the end of FY-2012 assumes the finalization of an agreement with the troika over a sovereign bailout programme for Cyprus, with the bank recapitalization package (up to €10bn, under the adverse scenario) providing the main driver behind deteriorating debt dynamics over the period 2013-2014. The finance ministry also sees a number potential remedies and relief strategies that could be employed to alleviate debt dynamics. These include, among others: (i) concessional terms in ESM loans; (ii) the generation of primary surpluses from FY-2014 onwards (as envisaged in the baseline macro scenario assumed in the preliminary MoU); (iii) a 5-year maturity extension of the €2.5bn Russian loan; (iv) bail-in of junior bondholders (€1.2bn); (v) privatization revenue of €3bn (= €1bn from the sale of stakes in three publically-controlled enterprises + €2bn from the sale of government stakes in the domestic banking sector) over the DSA-relevant forecasting horizon (2012-2016); (vi) interest income from hybrid instruments and the Wealth Fund; and (vii) low refinancing needs.

Importantly, the Cypriot side believes that a write-down of privately-held public debt (PSI) would not yield significant relief benefits and, in the same time, it would risk doing more harm than good to a small economy like Cyprus. We, as well as the vast majority of investors, broadly concur with the aforementioned views, not least because: (i) around 55% of outstanding public debt is currently held by domestic players (=48% by domestic banks + 4% by domestic insurance corporations & pension funds + ca 3% by other domestic investors). As such, a debt write-down would directly conflict with the bank recapitalization target and it would also risk having other unintended consequences; (ii) the outstanding amount of local-law bonds (excluding the bond issued for the recapitalization of Cyprus Popular Bank in June 2012 and/or bonds used as collateral for bank borrowing from the Euro system) is currently estimated at only ca €2.4bn; (iii) according to one of our contacts, the outstanding notional amount of foreign (UK)-law Cypriot government bonds is around €5bn and thus, a debt write-down would be difficult to implement from an operational & legal standpoint; (iv) the Greek PSI was advertised by euro area authorities as being a "unique case" and thus, a Cypriot PSI could have a detrimental impact on market confidence on EU authorities resolve to deal with the sovereign debt crisis.

As a concluding note to this section, we decided to abstain from presenting a full-fledged public debt sustainability analysis (DSA) for Cyprus at this point, waiting for more official clarifications regarding the final bailout agreement with the troika. In regards to the necessary inputs for completing a Cypriot DSA over the period 2013-2020 we note the following:

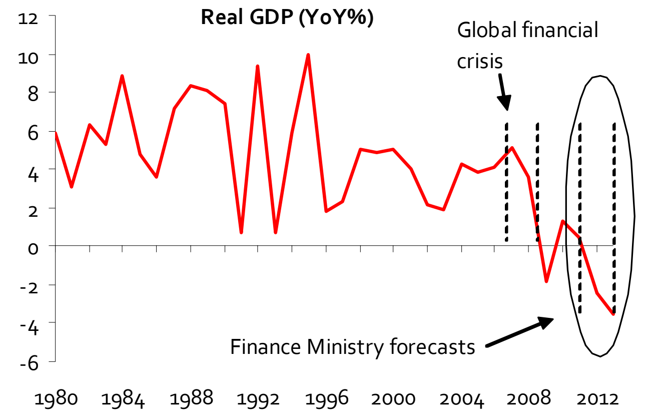
— ***Nominal GDP growth projections (2013-2020):*** baseline scenario for 2012-2016 broadly agreed with the troika last November and presented in country's updated medium-term fiscal plan. For the period 2017-2020 one could presume an annual nominal GDP growth of ca 4% (as baseline scenario), assuming near potential real GDP growth of ca 2% and a 2% GDP deflator.

— ***Primary balance as % of GDP (2013-2020):*** baseline scenario for 2012-2016 broadly agreed with the troika last November and presented in country's updated medium-term fiscal plan. For the period 2017-2020 one could assume, under a baseline scenario, annual primary surpluses in the vicinity of 4%-of-GDP.

— ***Average nominal interest rate on overall debt stock (2013-2020):*** According to one of our contacts, the average nominal interest rate on overall debt stock is expected to decline from around 3.5% currently to between 2.5% and 3% after the sovereign bailout, due to declining refinancing costs on the back of pretty concessional terms of ESM and IMF funding.

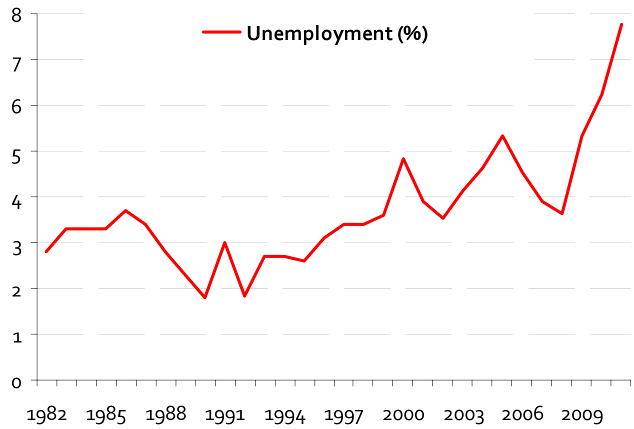
— ***Stock flow adjustments (2013-*****2020):** Stock flow adjustments are currently miniscule and mainly include payments to the ESM paid-in capital (€30mn-€60mn/per annum). Going forward, stock flow adjustments will be determined by the overall size of the bank recapitalization package, privatization revenue and other related factors.

**Graph 1: GDP growth turns negative**



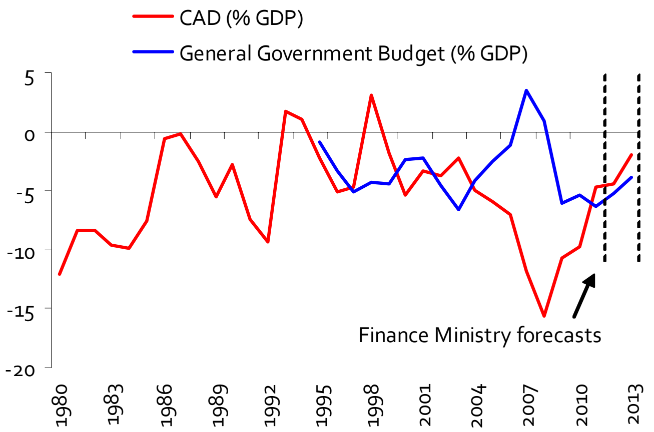

*Source: IMF, Eurostat, National Authorities, Eurobank Research*

**Graph 2: Unemployment rises sharply in recent years**



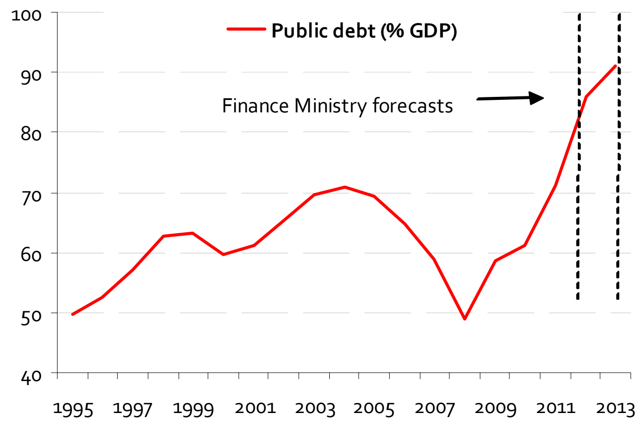

*Source: IMF, Eurostat, National Authorities, Eurobank Research*

**Graph 3: Domestic and external imbalances deteriorated in the period leading into the global financial crisis**



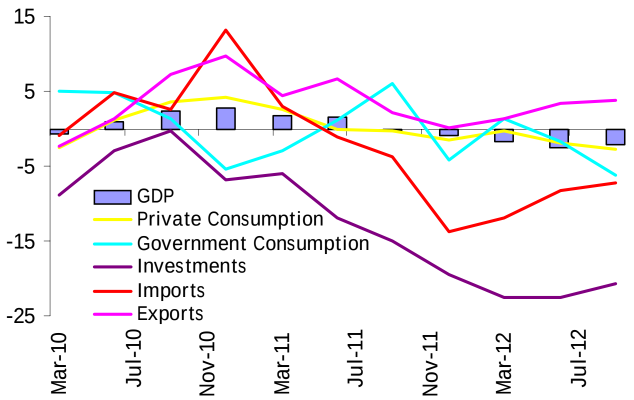

*Source: IMF, Eurostat, National Authorities, Eurobank Research*

**Graph 4: Public debt on a rising trend**



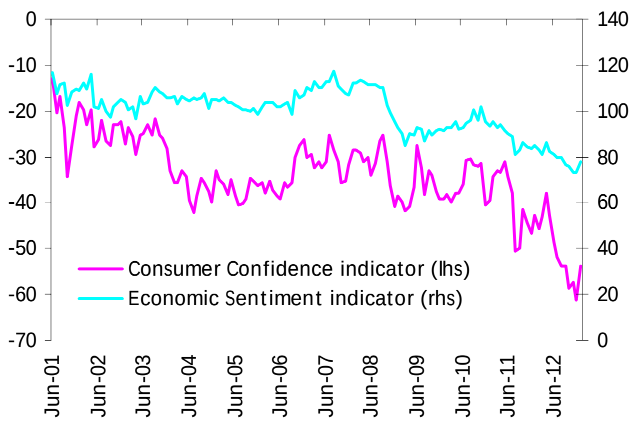

*Source: IMF, Eurostat, National Authorities, Eurobank Research*

**Graph 5: Domestic economy enters recession on weak domestic demand dynamics (YoY%)**




*Source: National Authorities, Eurobank Research*

**Graph 6: Consumer and business sentiment wane**




*Source: Bloomberg, Eurostat, Eurobank Research*

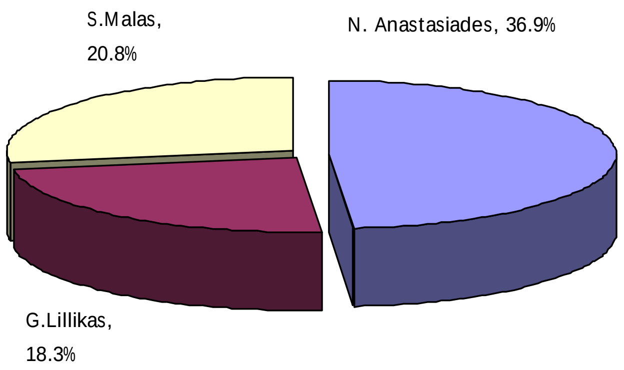
**Table 1: Draft MoU fiscal adjustment & primary balance targets**

| | fiscal adjustment measures (GDP%) | primary balance targets (GDP%) |
|---|---|---|
| 2012 | 3 | |
| 2013 | | -0.7 |
| 2014 | 1.75 | 1.0 |
| 2015 | 1.50 | 2.7 |
| 2016 | 1 | 4.0 |
| Total | 7.25 | |

*Source: Draft MoU, Eurobank Research*

**Graph 7: Average poll score for the three main presidential elections candidates**

(Derived as arithmetic average of a number of polls conducted between mid-September 2012 and January 2013)




Source: Local press, Wikipedia & Eurobank research

**Table 2: 2013 Government Bond Redemptions**

| Date of Redemption | Redemption Amount (in mn EUR) |
|---|---|
| Jan-13 | 159 |
| Apr-13 | 2 |
| Jun-13 | 1,415 |
| Jul-13 | 715 |
| Oct-13 | 1 |

*Source: Bloomberg, Eurobank Research*

## Research Team

**Editor,** Professor **Gikas Hardouvelis**
*Chief Economist & Director of Research Eurobank Group*

### Financial Markets Research Division

**Platon Monokroussos:** *Head of Financial Markets Research Division*
**Paraskevi Petropoulou:** *G10 Markets Analyst*
**Galatia Phoka:** *Emerging Markets Analyst*

### Economic Research & Forecasting Division

**Tasos Anastasatos:** *Senior Economist*
**Ioannis Gkionis:** *Research Economist*
**Vasilis Zarkos:** *Economic Analyst*
**Stella Kanellopoulou:** *Research Economist*
**Olga Kosma:** *Economic Analyst*
**Maria Prandeka:** *Economic Analyst*
**Theodosios Sampaniotis:** *Senior Economic Analyst*
**Theodoros Stamatiou:** *Research Economist*

Eurobank 20 Amalias Av & 5 Souri Str, 10557 Athens, tel: +30.210.333 .7365, fax: +30.210.333.7687, contact email: Research@eurobank.gr

## Eurobank Economic Research

More research editions available at http://www.eurobank.gr/research

- **New Europe**: Economics & Strategy Monthly edition on the economies and the markets of New Europe
- **Economy & Markets**: Monthly economic research edition
- **Global Economic & Market Outlook**: Quarterly review of the international economy and financial markets

**Subscribe electronically** at http://www.eurobank.gr/research
**Follow us on twitter:** http://twitter.com/Eurobank