

Greece

Macroeconomic outlook & prospects

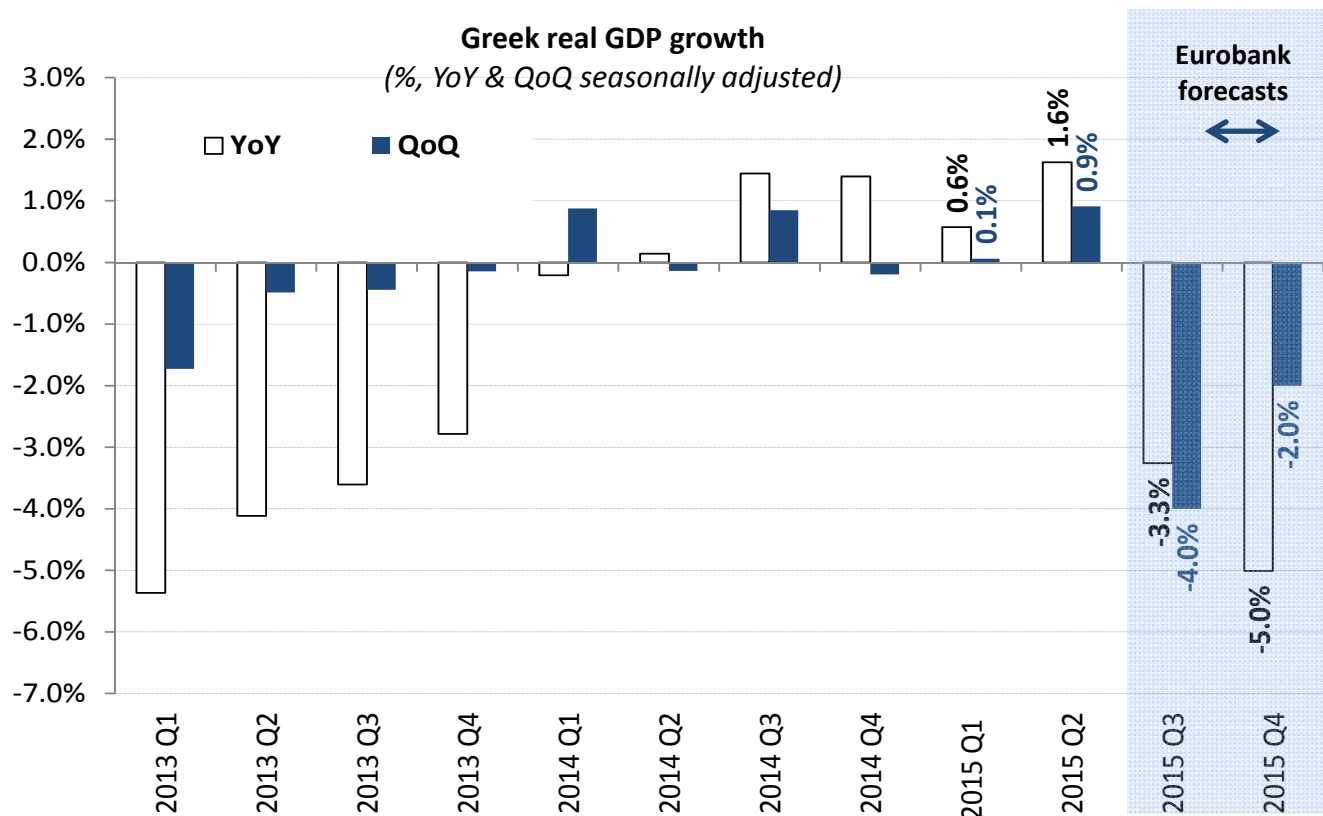


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Greek economy surprisingly resilient in H1 2015

Full-year GDP contraction likely to prove milder than expected earlier

- Real GDP grew by 1.1% YoY in H1, mainly on the back of strengthened private consumption (c. 70% of GDP)
- Gross disposable income of households increased for the 3rd consecutive quarter in Q1 (+2.63%)
- Greek tourism set to record another record year in 2015
(direct contribution to Greek GDP in 2014: 9.5pp; overall contribution > 20pp)

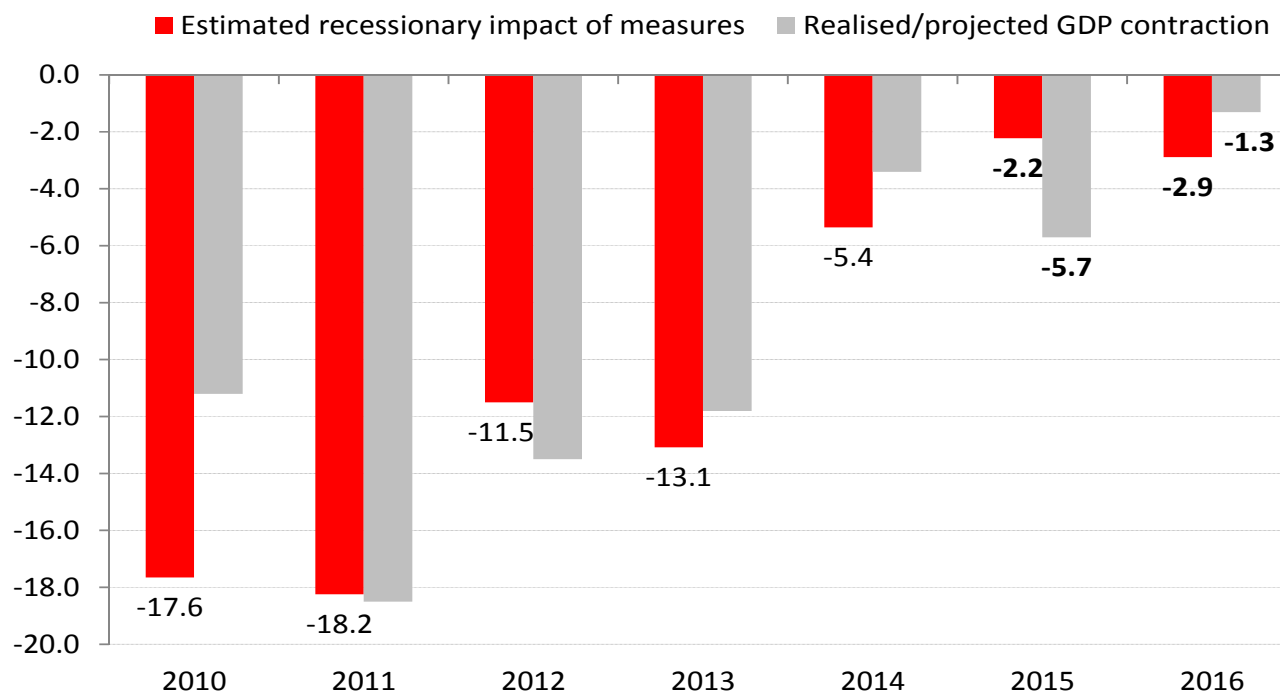


Domestic economy to be hit by two negative shocks in H2

Capital controls & new fiscal austerity measures

- Estimated recessionary impact of new austerity measures much lower than in the prior 2 programs (*first round impact: c. 2.8 pp of GDP in 2015-16 vs. over 25pp of GDP in 2010-2014*)
- Macroeconomic impact of capital controls difficult to forecast, but may prove milder than initially feared (*full removal possible right after bank recapitalization*)

Estimated recessionary impact of fiscal austerity measures
(EUR bn)

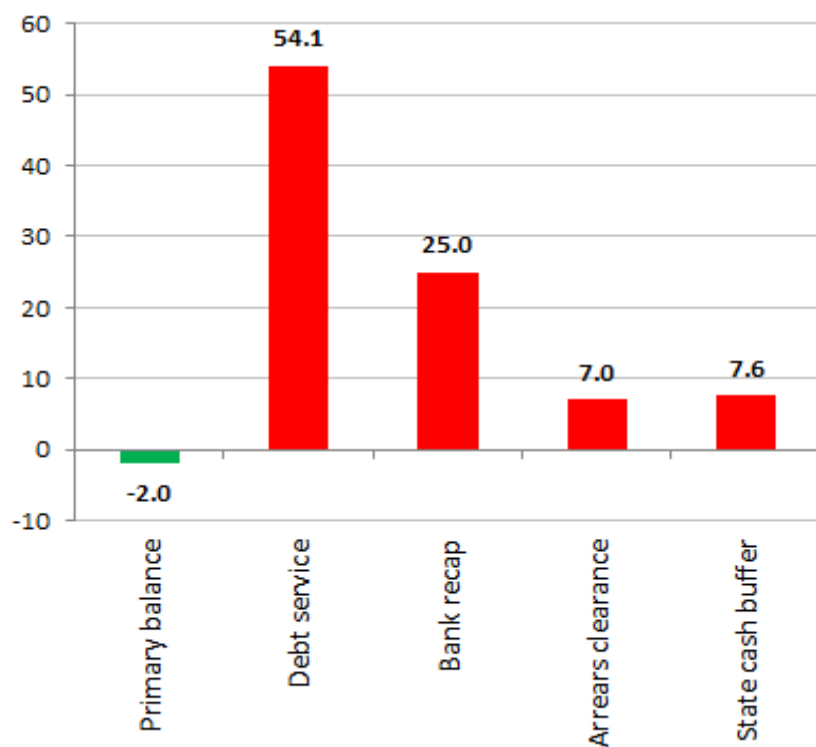


New program to provide full coverage of projected public borrowing needs over a 3-year horizon; further debt relief likely after 1st review

- Potential financing sources to *partially* replace ESM funding: IMF (up to €16bn); ANFA & SMP (up to €8.1bn)
- Significant re-profiling of EU loans (GLF, EFSF & ESM) quite likely after completion of 1st review

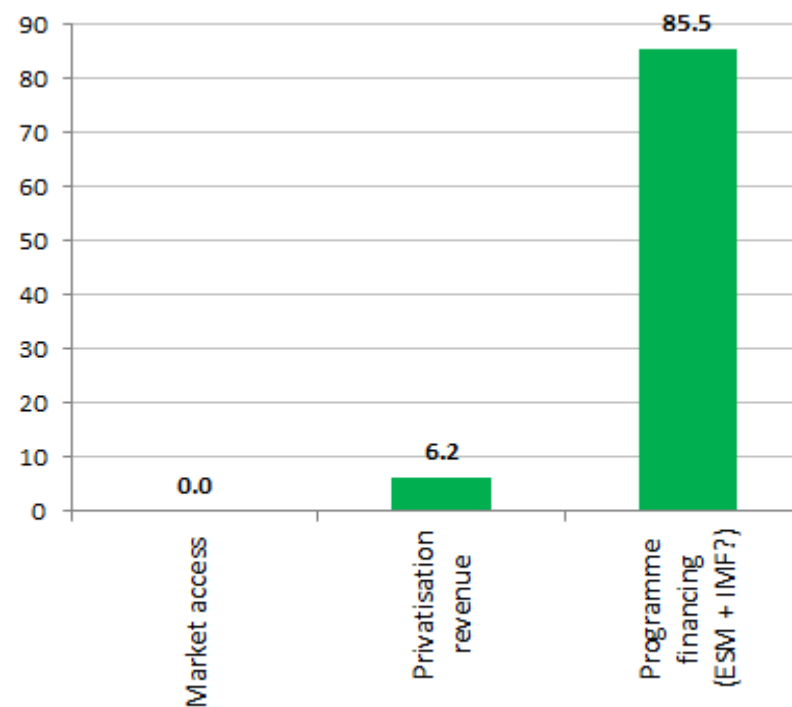
General government gross borrowing needs

Aug 2015-Aug 2018 (c. €91.7bn)



General government funding sources

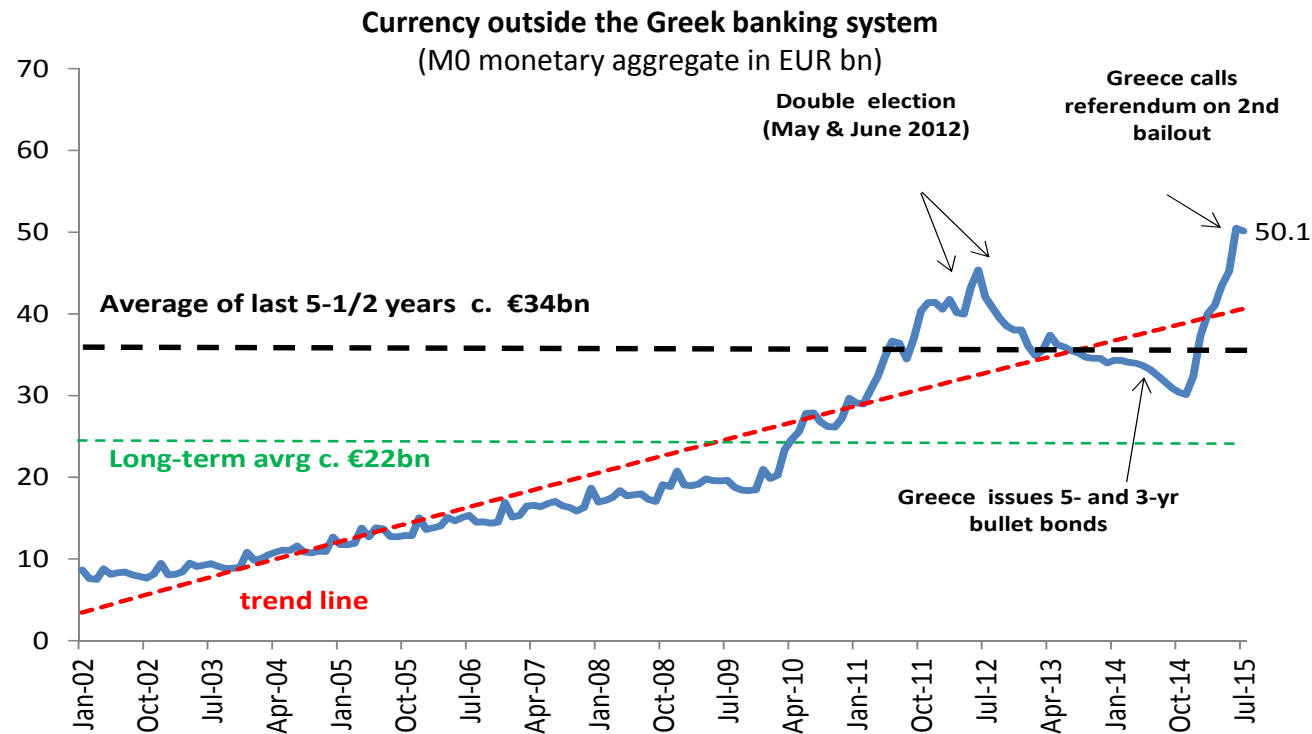
Aug 2015-Aug 2018 (c. €91.7bn)



Improvement in financial conditions expected after bank recap

Stabilization of domestic political environment, restoration of confidence are key

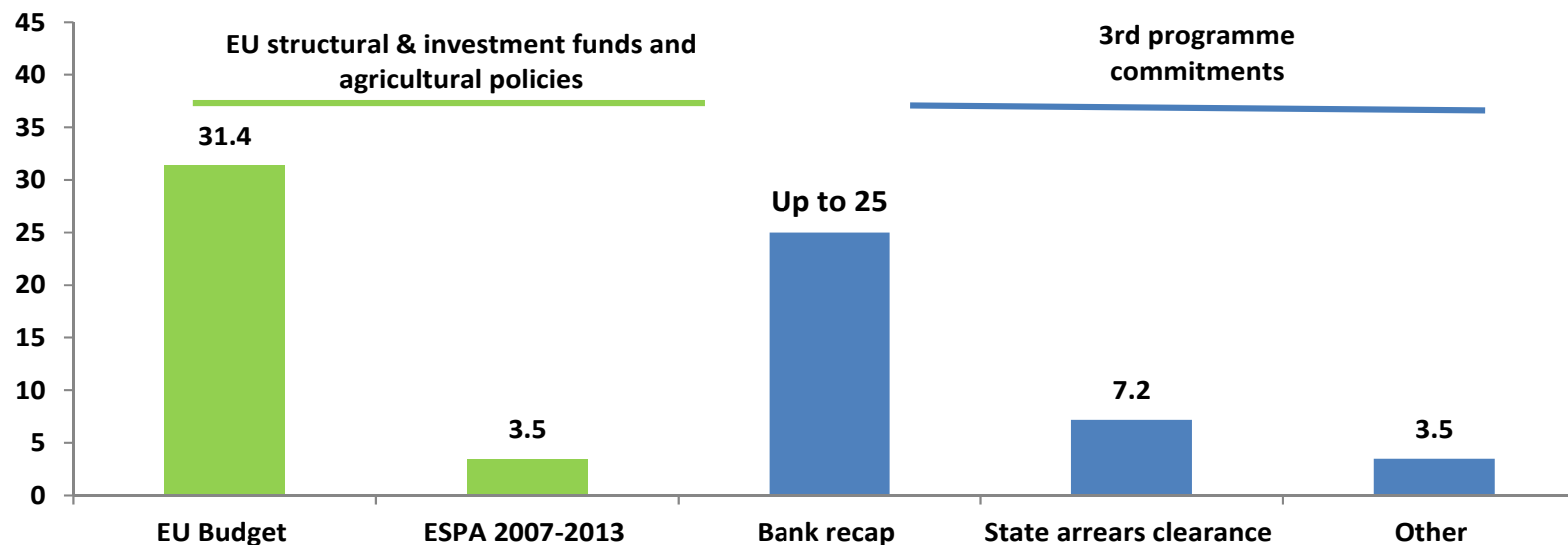
- Return of “under the mattress” money into the banking system
(cash outside Greek banks now €15-€20bn higher relative to recent period averages)
- Gradual recovery of economic activity & potential repatriation of resident deposits abroad (€100- €120bn)
- ECB to reintroduce sovereign debt waiver & include Greece in its QE program (post-completion of 1st review)
(gradual reduction of Euro system funding, shift out from ELA & C. €7bn increase in ECB’s capacity to hold Greek debt)



Untapped potential to boost medium-term growth

- Ample liquidity from EU structural funds & new bailout programme (c. €70bn until 2020)
- Strong implementation of reforms agenda to boost medium-term GDP by c. 10pp (IMF, 2013)
- Recovery of private investment (FDI, Juncker Plan, structural reforms)
(total investment 11.5% of GDP in 2014, lowest since 1960; need to re-converge towards EA level of c. 20%-of-GDP)
- Ample room to boost export performance via reforms to strengthen non-wage competitiveness
(total Greek exports only 32% of GDP in 2014 vs. 46% in EA)

Total funding available to Greece until 2020 (€70bn or 40% of 2014 GDP)



Greece: key macroeconomic indicators

Realizations & forecasts

		2014	2015f	2016f	2017f
EC forecasts (Aug 2015)	Nominal GDP (EURbn)	179.1	173.1	172.2	178.1
	Nominal GDP growth	-1.80%	-3.20%	-0.70%	3.40%
	Real GDP (EURbn)	186.5	182.3	179.9	184.8
	Real GDP growth	0.8%	-2.3%	-1.3%	2.7%
	Unemployment rate	26.5%	26.9%	27.1%	25.7%
	HICP inflation	-1.40%	-0.40%	1.50%	0.90%
	Revised fiscal target * (general govnt primary position as % of GDP)	0.00%	-0.25%	0.50%	1.75%
Eurobank Research forecasts	Real GDP growth	0.8%	(-1.0% to -1.5%)	(-1.3% to -1.8%)	2.5%
	Private sector deposits growth	-1.8%	-22.3%	6.3%	12.7%
	Private sector credit growth	-2.7%	-2.7%	-0.4%	2.7%
	Residential property prices growth	-7.5%	-5.8%	-2.4%	1.6%
	Commercial property prices growth	-3.3%	-3.6%	-0.5%	2.7%

Source: EC, ELSTAT, BoG, Eurobank Economic Research

Appendix

General government gross funding needs & sources August 2015-August 2018 (EURbn)

General government gross borrowing requirement & funding sources August 2015-August 2018 (EURbn)				
	2015 Aug-Dec	FY-2016	FY-2017	2018 Jan-Aug
A. Borrowing need (I.1 + I.2 + I.3)	47.9	18.0	18.1	7.7
I.1 General gvt <u>cash</u> primary balance ¹ (<i>"-" = surplus / "+" = deficit</i>)	2.3	0.2	-1.4	-2.6
I.2 Debt service (<i>interest & amortization payments</i>)	14.3	12.8	18.8	8.3
<i>of which</i>				
<i>I.2.1</i> Official-sector loan redemptions	10.6	3.0	0.7	1.3
<i>IMF</i>	3.5	3.0	0.7	1.3
<i>EU/ESM/EFSF bridge loan</i>	7.2	0.0	0.0	0.0
<i>I.2.2</i> Unwinding of repo operations ²	0.0	1.5	1.5	0.5
I.3 Banking sector needs ³	25.0	0.0	0.0	0.0
I.4 Arrears clearance ⁴	3.1	3.4	0.7	0.0
I.5 State cash buffer & SDR holdings ⁵	3.3	1.7	0.1	2.6
B. Funding source (II.1+II.2+II.3)	47.9	18.0	18.1	7.7
II.1 Market access	0.0	0.0	0.0	0.0
II.2 Privatisation revenue ⁶	1.2	3.6	1.2	0.0
II.3 Programme financing	46.7	14.2	16.8	7.7
<i>of which</i>				
<i>II.3.1</i> ANFA & SMP profits ⁷	0.0	0.7	0.3	0.3
<i>II.3.2</i> Official loan disbursements (<i>ESM + IMF?</i>)	46.7	13.5	16.5	7.4

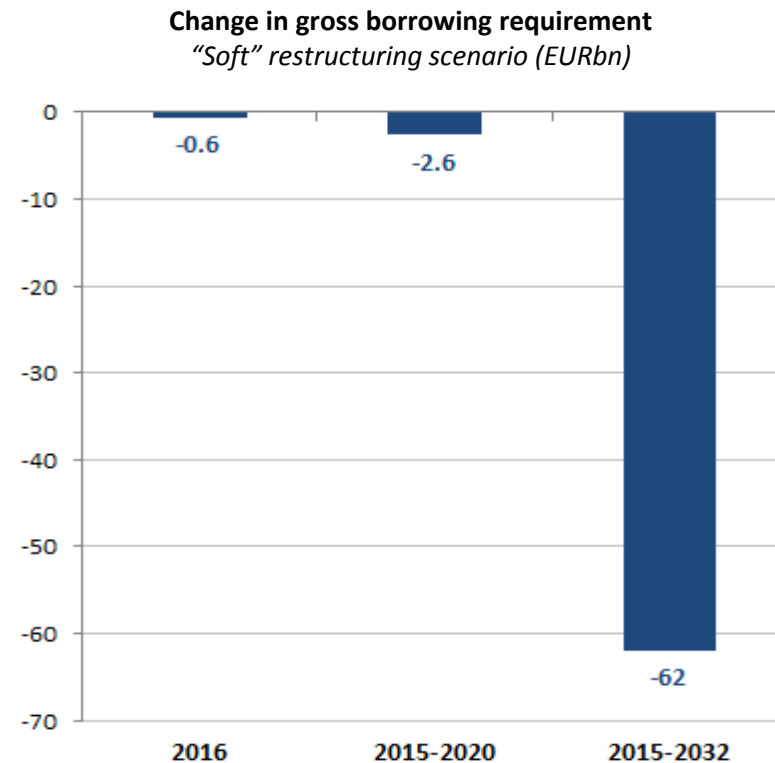
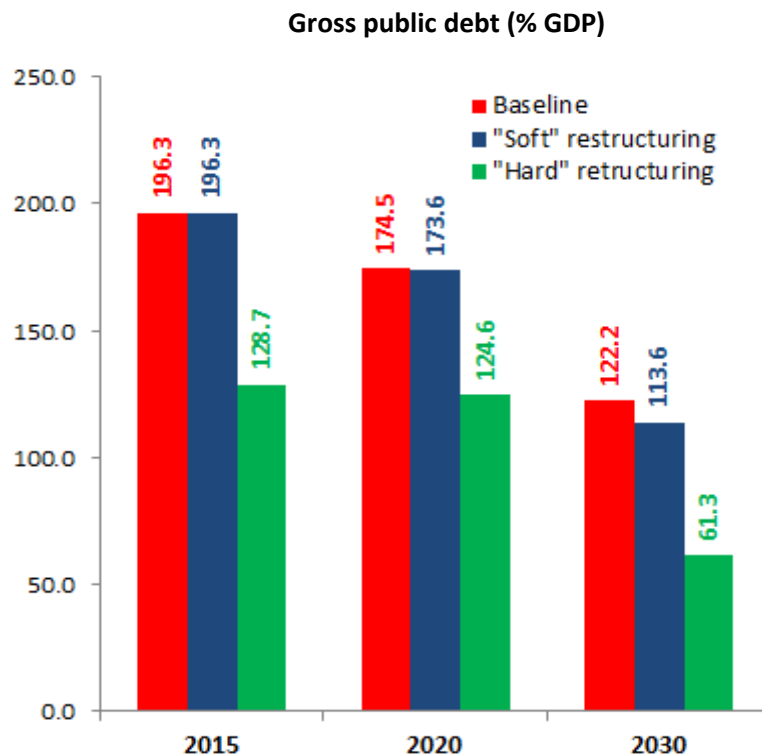
Source: ECB, EC, Eurobank Research

Additional debt relief for Greece will likely be considered

Conditional on i) full implementation of the agreed measures; and
ii) positive completion of first program review (Oct. 2015)

“Hard” and “soft” restructuring scenarios*

Impact on public debt and gross borrowing needs



Source: EC, ECB, IMF, Eurobank Research

Baseline assumes no debt relief

"Soft" restructuring assumes: (i) 20-year maturity extension of GLF (€52.9bn) & EFSF (€141.9bn) loans released under the first 2 bailout programs; (ii) 10-year grace period on interest & principal payments; and (iii) fixed interest rate 0.25%.

"Hard" restructuring assumes (i) 50% write off of GLF & EFSF loans released under the first 2 bailout programs; (ii) 20-year maturity extension, 10-year deferral of interest & principal payments and fixed interest rate of 0.25% on GLF loans.

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