



Στηρίζουμε
το πολυτιμότερο εξαγωγικό προϊόν της Ελλάδας.
Τον Τουρισμό.

Greece

Macroeconomic outlook & prospects

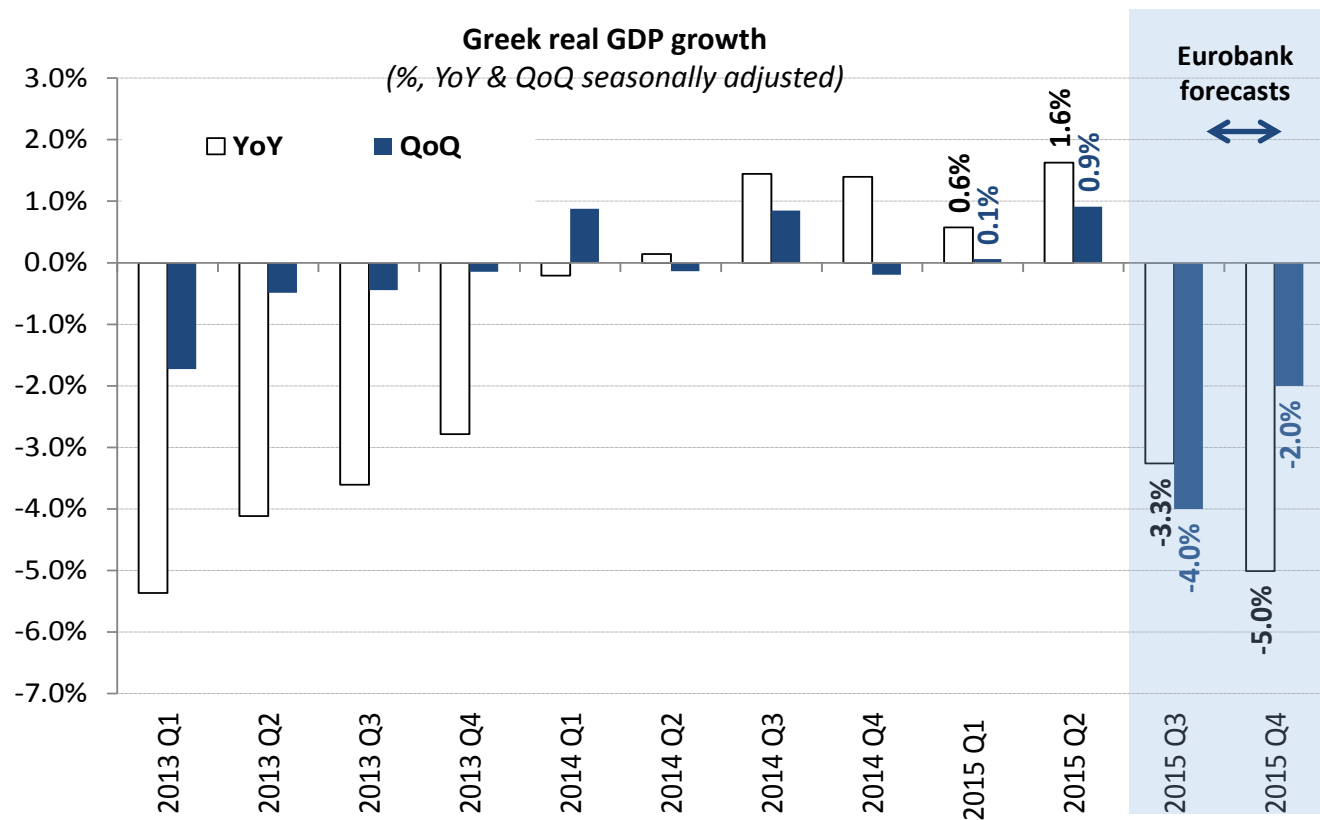
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Chairman of the Scientific Council of the
Hellenic Bank Association

Greek economy surprisingly resilient in H1 2015

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

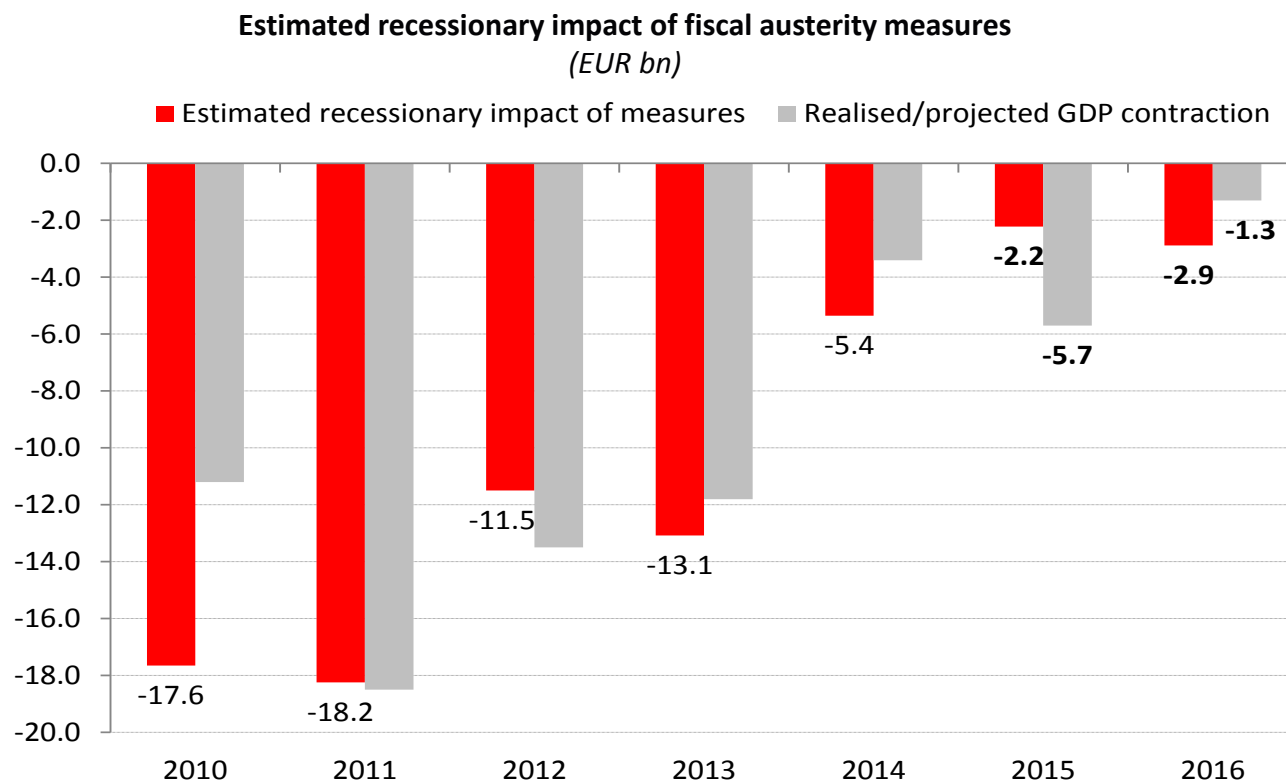
- Real GDP grew by 1.1% YoY in H1, mainly on the back of strengthened private consumption (c. 70% of GDP)
- Gross disposable income of households increased for the 3rd consecutive quarter in Q1 (+2.63%)
- Greek tourism set to record another record year in 2015
(direct contribution to Greek GDP in 2014: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



Domestic economy to be hit by two negative shocks in H2

Capital controls & new fiscal austerity measures

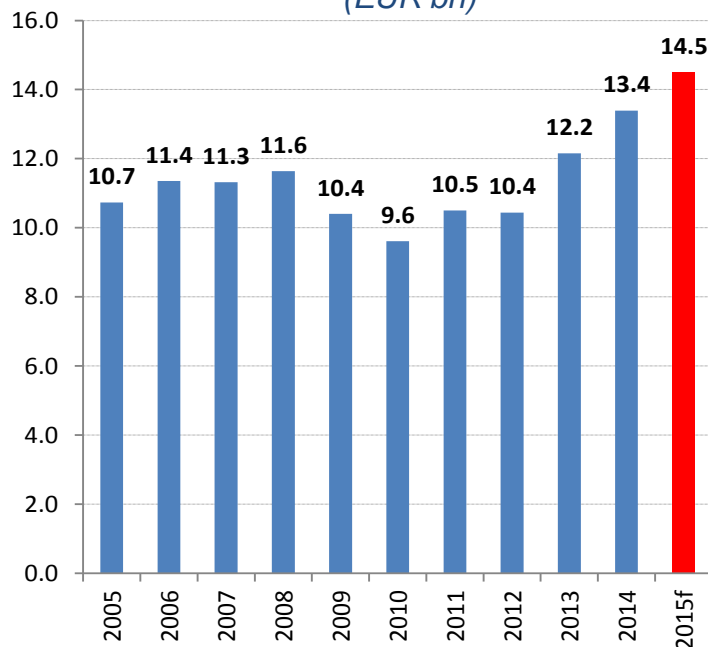
- Estimated recessionary impact of new austerity measures much lower than in the prior 2 programs (*first round impact: c. 2.8 pp of GDP in 2015-16 vs. over 25pp of GDP in 2010-2014*)
- Macroeconomic impact of capital controls difficult to forecast, but may prove milder than initially feared (*full removal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



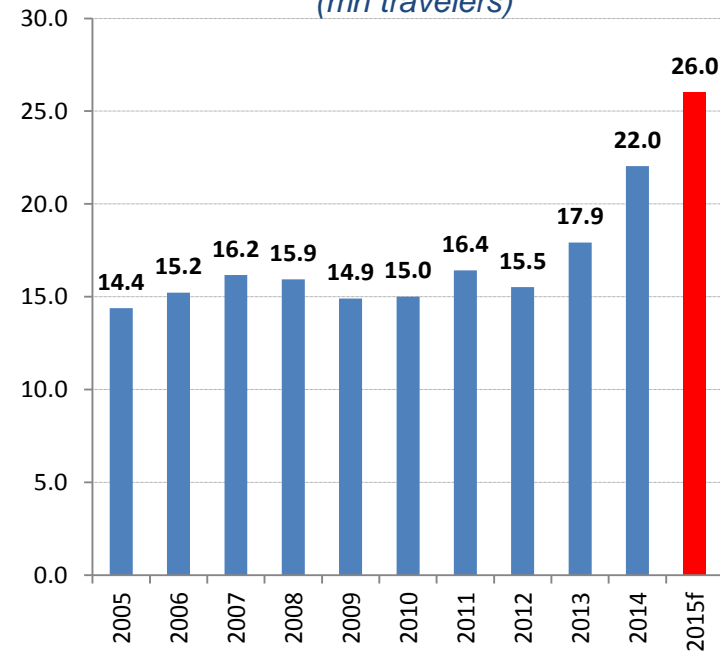
Greek tourism set for another record year in 2015

- Record number of inbound travelers (+20.8%YoY in H1 2015 vs.+15.6%YoY in H1 2014)
 - International arrivals at main Greek airports +6.3%YoY in Jan-Aug 2015 (Athens airport: +26.0%YoY)
 - In July, the 1st month after the imposition of capital controls, total airport arrivals: +5.4%YoY (Athens airport: +29.0%YoY)
- Another strong increase in travel receipts (+8.2% YoY in H1 2015 vs. +9.6% YoY in H1 2014)
- SETE estimates: direct contribution to Greek GDP : 9.5pp; overall contribution > 20pp in 2014 (based on IOBE and KEPE studies)

Travel receipts including cruises
(EUR bn)



Number of inbound travelers in Greece excl. cruises
(mn travelers)



Greece fares well among competitors on tourism

Investments and reforms needed in order to improve transport and communications infrastructure and to create a more business-friendly economy.

- **Global Review Index** for Greece in July 2015 was 85,6%, higher than for competitors
- **Travel & Tourism Competitiveness Report 2015** highlights Greece's strengths and weaknesses

Country	Ranking 2015	Ranking 2013	Ranking 2011
Spain	1	4	8
Italy	8	26	27
Portugal	15	20	18
<i>Greece</i>	<i>31</i>	<i>32</i>	<i>29</i>
Croatia	33	35	34
Cyprus	36	29	24
Turkey	44	46	50
Egypt	83	85	75

Greece ranks high in:

- Health & hygiene
- Tourist service infrastructure
- International openness
- Air transport infrastructure
- Cultural resources and business travel

Greece is weak in:

- Business environment
- Price competitiveness
- Environmental sustainability
- Ground & port infrastructure
- Human resources & labour market
- ICT readiness

Structural reforms will improve the business environment and tourism

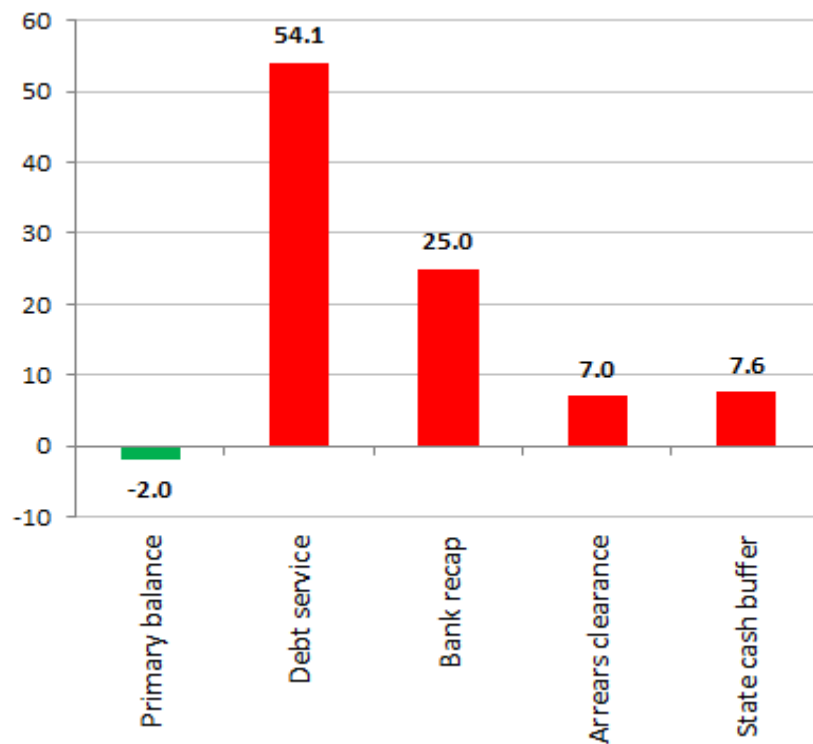
- The new ESM program aims at promoting a more business-friendly environment.
- 19 out of the 96 structural reforms to be implemented by the end of the 2015 directly aim at improving the product markets & business environment (OECD toolkits I&II, liberalization of tourist rentals, spatial planning law, etc).
- The privatization agenda constitutes a source of medium-term investments on tourism infrastructure as well as on transport & communications.

New program to provide full coverage of projected public borrowing needs over a 3-year horizon

- 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

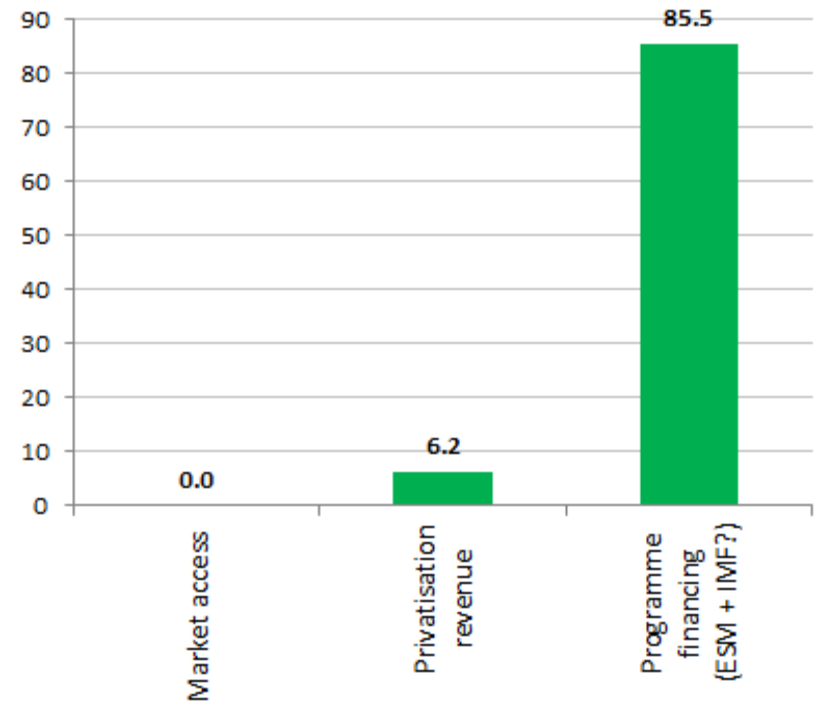
General government gross borrowing needs

Aug 2015-Aug 2018 (c. €91.7bn)



General government funding sources

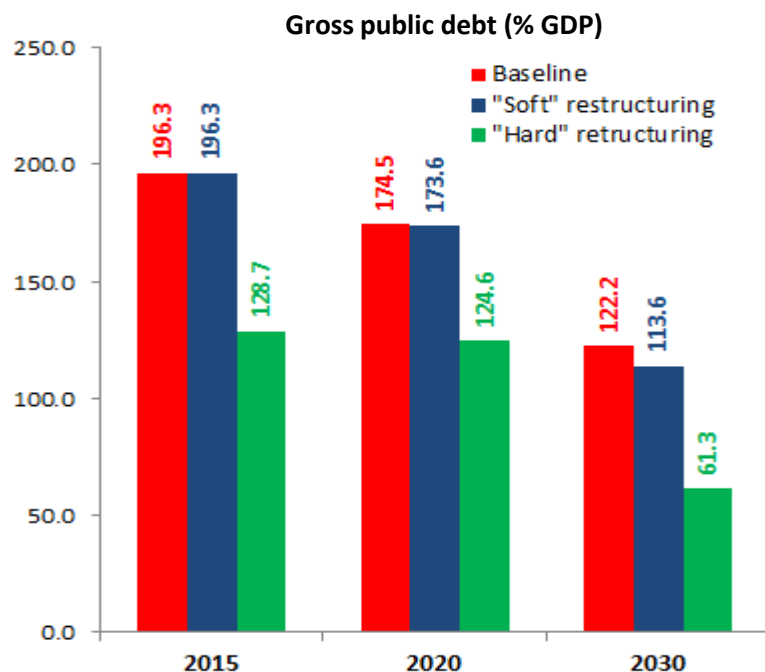
Aug 2015-Aug 2018 (c. €91.7bn)



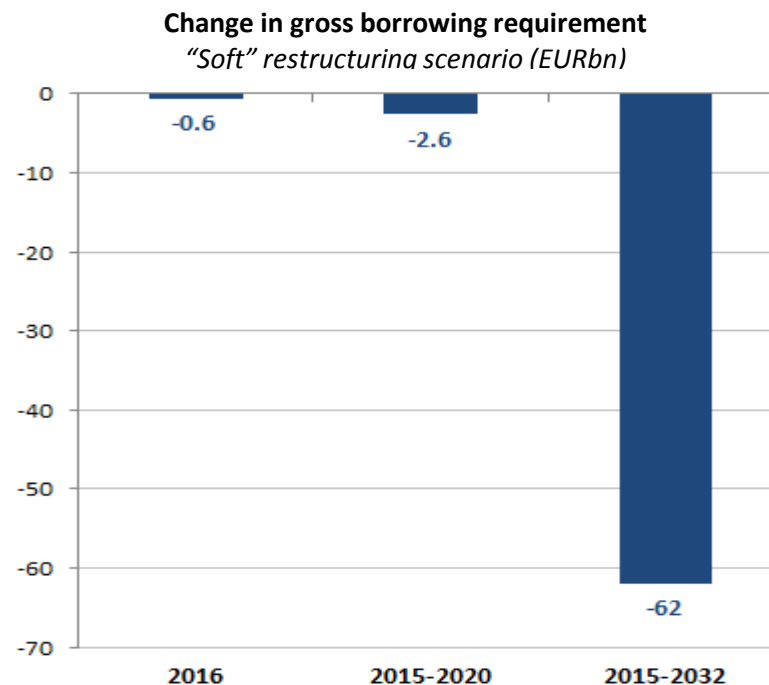
Additional debt relief for Greece will likely be considered Conditional on i) full implementation of the agreed measures; and ii) positive completion of first program review (Oct. 2015)

- Significant debt re-profiling is the most likely scenario
- Imperative to also secure lower (& fixed) interest rates on EU loans (GLF and, if possible, EFSF & EMS)
(for every 25bps increase in EU funding rates post 2020, Greece cum. borrowing need increases by €16bn)

“Hard” and “soft” restructuring scenarios*



Source: EC, ECB, IMF, Eurobank Research



Baseline assumes no debt relief

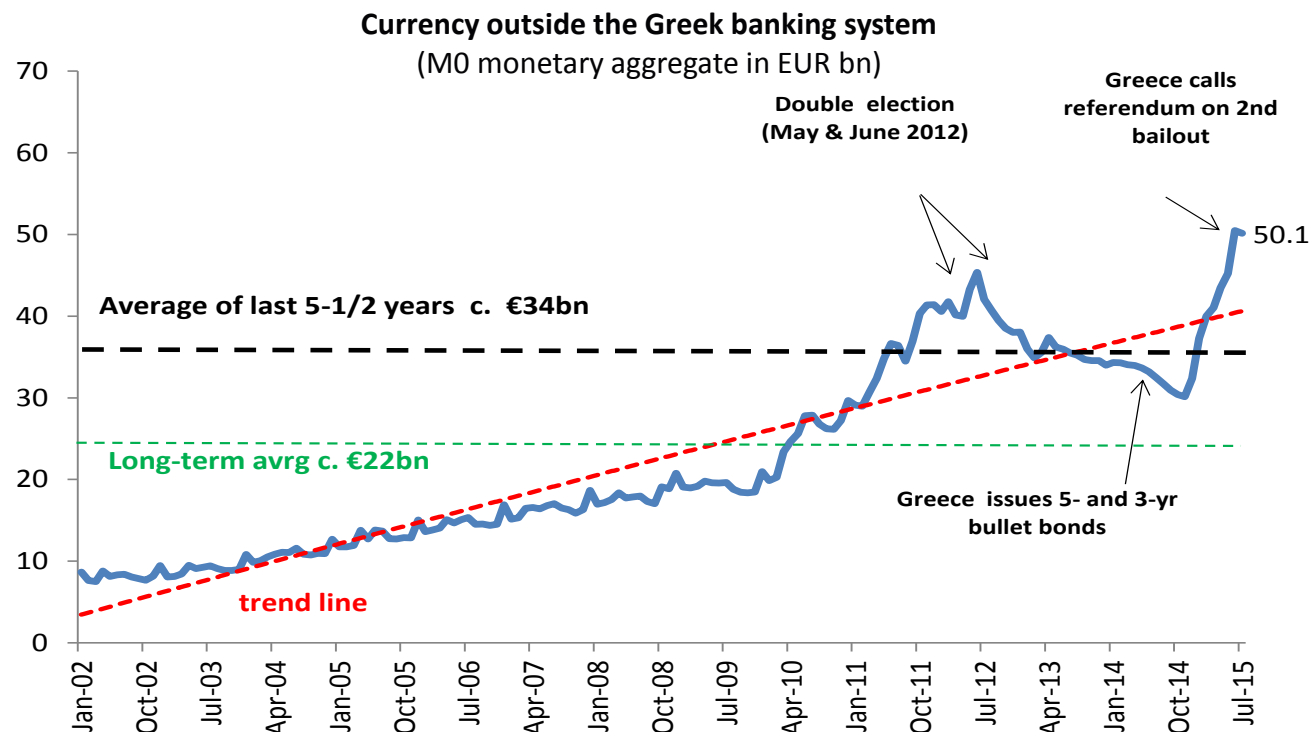
"Soft" restructuring assumes: (i) 20-year maturity extension of GLF (€52.9bn) & EFSF (€141.9bn) loans released under the first 2 bailout programs; (ii) 10-year grace period on interest & principal payments; and (iii) fixed interest rate 0.25%.

"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.

Improvement in financial conditions expected after bank recap

Stabilization of domestic political environment, restoration of confidence are key

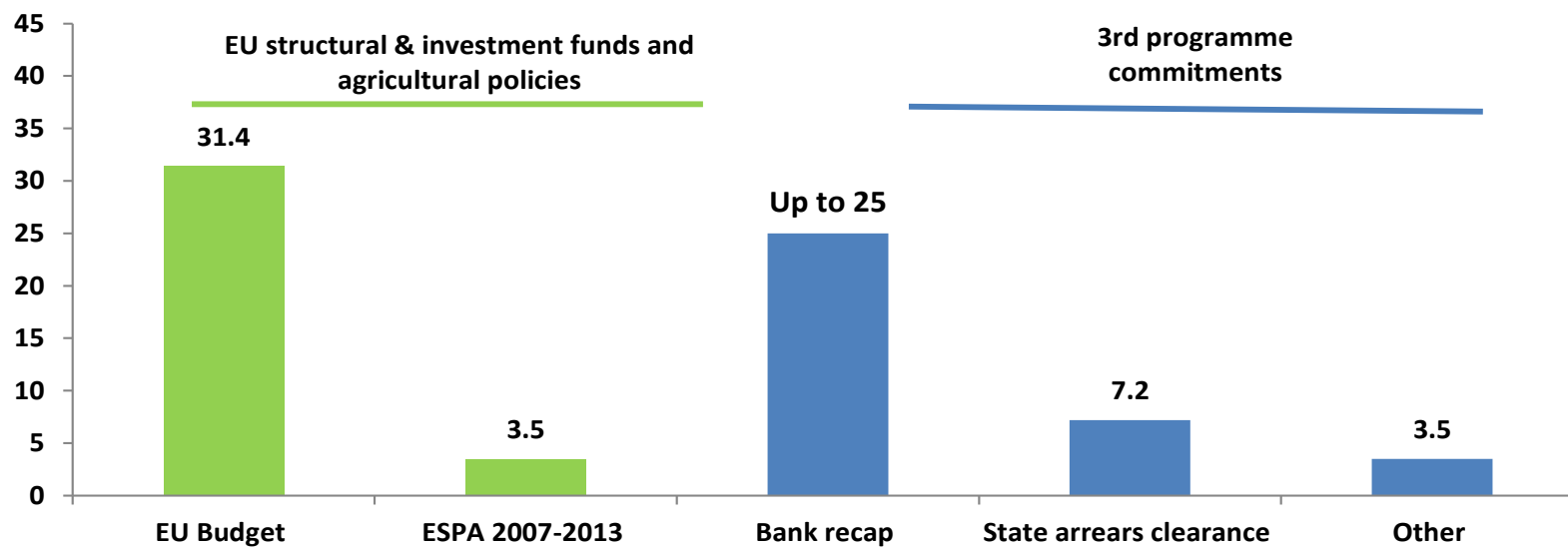
- Return of “under the mattress” money into the banking system
(cash outside Greek banks now €15-€20bn higher relative to recent period averages)
- Gradual recovery of economic activity & potential repatriation of resident deposits abroad (€100- €120bn)
- ECB to reintroduce sovereign debt waiver & include 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
<u>of which</u>				
<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
<u>of which</u>				
<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

Greek tourism: current developments and prospects

GDP

- **Direct contribution of Travel & Tourism was €11.8bn, or, 7.0% of GDP in 2014.** Forecast to rise by 3.6% p.a. from 2015 – 2025, to €17.5bn by 2025.
- **Total contribution of Travel & Tourism was €29.4bn, or, 17.3% of GDP in 2014.** Forecast to rise by 3.7% p.a. to €43.8bn in 2025.

Employment

- **Direct contribution to employment was 340,500 jobs, or, 9.4% of total employment in 2014.** Expected to rise by 3.8% in 2015 (353,000 jobs) and by 2.4% p.a. to 446,000 jobs or 10.4% of total employment by 2025.
- **Total contribution to employment was 700,000 jobs, or, 19.4% of total employment in 2014.** Expected to rise by 3.9% in 2015 (727,000 jobs) and by 2.7% p.a. to 951,000 jobs by 2025..

Investment

- **Travel & Tourism investment in 2014 was €2.8bn, or 13.7% of total investment.** Expected to rise by 4.7% p.a. to €4.4bn in 2025 (14,2% of total).

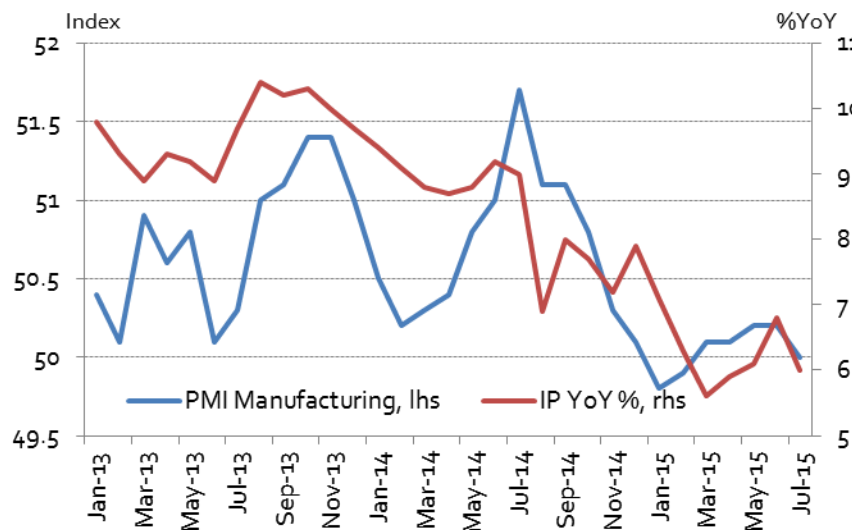
Focus: external environment

Global economy & markets
Recent developments & Outlook

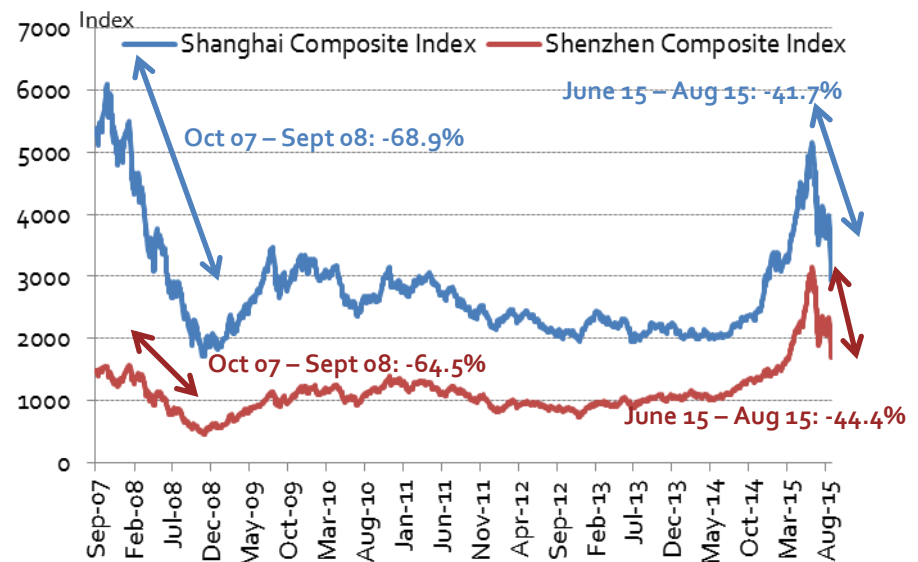
Recent sell-off in Chinese stocks adds to growth-related risks

- ❑ **Downside risks to the Chinese economy in 2015** (official forecast: 7.0% vs. 24-year low of 7.4% in 2014)
Property market overhang, high private-sector indebtedness & an equity market bubble +150% YoY in June
- ❑ **Authorities cut benchmark interest rates** for the 5th straight time (75bps y-t-d) & ease RRR for the 3rd (200bps y-t-d)
Some further action expected in the period ahead

Growth momentum in China has weakened significantly in recent months



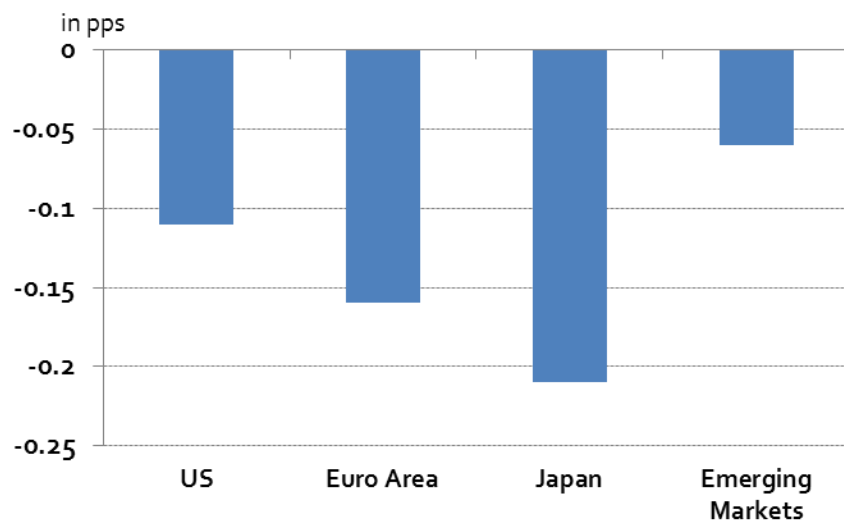
China experienced the most severe equity market correction since the Global Financial Crisis



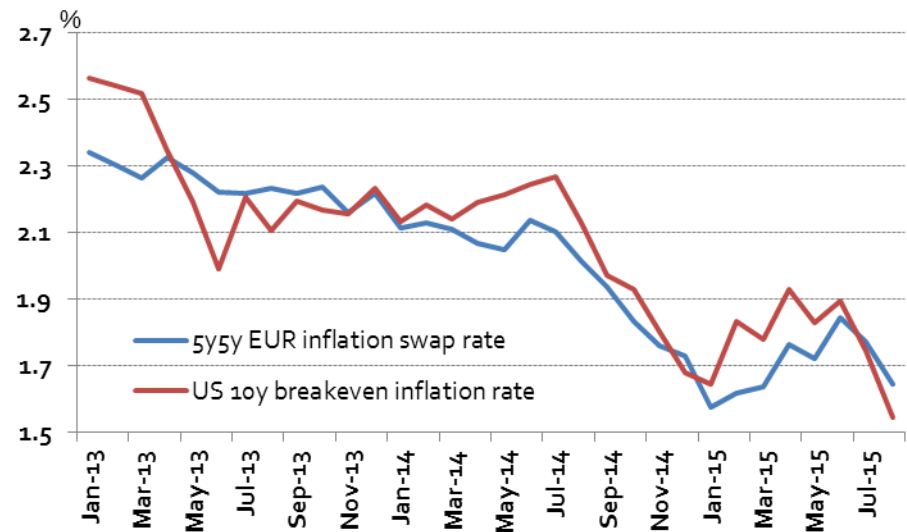
China-related jitters constitute a downside risk for the global economy

- ❑ **China accounts for c. 15% of global GDP** based on market exchange rates
Potential spillovers to the rest of the world through trade, financial linkages and commodity prices
- ❑ **Japan would probably be more affected** than other industrialized economies by a slowdown in the Chinese economy
Intensive trade links via global supply chains
- ❑ **Lower commodity prices & recent yuan devaluation** have triggered dovish shift in inflation expectations
Fed rate hike expectations scaled back; further policy accommodation by the ECB & Bank of Japan should not be ruled out

Cumulative effect of 1pp decline in China's growth



Easing of market-based inflation expectations



¹:IMF MULTILATERAL POLICY ISSUES REPORT, 2014 SPILLOVER REPORT (July 29, 2014)

Source: IMF, Bloomberg, Eurobank Economic Research

Market Outlook (1-3 months horizon)

Summary of views

Summary of views

- ❑ Market volatility likely to prevail due to China jitters & expected FOMC monetary policy normalisation
- ❑ Bearish trend for EM & commodity-related G10 currencies (AUD, NOK, CAD)
Weakness more pronounced vs. C/A surplus currencies e.g. EUR, JPY, SEK
- ❑ EUR/USD seen consolidating within 1.1000-1.1800 range
- ❑ Limited upside potential for commodity prices (oil, agricultural, industrial, precious metals)
Chinese economy downside risks, oil supply overhang & Fed rate tightening expectations
- ❑ Modest upside risks to US & German government bond yields, after recent rally
Fed rate tightening expectations, oil prices close to bottoming out, limited spill over effects from China to the US and EA economies

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