

GREECE MACRO MONITOR

June 6, 2014

An overview of recent macroeconomic developments in Greece

High frequency indicators signal ongoing stabilization in domestic economic activity

Paraskevi Petropoulou
G10 Markets Analyst
ppetropoulou@eurobank.gr

DISCLAIMER

This report has been issued by Eurobank Ergasias S.A. ("Eurobank") and may not be reproduced in any manner or provided to any other person. Each person that receives a copy by acceptance thereof represents and agrees that it will not distribute or provide it to any other person. This report is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities mentioned herein. Eurobank and others associated with it may have positions in, and may effect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for those companies. The investments discussed in this report may be unsuitable for investors, depending on the specific investment objectives and financial position. The information contained herein is for informative purposes only and has been obtained from sources believed to be reliable but it has not been verified by Eurobank. The opinions expressed herein may not necessarily coincide with those of any member of Eurobank. No representation or warranty (express or implied) is made as to the accuracy, completeness, correctness, timeliness or fairness of the information or opinions herein, all of which are subject to change without notice. No responsibility or liability whatsoever or howsoever arising is accepted in relation to the contents hereof by Eurobank or any of its directors, officers or employees. Any articles, studies, comments etc. reflect solely the views of their author. Any unsigned notes are deemed to have been produced by the editorial team. Any articles, studies, comments etc. that are signed by members of the editorial team express the personal views of their author.

After an unusually steep and prolonged economic recession that has slashed some 26 points from Greek GDP over the last six year or so, a recent string of real activity data and confidence indicators signals an ongoing stabilization of the domestic economy. This view is supported by the more recent European Commission projections (spring 2014 forecasts), which envisage a return of Greek output growth to a positive territory this year on the back of higher exports and reviving investment activity. In more detail, Greece's real GDP is projected to grow by 0.6%YoY this year, before gaining further traction in 2015 and expanding by 2.9%YoY, in line with the troika's baseline macro scenario. Although considerable risks continue to surround the domestic macro outlook in the face of increased social and political polarization, potential slippages in the reforms agenda and the likelihood of further adverse geopolitical developments in the broader region, the road for a return to sustainable economic growth now appears to be based on a more solid base than a few months and quarters earlier. In what follows, we provide a brief overview of recent economic data and activity indicators, which appear to support our view for a switch into positive year-on-year GDP growth from Q3 2014 onwards.

Greek Q1 GDP revised to -0.9% YoY, from -1.1% YoY reported initially, coming pretty close to our GDP Nowcasting estimate of -0.8% YoY

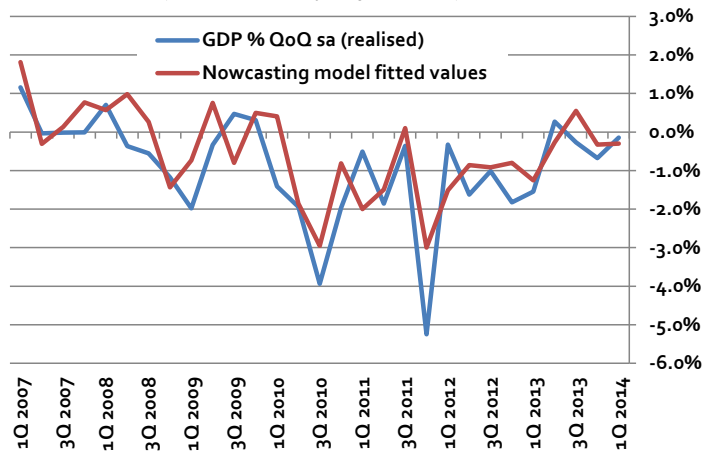
Greece's statistics agency (EL.STAT.) released earlier today its provisional national accounts data for Q1 2014. The data showed a further deceleration in the annual pace of real GDP contraction to -0.9% from an *initially-reported* reading of -1.1% (flash estimate) and a decline of 2.3% recorded in Q4 2013. The reading was pretty close to an estimate of -0.8% provided by our **Greek GDP NOWcasting** model in mid-March² (Graph 1). The breakdown of the report showed a further improvement in all expenditure-side components, with private spending recording positive real growth (+0.7% YoY) for the first time since Q1 2010, exports of goods and services accelerating to 5.4% (highest rate of increase since Q4 2010) and the annual pace of decline of gross fixed capital formation easing to -7.9%, from -15.3% in the prior quarter and -11.4% in Q1 2013 (Table 1). Maybe on a less constructive note, imports of goods and services recorded a further recovery in the first quarter of this year, growing by 2.2% YoY in real terms, after declining by 5.6% YoY in the prior quarter (and by 7.0% YoY in Q1 2013). If the latter trend continues, then we may see a further decline in the positive contribution of net exports this year, broadly in line with the official (*i.e.*, government and European Commission) estimates (Graph 2). EL.STAT does not currently release seasonally adjusted data, but according to our ARIMA X-12 filter, Greek GDP dropped by ca 0.15% on a quarter-on-quarter seasonally adjusted basis in Q1 2014 (and by 0.51%, if a shorter time series starting in Q1 2009 is utilized for seasonal adjustment, so as to address a structural break in the GDP data in 2008). Looking further ahead, we expect a switch into positive year-on-year real GDP growth as early as in Q3 2014, forecasting positive full-year growth between 0.5% and 1.0%.

² (see "Eurobank GDP NOWcasting model update", March 19, 2014)

http://www.eurobank.gr/Uploads/Reports/GDP_Nowcasting_Update-Greece-MacroMonitor_March19_2014.pdf

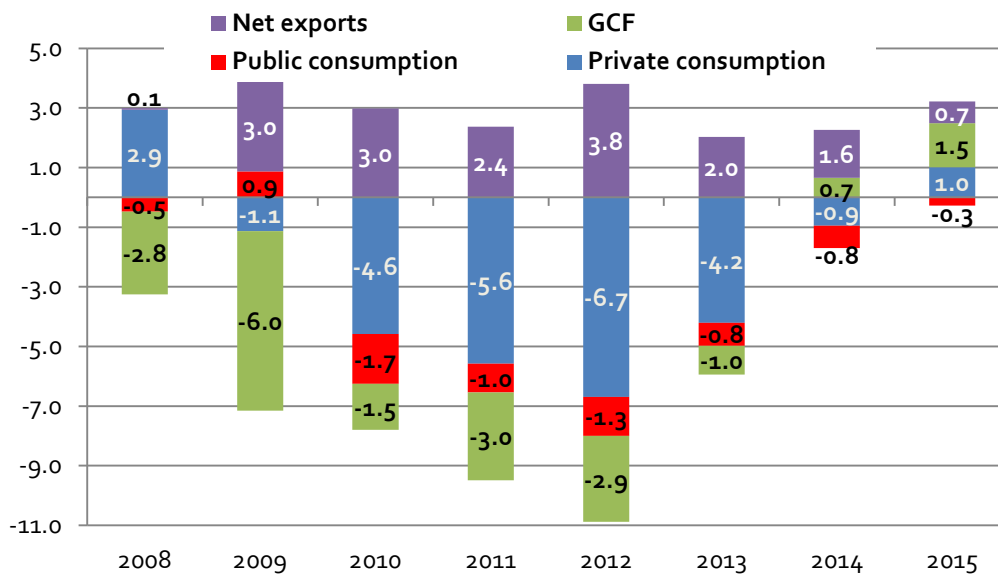
June 6 2014

Graph 1 - Greek GDP (QoQ seasonally adjusted, %) & Eurobank's Greek GDP Nowcasting model fit



Source: ELSTAT and Eurobank Global Markets Research

Graph 2 - Component contribution to real GDP growth (in ppts)



Source: ELSTAT, EC, Eurobank Global Markets Research

June 6 2014

Table 1- Greece: Q1 GDP, % change compared to the same quarter of the prior year

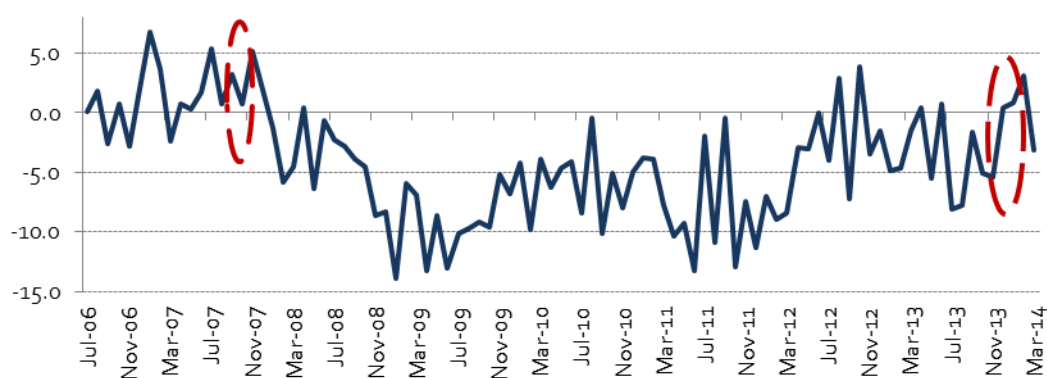
	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
Gross Domestic Product									
<i>at market prices</i>	-7.8%	-7.4%	-7.7%	-4.9%	-6.0%	-4.0%	-3.2%	-2.3%	-0.9%
Production method									
Gross value added (<i>at basic prices</i>)	-7.7%	-7.3%	-7.8%	-5.0%	-6.0%	-3.9%	-3.1%	-2.0%	-0.8%
+ Taxes on products	-8.8%	-7.6%	-7.4%	-4.6%	-6.5%	-5.5%	-4.0%	-4.0%	-1.6%
- Subsidies on products	-8.6%	-7.3%	-7.8%	-4.5%	-6.6%	-4.5%	-3.8%	-4.0%	-1.6%
Expenditure method									
Final consumption expenditure	-8.0%	-8.1%	-10.7%	-8.5%	-8.9%	-6.4%	-6.1%	-0.8%	0.8%
Households and NPISH	-9.7%	-8.7%	-9.2%	-9.6%	-8.7%	-6.6%	-7.8%	-0.2%	0.7%
General Government	-0.8%	-5.8%	-17.4%	-3.3%	-9.7%	-5.5%	1.7%	-2.6%	1.2%
+ Gross capital formation	-33.8%	-19.7%	-27.4%	6.1%	8.4%	-18.0%	9.1%	-15.4%	-16.7%
Gross fixed capital formation	-22.8%	-21.5%	-21.5%	-10.3%	-11.4%	-11.5%	-12.9%	-15.3%	-7.9%
+ Exports of goods and services	4.2%	-2.3%	-3.1%	-4.0%	-2.2%	1.6%	5.2%	0.5%	5.4%
- Imports of goods and services	-14.9%	-12.9%	-18.7%	-8.1%	-7.0%	-11.1%	2.7%	-5.6%	2.2%

Source: EL.STAT

High frequency indicators signal ongoing stabilization in domestic economic activity

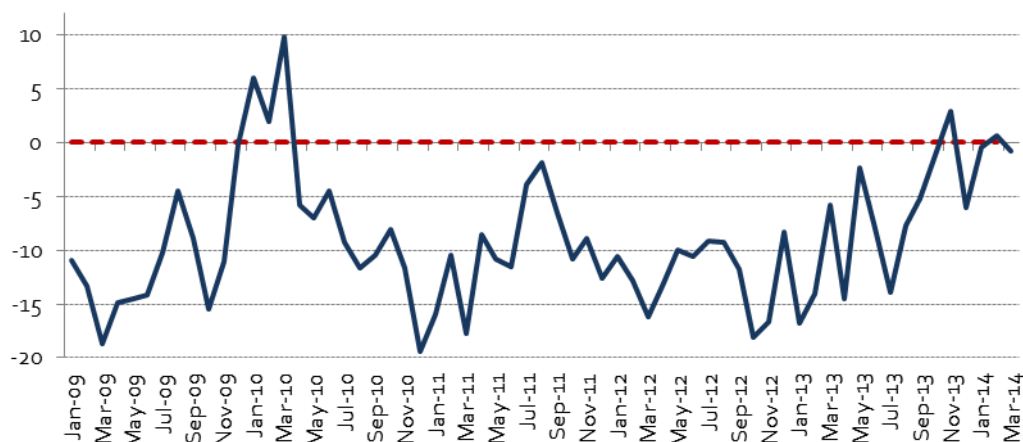
- *The Industrial Production Index fell by 3.1%YoY in March* mainly due to a hefty decline in electricity production. Yet, the drop followed a three-month rising streak, a development that has not been witnessed since late 2007 (Graph 3). In a similar vein, the year-on-year growth of the *retail trade volume index*, including automotive fuel, fell by 0.8% YoY in March, recording the third annual decline in the last five months. Yet, the respective pace of contraction appears to have eased considerably in recent months, following annual average rate declines of 8.1% and 12.2% in 2013 and 2012. As a reminder, the retail trade volume index posted positive annual growth in November and February (by 2.9% YoY and 0.6% YoY, respectively) for the first time in nearly four years (Graph 4). Note that Greece's retail trade accounts for ca 40% of the personal expenditure component of GDP.

Graph 3: Industrial Production Index (YoY, %)



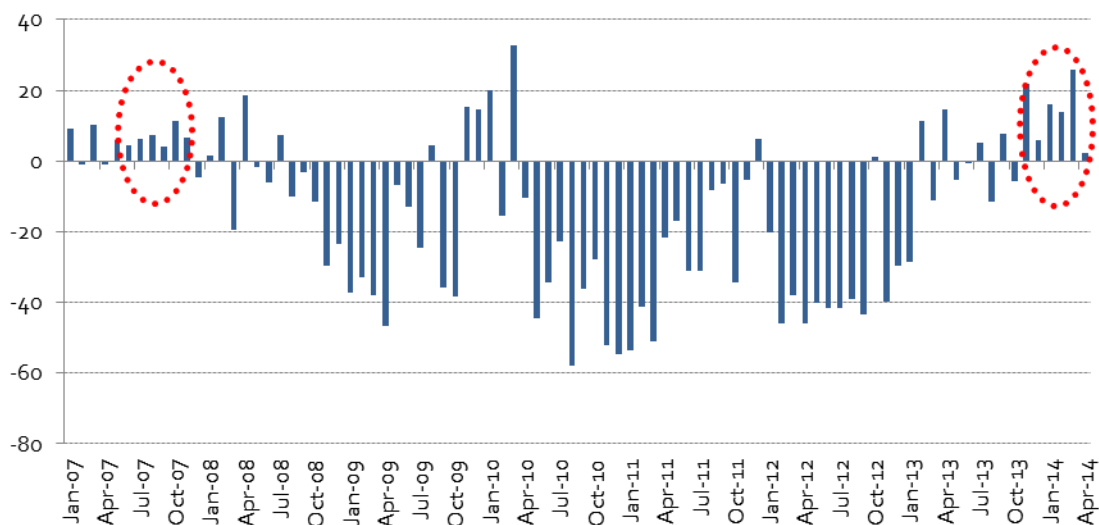
Source: EL.STAT, Eurobank Global Markets Research

June 6 2014

Graph 4: Retail Trade Volume Index (YoY, %)

Source: EL.STAT, Eurobank Global Markets Research

- **Total road motor vehicles** (including both road motor cars and motorcycles over 50cc) that were put into circulation for the first time ever, rose in April for the sixth month in a row, a development that has not been seen since mid-2007, supporting optimism about improving prospects in domestic consumption (Graph 5).

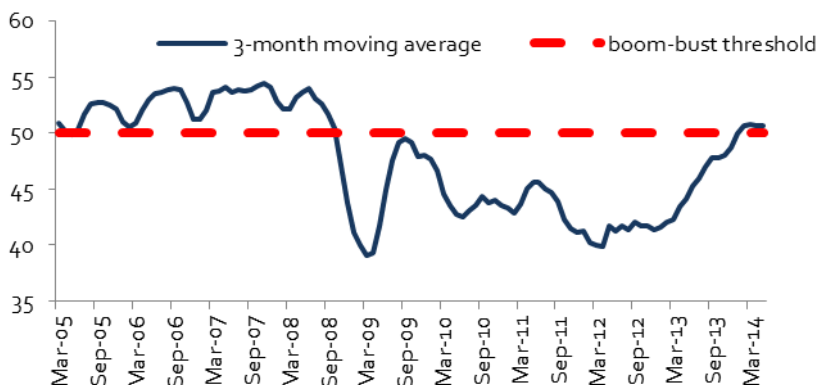
Graph 5– Total road motor vehicles (%YoY)

Source: EL.STAT, Eurobank Global Markets Research

Furthermore, confidence indicators advanced in recent months, signaling improving economic conditions going forward. Specifically:

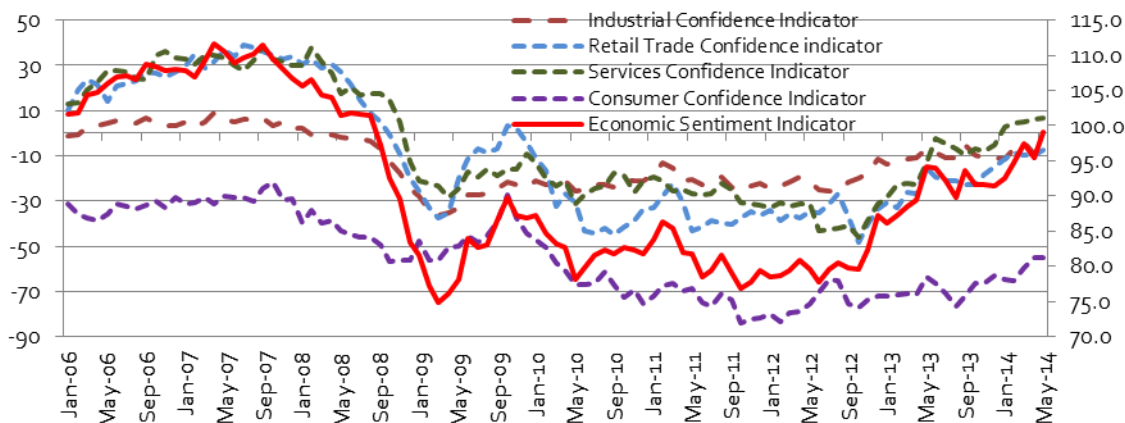
- **Greece's Manufacturing Purchasing Managers' Index (PMI)** came in at 51.0 in May, little changed compared to 51.5 in April, remaining above the boom-or-bust level of 50.0 for the fourth month so far this year. The breakdown of the May report showed that production advanced for the seventh straight month, new orders rose for the second month in a row and employment marked the first back-to-back increase since end-2007. Buffer stocks of finished goods were further depleted, input prices rose slightly for the first time so far this year while output prices remained in a downward trend for the 39th consecutive month as competitive pricing strategies force producers to absorb the burden of higher input costs. Recall that, in Q1 2014, manufacturing PMI posted its best average quarterly reading since Q3 2008 after moving in January 2014 above the key threshold of 50.0 for the first time in 54 months (Graph 6).

June 6 2014

Graph 6- Markit Greece Manufacturing PMI

Source: Markit, Eurobank Global Markets Research

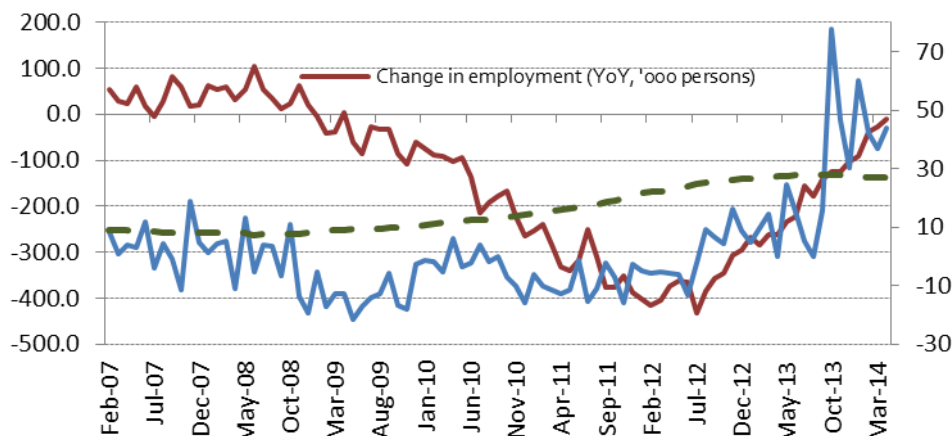
- **The Economic Sentiment Indicator for Greece improved in May for the second month in a row** coming in at a six-year high of 99.1 from April's 95.4. The breakdown of the report showed that both the Services and Retail Trade Confidence Indicators rose, to respective 5½- and 4-year highs. In a similar vein, the Consumer Confidence Indicator advanced for the third month in a row hitting its highest level since early 2010 (Graph 7).

Graph 7: Economic Sentiment and Confidence Indicators

Source: EU Commission, Eurobank Global Markets

Adding to recent signs of a gradual improvement in economic growth prospects, the **seasonally adjusted jobless rate dropped in March to 26.8%, the lowest in more than a year**. This follows a cyclical peak of 27.9% recorded in September 2013. Similarly, unemployment among youth came in at 58.3% in March, lower compared to an all-time high of 61.4% hit late last year. In a similar vein, net hiring figures on the labor market over the last few months are particularly encouraging (Graph 8). According to the latest EU Commission's report on the Greek economy (April 2014), unemployment is expected to embark on a declining trend this year averaging 24.5% from 27.5% in 2013 before falling further to 22.5% in 2015, assisted by short-term and temporary public work programs, the recently agreed reduction in social security contribution rates entering in force in mid-2014 as well as an expected pick up in investment.

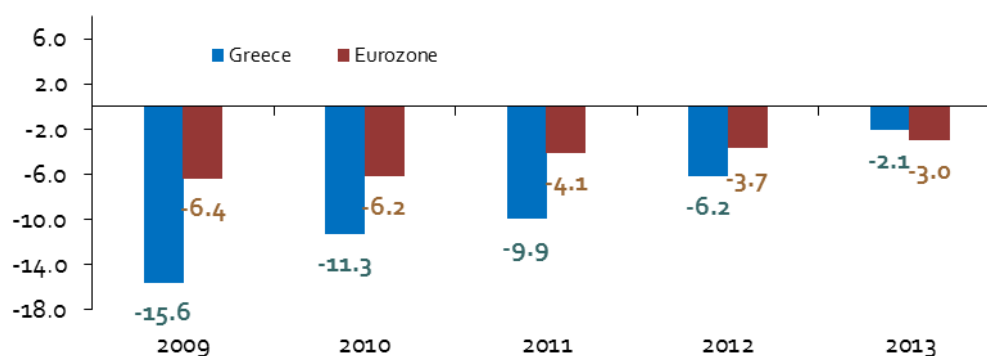
June 6 2014

Graph 8: Change in employment, new-private sector hirings, unemployment rate

Source: EL.STAT, Ministry of Labour, ERGANI

Fiscal adjustment unprecedented by historical standards

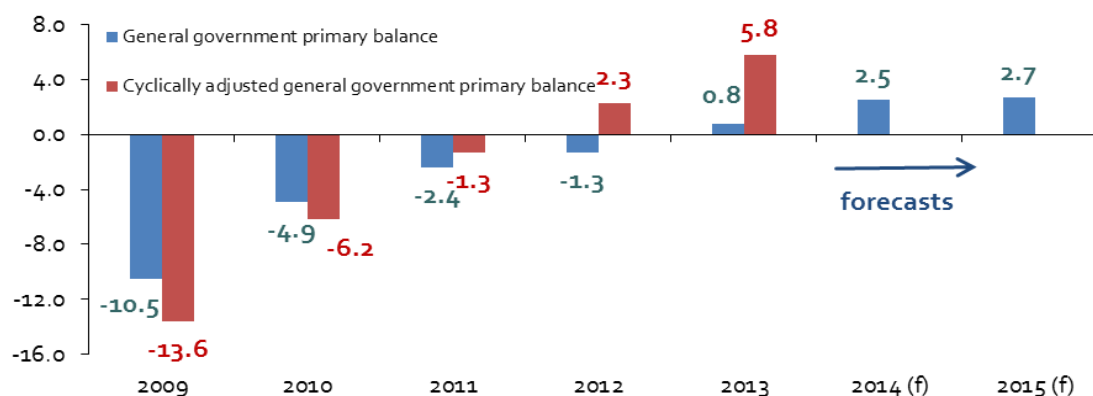
- *Undoubtedly Greece has achieved an unprecedented fiscal adjustment since the eruption of the domestic sovereign debt crisis.* According to both the Hellenic Statistical Authority and Eurostat, the general government deficit –excluding the impact of the State support to domestic financial institutions- has been reduced by 13.5ppts of GDP cumulatively in the period 2009-2013, i.e., from 15.6%-of-GDP in 2009 to 2.1%-of-GDP in 2013 (Graph 9i). In a similar vein, the general government primary balance –according to the Economic Adjustment Program definition- has swung from a deficit of 10.5%-of-GDP in 2009 to a surplus of 0.8%-of-GDP in 2013, marking the first surplus since 2002 (Graph 9ii). The overall fiscal improvement is more pronounced in the cyclically-adjusted general government primary balance- ca 19.4ppts-of-GDP cumulatively between 2009 and 2013 (Graph 9ii). Looking ahead, the updated Medium-Term Fiscal Strategy MFSP (2015-2018) forecasts a 2.5%-of-GDP general government primary surplus in FY-2014 (basic scenario according to the Economic Adjustment Program definition), compared to 1.6%-of-GDP in the 2014 Budget and above a respective program target of 1.5%-of-GDP.

Graph 9i – Greece & Eurozone: general government deficit (%-of-GDP)

Source: EL.STAT, Eurostat EDP (April 2014), EU Commission (Spring 2014 forecasts), Eurobank Global Markets Research

June 6 2014

Graph 9ii- Greece: general government primary balance & cyclically adjusted primary balance (%-of-GDP)

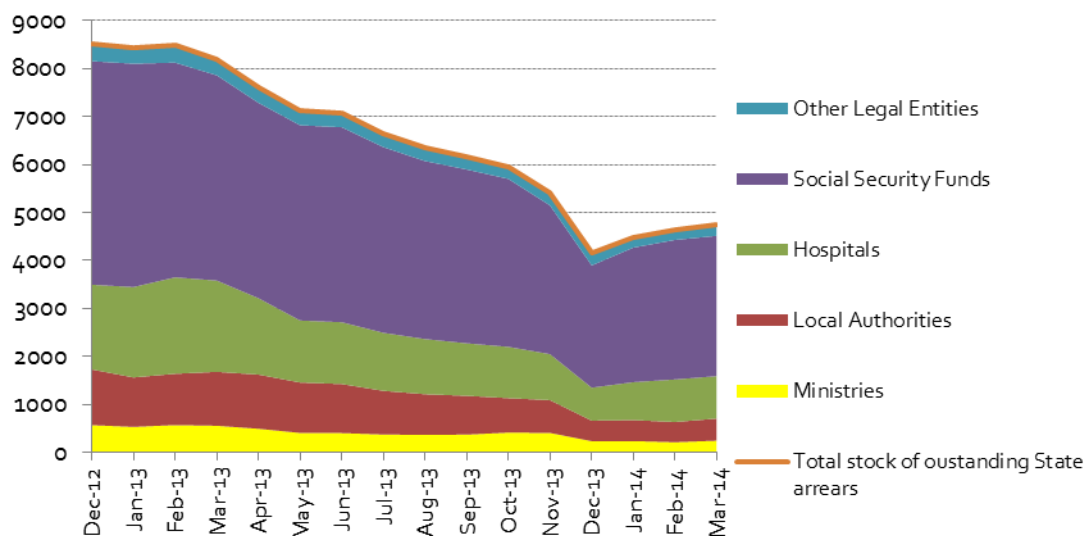


Source: IMF Fiscal Monitor (April 2014), MTFS (2015-2018), Eurobank Global Markets Research

- **The total stock of outstanding State arrears to third parties (i.e., government debts outstanding for more than 3 months) rose in March for the third month in a row.** In more detail, outstanding State arrears came in at a four-month high of ca €4.74bn, remaining though below their respective level of €8.2bn recorded in the same month a year earlier (Graph 10). According to the government, €1bn out of the primary surplus for FY-2013 in excess of the agreed target will be used this year for the clearance of State arrears to third parties. Under the current adjustment program, total financing of €8bn had been earmarked for the settlement of State arrears (€0.5bn in December 2012+ €1.7bn in Q1 2013+ €2.7bn in Q2 2013 + €1.4bn in Q3 2013 + €1.7bn in Q4 2013). Yet, out of the €8bn targeted, ca €6bn has been cleared through January 2014. The remaining €2bn is scheduled to be paid out by Q3 2015.

June 6 2014

Graph 10- General Government Arrears (EURmn)

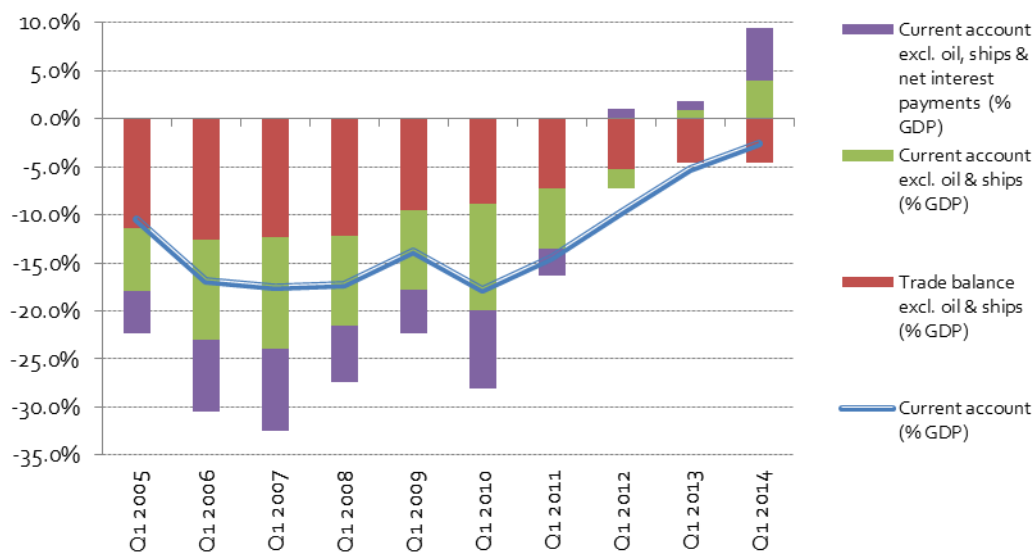


Source: Greece's Ministry of Finance, Eurobank Global Markets Research

Adjustments in current account balance continues in Q1 2014 assisted by strong tourism receipts

- According to provisional Bank of Greece's BoP statistics, the current account balance remained in an improving trend over the first three months of this year, recording a deficit of ca €1.05bn vs. a shortfall of €2.2bn in the same period a year earlier. This development was mainly attributed to: (i) a €0.46bn (31.4%YoY) increase in the services surplus to €1.94bn on the back strong tourism receipts; (ii) a €0.52bn (31%YoY) increase in the current transfer surplus to €2.2bn on higher general government net receipts (primarily from the EU); and (iii) a €0.25bn (28%YoY) drop in the income account deficit, primarily due to a ca 30%YoY fall in net interest payments, reflecting the beneficial impact of earlier sovereign debt-relief measures (Graphs 11i & 11ii). The trade deficit was little changed coming in at €4.56bn, just 0.8% wider on an annual basis (Graph 11iv depicts the evolution of merchandise exports and imports including oil & ships). It is worth noting that the current account **balance turned to a surplus of 0.7%-of-GDP in 2013** (€1.24bn) for the first time on record, primarily assisted by a lower trade deficit and strong tourism receipts (up 14.9%YoY to ca €12bn), following a lifetime peak deficit of 14.9%-of-GDP in 2008 (Graph 11iii).

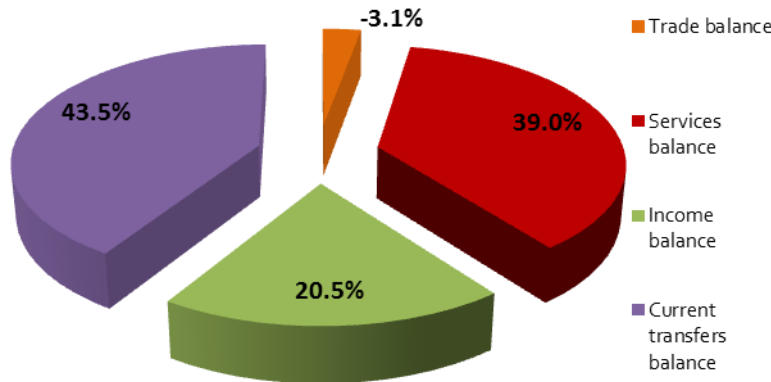
Graph 11i- Q1 2006-2014 current account & main components (%-of-GDP)



Source: Bank of Greece, Eurobank Global Markets Research

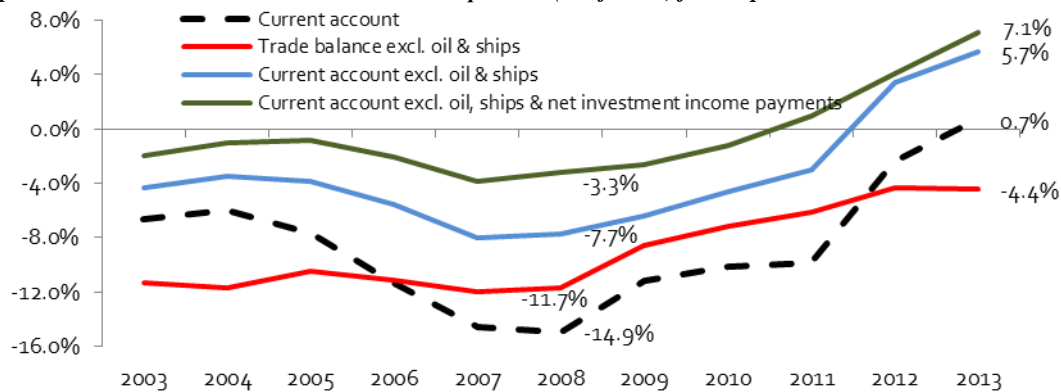
June 6 2014

Graph 11ii- Q1 2014 current account balance: positive & negative contributors



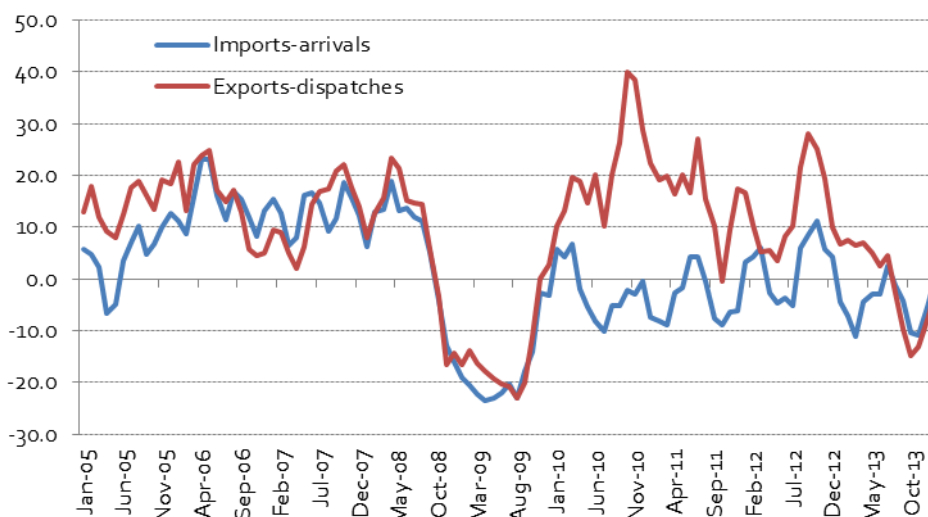
Source: Bank of Greece, Eurobank Global Markets Research

Graph 11iii- Greece's current account & main components (%-of-GDP) for the period 2003-2013



Source: Bank of Greece, Eurobank Global Markets Research

Graph 11iv- Merchandise exports & imports including oil and ships (% YoY-annual data)



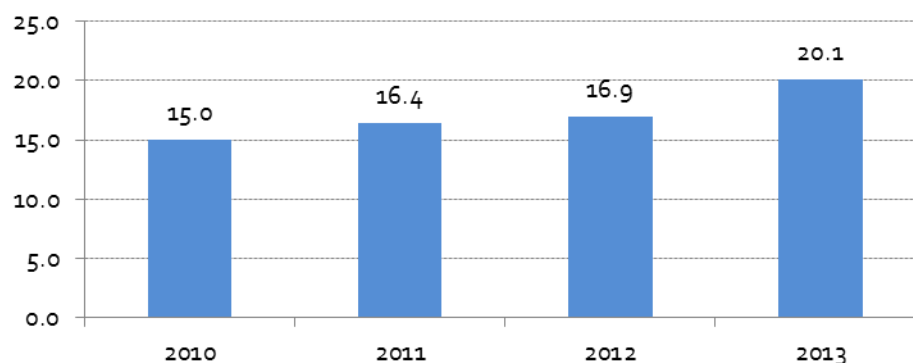
Source: EL.STAT, Eurobank Global Markets Research

— According to latest BoG data, Greece's travel balance recorded a surplus of €10.3bn in the whole year of 2013, marking a 20% increase on an annual basis. This positive development was mainly attributed to a €1.710bn (16.4% YoY) rise in travel receipts to €12.1bn and a reduction by €0.9bn (0.5% YoY) to €1.8bn in travel payments. The **incoming passenger traffic** including cruise passengers – calculated on the basis of the number of tourists - increased by 18.7% YoY in 2013 coming in at 20.1mn compared to 16.9mn in 2012 (Graph 12i). For the first four months of this year, data published by the Association of

June 6 2014

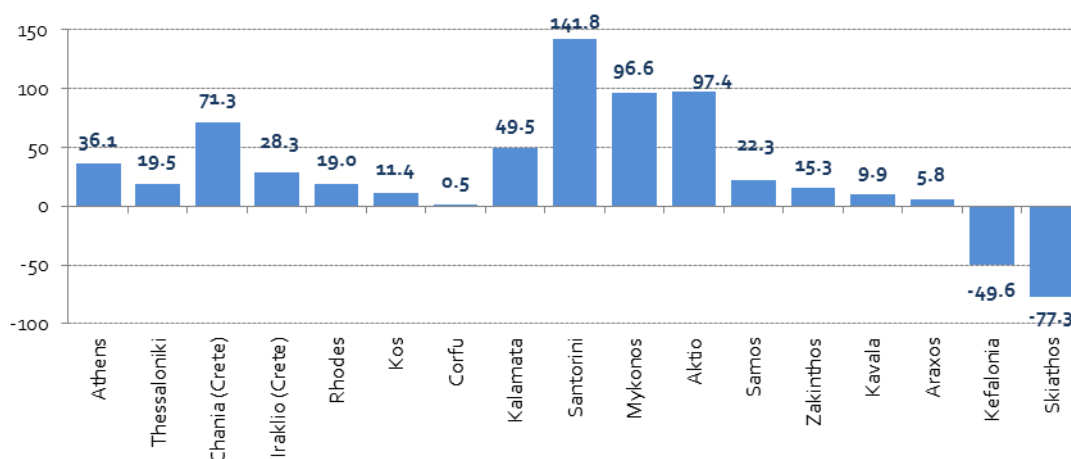
Hellenic Tourism Enterprises (SETE) revealed that –excluding cruise passengers- incoming passenger traffic in the country’s largest airports increased by 30.1%YoY. Against this background, SETE officials are rather optimistic that incoming passenger traffic will probably hit another record high in 2014 for the second consecutive year (Graph 12ii).

Graph 12i- Incoming passenger traffic (in mn)



Source: BoG, Eurobank Global Markets Research

Graph 12ii- Incoming passenger traffic: January-April 2014, YoY %



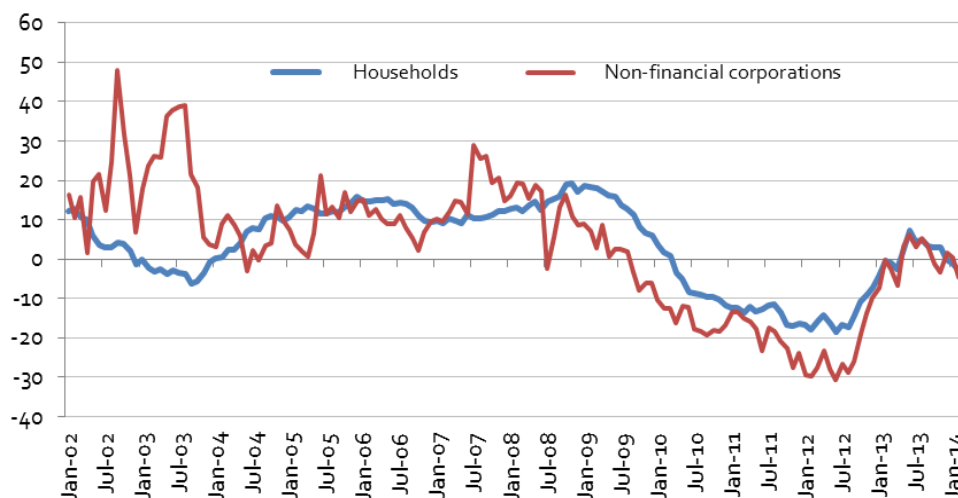
Source: SETE, Local press, Eurobank Global Markets Research

Greek banks have substantially reduced their reliance on Eurosystem funding

- According to the most recent Bank of Greece data, euro-denominated deposits & repos of domestic households and non-financial corporations in Greek MFIs excluding the Bank of Greece (BoG) improved in April for the second month in a row, partially thanks to the Easter bonus received that month by private sector employees. Specifically, private sector deposits edged up by €0.28bn April coming in at ca €161.3bn. Greece’s banking system deposit base currently stands ca €10.7bn higher compared to a seven-year trough recorded in June 2012 amid heightened domestic political uncertainty ahead of the repeated national elections. Note that private sector deposits had hit an all-time high of €237.8bn in September 2009, shortly before the eruption of the domestic sovereign debt crisis (Graph 13). The bounce in private sector deposits from July 2012 lows has assisted domestic financial institutions to become less reliant on refinancing through both the **ECB and the emergency liquidity assistance (ELA) mechanism** in recent months. According to the most recent Bank of Greece data, the total amount of funding taken from the Eurosystem edged up in April for the first time in the last four months. Despite the increase, total Eurosystem funding stood at €61.96bn, not far from a multi-year low of €60.69bn hit in the prior month following an all-time peak of €159.2bn in February 2012 (Graph 14).

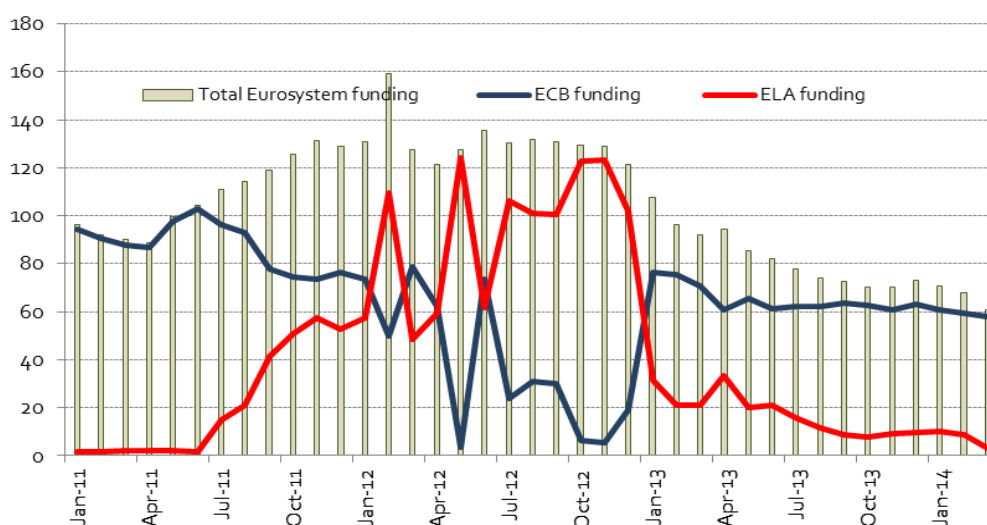
June 6 2014

Graph 13- Euro-denominated deposits & repos of domestic households and non-financial corporations in Greek MFIs excluding the Bank of Greece (YoY, %)



Source: Bank of Greece, Eurobank Global Markets Research

Graph 14-- Eurosystem funding to Greek banks (outstanding amounts in EURbn)



Source: BoG, Eurobank Global Markets Research

Private sector credit growth still in negative territory, despite ongoing stabilization of domestic financial conditions

- **Despite the latest signs of ongoing improvement in domestic liquidity conditions, new loan issuance remains weak, exerting a negative impact on private investment activity.** According to the latest BoG data, credit to domestic non-MFIs residents by domestic MFIs excluding the Bank of Greece, shrunk in April on an annual basis for the 35th consecutive month, having declined by €17.4% cumulatively from a peak of near €260bn hit in June 2010 (*Graph 15i*). This is mainly the result of subdued domestic demand for credit on the back of rising unemployment and high borrowing cost (*Graph 15i*). Additionally, the high stock of non-performing loans (NPLs) makes domestic banks reluctant to extend new credit to the private sector. According to the latest EU Commission's report on Greece (April 2014), NPLs remained in an upward trend in 2013, reaching 33.1% of total bank loans, up from 25.5% in 2012. Separately, based on the latest official BoG data, the average interest rate on revolving loans and overdrafts to households and non-financial corporations stood at 10.23% in March and 7.22% respectively compared to 7.65% and 4.08% in the euro area.

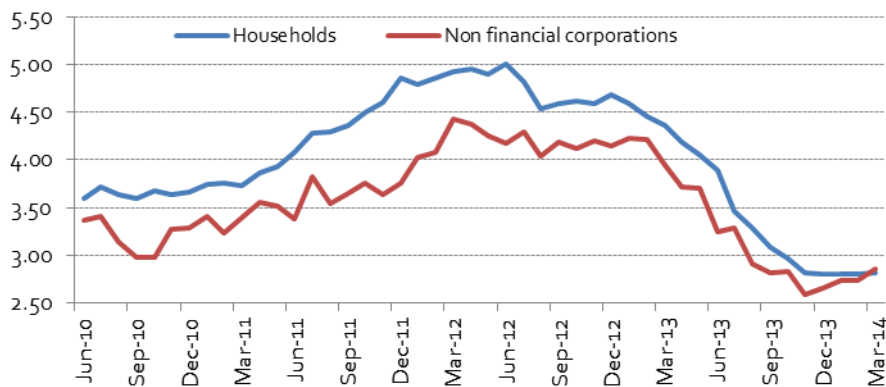
June 6 2014

Graph 15i– Credit to domestic non-MFIs residents by domestic MFIs excluding the Bank of Greece, (e.o.p outstanding amounts in EURmn & YoY, % change)



Source: BoG, Eurobank Global Markets Research

Graph 15ii: Interest rates on euro-denominated deposits with agreed maturity up to 1 year (ppts)



Source: Bank of Greece, Eurobank Global Markets Research

Eurobank Global Markets Research

Global Markets Research Team

Dr. Platon Monokroussos

Head of Global Markets Research

pmonokrousos@eurobank.gr, + 30 210 37 18 903

Paraskevi Petropoulou: *G10 Markets Analyst*

ppetropoulou@eurobank.gr, + 30 210 37 18 991

Galatia Phoka: *Emerging Markets Analyst*

gphoka@eurobank.gr, + 30 210 37 18 922

Global Markets Sales

Nikos Laios: *Head of Treasury Sales*

nlaios@eurobank.gr, + 30 210 37 18 910

Alexandra Papathanasiou: *Head of Institutional Sales*

apapathanasiou@eurobank.gr, +30 210 37 18 996

John Seimenis: *Head of Corporate Sales*

yseimenis@eurobank.gr, +30 210 37 18 909

Achilleas Stogioglou: *Head of Private Banking Sales*

astogioglou@eurobank.gr, +30 210 37 18 904

George Petrogiannis: *Head of Shipping Sales*

gpetrogiannis@eurobank.gr, +30 210 37 18 915

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

Eurobank Global Markets Research

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

· **Daily overview of global markets & the SEE region:**

Daily overview of key developments in global markets & the SEE region

· **South East Europe Monthly:**

Monthly overview of economic & market developments in the SEE region

· **Global Markets & SEE themes:**

Special focus reports on Global Markets & the SEE region

Subscribe electronically at <http://www.eurobank.gr/research>