

# Greece

## Economic & Financial Outlook

### Our Views in a Nutshell...

**The Greek economy showed signs of resilience in H2 2015 in face of capital controls but proved vulnerable to fresh tax increases.**

**After six consecutive quarters of positive growth, real GDP contracted by 1.7% y-o-y and 0.8% y-o-y in Q3 2015 and Q4 2015 respectively, suggesting a yearly decline of 0.2% in 2015 as a whole.**

**Economic activity is expected to continue registering negative real GDP growth rates until H12016 while economic growth is projected to creep into positive territory in H2 2016 and climb above 2% from 2017 onwards.**

**While risks diminished substantially when Greece and European partners agreed on the new MoU, recovery prospects remain at stake.**

**The swift conclusion of the Programme Review and the progress on the implementation of reforms are expected to pave the way for confidence restoration amid concerns about the international financial landscape and refugee crisis.**

**Negotiations for the Programme Review appear to focus on five main topics; the fiscal gap determination for 2016 and 2018, the social security system reform, the NPL framework, the setup of the new privatisation fund and the tax system reform.**

**Addressing the issue of NPL remains the key challenge for the Greek banking system, following the successful completion of the recapitalisation process.**

**Despite negative net investment and fresh recession in H2 2015, unemployment rate was falling, albeit slowly.**

### Short-lived recession...big challenges ahead!

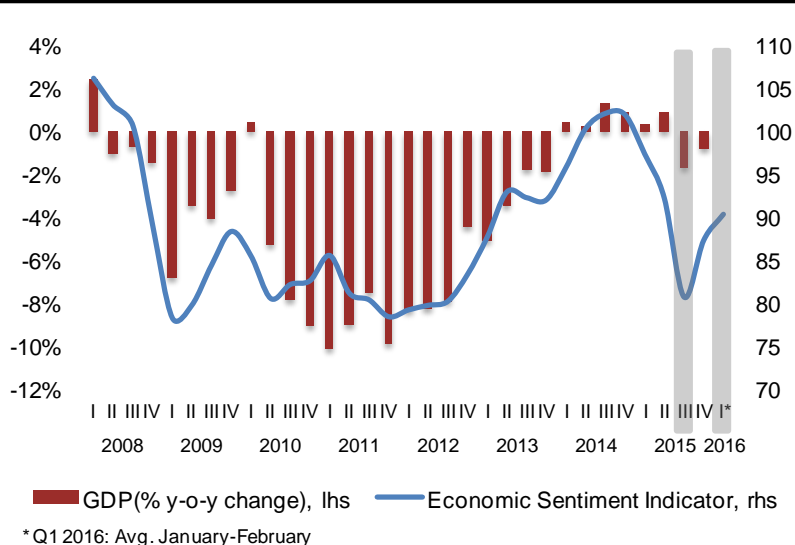
The Greek economy re-entered into recession in H2 2015, albeit milder than originally envisaged, thanks to net exports of goods and services, mainly on the back of one more record year in tourism and declining imports of goods. Economic activity posted a 1.2% y-o-y contraction in H2 2015 against a 0.6% y-o-y expansion in H1 2015. Private consumption declined by 0.6% y-o-y in H2 2015 mainly due to the tax hikes on the consumption of a wide range of products and services.

In 2015 as a whole, real GDP shrank by 0.2%. The GDP components of expenditure reveal the notable positive contribution of net exports (1.1 pps), due to the significant fall of imports (-6.9%) that outpaced the decline of exports (-3.7%). Investment continued to lag in growth compared to other GDP components while the change in inventories had a substantial negative contribution to GDP by 1.7 pps.

Economic activity is expected to register negative real GDP growth rates up to H12016, while economic growth is projected to creep into positive territory in H22016. GDP growth in 2016 is expected to range between -0.7% and -0.9%. Recovery is expected to gain strength from 2017 onwards, with real GDP climbing above 2%.

While risks diminished substantially when Greece and European partners agreed on the new Economic Policy Programme, recovery prospects remain not secured. On the downside, delays in the conclusion of the first Programme Review and in the prompt implementation of key Programme reforms may hamper recovery and limit growth prospects. In addition, new risks emerging from a further escalation of the refugee crisis and rising geopolitical tensions, as well as persistence of international financial turbulence may derail expected recovery. On the upside, falling energy prices may support further consumption once the VAT effect fades away. Additionally, the further relaxation and swifter removal of capital controls could trigger investment spending and raise the growth potential.

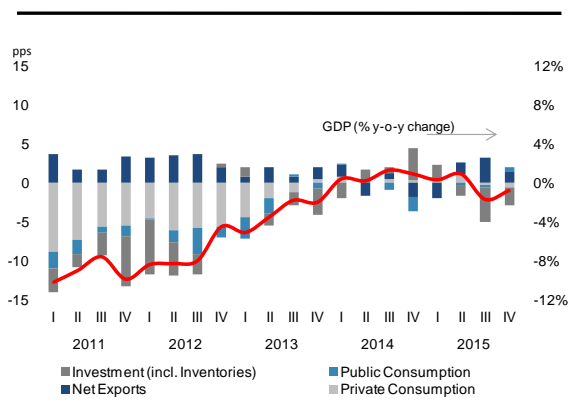
### Restoring Confidence Key to Growth



Real GDP seasonally adjusted figures

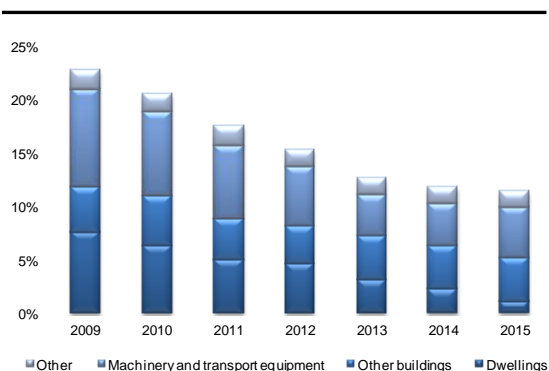
Source: Hellenic Statistical Authority, IOBE

## GDP Components



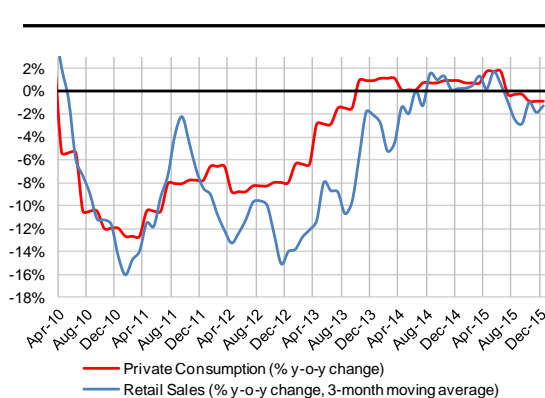
Source: Hellenic Statistical Authority

## Investment by Asset (% of GDP)



Source: Hellenic Statistical Authority

## Private Consumption and Retail Sales



Source: Hellenic Statistical Authority

The swift conclusion of the first Programme Review and the ongoing implementation of key Programme reforms are expected to set the conditions for:

- the acceleration of investor and business confidence rebound,
- the launch of discussions regarding a debt relief agreement,
- the participation in the ECB's QE programme,
- the further relaxation and eventual lift of capital controls,
- the clearance of Government arrears to the private sector which will improve liquidity conditions in the economy.

## A milder-than-expected recessionary shock in H2 2015

While economic activity slipped back into recession in H2 2015, the GDP contraction proved to be milder than initially anticipated. Real GDP shrank by 1.2% in H2 2015 (Q3 2015: -1.7% y-o-y; Q4 2015 - 0.8% y-o-y), against a 0.6% y-o-y expansion in H1 2015 (Q1 2015: 0.3% y-o-y; Q2 2015: 0.9% y-o-y).

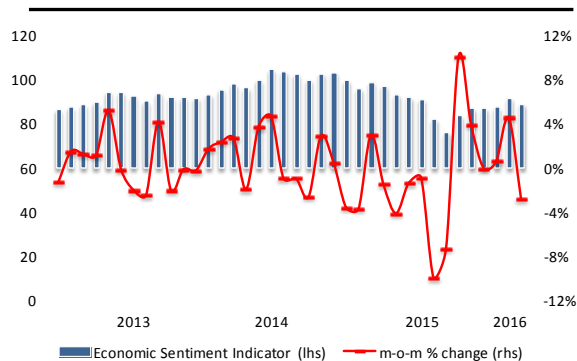
Private consumption remains the main underlying component to explain the reversal in GDP performance from H12015 to H2 2015. In H1 2015, private consumption contributed by 0.8 pps to GDP growth, supported by improved consumer confidence (H1 2015: -40.3; 2014: -54.0) and low energy prices which had favorable effect on real disposable income. In Q3 2015, despite the imposition of capital controls, private consumption showed signs of resilience, marginally declining by 0.3% y-o-y, as households preferred to bring forward their spending in fear of a potential haircut on their bank deposits. In Q4 2015, private consumption declined further by 0.9% y-o-y due to the tax hikes on consumption on a wide range of products and services.

In line with the above, in 2015 as a whole, real GDP declined by a mere 0.2%. The external sector was the main driver of GDP growth, with net exports contributing positively by 1.1 pps, given the faster decline of imports compared to exports. In particular, the imports of goods and services declined substantially by 6.9% against the marked rise by 7.8% recorded in 2014, while exports of goods and services decreased only by 3.7% in 2015 against the large increase by 7.4% registered in 2014.

Turning to domestic demand components, private consumption in 2015 increased by 0.3% on a yearly basis compared to 0.7% in 2014, sustaining a positive contribution to growth (+0.2 pps). Public consumption continued to decline, at a decelerating pace though, by 0.1% against 2.4% in 2014.

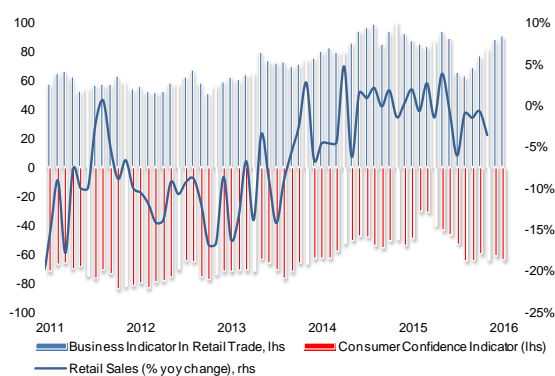
Finally, investment (including inventories) was the main drag on GDP in 2015, as it substituted 1.6 pps. Investment excluding inventories increased by a mere 0.9% in 2015, against a fall of 2.6% in 2014. However, this increase is of minor importance as investment accounts only for 11.6% of GDP in 2015 compared to 22.8% in 2008. Residential investment continues to negatively contribute to GDP growth for the eighth consecutive year, substituting 0.3 pps from 2015 GDP, against -1.2 pps in 2014.

### Economic Sentiment Indicator



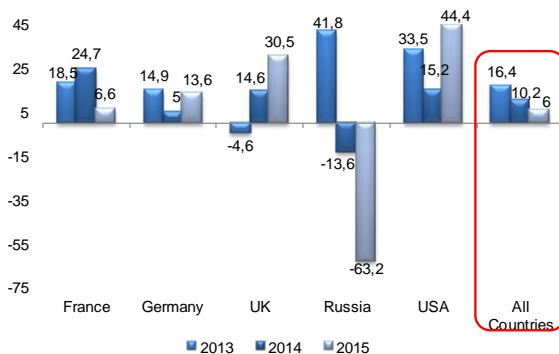
Source: IOBE

### Retail Sales and Confidence Indicators



Source: Hellenic Statistical Authority, IOBE

### Tourism Receipts (% y-o-y change)



Source: Bank of Greece

## Economic Sentiment improved in H2 2015 as skyrocketed uncertainty receded but remains at low levels

Following its strong rebound in September 2015 (+7.7 units m-o-m), the Economic Sentiment Indicator (ESI) surged further (+3.3 units m-o-m) in October 2015 to 87.1. In November 2015 the ESI remained stable at 87.1 while increased marginally by 0.5 points in December 2015 to 87.6, with mixed signs across its main sub-components. The gradual progress in the implementation of the new programme contributed to the improvement of confidence. On the other hand, the uncertainty and deteriorating perceptions on upcoming policy reforms on pensions and income tax and the increased tax burden tend to weigh on economic sentiment. In this respect, the pace of recovery stalled in the last two months of 2015 and ESI stood at lower levels compared to 2014 (year average: 99.5) and H12015 (average: 94.8).

After its sizeable increase (+4.0 units m-o-m) in January 2016 (91.6), fuelled by improved confidence across all business sectors but consumer confidence, the ESI declined by -2.6 units m-o-m in February 2016, standing at 89.0, markedly lower compared to February 2015 (98.8). The deterioration of sentiment resulted mainly from worsening confidence among consumers and to a lesser extent, the decline in services confidence. In particular, the Consumer Confidence Indicator fell in February 2016 by 2.9 unit m-o-m to -66.8 from -63.9 in January 2016, standing at its lowest level since September 2013 (-72.2). The deteriorating trend in consumer confidence results from the negative expectations of households about their financial situation as well as worsened expectations on the general economic situation, reflecting the deteriorating perceptions on the upcoming tax and social security reforms. Following its considerable improvement in January 2016 rising by 9.0 units m-o-m, the Services Confidence Indicator recorded a steep fall in February 2016 by 14.3 units on a monthly basis, standing at 63.2 from 77.5 in January 2016. The Industrial Confidence Indicator improved for the sixth consecutive month to 89.2 in February 2016, from 67.4 in August 2015, standing at higher level compared to February 2015 (86.6). After its abrupt decline in July 2015 (-16.4 units m-o-m), the Construction Confidence Indicator which exhibits high volatility, registered its second consecutive increase in 2016, rising in February 2016 by 7.1 units m-o-m to 72.7 from 65.6 in January 2016. Remaining on a rising trend since September 2015, the Retail Trade Confidence indicator, increased significantly by 5.4 units m-o-m to 95.9 in February 2016 from 90.5 in January 2016 and 62.8 in August 2015.

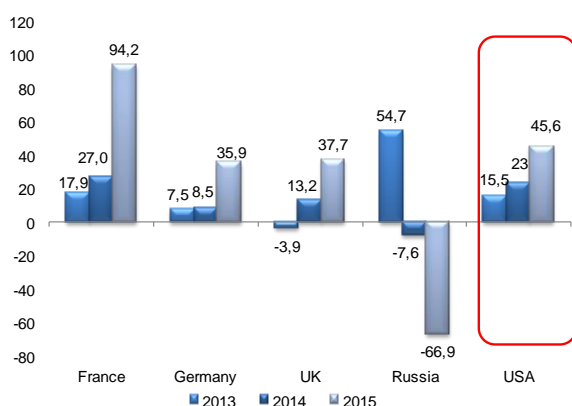
## Strong tourism sector performance supports the economy again in 2015

In 2015 the tourism sector showed remarkable resilience, supporting economic activity and job creation, despite the lingering economic challenges. The sector growth surpassed expectations for one more year, albeit at a slower pace compared to 2014. In particular, tourism arrivals in 2015 grew by 7.1%, reaching a record of 23.6 million arrivals, compared to an increase by 23% in 2014. As a result, tourism receipts also increased by 6.0% in 2015 to €14.2 billion, compared to an increase of 10.2% (to €13.4 billion) in 2014.

Among the main reasons behind the increase in tourist arrivals in the last years are:

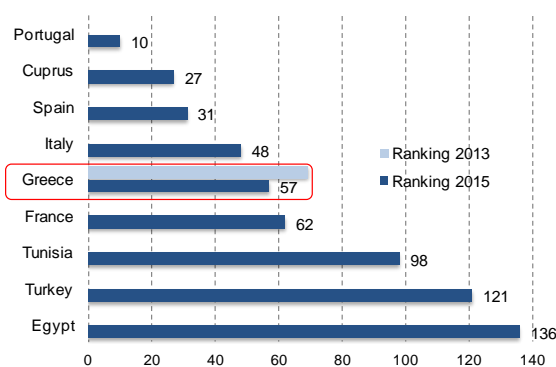
- The social unrest and security issues among Greece's main competitors (Turkey, Egypt, Tunisia etc.).

### Tourist Arrivals (% y-o-y change)



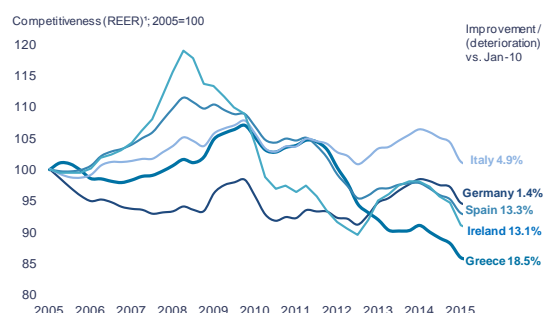
Source: Bank of Greece

### Ranking based on the Safety and Security Indicator, 2015



Source: WEF, The Travel & Tourism Competitiveness Report

### Competitiveness (REER)<sup>1</sup>; 2005=100



Source: European Commission, Price and cost competitiveness  
<sup>1</sup> Measured as the devaluation of the relative (against 35 trading partner countries) Unit Labor Cost based Real Effective Exchange Rate (REER) of the Euro.

- The weak Euro against the US dollar and the British pound.

The exchange rate developments of the Euro currency are illustrated in the evolution of the tourism receipts by country of origin of foreign visitors. In particular, tourism receipts from United Kingdom and USA (consisting the 20.9% of total tourism receipts) increased by 30.5% and 44.4% respectively in 2015. In contrast, tourism receipts from Russia decreased substantially by 63.2% in 2015 mainly due to the weakening of the Russian ruble against the Euro and the recession of the Russian economy during 2015. Nevertheless the negative impact of tourism receipts from Russia was limited as their share in total receipts stood only at 3%. The largest share in tourism receipts are from Germany by 16%, United Kingdom by 14.3% and France by 8.5%.

The prospects for the Greek tourism industry in 2016 are still positive, as the weak euro is expected to support the competitiveness and offset the increase in VAT in tourism services. The main causes of concern are the increase in geopolitical tensions and the evolution of the refugee crisis. Nonetheless, Greece is considered a safe tourist destination as According to the "The Travel & Tourism Competitiveness Report" of the World Economic Forum and based on the Safety and Security Index, Greece ranks 57th in 2015 among 140 tourism destinations and well above Turkey, Tunisia and Egypt. Moreover, in 2015 Greece improved its position by 12 points compared to 2013. Greece's unique geographical characteristics, in combination with its highly developed infrastructure are expected to contribute to its development as an attractive tourist destination in Europe in the following years.

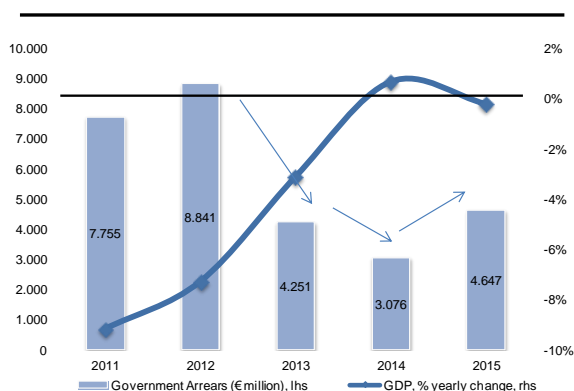
### Box 1. Competitiveness Gains Restored

Internal devaluation since 2009 has restored approximately 3/4 of competitiveness losses during the 2000s, while the implementation of structural reforms such as the flexibility of the labour market ensures further gains in competitiveness in the following years. In particular, the relative (against 35 trading partner countries) Unit Labour Cost based real effective exchange rate (REER) for Greece declined by 18.5% from 2010 to 2015, suggesting significant improvement in competitiveness. Moreover, the European Commission projects further competitiveness gains, as unit labor cost (REER) is projected to drop by 2.1% and 2.3% in 2016 and 2017, respectively. The improvement of competitiveness has contributed to the increase of exports of goods in 2011 and 2012 by 13.4% and 13.9%, respectively. In 2015 the exports of goods fell by 7.5%. However, this decline is mainly attributed to the drop of exports of oil and ships, as exports excluding ships and oil increased by 4.6%. The shrinkage of trade deficit led to a balanced current account (0% of GDP) for the first time since 2003, compared to a deficit of 2.1% of GDP in 2014 and 2013 as well.

While the competitiveness gains of the Greek economy are undisputable, taking into account the Consumer Price Index based REER the competitiveness gains seem only modest, despite the deep wage reductions. In particular, REER based on ULC fell cumulatively by 18.5% in Jan.2010-Jul.2015 period, while REER based on CPI fell by only 6.2% in the same period. This development is mainly attributed to price rigidities that still exist in product markets. Therefore, the Greek economy still needs to achieve even more substantial adjustment in the aforementioned fields. Delays in implementing even deeper structural reforms render the economy in a prolonged sluggish growth, with detrimental effects on employment and competitiveness.

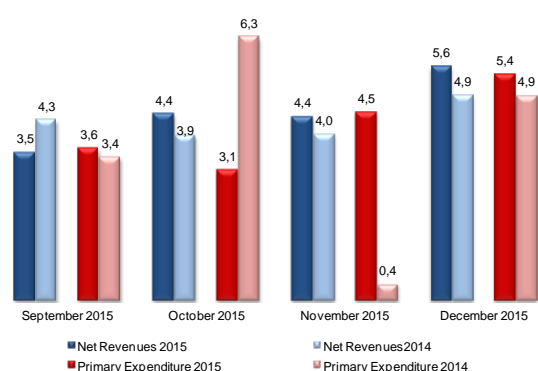


### GDP Evolution and Government Arrears



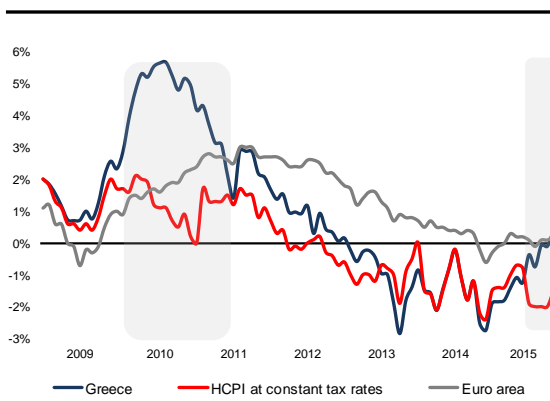
Source: Ministry of Finance, Hellenic Statistical Authority

### State Budget: Revenues and Primary Expenditure (€ billion)



Source: Ministry of Finance

### Inflation Differentials (% y-o-y change)



Source: Hellenic Statistical Authority, Eurostat

## Fiscal consolidation on track

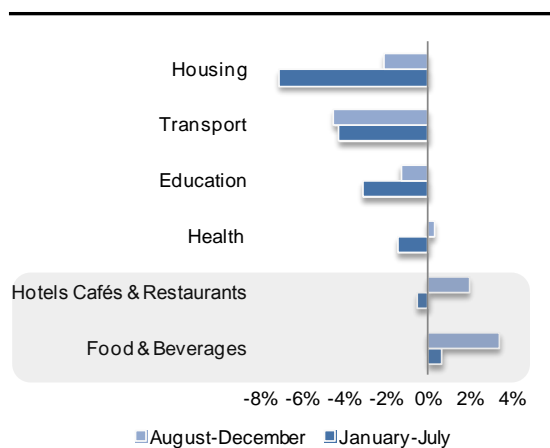
In 2015, Greece remained fiscal disciplined, despite the deterioration of economic conditions and the decline of GDP by 0.3%. Fiscal consolidation effort is expected to continue at an unabated pace in 2016 onwards. More specifically, the General Government (GG) primary surplus on a cash basis stood at €4.13 billion in 2015, against a primary surplus of €2.05 billion in 2014. The surplus achieved is mainly due to the continuous drastic drop in primary expenditure by 3.9% in 2015, compared to a fall by 6.9% in 2014, mostly at the expense of the fresh accumulation of state arrears to suppliers, from €3.1 billion at the end of 2014 to €4.7 billion in 2015. GG revenues decreased by 1.1% on a yearly basis in 2015. However, GG revenues increased substantially by 18.7% y-o-y in Q4 2015 due to deferral of tax payments towards the end of the year. State Budget execution in 2015 presented a poor revenue collection while primary expenditure underperformed against the targets. As a result, State Budget primary surplus amounted to €2.27 billion in 2015, against the target set for the period for a primary surplus of €3.26 billion and versus a primary surplus of €1.87 billion in 2014.

The third Memorandum of Understanding stresses the importance to address the existing structural inefficiencies of the social security system in order to ensure its long-term viability. More specifically, the Greek government should introduce some parametric changes removing permanently the fiscal burden related to pensions from the state budget. In the context of the first set of prior actions of the Euro Summit in July 12<sup>th</sup> 2015, the Greek Authorities have already increased health contributions on main pensions to 6% and applied the same rate also to auxiliary pensions. The proposal of the Greek government on the Social Security System reform, released in January 2016, involves, *inter alia*, the integration of primary pension funds into a single social security fund, EFKA, as well as an additional increase in the contribution rate of auxiliary pensions by 1.5%. This proposal is under consideration by Institutions and remains to be enriched and finalized under the first review.

## Deflationary pressures at ease

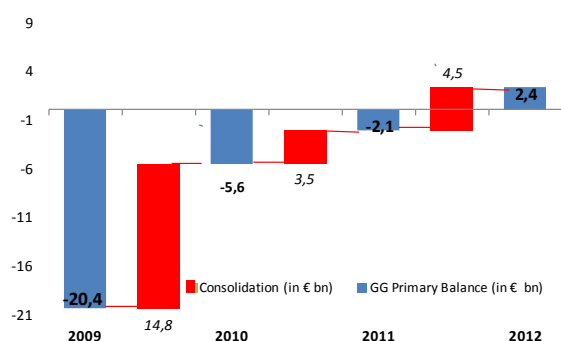
Although headline inflation continued to remain in negative territory throughout 2015 for the third consecutive year (2015: -1.7%, 2014: -1.3%, 2013: -0.9%), deflationary pressures eased further in the last five months of 2015, driven mainly by the recent VAT hikes. In particular, from August 2015 onwards, the implementation of the VAT reform in the context of the required prior actions, which involved the relocation of a number of goods and services to higher VAT rates and the subsequent increase in the VAT rate in hotels in October 2015, fuelled upward pressures to the price level. Nevertheless, the VAT impact did not offset the negative pressures exerted by declining oil prices and weak domestic demand. Headline inflation, remaining broadly stable in H12015, eased to -1.8% in Q32015 and further adjusted upwards to -0.6% in Q42015. However, excluding the impact of oil prices, core CPI turned positive in December 2015, standing at 0.4% y-o-y for the first time since August 2014. The impact of higher indirect taxes is reflected in both the narrowing of the inflation *differential* between Greece and the euro area and in the widening of the gap between the standard HCPI and the HCPI at constant tax rates. Indicative of the impact of indirect tax hikes was also the widening in the gap between the

### CPI per main Group of Goods and Services (2015; % y-o-y change)



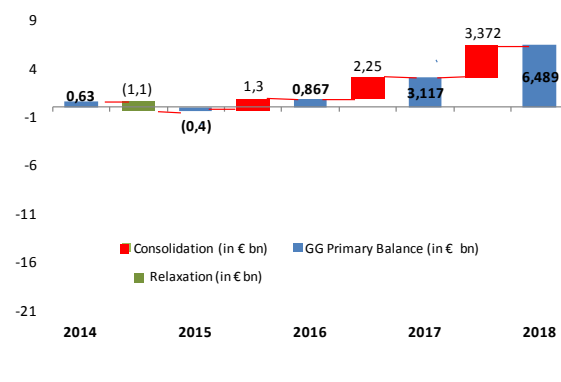
Source: Hellenic Statistical Authority

### Targeted Fiscal Consolidation, 1<sup>st</sup> MoU, 2010-2012



Source: IMF

### Targeted Fiscal Consolidation, 3<sup>rd</sup> MoU, 2015-2018



Source: European Commission

standard HCPI and the HCPI at constant tax rates in the period 2010-2011.

Both opposing forces will continue to affect headline inflation in 2016. Specifically, the impact of VAT hikes and the increase in transport tickets, in effect from February 2016, will continue to generate upward pressure on the overall price level. However, in January 2016, headline inflation further declined to -0.7% y-o-y from -0.2% y-o-y in December 2015 due to the higher impact of winter sales on a yearly basis. For 2016 as a whole, inflation is expected to return to positive territory, despite the projected falling oil prices as a result of the anemic increase in world oil demand.

### Box 2. Positioning for Lifting the Economic Growth Trajectory? Catching the Next Wave

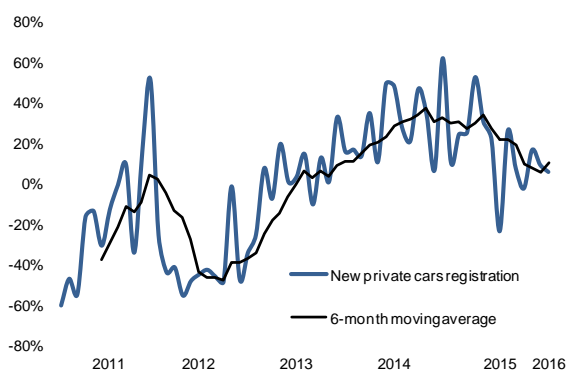
A number of characteristics concerning structural reforms and fiscal consolidation procedure constitute fundamental changes that give the potential to make this new programme a success story. In particular:

- The reduction in the primary surplus targets from 4.5% of GDP both in 2016-2017 to 0.5% in 2016 and 1.75% in 2017 make the targets more achievable and give the government the capacity to implement fiscal consolidation, without collapsing domestic demand. The size of required fiscal adjustment so as to achieve the targets set is much higher in 2018 than 2016, when the economy is expected to record strong positive GDP growth.
- On the contrary, during the Programme strategy of the first adjustment Programme, Greece had achieved substantial fiscal adjustment in the first year of implementation, when it managed to reduce primary deficit by €14.8 billion in 2010. The underlying fiscal effort was accomplished to such magnitude and in such a short time that led to a profound economic recession. In 2015, Greece remained fiscal disciplined while is required to continue its consolidation effort in the following years.
- With the new MoU, the majority of fiscal measures is set to be implemented in 2015 and 2016. In this context, the Programme is considered front-loaded, as the government will take actions to rationalize and reduce primary expenditure and tax reforms, as well as to implement a comprehensive reform Programme. The front-loaded character of the new Programme together with the successful completion of the first review is linked to a strong return of confidence in the economy, attracting private investment.

### Hard data: mixed signs in H2 2015

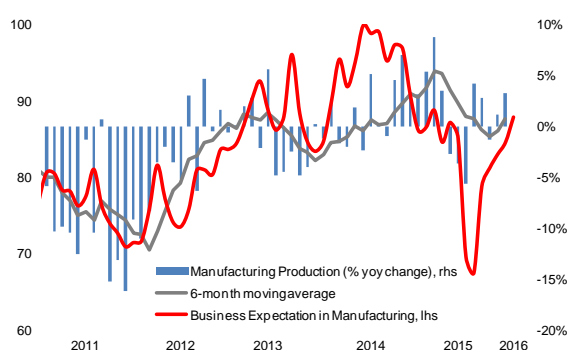
**Retail Sales:** Retail sector is one of the most significant sectors of the Greek economy, both in Gross Value Added (GVA) and employment terms. However, VAT increases in various categories of products and services implied in August 2015 had already made a dent in retail sector, while at the same time, consumer confidence indicator has deteriorated, as aforementioned. In particular, the volume of retail trade (excluding fuels) declined by 3.5% y-o-y in November 2015, against a moderated fall by 1.3% y-o-y in November 2014. In January-November 2015, the volume of retail sales excluding fuels decreased marginally by 0.6% y-o-y, compared to a reduction by 0.8% in the corresponding period of 2014. Taking into account the fact that retail sales, one of the

### New Passenger Car Registration (% y-o-y change)



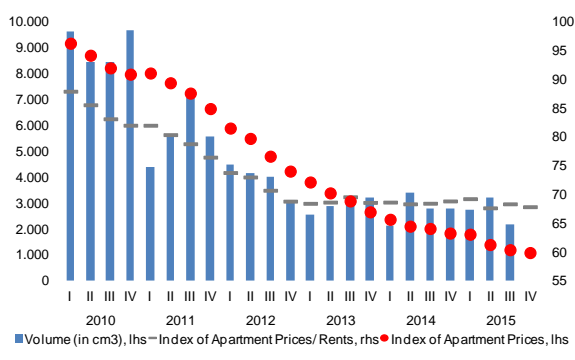
Source: Hellenic Statistical Authority

### Manufacturing Production



Source: Hellenic Statistical Authority, European Commission

### Private Building Activity and Index of Apartment Prices/ Rents



Source: Bank of Greece, Hellenic Statistical Authority

most severely hit sectors from the economic crisis, is highly correlated with future changes in private consumption, we can draw the conclusion that private consumption will be sluggish in the medium-term. Turning to the retail trade subsectors in January-November 2015 period, increases were registered in “Clothing and Footwear” (7.2% y-o-y), “Books-Stationary-Other Items” (6.2% y-o-y), while all other subcategories registered significant losses.

**New Passenger Car Registrations:** New passenger car registrations increased by 13.9% y-o-y in 2015 and stood at 96.151, though at a weaker pace than in 2014, when they increased by 30.1%. After the deep fall by 23.6% y-o-y in July 2015, new car registrations bounced back in August 2015, as new passenger car registrations increased by 25.8% y-o-y against a 23.1% y-o-y increase in August 2014. In the first eight months of 2015, new passenger car registrations increased by 18.9% y-o-y, though at a weaker pace than in the corresponding period of 2014 (28.4% y-o-y). In the first five months of 2015, expenditure on imported cars increased by 19.5% y-o-y, to €0.55 billion, against €0.45 billion over the corresponding period of 2014.

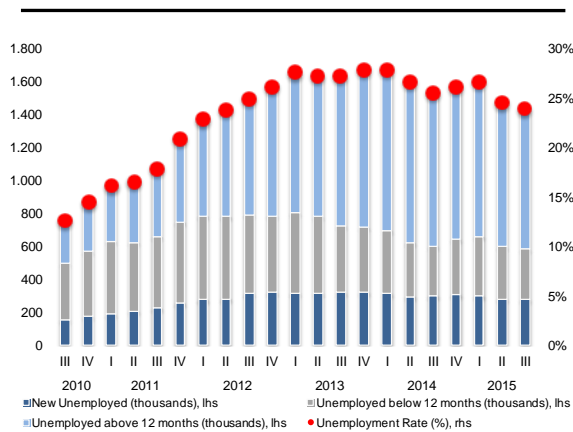
**Industrial Production:** Manufacturing production increased by 1.2% in 2015, compared to an increase by 1.9% y-o-y in H1 2015, suggesting that it managed to gain momentum quite rapidly, after the plunge the index registered during the summer, due to capital controls' imposition. The industrial production increased by 0.6% in 2015, against a fall by 1.9% in 2014. The improving performance of Greek industry stemmed from the decline in oil prices as well as raw material and the depreciation of the euro. A significant contribution to the industrial production growth had the strengthening of domestic demand, as a result of the upsurge in tourist arrivals in 2015. It is noted that key sectors of Greek industry continue to increase their production, as they managed to redirect a significant part of their production to foreign markets as well.

It is encouraging that the purchasing managers' index in manufacturing (PMI) rebounded relatively quickly in October 2015 and in December 2015 exceeded the threshold of 50 points (indicating a marginal increase of manufacturing output) at 50.2, for the first time since August 2014. The business confidence and particularly the Business Sentiment Indicator in Industry rebounded sharply after its large decline registered last summer, as it started recovering since September 2015 and continued its upward trend until January 2016.

**Building Activity:** In January-November 2015, the volume of private building activity, on the basis of permits issued registered a cumulative fall by 6.3% y-o-y, against a fall by 7.2% y-o-y in the corresponding period of the previous year, suggesting that the recovery in the sector is still flagging.

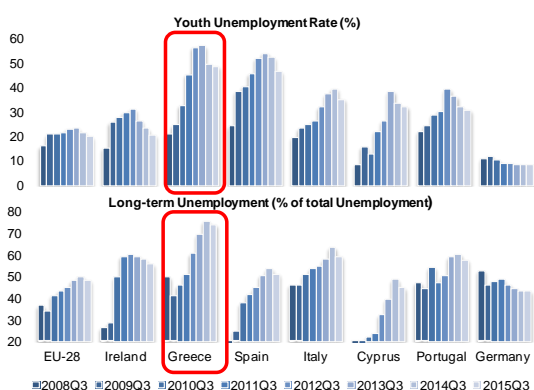
Moreover, in Q3 2015, market values and rents in real estate market remained under pressure, as apartment prices dropped by 6.1% y-o-y, at a higher pace than in Q2 2015 (5.0% y-o-y), albeit at a milder pace than in the corresponding period of the previous year (6.9% y-o-y). In the 9-month period of 2015, apartment prices fell by 5.0% on a yearly basis, while it is worth noting that the period Q1 2009 - Q3 2015 was characterized by a cumulative decline of 38.7%. Construction activity was once again one of the main drags in the economy in 2015, while the ongoing declining trend in apartment prices is expected to continue in the coming quarters, as the recovery depends, *inter alia*, on the

### Duration of Unemployment and Unemployment Rate



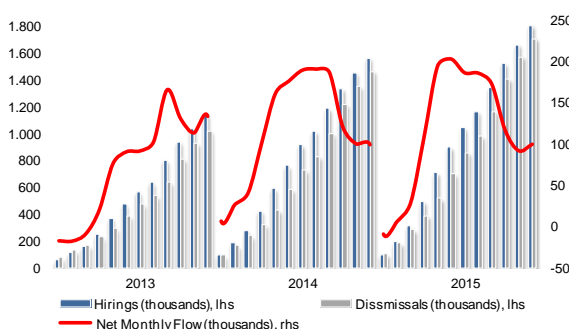
Source: Hellenic Statistical Authority

### Youth and Long-term Unemployment



Source: Eurostat

### Private Sector New Hirings and Dismissals



Source: ERGANI Information System

evolution of disposable income, the employment prospects and financing conditions.

### Intensely slow recovery in labour market

Although the Greek Economy entered a new downturn in Q32015, labour market conditions continued to moderately improve. In particular, the unemployment rate declined to 24% (non seasonally adjusted data) in Q32015 from 24.6% in Q22015 and 25.5% in Q32014, on account of a 1.7% q-o-q decrease in the number of unemployed persons (-5.6% on a yearly basis) and a 1.3% q-o-q rise (+2.3% y-o-y) in the number of employed persons.

Despite ongoing moderate improvements, the unemployment rate remains alarming both in terms of the *overall level*, being the highest across EU countries and of its *composition*, as long-term unemployment and youth unemployment, stand at persistently high, by historical standards, levels. Long-term unemployed (i.e. over 12 months) declined from 863.2 thousands in Q22015 to 855.0 thousands in Q32015, but still account for over 70% of total unemployed (Q32015: 73.7%; Q2 2015: 73.1%). The percent of youth unemployment (i.e. age 15-24 years old) declined to 48.8% in Q3 2015, against 49.5% in Q22015 and 49.6% in Q32014. The persistent high youth and long-term unemployment have a detrimental impact on both economic and social terms, diminishing the production capacity of the economy while weakening social cohesion.

The slow but steady improvements in labour market since Q3 2014, in line with the economic recovery during 2014 and in H1 2015, were additionally underpinned by falling labour costs in the context of the internal devaluation process and labour market regulatory interventions which contributed to the expansion of more flexible forms of employment. The latter is evident in the latest data on private-sector dependent employment flows from the "ERGANI" Information System. In particular, in 2015, full-time employment decreased to 44.5% from 49.5% in 2014. In contrast, part-time employment accounted for 37.4% in 2015 against 36.2% in 2014, while job rotation rose markedly to 18.1% of total employees in 2015 compared to 14.3% in 2014.

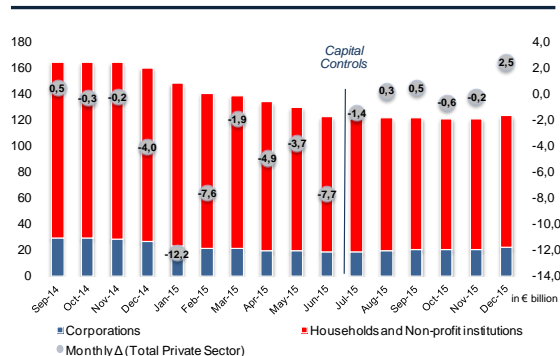
Labour market conditions are expected to evolve in line with the magnitude and duration of the new recessionary phase. The moderate downward trend in the unemployment rate came to standstill in October 2015 standing at 24.7% (seasonally adjusted data) while marginally declined to 24.6% in November 2015. According to ERGANI data, in 2015 as a whole, new hirings in the private sector increased by 243.4 thousands (Jan. 2015 – Dec. 2015: 1809.6 thousands) compared to the corresponding period of the previous year (Jan. 2014 – Dec. 2014: 1709.9 thousands), while dismissals increased by 242.8 thousands against the respective period of the previous year. Thus, the net cumulative employment flow in 2015 was higher by 0.6 thousands against 2014.

### Banking System, Financing and Liquidity Conditions

In line with the provisions of the third Memorandum of Understanding, the European Central Bank conducted a comprehensive assessment of the four systemic Greek banks, consisting of an *asset quality review* and a *forward-looking stress test* exercise, under both a baseline and

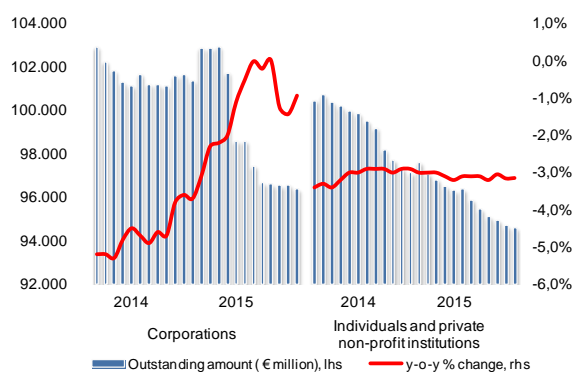


### Private Sector Deposits



Source: Bank of Greece

### Credit to Domestic Private Sector



Source: Bank of Greece

an adverse scenario. For the four banks, the comprehensive assessment identified a capital shortfall, of €4.4 billion and €14.4 billion, under the baseline and the adverse scenario, respectively. The recapitalisation of the four systemic banks was successfully completed with significant foreign investors' participation of approximately €5.3 billion.

The introduction of the emergency bank holiday and the imposition capital controls in late June 2015, limited the massive monthly private sector's deposits outflows recorded in the last months of 2014 and in the first semester of 2015 which resulted in an overall cumulative decline by €42.5 billion (September 2014 - June 2015). In particular, during the second semester of 2015, private sector deposits recovered gradually, increasing cumulatively by €1.1 billion, as a result of the marked increase by €3.1 billion in the deposit base of corporations which outweighed the decline by €2.0 billion of households and non-profit institutions.

The annual rate of decline in bank credit to domestic private sector remained rather stable in the fourth quarter of 2015, standing at -2.0% -2.2% and -2.0% in October, November and December 2015, respectively. In particular, the annual growth rate of credit to corporations decelerated progressively standing at -0.9% in December 2015 from -1.4% in the previous month, recording a positive monthly net flow at €355 million compared to -€176 million in November 2015.

The respective rate for individuals and private non-profit institutions remained rather stable in December 2015, standing at -3.1% against -3.2% in November 2015 while the monthly net flow stood at -€98 million in December 2015 compared to -€256 million in the previous month. The annual rate of decline to sole proprietors and unincorporated partnerships picked up to -1.2% in December 2015 (November 2015: -0.6%) while the monthly net flow stood at -€47 million (November 2015: -€25 million).

In December 2015, the overall weighted average interest rate on new deposits remained rather stable at 0.56% compared to 0.58% in November 2015 while the overall weighted average interest rate on new loans increased marginally to 5.09% from 4.92% in November 2015. As a result, the interest rate spread widened marginally to 4.53% from 4.34% in the previous month.

This report is provided for information purposes only. The information it contains has been obtained from sources believed to be reliable but not verified by Alpha Bank. This report does not constitute an advice or recommendation nor is it an offer or a solicitation of an offer for any kind of transaction. Furthermore, it does not constitute an investment research and therefore it has not been prepared in accordance with the legal requirements regarding the safeguarding of independence of an investment research. Alpha Bank has no obligation to review, update, modify or amend this report or to make announcements or notifications in the event that any matter stated herein or any opinion, projection, forecast or estimate set forth herein, changes or is subsequently found to be inaccurate. No representation or warranty, express or implied, is made as to the accuracy, completeness or correctness of the information and the opinions contained herein, or the suitability thereof for any particular use, and no responsibility or liability whatsoever is accepted by Alpha Bank and its subsidiaries, or by their directors, officers and employees for any direct or indirect damage that may result from the use of this report or the information it contains, in whole or in part. Any reproduction or republication of this report or part thereof must mention Alpha Bank as its source.

Macroeconomic Environment	ANNUAL				QUARTERLY					MONTHLY					
	2012	2013	2014	2015	2014 IV	2015 I II III IV				2015 Sept.	2015 Oct.	2015 Noe.	2015 Dec.	2016 Jan.	
<b>AGGREGATE DEMAND</b>															
GDP at current prices (in € billion), SA (annual % change)	191,4	180,1	177,6	176,0											
GDP at constant prices 2010 (in € billion), SA (annual % change)	190,2	184,3	185,5	185,1	0,1	0,0	0,3	-2,6	-1,2						
<b>Components</b> (annual % change, at constant prices)															
Private Consumption	-7,9	-2,5	0,7	0,3	0,9	0,7	1,7	-0,3	-0,9						
Public Consumption	-7,2	-5,5	-2,4	0,0	-8,1	0,4	-1,5	-2,0	2,8						
Gross Fixed Capital Formation	-23,4	-9,3	-2,6	0,9	3,7	9,9	0,1	-11,4	5,7						
Exports of Goods and Services	1,1	1,7	7,4	-3,8	10,5	3,3	1,5	-10,3	-8,8						
Imports of Goods and Services	-9,4	-2,9	7,8	-6,9	16,2	9,3	-3,3	-19,8	-12,5						
<b>LABOUR MARKET (annual % change)</b>															
Nominal Unit Labour Costs <sup>(1)</sup>	-1,4	-6,6	-2,9		1,4	-0,1	-3,4	-1,9							
REER Unit Labour Costs <sup>(2)</sup>	-6,2	-6,2	-2,4		-3,2	-6,2	-5,0	-2,7							
Unemployment Rate (%) <sup>(3)</sup>	24,6	27,5	26,6		25,9	25,8	25,0	24,7		24,7	24,7	24,6			
<b>PRICES (average annual % change)</b>															
National CPI	1,5	-0,9	-1,3	-1,7	-1,8	-2,4	-2,1	-1,8	-0,6	-1,7	-0,9	-0,7	-0,2	-0,7	
National CPI excl. Fresh Fruits - Vegetables & Fuels (BoG)	0,3	-1,7	-0,7	-0,5	-0,7	-0,7	-0,9	-0,5	0,3	-0,4	0,1	0,2	0,4	-0,1	
GDP Deflator, SA	-0,4	-2,5	-2,2		-0,8	-0,3	-0,7	-1,0	-0,1						
<b>PUBLIC FINANCES</b>															
General Government Primary Balance (in billions, cumulative) <sup>(4)</sup>	-7,1	-15,7	0,6	...	2,0	1,1	0,2	2,4	4,1	2,4	4,7	5,0	4,1	1,3	
G.G. Primary Balance (% of GDP)	-3,7	-8,4	0,4	...	1,2	0,6	0,1	1,4	2,3						
General Government consolidated Gross Debt (in billions) <sup>(6)</sup>	304,8	319,2	317,7	...	324,1	312,7	312,8	314,6	321,3						
G.G. Gross Debt (% of GDP)	159,4	177,0	178,9	182,6											
<b>EXTERNAL BALANCE &amp; COMPETITIVENESS INDICATORS</b>															
Current Account Balance (€ bil.) <sup>(5)</sup>	-7,3	-3,7	-3,8	0,0	-3,8	-3,2	-3,9	1,7	0,0	0,9	0,3	-1,2	-0,8		
Current Account Balance (% of GDP) <sup>(5)</sup>	-3,8	-2,0	-2,1	0,0	-2,1	-1,8	-2,2	1,0	0,0						
Greece: Real Effective Exchange Rate Index <sup>(6)</sup>	-3,6	0,0	-1,0		-3,9	-7,0	-5,6	-2,7		-1,2					
Greece: Nominal Euro Effective Exchange Rate Index <sup>(6)</sup>	-1,7	3,1	2,1		-0,7	-4,2	-3,2	-1,1		0,4					
Tourism Competitiveness Index (rank out of 140) <sup>(7)</sup>		32		31											

Sources: Hellenic Statistical Authority, EC, UNWTO, BoG, Min Fin,

<sup>(2)</sup> Compared to 37 countr. <sup>(3)</sup> Defined as unemployed/labour force (seasonally adjusted data, period average).

<sup>(4)</sup> Yearly data are ESA based statistics, while quarterly and monthly data are compiled from cash based public accounting data (without the impact of the support to financial institutions)

<sup>(5)</sup> The Quarterly Current Account Balance as % to GDP for 2015 is divided with €175.6 bill. Quarterly data are cumulative.

<sup>(6)</sup> From reference month July 2015, the Bank of Greece will implement a significant change to its balance of payments compilation methodology, using ELSTAT's trade statistics instead of the settlements data used until June 2015 inclusive.

<sup>(7)</sup> The index is CPI-based and includes the 37 main trading partners of Greece. This index should not be confused with the real Effective Exchange Rate of the euro which is calculated by the ECB on the basis of the trade shares of the euro area as a total. An increase denotes loss of competitiveness of Greece's trading partners.

Business Economy	ANNUAL				QUARTERLY					MONTHLY					
	2012	2013	2014	2015	2014 IV	2015 I II III IV				2015 Oct.	2015 Noe.	2015 Dec.	2016 Jan.	2016 Feb.	
<b>(annual % change unless otherwise indicated)</b>															
<b>INDUSTRY</b>															
Industrial Production Index <sup>(1)</sup>	-2,0	-3,2	-1,9	0,6	0,1	1,9	-2,9	1,6	1,7	-1,9	1,8	5,2			
Manufacturing Production Index	-3,5	-1,1	1,8	1,2	5,3	5,2	-1,0	-0,2	1,2	-1,2	1,1	3,3			
Turnover Index in Industry	2,8	-5,9	-1,1	-10,4	-0,6	-8,7	-6,1	-15,6	-10,9	-18,9	-10,2	-1,8			
<b>CONSTRUCTION ACTIVITY</b>															
Production Index in Construction (WDA, 2010=100) <sup>(1)</sup>	-33,4	-8,2	15,5		18,1	46,4	6,2	-29,5							
Index of Apartment Prices	-11,7	-10,9	-7,5	-5,1	-5,5	-3,9	-5,0	-6,1	-5,4						
Private Building Activity (volume in 000m <sup>3</sup> ) <sup>(2)</sup>	-30,6	-25,6	-5,8		-5,8	29,2	7,7	-2,3		-6,4	-6,3				
<b>TRADE</b>															
Turnover Index in Retail Trade <sup>(3)</sup>	-11,0	-8,6	-1,2	-2,8	-2,1	-1,7	-0,9	-5,9	-2,7	-3,6	-5,4	-0,1			
Turnover Index in Wholesale Trade <sup>(3)</sup>	-12,1	-12,1	0,1	-4,3	-0,9	-1,0	-3,3	-11,2	-1,8						
<b>CAR TRADE</b>															
Turnover Index in Car Trade <sup>(3)</sup>	-29,3	-3,1	18,6	7,7	16,5	17,1	12,4	-6,9	8,9						
New Passenger Car Registrations	-41,7	3,1	30,1	13,8	30,9	19,2	33,2	-2,2	2,1	-16,5	16	9,0	5,5	5,5	
<b>SERVICES</b>															
<b>(cumulative)</b>															
Tourism Receipt, BoG (incl. cruises)	-0,6	16,4	10,2	6,0	10,2	12,8	8,2	4,7	6,0	-4,1	16,0	-4,9			
Tourism Receipt (in mln euros)	10,442	12,152	13,393	14,194	13,393	532	4,122	12,570	14,194	961	241	146			
Tourist Arrivals, BoG (excl. cruises)	-5,5	15,5	23	7,1	23	45,6	20,8	8,6	7,1	0,7	-4,0	1,7			
Tourist Arrivals (in thous people)	15,517	17,919	22,033	23,559	22,033	1,728	7,566	20,617	23,559	1,853	641,5	345,3			
Turnover Index in Tourism (hotels & restaurants) <sup>(3)</sup>	-17,2	4,8	13,7		22,2	6,0	13,4	9,9							
<b>EXPECTATIONS INDICES (in units)</b>															
Economic Sentiment Indicator	80,6	91,2	100,0	89,4	101,9	97,3	92,2	80,7	87,3	87,1	87,1	87,6	91,6	89,0	
Index of Consumer Confidence	-74,8	-69,4	-54,0	-50,7	-51,6	-37,0	-43,6	-60,6	-61,6	-59,6	-64,1	-61,1	-63,9	-66,8	
Index of Bus. Expect. in Industry	77,2	87,8	94,6	81,9	94,9	87,1	85,7	71,9	82,9	81,2	83,0	84,6	87,9	89,2	
Index of Bus. Expect. in Construction	43,2	65,0	80,4	56,4	79,9	65,0	57,6	44,0	58,8	65,2	60,5	50,8	65,6	72,7	
Index of Bus. Expect. in Retail Trade	57,1	70,2	89,1	81,0	95,6	85,5	90,4	65,8	82,4	76,7	82,3	88,2	90,5	95,9	
Index of Bus. Expect. in Services	54,8	70,4	87,2	70,6	88,8	76,4	73,2	62,3	70,5	72,0	70,9	68,5	77,5	63,2	
Index of Bus. Expect. In Tourism <sup>(4)</sup>	69,2	79,8	101,3	89,3	105,6	93,4	97,3	92,1	74,5	78,0	85,1	60,3	67,1	69,8	

Sources: Hellenic Statistical Authority, Bank of Greece, IOBE, SETE

<sup>(1)</sup> Production at constant prices, SA.

<sup>(2)</sup> Cumulative for quarterly data

<sup>(3)</sup> Turnover at current prices.

<sup>(4)</sup> Accommodation and Restaurants

Blank indicates no available data.