

Greece

On the road to recovery

*Adjustment program success stories,
investment opportunities
& challenges lying ahead*

Adjustment program success stories & socioeconomic costs



Success stories	2009	2013	Δ 2013/2009 (improvement)
General government balance (% GDP)	-15.6	-3.2	12.4 ppts
General government primary balance (% GDP)	-10.5	0.8	11.3 ppts
Interest expense (euro bn)	12.3	7.2	5.1 billion
Current account balance (% GDP)	-11.2	0.7	11.9 ppts
Current account excl. oil, ships & net interest payment (% GDP)	-2.6	7.1	9.7 ppts
Socioeconomic costs	2009	2013	Δ 2013/2009 (deterioration)
Nominal GDP (euro bn)	231.1	182.1	49 bn
Unemployment rate (% , e.o.p)	10.5	27.1	16.6 ppts
Total number of employed of 15yrs of age and over (thousands)	4,461	3,573	888 thousands
Gross public debt (% GDP)	129.7	175.1	45.4 ppts
Rise in gross public debt due to snowball effect (ppts-of-GDP)			59ppts

Source: ELSTAT, BoG, Eurobank Global Markets Research

Summary of views

- ✓ improvement in sentiment indicators increasingly reflected in hard economic data
- ✓ real GDP growth to shift into positive territory from Q3 2014 onwards
- ✓ upside risks to the troika forecasts for private consumption & imports growth
- ✓ tourism, energy, manufacturing (food processing), agriculture, retail & whole trade among the main growth drivers in the coming decade

Risks

negative carry over from last year's recession (-0.6ppts)

still negative savings rate of households & huge disinvestment in the domestic economy

supply-side constraints to domestic credit

reforms fatigue and resistance from vested interests

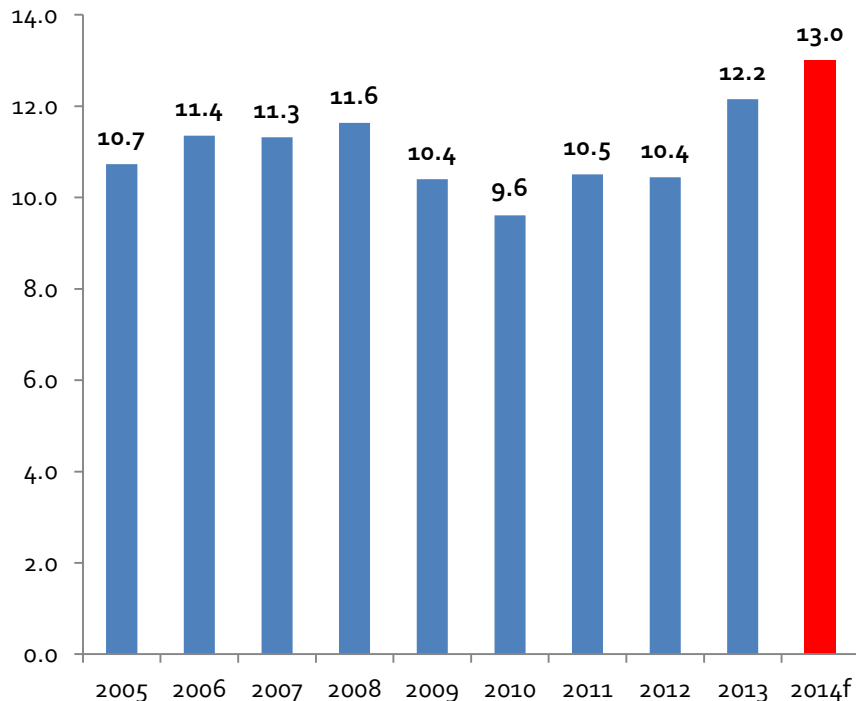
Tourism sector contribution

16.5% in GDP (GVA); 18.5% of total employment



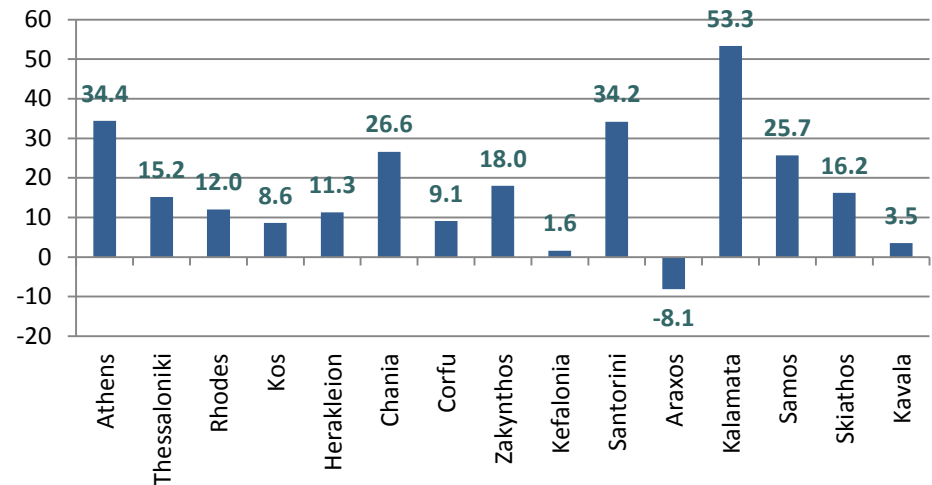
2014(f): 19mn visitors; >13bn direct revenue
2021 target: 22-24mn visitors; €18-19bn in direct revenue

Travel receipts (EUR bn)

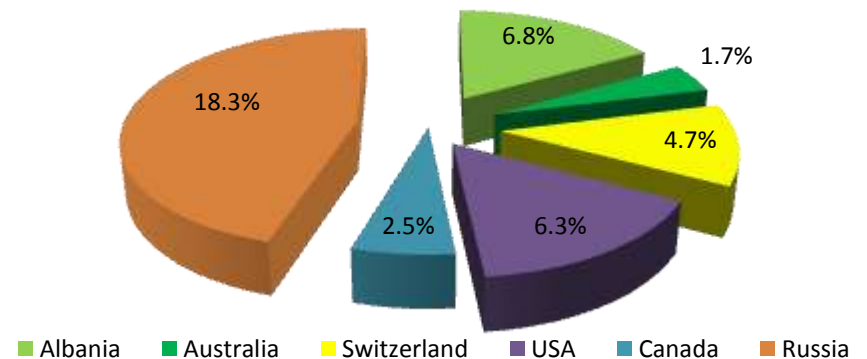


Source: SETE, ELSTAT, BoG, Eurobank Global Markets Research

Incoming passenger traffic: January-May 2014, YoY%

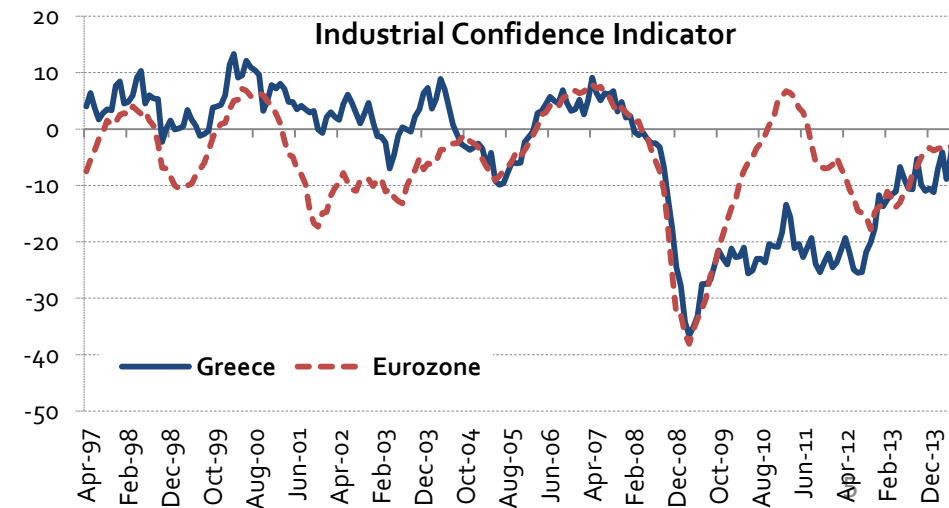
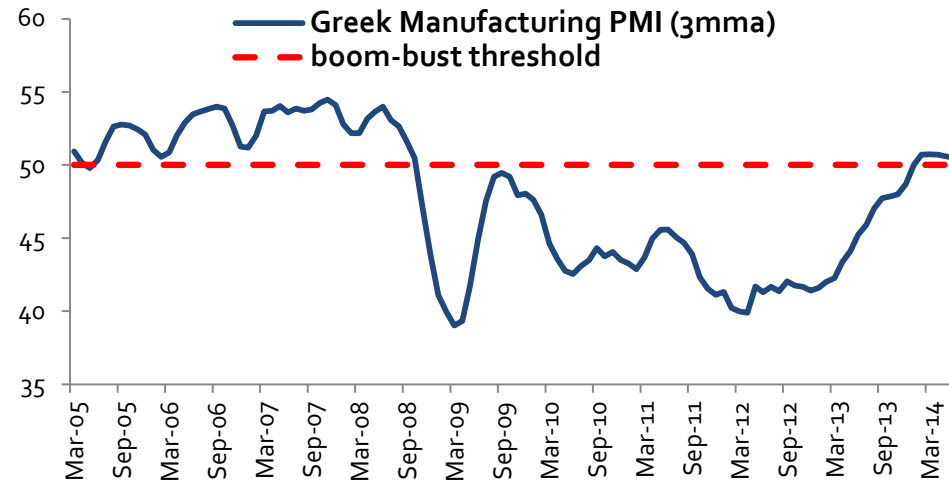
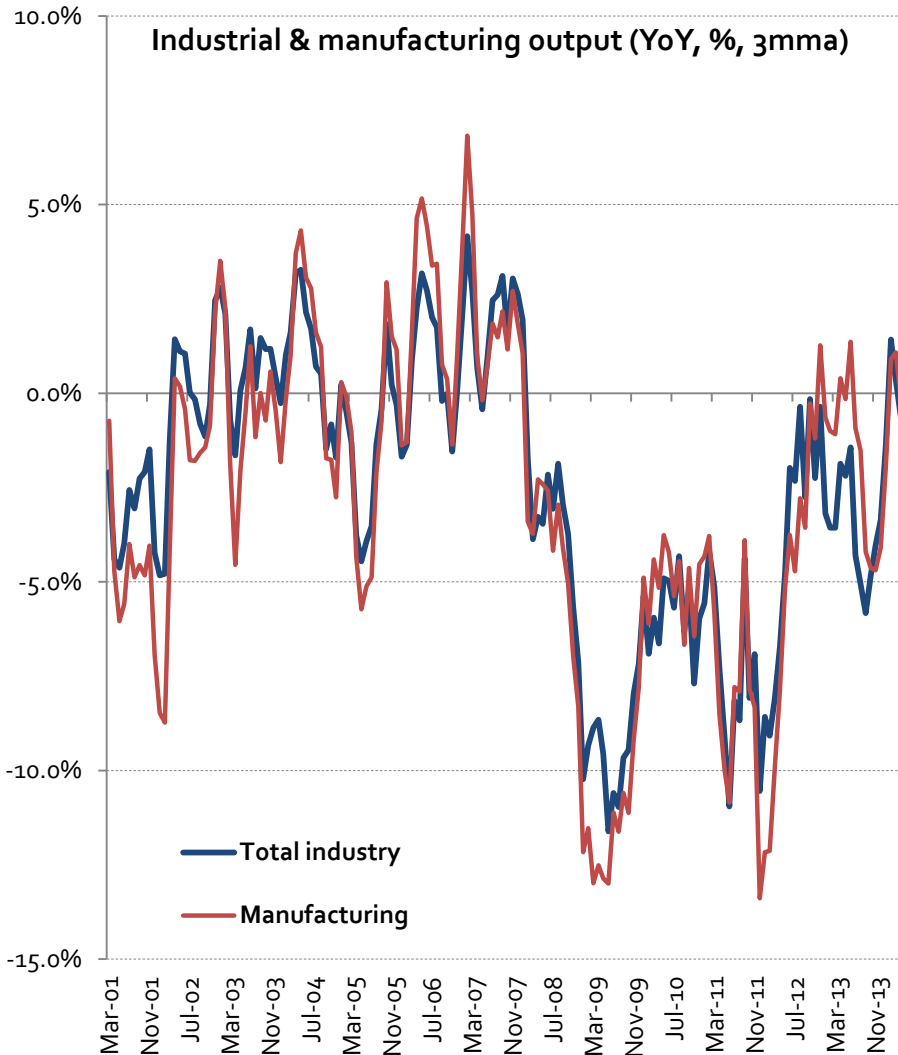


Incoming passengers in 2013 by country of origin
 (% of total arrivals from non-EU countries)



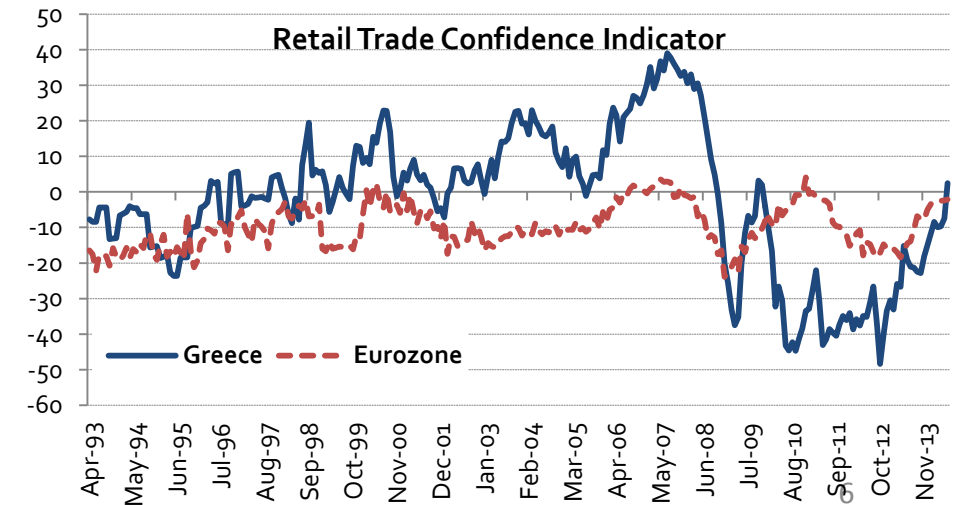
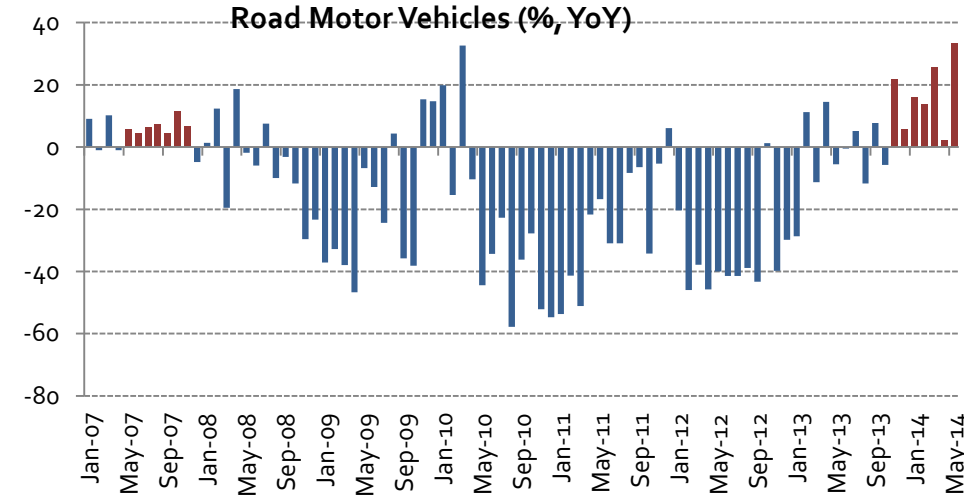
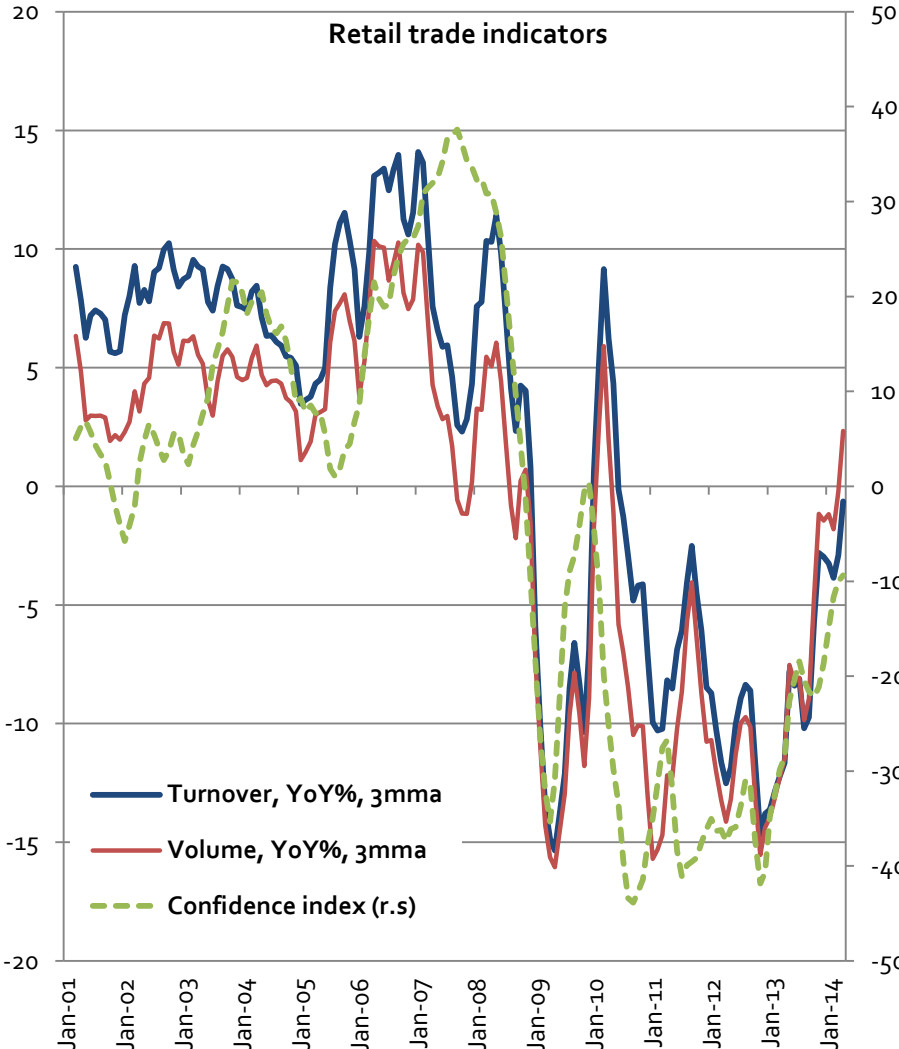
Industrial sector contribution

Industry (incl. construction) 16% in GDP (GVA);
 manufacturing 10% in GDP



Trade contribution

Retail & wholesale 19% in GDP (GVA) & 18% in total employment; retail 7% in GDP



Construction sector contribution

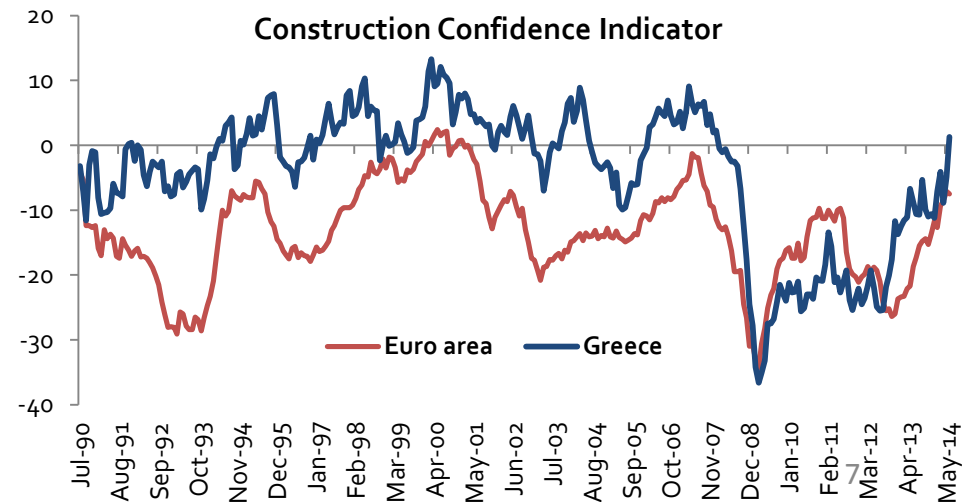
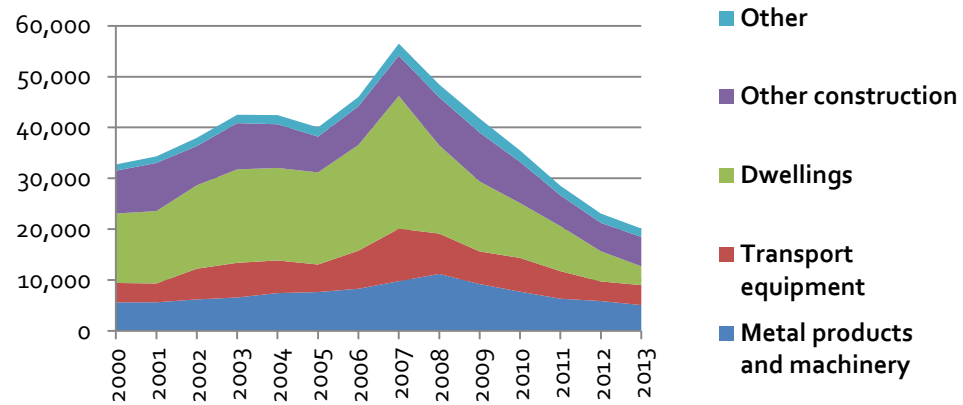
GVA: 3.5% vs. 16.3% in 2006



Eurobank Research VECM model for explaining residential housing prices in Greece
(realizations & forecasts, YoY %)

	Baseline	Adverse
2008	0.3	0.3
2009	-4.2	-4.2
2010	-7.0	-7.0
2011	-6.7	-6.7
2012	-12.8	-12.8
2013	-9.3	-9.3
2014(f)	-5.9	-9.0
2015(f)	1.0	-3.9
2016(f)	2.9	0.9

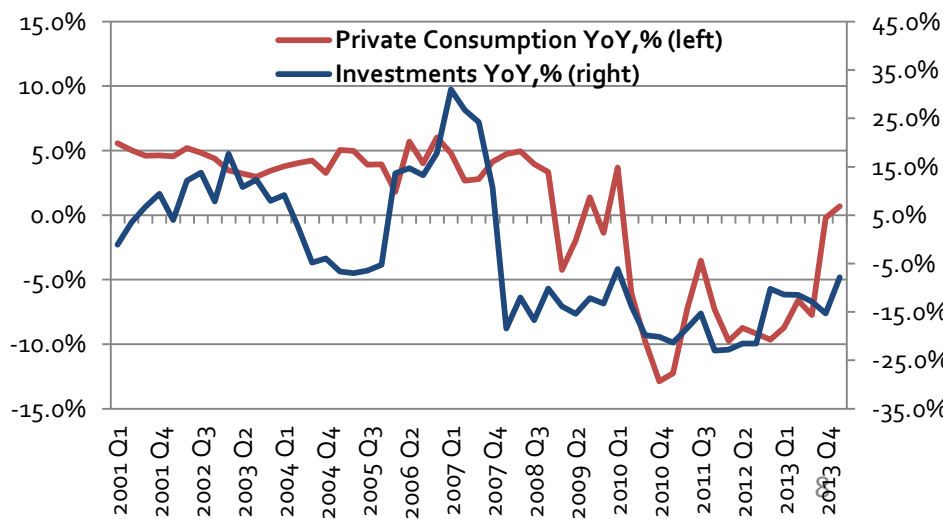
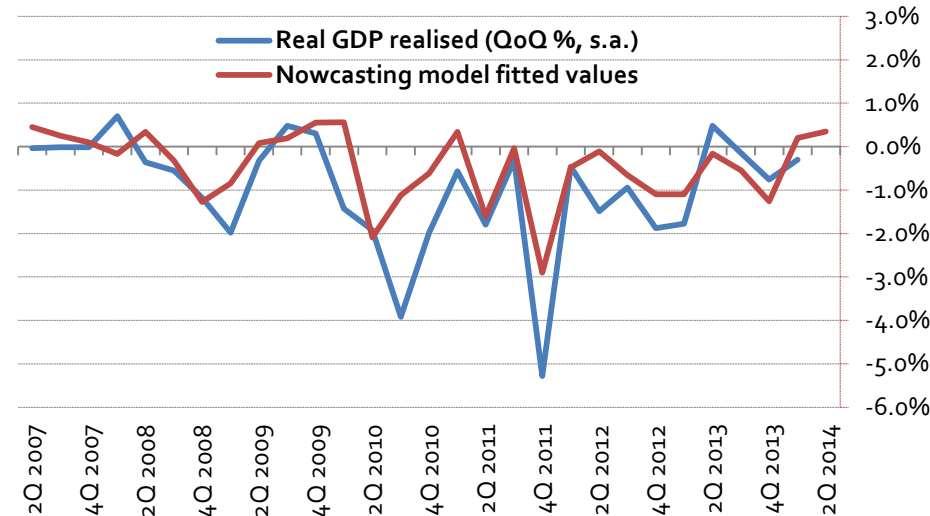
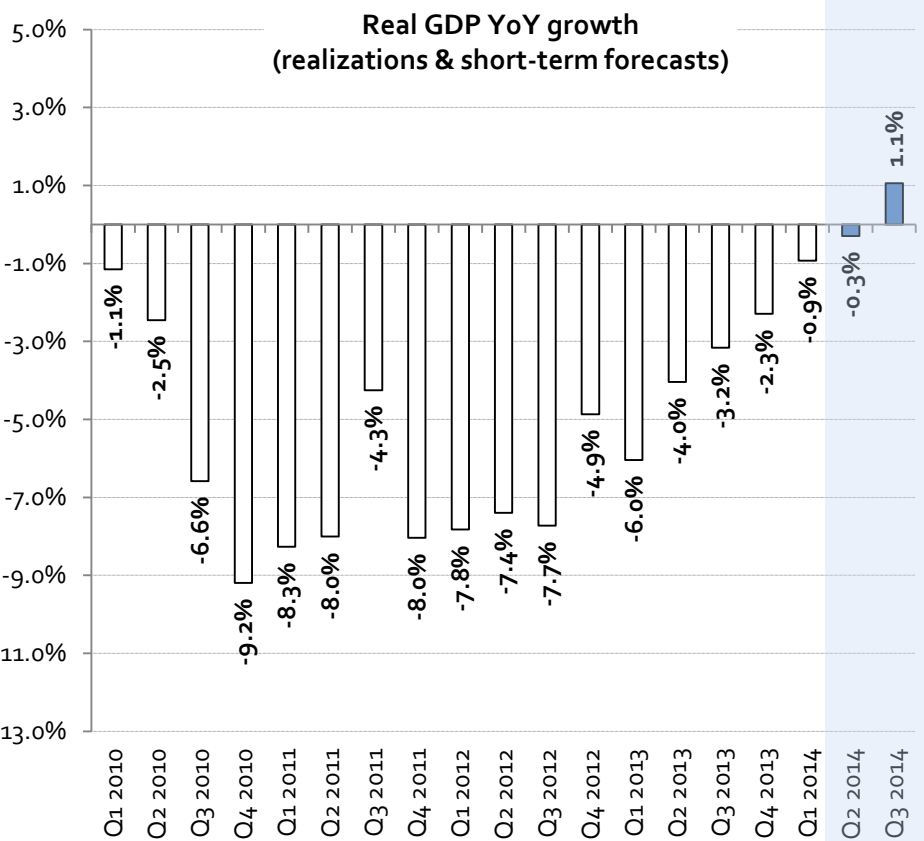
Gross investment components (EURmn, s.a., 2005=100)



Source: BoG , Eurobank Global Markets Research

Eurobank GDP NOWcasting model

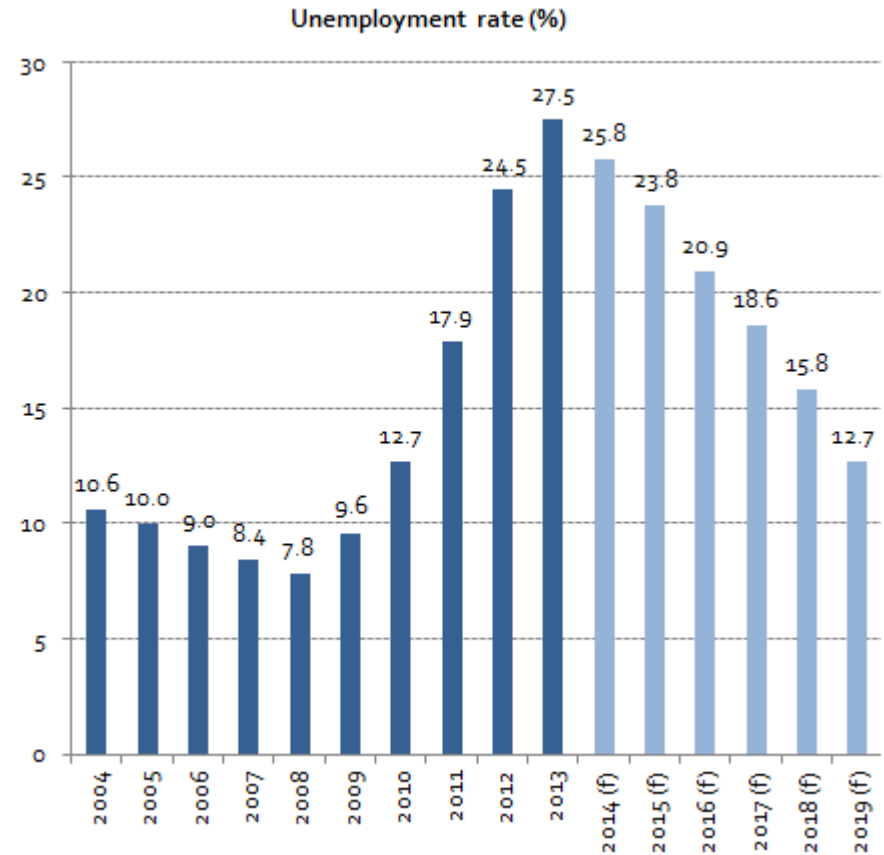
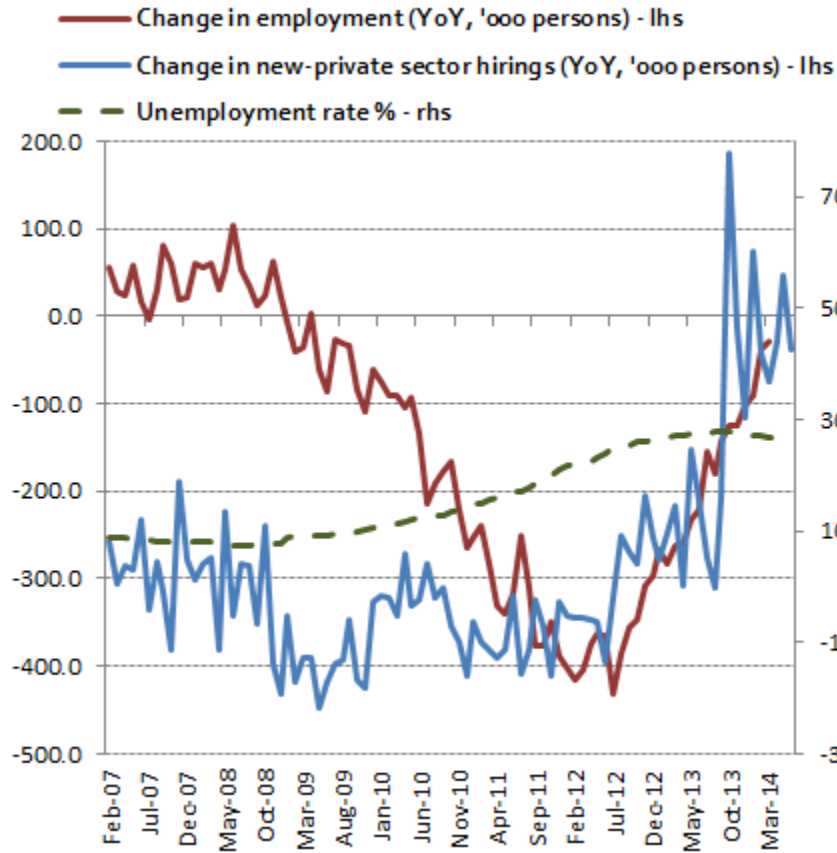
Q2 2014 estimate & short-term forecasts



Source: EL.STAT., Eurobank
 GDP Nowcasting Model estimates based on the following high-frequency indicators:
 "RS", "AUTO", "UNEMPL", "NOFEMP", "HIRES", "CPI", "BUILD", "IP", "MANF", "MANORDER", "IPTURN", "CREDIT", "REERCPI", "REERULC", "ECONSENT", "ASEVOL"

Labor market conditions

Unemployment still unacceptably high, but gradual improvement already underway



Source: EL.STAT, Ministry of Labour, ERGANI, IMF (June 2014), Eurobank Global Markets Research

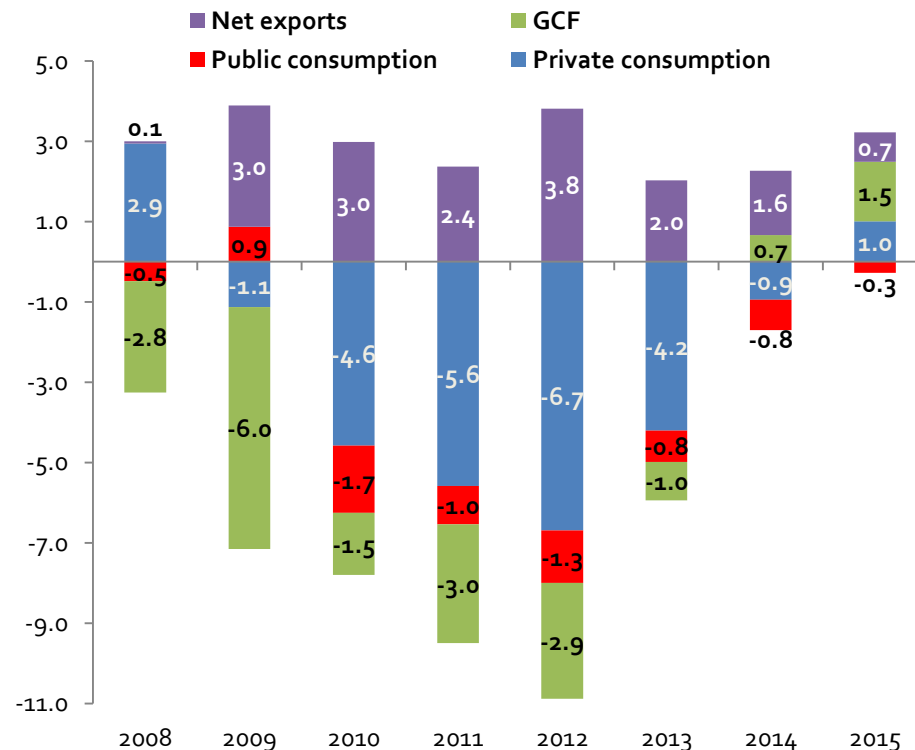
Greek GDP realizations and forecasts

Components, contributions & risks

GDP components & risks

YoY growth	2008-2012	2013	2014(f)	2015(f)	Risks
Private consumption	-20.6%	-6.0%	-1.8%	1.7%	↑
Public consumption	-18.4%	-4.1%	-1.7%	-2.0%	↔
Investments	-81.9%	-12.8%	5.9%	9.7%	↓
Exports g&s	-13.9%	1.8%	4.1%	5.2%	↔
Imports g&s	-46.6%	-5.3%	-1.3%	2.2%	↑
GDP	-22.5%	-3.9%	0.6%	2.9%	↔

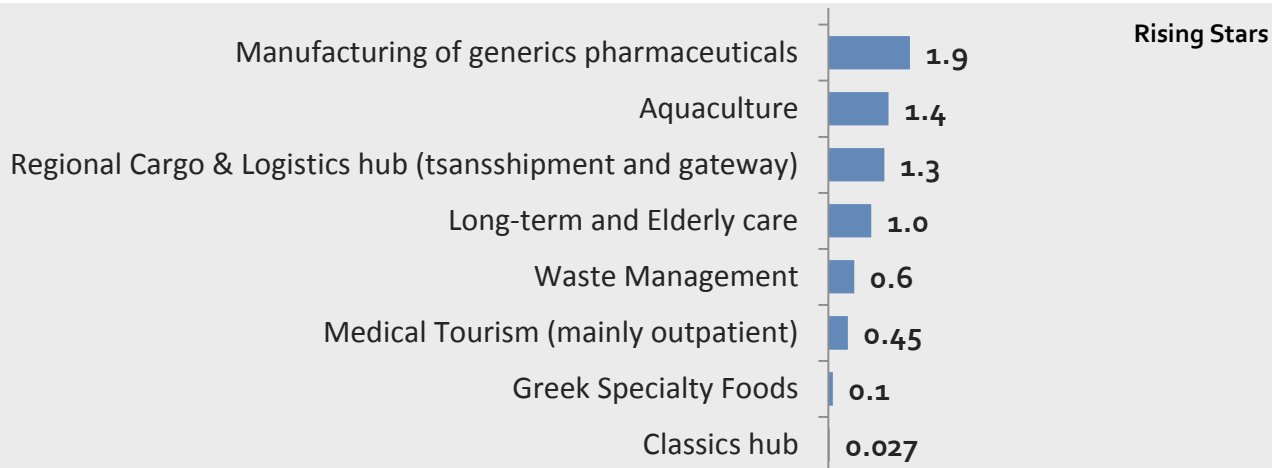
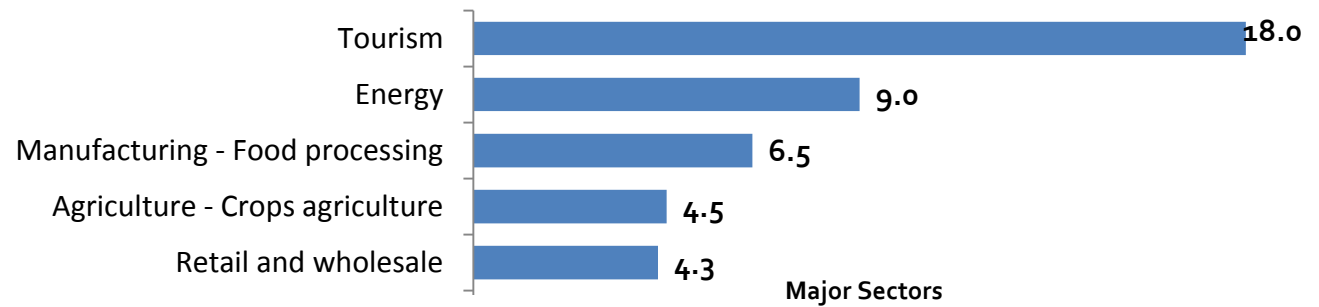
Contributors to real GDP growth (realizations & forecasts)



Potential sources of long-term economic growth



Additional annual GVA (in EURbn) over 10-year horizon



Summary of views

- ✓ fiscal adjustment unpredicted by historical standards
- ✓ State budget execution data support attainability of full-year fiscal target
- ✓ full coverage of projected financing gap achievable up to at least 2020
- ✓ public debt more sustainable now than in 2009
- ✓ new debt relief (OSI) expected upon completion of next troika review

Risks

recent court decisions to cancel certain wage cuts in 2012 (armed forces & emergency services personnel) may create the need for offsetting budgetary measures

challenging medium-term primary surplus target (4.0%-4.5%-of-GDP)

Fiscal adjustment unprecedented by historical standards

Adjustment mainly driven by the expenditure side

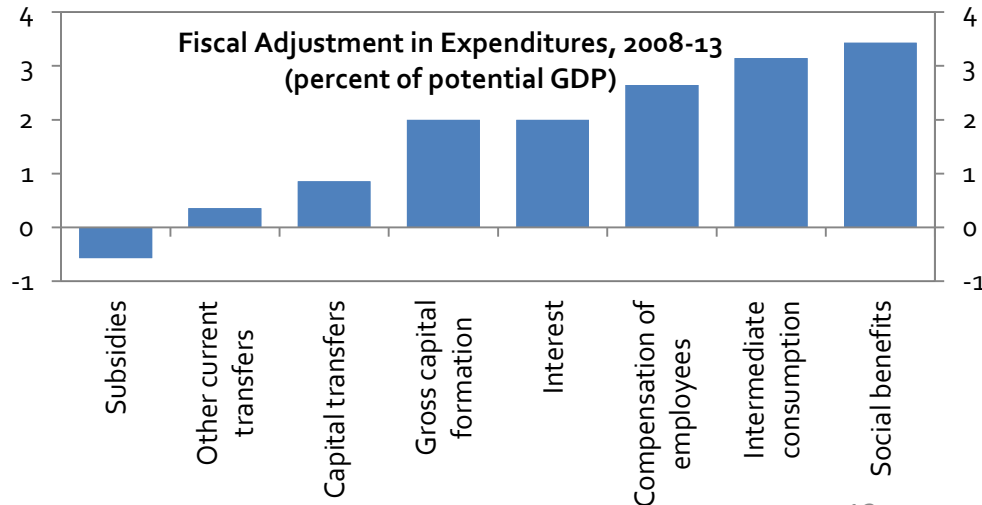
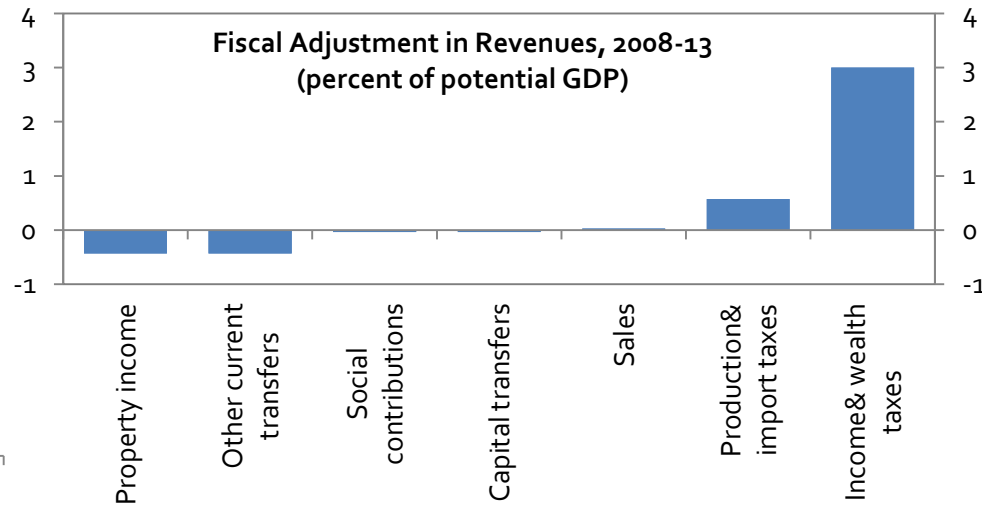
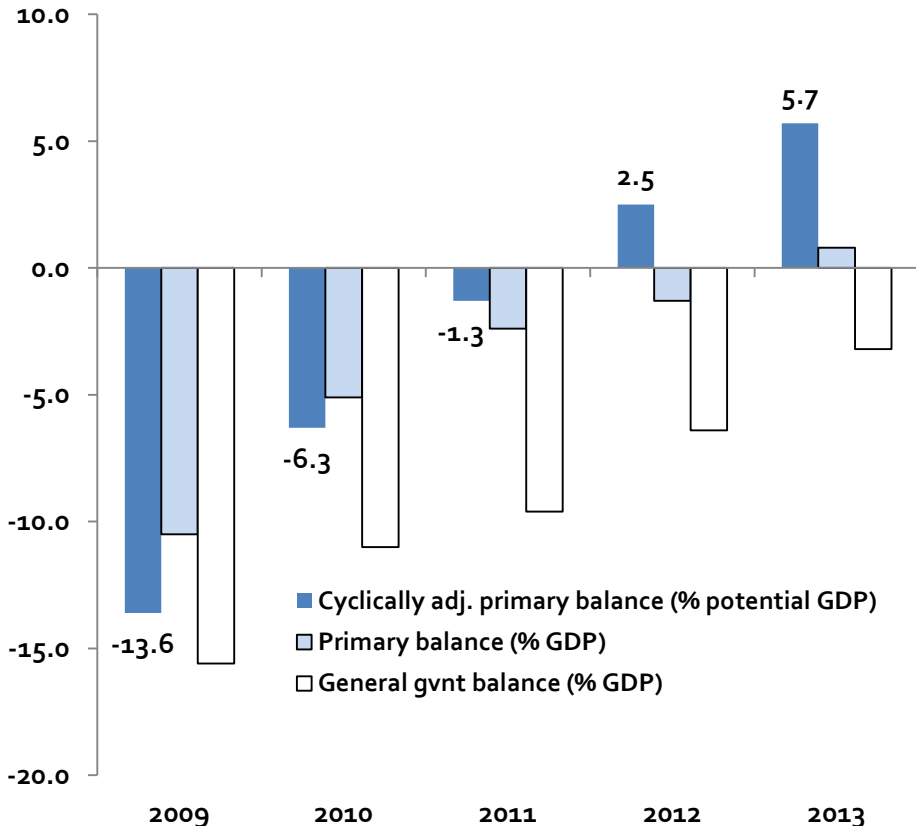


Cumulative improvement in 2009-2013

General gvnt balance: 12.4ppts-of-GDP

General gvnt primary balance: 11.3ppts-of-GDP

Cyclically adj. primary balance: 19.3ppts-of-GDP



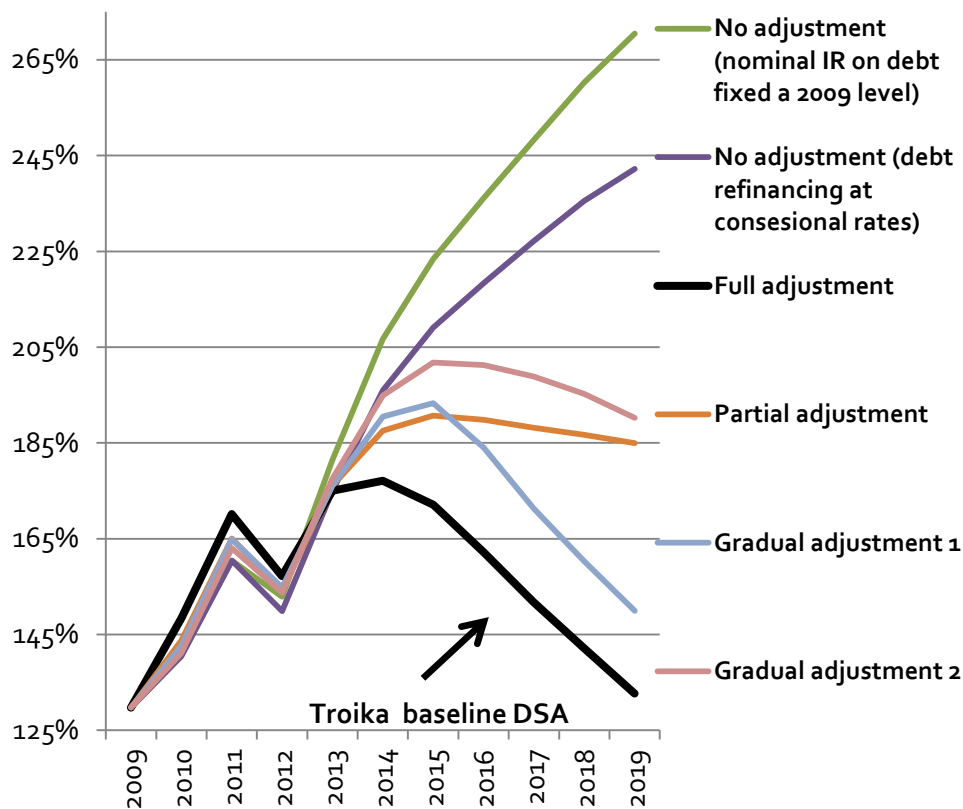
Public debt more sustainable now than in 2009

That is, despite the rise in the debt ratio by ca 45.5ppts over the period 2009-2013

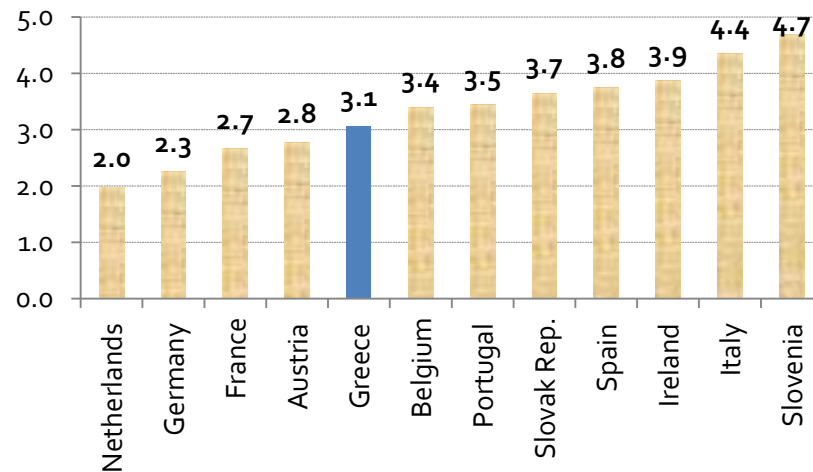


Evolution of Greek public debt ratio

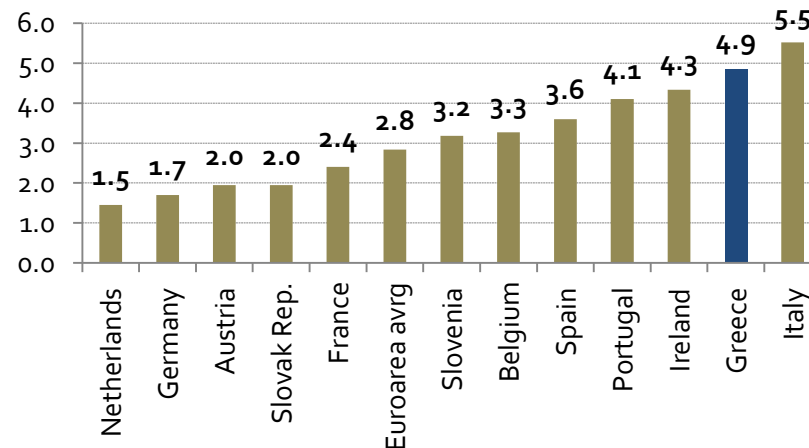
Scenario analysis based on different assumptions regarding
 a) size & degree of persistence of fiscal multipliers; b) size & profile of fiscal adjustment; c) response of financial markets to fiscal consolidation



Nominal interest rate on debt 2013-2018 (%)



Interest payments on debt 2013-2018 (% of GDP)

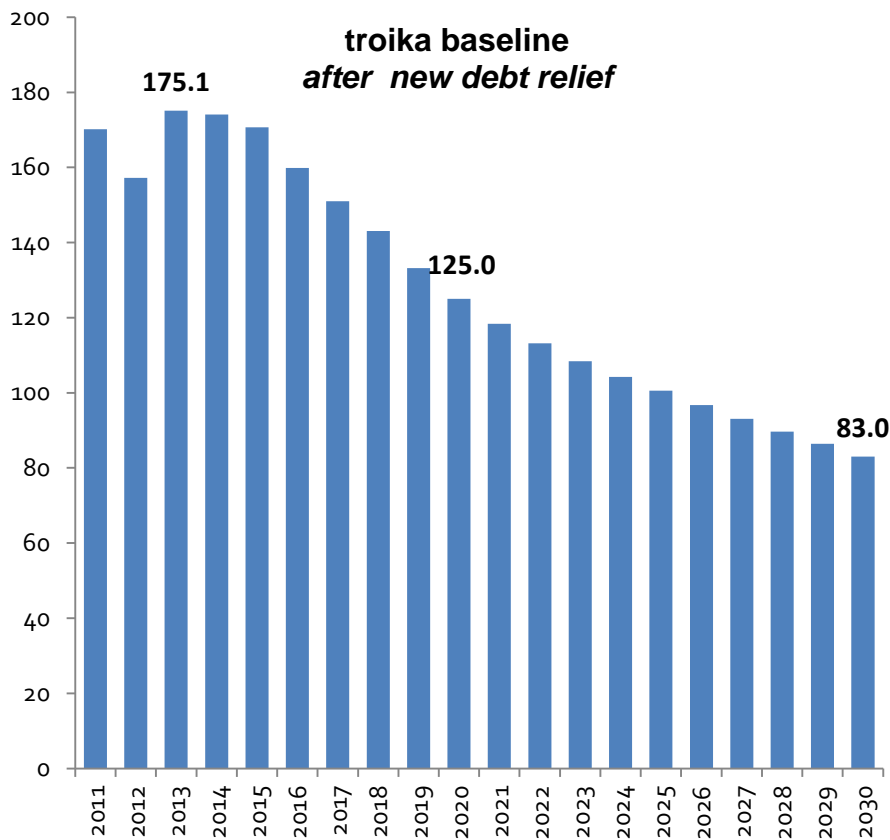


Eurobank new debt relief proposal:

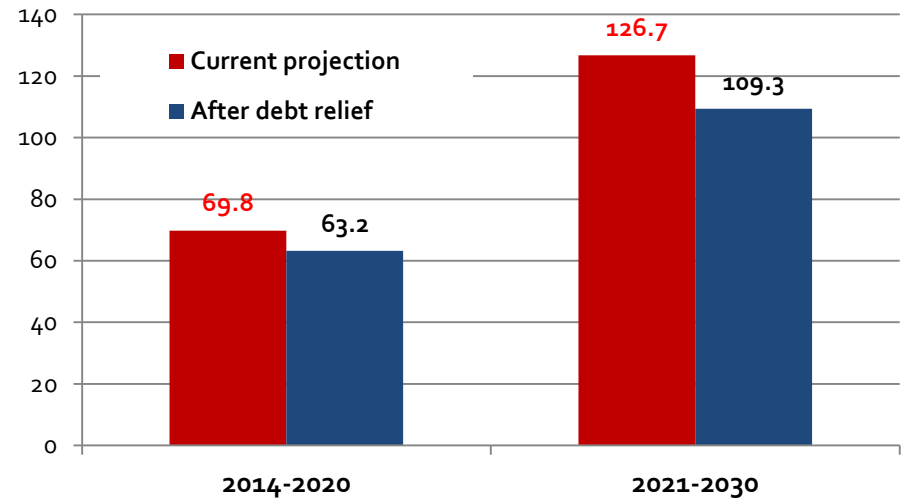
GLF swap into 50yr amortizing bond with 10yr grace on interest payments and fixed interest of ca 0.6%



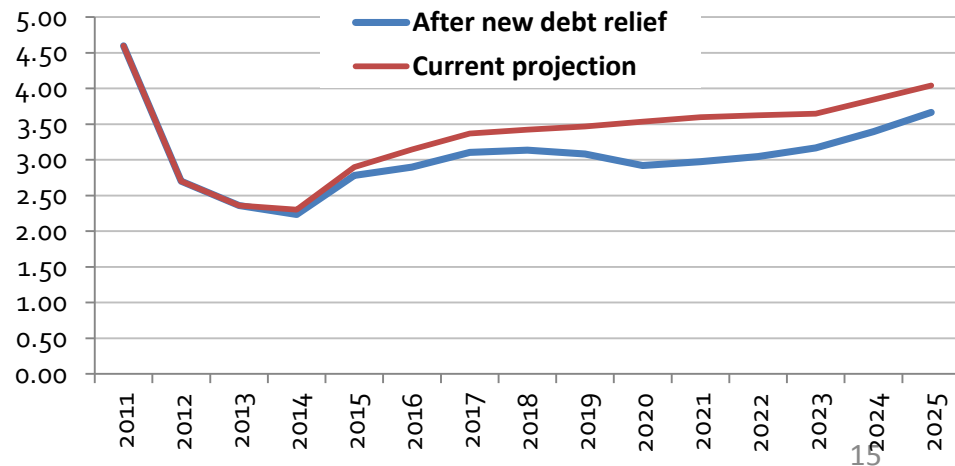
Evolution of Greek public debt ratio



Interest expense with & without new debt relief (EURbn)



Nominal effective interest rate on public debt with & without new debt relief (EURbn)



Full coverage of projected financing gap attainable up to at least 2020

without recourse to a new aid package from official lenders



Projected evolution of general government borrowing needs & funding sources (EURbn, cumulative amounts)

	2014-2016	2017-2020
A. Gross borrowing need <i>(government cash deficit, amortizations, other)</i>	61.1	56.3
B. Financing source <i>(EU/IMF loans, market access, privatization revenue, ANFA& ESF profits)</i>	58.0	52.5
C. Financing gap (A-B.) <i>"-" indicates deficit ; "+" indicates surplus</i>	-3.1	-3.8
D. Strategies to cover financing gap with internal sources other than bond issuance <i>(rollover of 5yr ETEAN bond; purchase of bank preference shares by the State, use of government sub-sector deposits via repos; new debt relief)</i>	5.0	5.5

External sector developments & competitiveness

Summary of views



Summary of views

- ✓ surplus CA for the first time on record
- ✓ improvement mainly driven by huge imports contraction, higher services exports and lower interest payment on public debt (PSI & DBB)
- ✓ cumulative losses in post EUR-entry wage cost competitiveness already eliminated

Risks

structural CA still at a deficit of ca 4%-of-GDP

concerns remain as to the performance of merchandise exports excl. fuels

CPI-based REER still overvalued by slightly over 10ppts

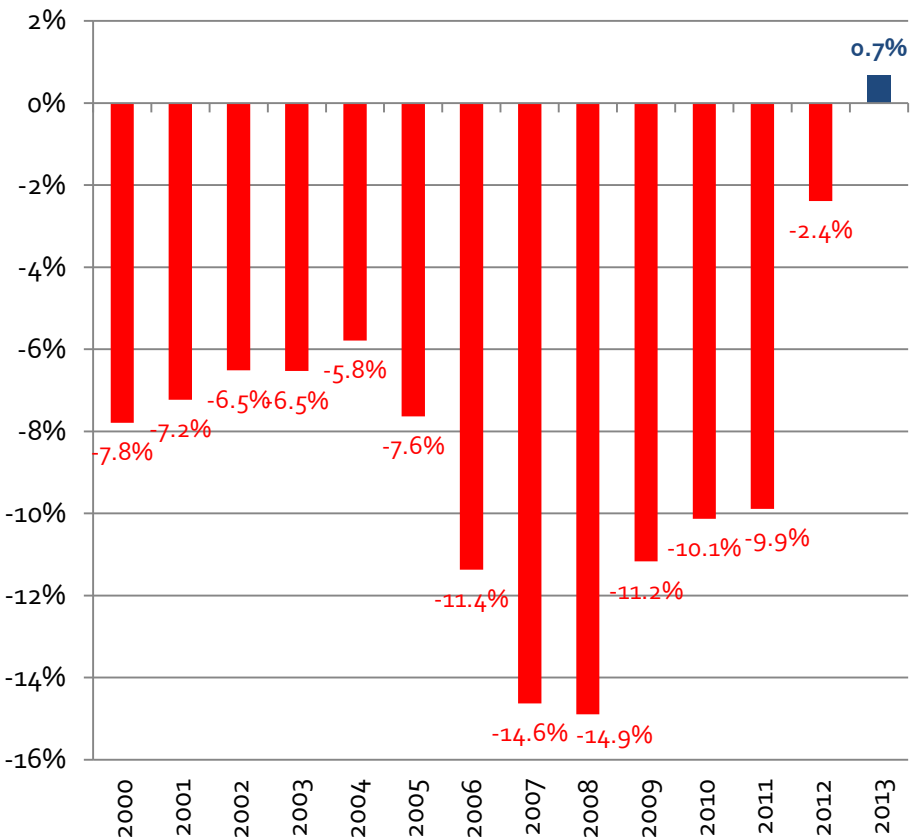
improving environment for foreign direct investment, but FDI-to-GDP ratio still lower than EU average

A surplus CA in 2013 for the first time on record

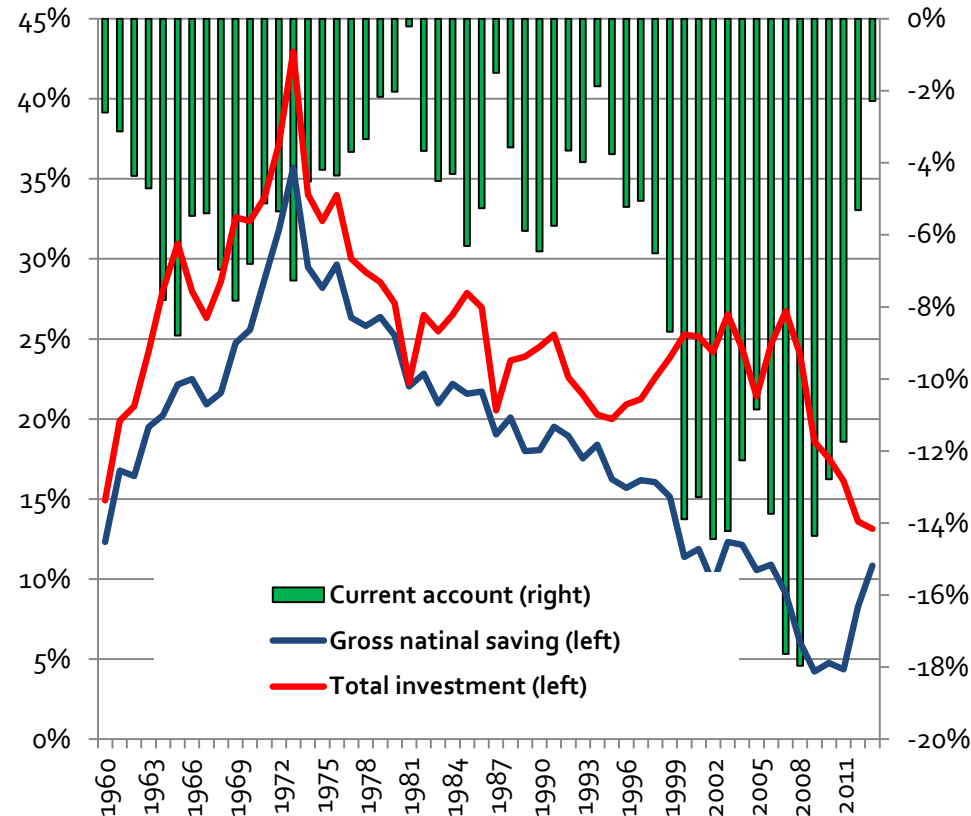
Improvement mainly driven by the sharp contraction of imports, higher services exports (tourism) and lower interest payments on public debt (PSI & DBB)



Greece's current account (% GDP)
Balance-of-payments definition



Greece's current account as a savings-investment imbalance (% GDP)



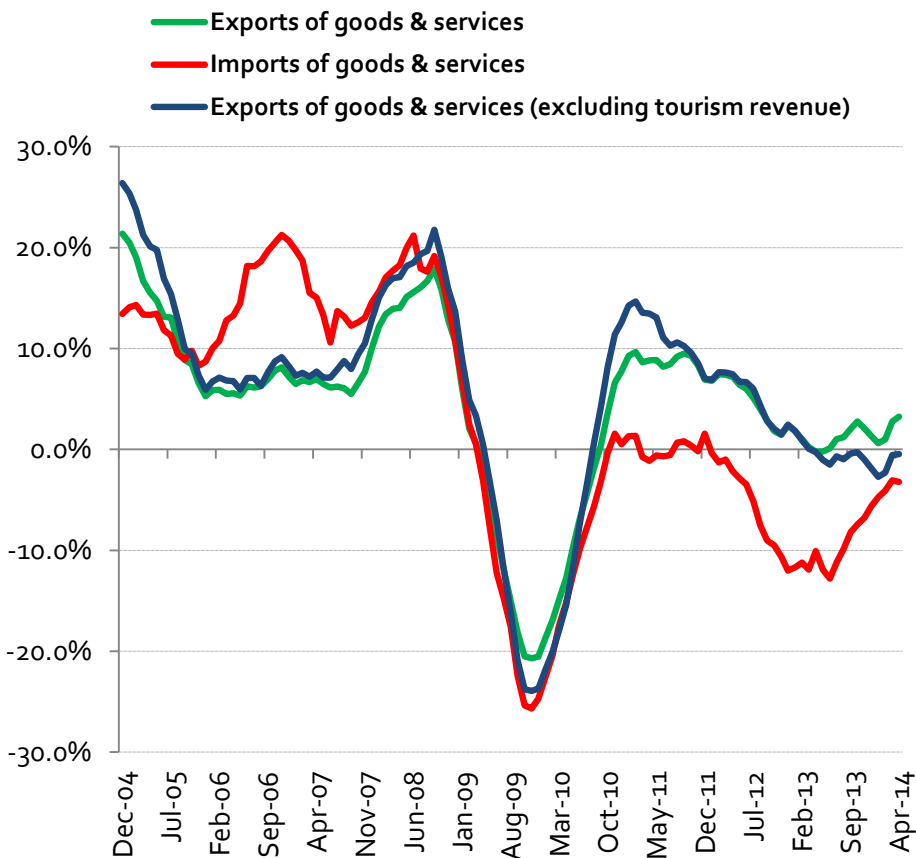
Source: BoG, AMECO, Eurobank Global Markets Research

Export & import trends

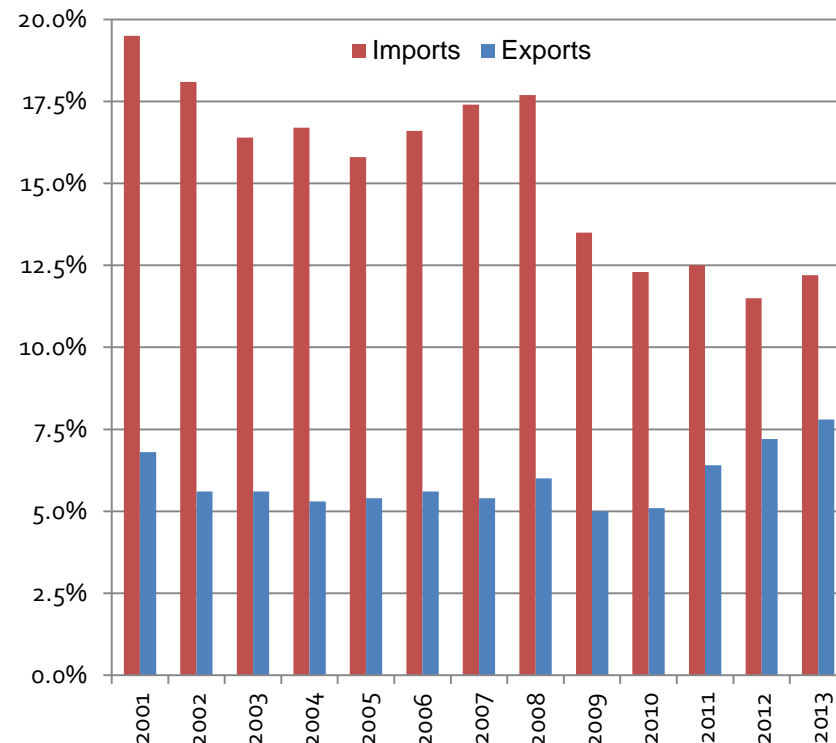
Lingering concerns as to the performance of merchandise exports despite the rapid improvement in wage cost competitiveness



**Annual growth of exports & imports
(YoY %, 12mma)**



Merchandise exports and imports excluding fuel and ships purchases (% GDP)

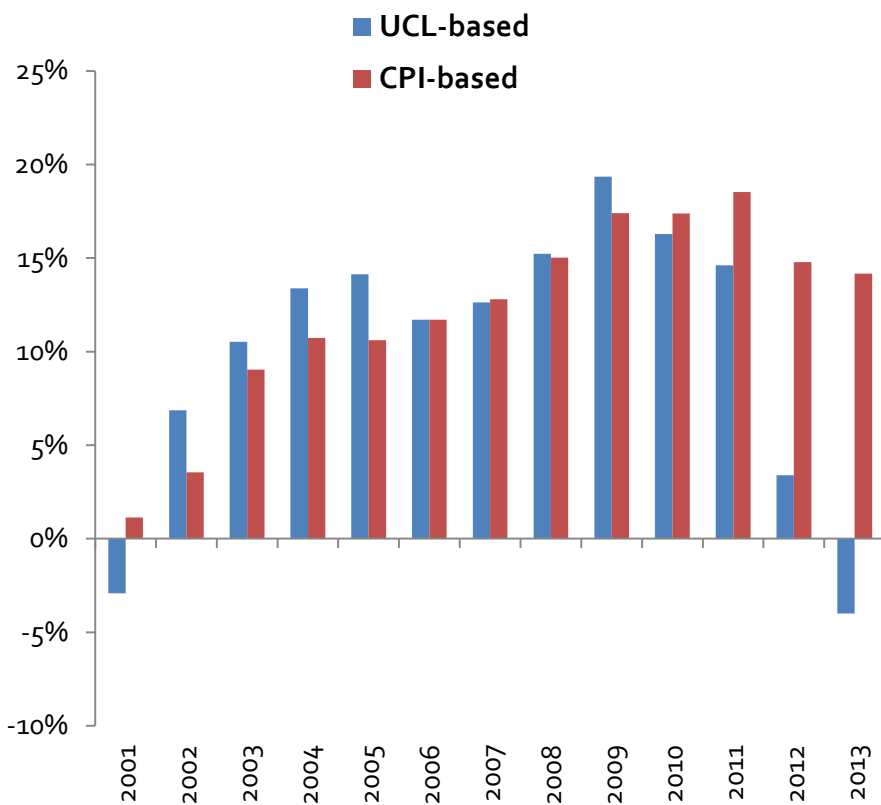


Wage adjustment has fully offset the wage cost-based competitiveness losses accumulated post the EUR entry

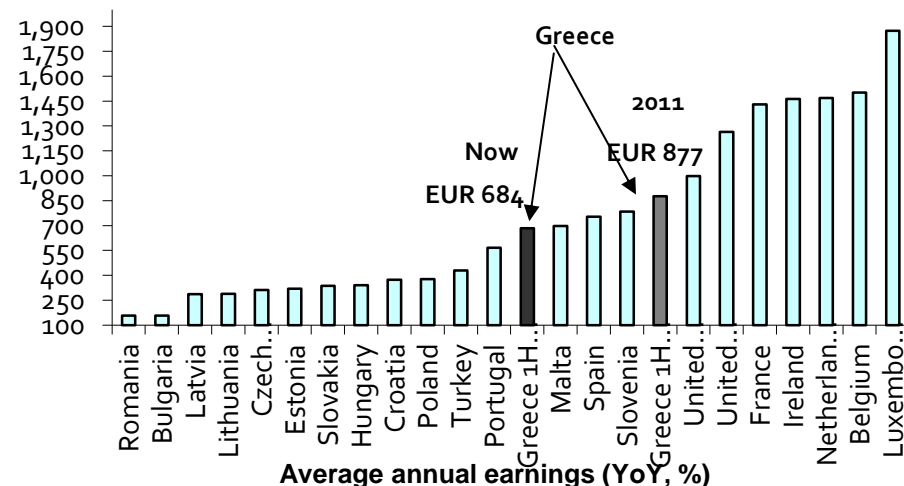
However, Greece's CPI-based REER remains overvalued by more than 10%



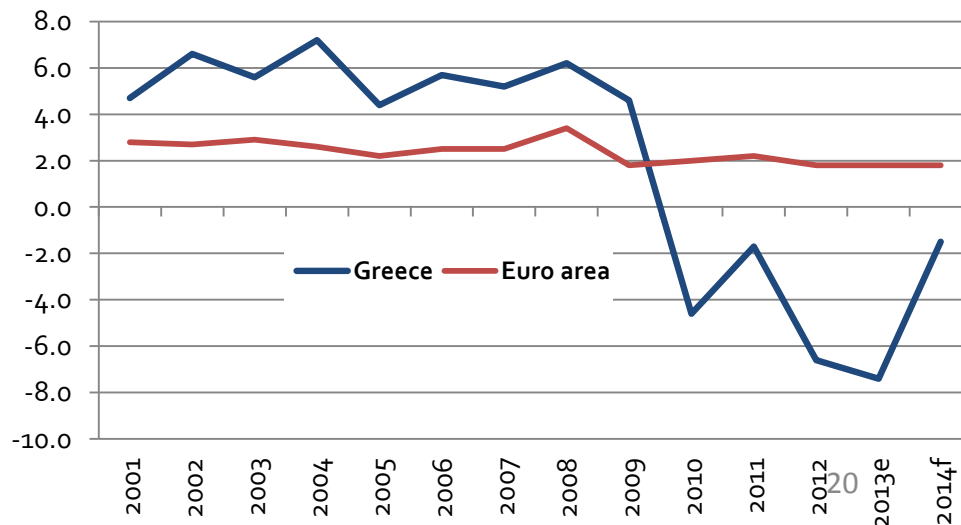
Greece – REER cumulative growth
(vs. 37 major trade partners)



Minimum wage (euros per month)



Average annual earnings (YoY, %)

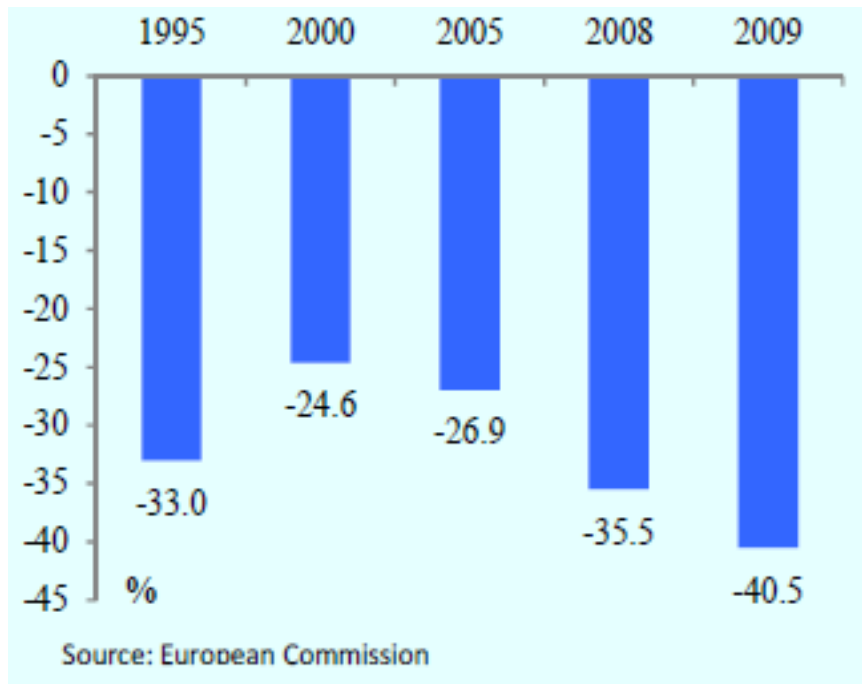


Greece competitiveness

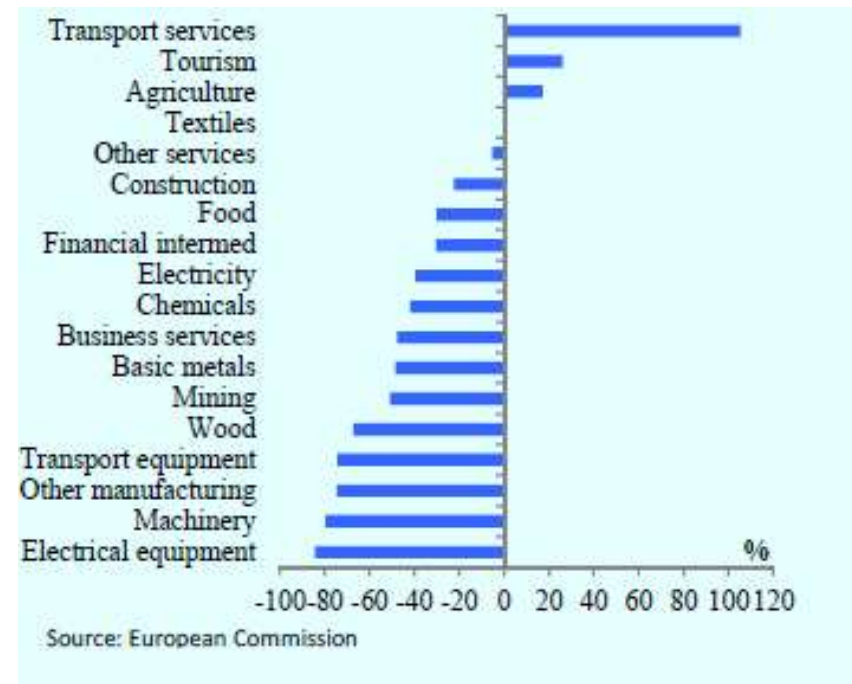
Performance vs. major trading partners (39 exporter EU & OECD countries as well as 56 others including emerging market economies)



Estimate of the Greek competitiveness gap by year (%)



Estimate of the Greek sector competitiveness



Financial sector developments

Summary of views

- ✓ domestic financial conditions improving; deposit rates record significant decline since mid-2012 peak; loan rates ease, though to a lesser extent than deposit rates
- ✓ banking system reduces dependency on ECB liquidity measures; ELA funding close to zero
- ✓ domestic banking system fully-recapitalized, enjoying strong Core Tier 1 capital ratios and unique market structure (4 systemic banks controlling more than 95% of loans base)

Risks

initial bounce in deposit inflows post the June-2012 election discontinued (still down > 30% from peak)

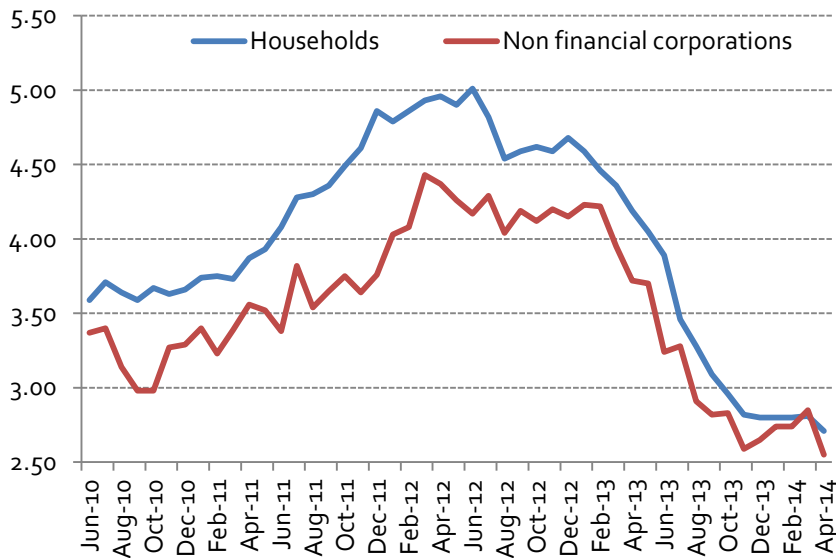
supply-side constrains risk credit-less recovery (EU-wide phenomenon)

NPLs resolution remains a challenge for the domestic banking system

Bank recapitalization, gradual normalization of domestic liquidity conditions should allow switch to positive credit creation from 2015/16 onwards ^{*,**}

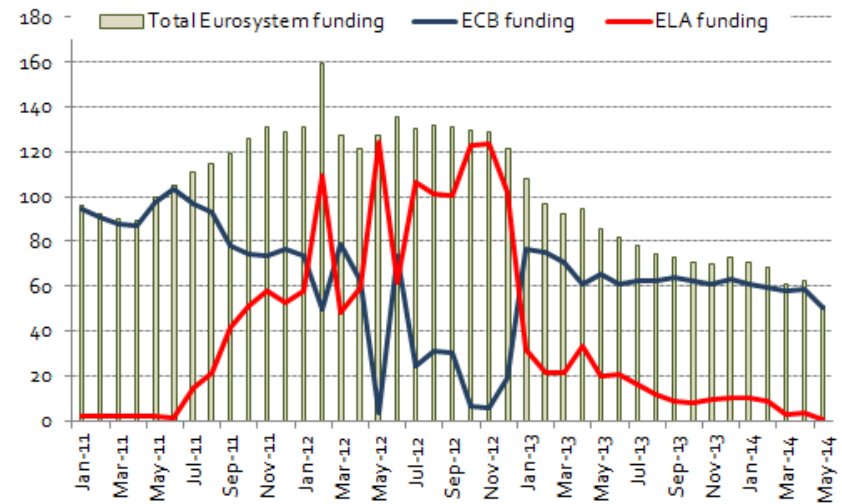


Interest rates on new euro-denominated deposits with agreed maturity up to 1 year (ppts)



Source: BoG, Eurobank Global Markets Research

Eurosystem funding to Greek banks (outstanding amounts in EURbn)



Source: BoG, Eurobank Global Markets Research

(*) Eurobank's Monetary Policy Transmission Mechanism Model (Panel Study): A 1ppt increase in domestic bank loan growth relative to the cross-section average of the PIIGS economies causes, after a quarter, a rise of between 0.2ppts and 0.47ppts in Greece's real GDP growth above the respective cross-sectional average.

() Eurobank's Greece SVAR model:** A decline in the average Greek bank loan interest rate by 1ppt can lead to a cumulative boost in real GDP growth by around 0.3ppts over a 4-quarter period.

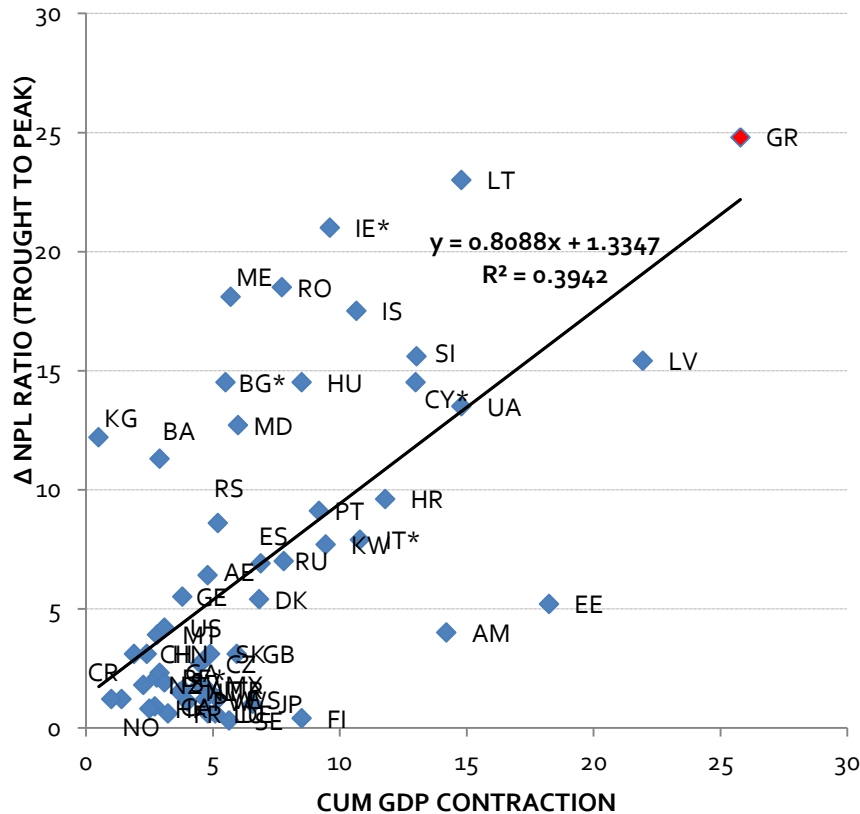
Source: P. Monokroussos & Thomakos D. (2013a) "Monetary Policy Transmission Mechanism & Bank Lending Channel in the euro area – Greece Case Study"

Rise in Greek NPLs ratio due to recession, rather than bank lending practices

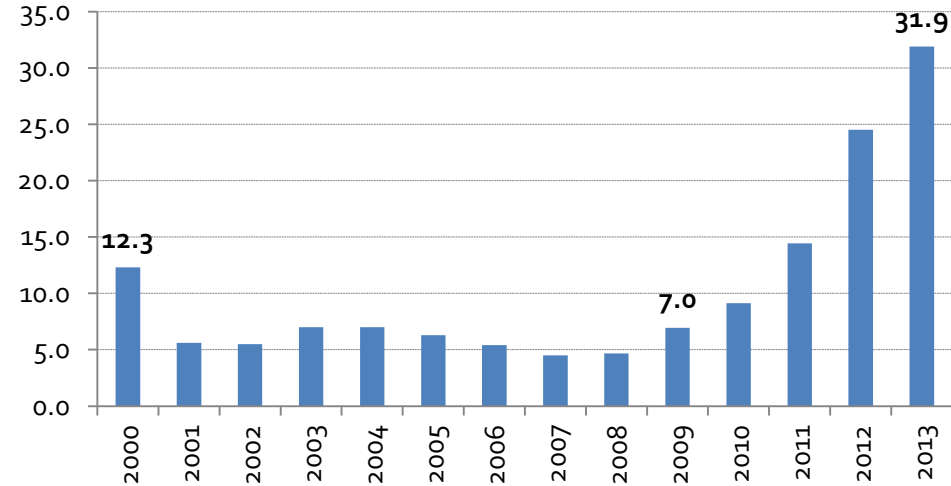
Of total NPLs 60% corporate (SMEs); 16% consumer; 24% mortgages



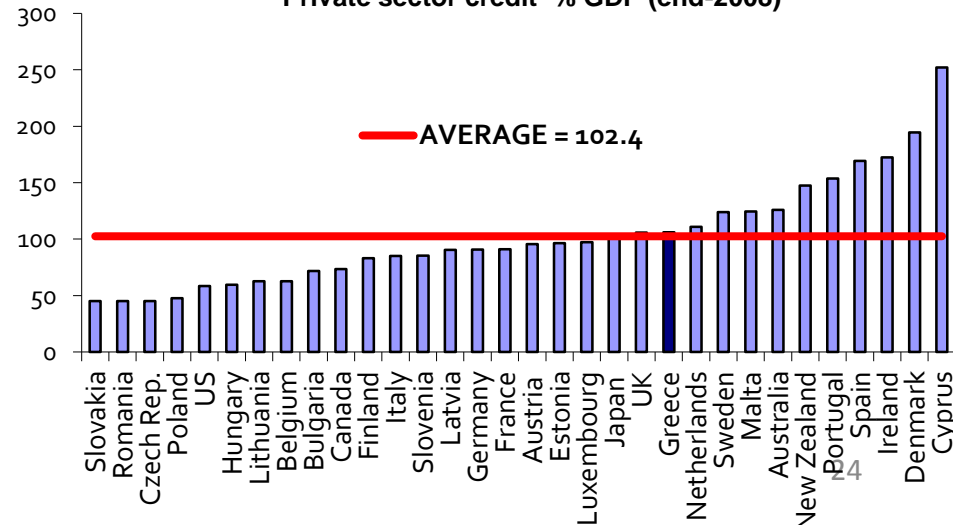
Cumulative real GDP contraction vs. change in NPL ratio
from trough to peak (2008-2013)



Greece's NPLs ratio



Private sector credit % GDP (end-2008)



Political environment, progress on structural reforms & upcoming troika review



Summary of views

- ✓ coalition majority may rise further in the upcoming presidential vote
- ✓ a number of steps have been taken in fulfilling privatisation targets
- ✓ prior actions to the June 2014 EFSF loan disbursement fulfilled
- ✓ Negotiations in the context of next troika review unlikely to conclude before year-end

Risks

Lingering political jitters & reforms fatigue

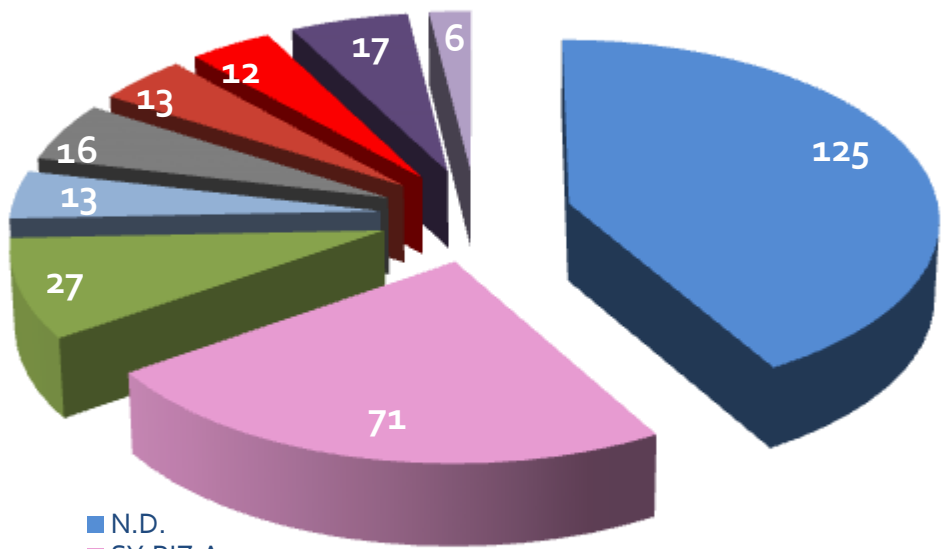
Ruling coalition controlling slim parliamentary majority

Majority of at least 180 in-favor votes needed for the upcoming election of the President of the Hellenic Republic



✓ **Ruling coalition** currently controls 2-seat majority in the 300-seat Parliament.

Allocation of seats in the Hellenic Parliament



Source: Ministry of Internal Affairs

Constitution of Greece (Article 32, paragraphs 3 & 4)

- ❑ *The vote for the election of the President of the Hellenic Republic should take place at least one month before the expiration of the tenure of the incumbent (i.e., 2 February 2015). The relevant procedure incorporates three separate ballots in Parliament.*
- ❑ *In the first two, a 2/3rd majority of the total 300 MPs is required (i.e., 200 in-favor votes). If both fail to produce a decisive outcome, a third ballot takes place where a majority of 3/5th is needed (i.e., 180 in-favor votes).*

Privatisation program

Progress so far & issue on the agenda in the upcoming program review

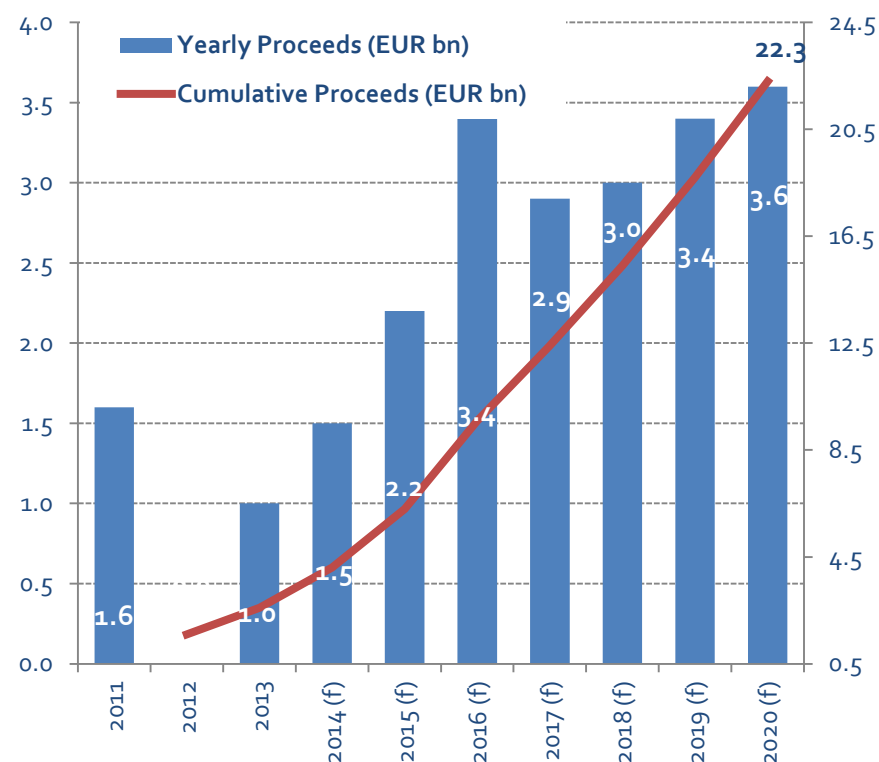
Even if with delays, a number of steps have been taken in fulfilling privatisation targets

- **16 privatisation projects already completed**, e.g. sale of 33% of Emma Delta, sale of 66% of DESFA
- **16 privatisation projects currently in progress**, e.g. sale of 67% of Piraeus Port (country's largest port complex)
- **16 privatisation projects currently under preparation**, e.g. Public Power Corporation S.A, Hellenic Petroleum
- **out of a target of 1,000**, ca 950 commercially-viable real estate assets have already been transferred to HRADF; more than **80,000 real estate assets** have been initially assessed (currently, under the management of line ministries and the Public Properties Company)
- **relevant law amended** to improve governance of HRADF

Steps that need to be taken

- ✓ **Strengthen governance regime** of the privatization plan
- ✓ **Bring forward privatisation revenues**

Greece: Privatization Proceeds (2011-2020)



Source: EU Commission, Occasional Papers 192/April 2014, "The Second Economic Adjustment Programme for Greece, Fourth Review"

Prior actions to the June & July 2014 EFSF tranches

June 2014 EFSF tranche (€1bn)	Completed	Pending
Adoption of outdoor trade law	√	
Adoption of investment licensing & spatial planning laws	√	
Issuance of ministerial decree for integration of debt collection to tax administration	√	
Update of nuisance charges list	√	
Adoption of code of conduct for members of Government	√	
Adoption of legislation entailing reduction in the average profit margin of pharmacists (to 15.7% from 19%)	√	
Adoption of legislation for non-insured citizens' access to diagnostics centers and use of medicines	√	
July 2014 EFSF tranche (€1bn)	Completed	Pending
Adoption of legislation on political parties' funding and on declaration (and monitoring) of their assets		√
Adoption of administrative burden legislation		√
Abolishment of third party taxes recorded as auxiliary funds revenue		√
Clearance of State arrears to PPC and adoption of law for the establishment of "Small PPC"	√	
Adoption of forestry law		√
Adoption of legislation allowing merger of all supplementary pension funds into ETEA		√
Legislation for implementation of "No Deficit Clause" & sustainability formulas to all funds not currently in ETEA		√

Next (5th) program review

Key issues on the agenda



Key issues on the agenda

Measures for the coverage of projected fiscal gaps (*1.0%-of-GDP in 2015 & 0.75%-of-GDP in 2016*)

Measures for the coverage of projected financing gap (H2 2015 & 2016)

Labor market reform (*collective dismissals, industrial actions*)

Public sector reform (*8k-10k additional layoffs by end 2014, other*)

Assesment of the privatisation program

(e.g.issuance of a list of pending actions required for the privatisation of key State entities; (ii) completion of an asesment of the management and board members of companies in the HRADF portfolio)

Framework for strengthening/restructuring domestic banking system

e.g., (i) BoG approval of the capital-raising plans addressing the adverse scenario already submitted by domestic banks; (ii) review of personal and corporate insolvency laws

Regulatory framework of product and services markets

(e.g.review of over-the-counter medicine prices & liberalisation of their retail channels)

Review of medical/pharmaceutical spending

(e.g. publication of list of medicine prices based on the lowest prices in three EU member States)

Source: EU Commission (April 2014), IMF Country Report No. 14/151 (June 2014), MTF5 (2015-2018), Eurobank Global Markets Research

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ANNEX 1

Funding gap fully covered on a 12-month forward basis



Strategies sought for the full coverage of the financing gap over the next 12 months

re-access to international capital markets

intra-general government borrowing through short-term repo operations (*up to €3 bn*)

use of idle resources available in other parts of general government for liquidity purposes

buyback by Pireaus Bank and Alpha Bank of preference shares from the State (*€1.7bn*)

rollover of 5-yr government bonds owned by the National Fund for Entrepreneurship and Development (ETEAN) that mature in August 2014 (*€1.5bn- €0.43bn*)

utilisation of the HFSF buffer (*ca €11.3bn*) after subtracting from it any amounts needed to cover potential capital shortfalls in the domestic banking system identified by a new EU-wide stress test, scheduled to be completed by end- October 2014

ANNEX 2

Greece – Disbursements under 2nd adjustment program (EURbn)



	Loan tranches disbursed so far under 2 nd adjustment program	Pending EFSF loan tranche following completion of 4 th program review (<i>subject to fulfilment of certain milestones</i>)	Future disbursements	Total disbursements under 2 nd adjustment program
	March 2012-mid-July 2014	August 2014 (initially scheduled for July 2014)	September 2014-March 2016	March 2012-March 2016
EFSF	140.9	1.0	2.9	144.8
IMF	11.9	0.0	16.1	28.0
Total	152.8	1.0	19.0	172.8

Source: EU Commission "The Second Economic Adjustment Programme for Greece, 4th Review," (April 2014), Eurobank Global Markets Research

ANNEX 3

Greece – Timeline of key data & events

