

Greece

Economic & Financial Outlook

In a Nutshell...

The GDP contraction in H1 2016 was milder than initially expected, as GDP declined by a mere 0.96% while in H1 2015 GDP increased by 0.6%.

The economy is now entering into a phase driven by two opposing forces... the drag exerted by private consumption, as a result of the fresh tax burden imposed on households... and the investment pick-up boosted by the restoration of confidence.

There are signs predicating that the economy will pull out of recession in H2 2016, as improvement of business sentiment indicator, resurging manufacturing production and good prospects in tourism industry all reflect stronger activity.

Fiscal consolidation effort continued at an unabated pace in the first months of 2016, as the General Government primary surplus, on a cash basis, stood at €3.3 bn in H1 2016.

The acceleration in the privatisation process remains pivotal in stimulating investment growth, given the limited fiscal space for public investment.

Slow recovery in labour market... yet levels of long-term unemployment and youth unemployment remain elevated.

The negative effects of the Brexit seem to be contained for the Greek economy.

The ECB's decision, in June 2016, to reinstate the waiver of the minimum credit rating requirements for Greek marketable debt instruments, allows Greek banks to obtain funding at lower cost.

Liquidity conditions are expected to progressively improve as confidence gradually restores, following the completion of the first review.

H1 2016 recession proved milder than expected though restoration of confidence remains a catalyst for investment recovery and growth in the long run

The impact of the summer 2015 recessionary shock is fading out, as depicted at the Graph below. In particular, H1 2016, GDP declined by 0.96% yoy while in H1 2015 GDP increased by 0.6% yoy. GDP fell by -0.9% yoy in Q2 2016, from -1.0% in Q1 2016, while on a quarterly basis GDP increased by 0.2% in Q2 (seasonally adjusted data), against a fall by 0.2% in Q1 2016. The improvement of economic sentiment indicator, resurging manufacturing production and good prospects in tourism industry all reflect stronger activity. Therefore, growth recovery is expected to surface in H2 2016, as Greece reaps the benefits of the adjustment programme, boosted by the restoration of confidence of the prospects of Greek economy and therefore investment pick-up, on the back of the speeding up of the state property privatizations.

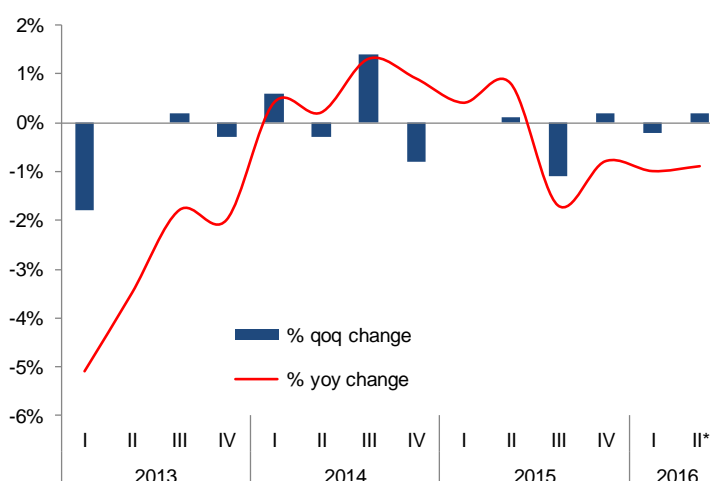
On the other hand, private consumption is expected to remain subdued as indicated by the slumping consumer confidence indicator.

Households are heavily affected by the new fiscal austerity measures such as VAT increases; reforms in personal income taxation and the pension system (see Box 3). Regarding the external sector, the positive contribution from net exports might fall short of what was initially expected at the beginning of the year, as exports declined at a faster pace than imports in H1 2016.

The improvement of confidence was further strengthened by the following positive developments: (i) The long-awaited release of the first disbursement of the second tranche amounting to €7.5 bn set the stage for meeting financing requirements and improving liquidity conditions. (ii) The further relaxation of capital controls in tandem with the reinstatement of waiver for the Greek government bonds, confirm the confidence in the banking system.

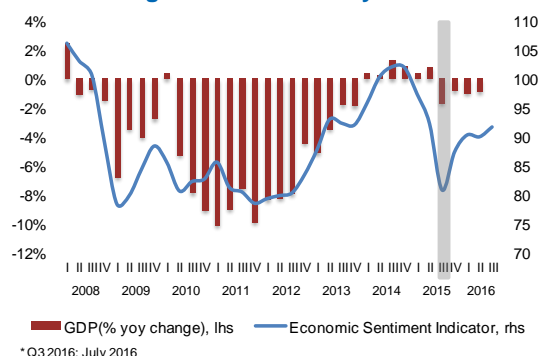
H2 2015-H1 2016 Recessionary shock is fading out

(Real GDP, % annual and quarterly changes, seasonally adjusted)



Source: Hellenic Statistical Authority
 *provisional figures

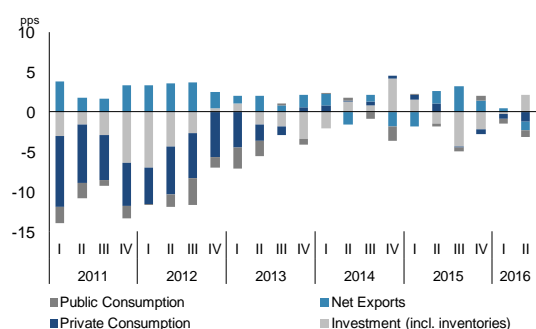
Restoring Confidence is Key to Growth



Source: Hellenic Statistical Authority, IOBE

GDP Components (contribution)

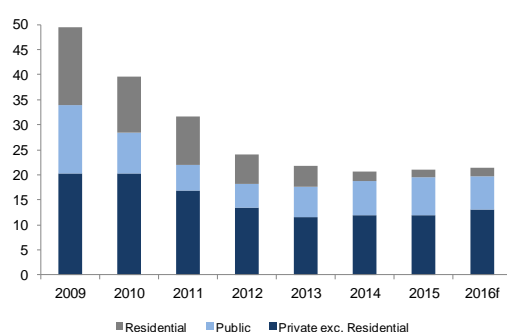
Based on annual changes (s.a.)



Source: Hellenic Statistical Authority

Investment Evolution Decomposed

(in € bn)



Source: Hellenic Statistical Authority, Alpha Bank Forecasts

A rapid shift in confidence can also occur with the participation of Greek bonds to the QE programme and eventually the ultimate lift of capital controls, coupled with an efficient management of NPL, which will ease lending constraints.

Finally, the brighter outlook is depicted in the improvement of both fiscal and external imbalances. In particular, 2015 marked a turning point when Greek economy registered a zero balance in current account, and a primary surplus in General Government (GG) budget. Moreover, in 2016 both fiscal balance and external position are further improving as GG primary budget will exceed the target set for the year (0.63% of GDP according to the Draft Budget, against targeted 0.5%), while current account surplus is expected to stand at 0.9% of GDP. The materialization of short-term debt relief measures, already agreed on May 2016 Eurogroup, is of great significance for boosting investors' confidence. This is because it signals that the debt servicing burden will be moderate in the short term, thus releasing available resources needed for economic growth and alleviating the consequences of a strict fiscal adjustment.

Regarding economic prospects in 2017, growth is expected to pick up and register a positive figure, higher than 2%, on the back of structural reforms and privatization. As mentioned above, private consumption is not expected to gain momentum in the near future; therefore recovery is anticipated to be investment-driven so as to contain the restrictive effect of the new austerity policy mix. Investments are expected to be further strengthened by the EU structural funds over the programming period 2014-2020 when Greece is expected to receive up to €36 bn. These funds will be directed to the agricultural sector as well as energy, innovation, environment, maritime and fisheries.

The above forecast is based on the critical assumption that there will be no delays or insufficient policy actions. A rapid implementation of structural reforms is of great significance in order to quell tensions emanating from further delays in the completion of the second review.

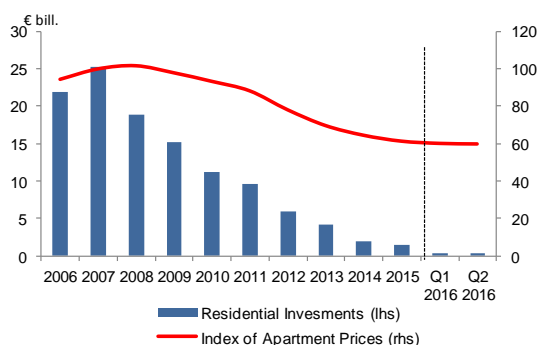
Economic contraction in H1 2016 due to weak domestic demand

The GDP breakdown by expenditure reveals that the main drag was domestic demand as it subtracted 0.65 bps from GDP in H1 2016, while net exports also had a negative contribution by 0.3 bps.

In particular, private consumption remains the main underlying component to explain the fall of GDP in Q2 2016, as it fell by 1.7% yoy and contributed negatively to GDP by 1.2 bps. In fact, the decline intensified in Q2 2016, as private consumption fell by 1.0% yoy in Q1 2016. This fall was in line with the deterioration in consumer confidence (Q2 2016: -71.2, Q1 2016: -67.5) and the drop in the turnover of retail sales by 3.4% yoy in January-May 2016. The new VAT hikes along with the reforms in income taxation and pension cuts squeeze households' disposable income, casting shadow over the rebound of private consumption in the following quarters. Therefore, the change of private consumption is expected to be negative in 2016 as a whole and turn positive in 2017, though subdued. Public consumption registered a notable decline by 2.7% yoy in Q2 2016, after a fall by 2.6% yoy in Q1 2016.

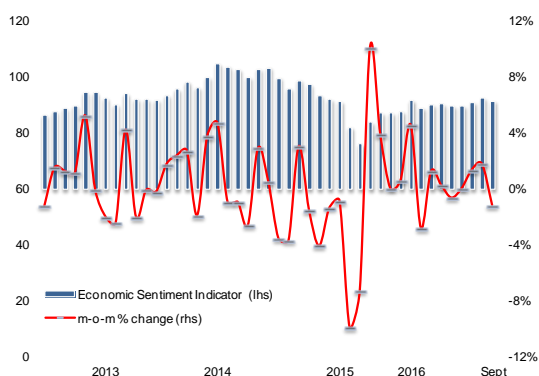
In the external sector, the substantial decline in exports of goods and services by 11.4% yoy in Q2 2016, that outpaced the decline in imports of goods and services (-7.1%), led to the negative contribution of the external sector, as mentioned above. The decline of imports is expected to continue in the following quarters as a result of capital controls imposed, while the fall in exports is expected to be contained as exports

Residential Investment & Apartment Price Index



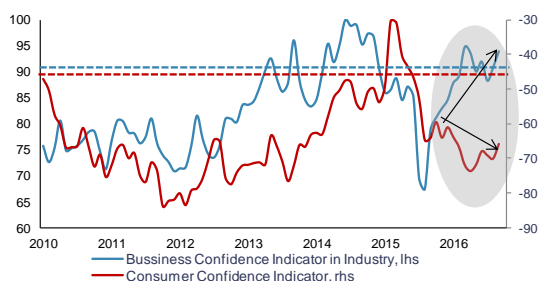
Source: Hellenic Statistical Authority, Bank of Greece

Economic Sentiment Indicator



Source: IOBE

Industrial and Consumer Confidence Indicator



Source: IOBE

in services are about to increase in H2 2016 along with a pick-up in tourism activity. Therefore, net exports are expected to have a positive contribution in 2016 as a whole, though lower than initially expected.

Finally, investment increased by 7.0% yoy in Q2 2016 contributing to GDP by 0.8 bps. The increase in investment is driven by the increase in investment excluding residential investment (9.2% yoy in Q2 2016) and mostly by the increase in the investment in machinery and equipment by 13.1% yoy in Q2 2016. Investment including inventories and statistical discrepancies had a positive contribution to GDP by 2.0 bps. It is worth noting that residential investment continued to decline by 23.5% yoy in Q2 2016, against a fall by 17.1% yoy in Q1 2016. Residential investment currently accounts for only 0.7 bps of GDP, compared to 9.9 bps of GDP in 2007. The breakdown of investment paints a clearer picture of how investment will help strengthen the prospects of the economy. During the crisis, Greece has been plagued by investment collapse, particularly in residential investment. Taking into account the high property tax imposed, there is little hope for a rebound in residential investment in the near term. This is also evident by the ongoing decline in house prices. In Q2 2016 the new index of apartment prices decreased further by -2.7% yoy, albeit at a slower pace compared to Q1 2016 (-4.7%) and to the corresponding period of 2015 (-5.0%).

Public investment is also expected to stagnate in the medium term, as long as Greece lacks fiscal space because of the relatively high targets for primary surpluses. Therefore, the attraction of private investment is the key for the economic recovery. Restoration of confidence, along with the speed up in the privatization process remain pivotal in stimulating investment growth.

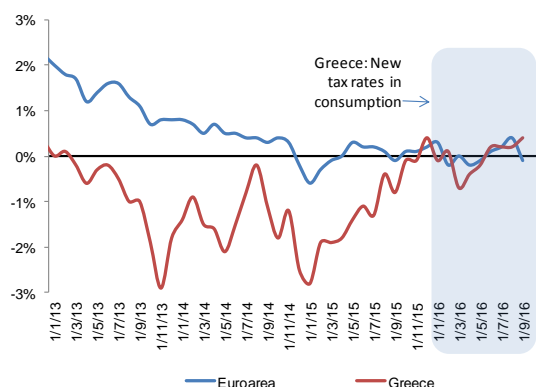
Business confidence on a upward trend though consumer confidence moves to the opposite direction

The Economic Sentiment Indicator (ESI) slightly fell in September 2016 to 91.4 units, from 92.5 in August 2016 and 90.9 in July 2016, due to the deterioration in the Construction Business Indicator. All other indices, according to IOBE, registered increases.

In particular, business confidence indicator in Industry improved to 94.0 units in September 2016, from 90.9 in August 2016 and it remained well above the level of September 2015 (78.8). This improvement contradicts the persistence of PMI index at levels below 50 (with a few exceptions). All in all, the business confidence indicator in Industry has bounced back since August 2015 and now stands at a level above the average of the 2008-2016 period (81.6), suggesting the continuation of improvement in industrial production in the following months. The Business Expectations in Services slightly fell to 80 units in September 2016, from 80.2 units in August 2016, from 75.7 in June 2016 and 75.4 in September 2015. The level of the index points to solid growth in the services sector, mainly due to good prospects in tourism. Business Expectations in Retail Trade increased to 99.6 in September 2016, from 98.4 in August 2016 and 69 in September 2015, while the Expectations in Construction dropped to 43.8 units in September 2016, from 46.6 in August 2016 and 56.3 in September 2015. This index is inclined to significant volatility, though the construction sector has been severely hit during crisis and still remains in recession.

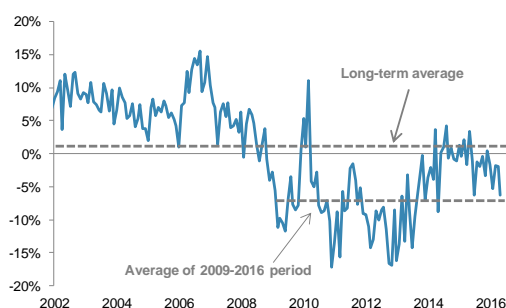
The new taxes and pension reforms are reflected in the marked deterioration of consumer confidence, though it improved to -65.9 units in September 2016, from -70.1 in August 2016 and -64.2 in September 2015. Despite the improvement on a monthly basis, the index remains at very low levels, indicating the worsening expectations for households' future financial situation and savings.

HICP: Greece vs Eurozone



Source: Eurostat

Turnover Index in Retail Trade (excl. fuels) (% yoy change)



Source: Hellenic Statistical Authority

Manufacturing Production & PMI



Source: Hellenic Statistical Authority, Markit Economics

On deflationary mode despite tax increases

National headline CPI inflation continues to remain in a negative territory in the first nine months of 2016, despite the VAT increase in a wide range of products and services. In fact, deflation deteriorated further to 1.0% yoy in September 2016, from -0.9% yoy in August 2016 and -1.7% in September 2015. The negative figure in September is related to the continuous fall of goods price index (-1.7% on a yearly basis), while services price index registered a mere increase by 0.1% yoy. Nevertheless; so far, the VAT impact does not offset the negative pressures exerted by declining oil prices and weak domestic demand. Excluding the impact of oil prices and unprocessed fruits and vegetables, core CPI inched down to a negative figure, -0.3% yoy in September 2016, from -0.2% yoy in August 2016.

HICP inflation fell to -0.1% yoy in September 2016, from a positive figure of 0.4% in August 2016. It is noted that tourism sector weights more in the HICP inflation than in the national CPI inflation which explains the deviations between HICP and national CPI. However, the convergence of HICP between Greece and the Euro Area is mostly attributed to the higher indirect taxes imposed on the Greek economy.

Four main factors will continue to affect headline inflation in 2016. Specifically, the impact of indirect tax hikes will continue to generate upward pressure on the overall price level. The impact of subdued domestic demand as private consumption will remain negative in 2016. Moreover, deflation process is related mainly to the output gap and the high unemployment rate. Finally, the negative impact of falling oil prices that subtracted 0.72 bps from CPI in September 2016. Deflationary pressures are expected to ease in the following months but CPI inflation is expected to remain negative in 2016 as a whole, before turning positive in 2017.

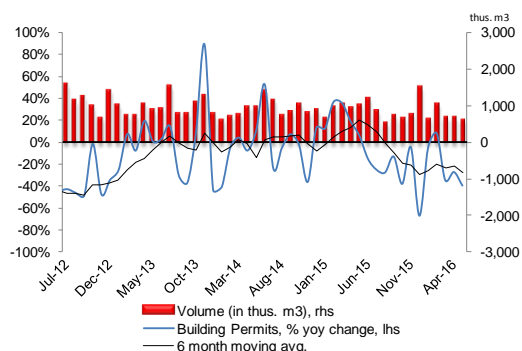
Hard data: mixed signs in H1 2016

Retail Sales: Retail sector is one of the most significant sectors of the Greek economy and one of the most severely hit during the crisis. VAT increases in various categories of products and services imposed in August 2015 further dented retail sector, while at the same time, retail trade confidence indicator and consumer confidence indicator both fail to improve significantly. In particular, the turnover index in retail trade declined by 5.2% yoy in June 2016, against a decline by -1.7% yoy in June 2015. This fall was entirely due to the significant price-related slump in the index of the fuel retail sales by 18.3% yoy, as the turnover index in retail trade excluding fuel declined by 2.3% yoy in June 2016. In H1 2016 the turnover index in retail trade excluding fuel decreased by 3.2% yoy. Turning to the retail trade subsectors in H1 2016, increases were registered in "Shopping Malls" (7.1% yoy) and "Footwear and Clothing" (0.6% yoy) while all other subcategories registered significant losses. Given the unfavorable conditions (high unemployment, drop in hourly wages, low consumer confidence indicator, fall in private consumption), the dip in retail sales is expected to continue in the following months.

New Passenger Car Registrations: In January-September 2016, new passenger car registrations increased by 12.8% yoy, against an increase of 17.7% in the corresponding period of 2015. In particular, in September 2016 new passenger car registrations registered an increase of 9.6% yoy.

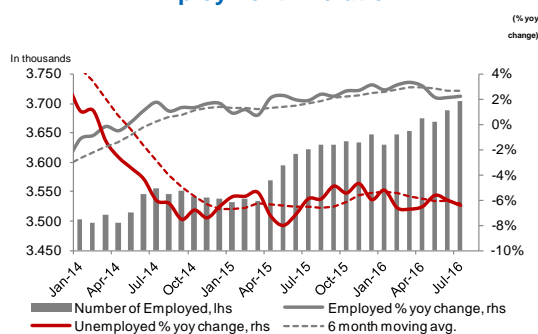
Industrial Production: Manufacturing production continues its upward trend and increased by 2.1% in August 2016, in addition to the increase by 3.7% yoy in August 2015, suggesting that it managed to keep the

Private Building Activity



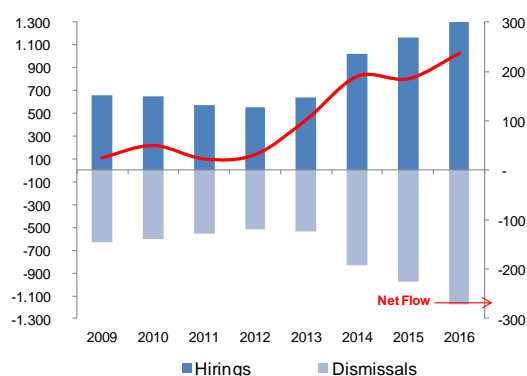
Source: Hellenic Statistical Authority

Employment Evolution



Source: Hellenic Statistical Authority

Employment Net Flow in the Private Sector (January - August)



Source: ERGANI

momentum since the beginning of the year, after the plunge the index registered during the summer of 2015, due to capital controls' imposition. However, the industrial production index stands at 86.0, far below the 100 units of the index on the base year (2010). It is noted that the GVA of the industry sector declined to 10.6% in Q1 2016, from 11.2% in 2010. The improving performance of Greek industry stemmed from the continuous decline in oil prices, the depreciation of the euro and the relaxation of capital controls for the business sector. It is noted that key sectors of the Greek industry continue to increase their production, as they managed to redirect a significant part of their production to foreign markets.

The Business Sentiment Indicator in Industry also improved to 91.3 in H1 2016, up from 86.4 in H1 2015.

Building Activity: In January-July 2016, the volume of private building activity, on the basis of permits issued, registered a cumulative fall by 14.4% yoy, against an increase by 2.0% yoy in the corresponding period of the previous year, suggesting that the sector's recovery is still lagging.

Construction activity still remains one of the main drags in the economy in 2016, while the ongoing declining trend in apartment prices is expected to prevail in the coming quarters, as the recovery depends, inter alia, on the evolution of disposable income, employment prospects and financing conditions.

Moreover, in Q2 2016, market values and rents in real estate market remained under pressure, as apartment prices dropped by 2.7% yoy, albeit a milder pace than in Q2 2015 (5.0% yoy). The real estate market is expected to remain under pressure in 2016, though less than the previous years, following the apartment prices drop by 5.0% in 2015 (2014: -7.5%; 2013: -10.9%).

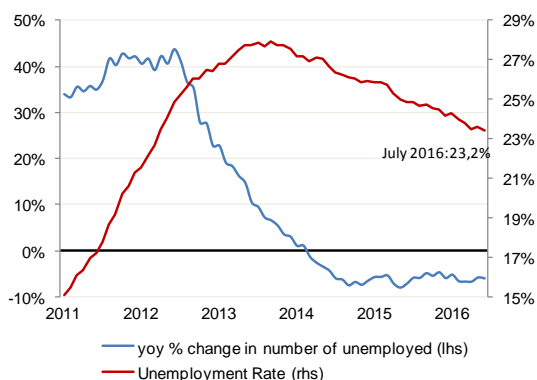
Slow recovery in labour market

Labour market conditions continued to moderately improve throughout 2015 and the first months of 2016, underpinned by both rising employment and the falling number of unemployed. More specifically, in Q2 2016 the unemployment rate declined to 23.1%, from 24.9% in Q1 2015 and 24.6% in Q2 2015, on account of a 5.8% yoy decline in the number of unemployed persons and a 2.1% yoy rise in the number of employed persons.

The improvement in labour market flexibility led to successive moderate declines, on an annual basis, in the number of long-term (i.e. over 12 months) unemployed persons. In particular, the number of long-term unemployed decreased to 802.5 thousands persons in Q2 2016 from 839.8 thousands in Q1 2016 and 863.2 thousands in Q2 2015. However, the ratio of long-term unemployed over total unemployed persons retreated only marginally in Q2 2016 to 72.2% compared to 73.1% in Q2 2015. It should be noted that the majority of long-term unemployed involves mainly persons over 30 years old, coming mostly from the sectors of the economy that were severely hit by the prolonged recession such as construction.

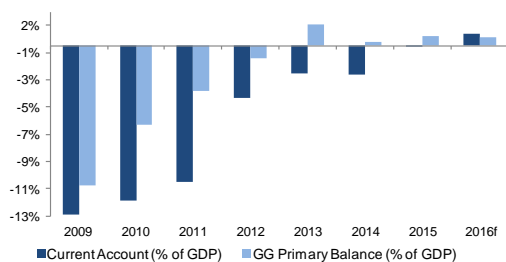
In addition to the persistently high levels of long-term unemployment that post significant threats to social cohesion, youth unemployment remains also alarming, intensifying the "brain drain" that deprives the economy of high-skilled human capital. In particular, youth unemployment (i.e. age 15-24 years old) declined to 49.1% in Q2 2016 from 49.5% in Q2 2015, remaining, though, at record-high levels and the second highest among EU countries. The further de-escalation of unemployment rate and the increase in the employment rate depend to a large extent on the stabilisation of economic sentiment, the growth

Unemployment



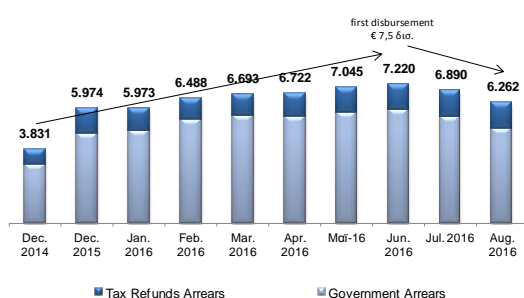
Source: Hellenic Statistical Authority

External and Fiscal Imbalances Smoothed



Source: Bank of Greece, Bank of Greece forecasts

Government Arrears to Private Sector (€ mln.)



Source: Min Fin
Sources: MinFin, IOBE

prospects, as well as the implementation of structural changes. The promotion of active employment policies and training programmes will contribute to curb the unemployment rate.

Turning to the employment developments at a sectoral level, in Q2 2016 employment in the tourism sector (standing at 14.9% of total employed) recorded a 10.3% annual increase; from 3.1% increase in Q2 2015. Regarding the other sectors of the economy, employment in Q2 2016 increased in the energy sector and manufacturing by 18.7% yoy and 5.5% yoy respectively. On the contrary, employment in the agricultural sector decreased its share in total employment to 12.7% in Q2 2016, from 13.4% in Q2 2015.

The positive but slow increase in employment is also evident in the latest data on private sector dependent employment flows from the "ERGANI" Information System that continue to register positive rates of change. In the period January-August 2016 new hirings in the private sector increased by 248.5 thousands compared to the corresponding period of the previous year while dismissals increased by 196.7 thousands against the respective period of the previous year. Thus, the net cumulative employment net flow over January-August 2016 was higher by 51.8 thousands, relative to the same period of 2015.

Fiscal consolidation on track

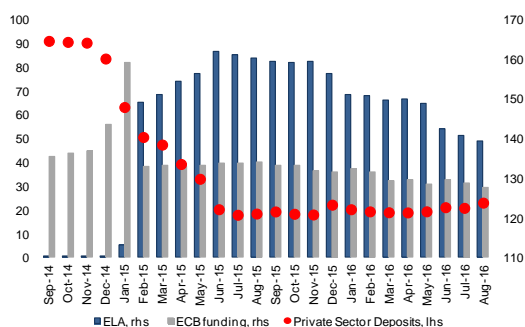
Fiscal consolidation efforts continue at an unabated pace in the first months of 2016. More specifically, the General Government (GG) primary surplus on a cash basis stood at €3.3 bn in H1 2016, against a primary surplus of €0.25 bn in H1 2015. The surplus achieved is mainly due to the increase in GG revenues by 11.4% on a yearly basis, as a result of an increase in both direct and indirect taxation, reversing the poor revenue collection in 2015. On the other hand, primary expenditure also increased by 1.8% in H1 2016. The main problem in H1 2016 was the accumulation of government arrears to the private sector (incl. tax refunds arrears), from €6.0 bn at the end of 2015 to €6.7 bn at the end of April 2016 and €6.26 bn at the end of August 2016. However, around €3.5 bn of the second tranche will be channeled for the partial clearance of the arrears, therefore a gradual elimination of arrears is expected in the following months.

The completion of the first review ensures that the targets set for the primary surpluses will be reached, as it comes with a package of additional measures to be automatically activated in case of a deviation from the primary surplus targets set according to the economic adjustment programme (contingency mechanism). In particular, in the event of a negative difference, a corresponding expenditure cut will be undertaken, up to 2% of GDP. The mechanism provides the alternative to adopt permanently structural measures in replacement to economic adjustment measures, including measures on the revenue side. The budget execution in H1 2016 coupled with the expected increase in revenue collection in H2 2016 due to tax obligations arising during this semester, like the property tax, suggest that the GG primary surplus target will be exceeded. According to the Draft Budget GG primary surplus will stand at 0.63% of GDP in 2016, against the target set of 0.5%.

Banking System, Financing and Liquidity Conditions

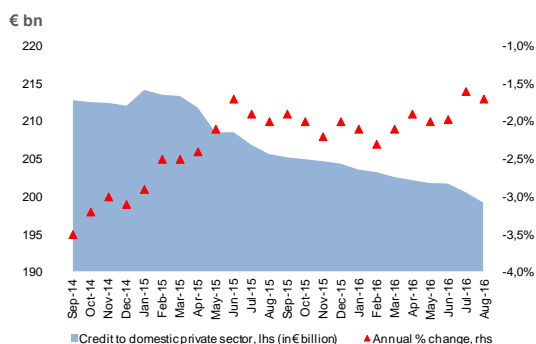
The Greek banking system has undergone intensified liquidity pressures, following the massive deposits outflows recorded from October 2014 and until the imposition of capital controls in late June

Private Sector Deposits, ECB and ELA funding (€ bn)



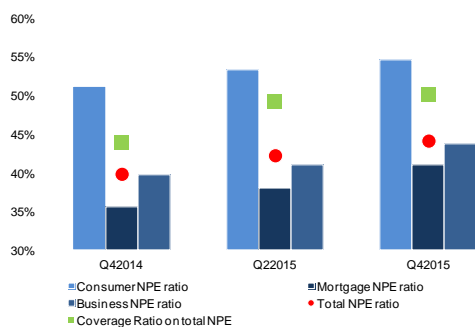
Source: Bank of Greece

Credit to Domestic Private Sector



Source: Bank of Greece

Non-Performing Exposures and Coverage Ratio



Source: Bank of Greece, various Reports

2015. Since the imposition of capital controls, and as uncertainty has been gradually abating, the private sector deposit base has been stabilised, despite monthly fluctuations, recording an increase of €2.76 bn in August 2016 on a yearly basis, while on a monthly basis there was a remarkable increase by €1.3 bn, amounting to €123.9 bn.

The increase on a monthly basis was primarily driven by the increase in the deposits of non-financial corporations by €1.0 bn, standing at €21.6 bn, while households and non-profit institutions' deposits rose by €0.27 bn, reaching €102.3 bn. Banks' reliance on the Emergency Liquidity Assistance (ELA) declined progressively in the first eight months of 2016, from €77.5 bn in December 2015 to €47.6 bn in September 2016.

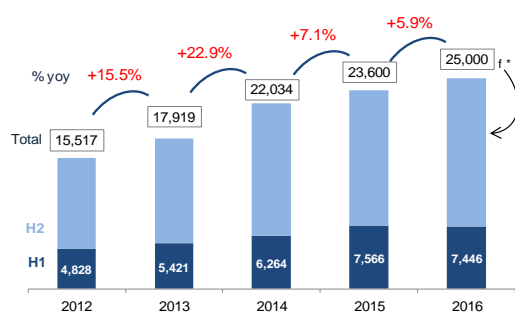
Liquidity conditions are expected to progressively improve as confidence gradually is restored, following the completion of the first review and the release of the sub-tranche of €7.5 bn. In view of the above, the decision of the European Central Bank on June 22, 2016 to reinstate the waiver of the minimum credit rating requirements for Greek marketable debt instruments, entering into force on June 29, 2016 allows Greek banks to obtain funding from the ECB at a lower cost.

Regarding credit risk, as the Greek economy re-entered in recession in 2015, albeit milder than originally envisaged, the ratio of total non-performing exposures¹ (NPEs) for the Greek banking system remained on an upward trend throughout the year, rising from 39.9% in Q4 2014 to 44.2% in Q4 2015. Following the breakdown of the NPE ratio, total exposures recorded in 2015 an annual decline of 1.7%, while total NPEs increased by 9% yoy (2014: €99 bn; 2015: €108 bn). Among the three main loan segments, the largest increase in the NPEs ratio during 2015 was recorded in mortgage loans, rising from 35.6% in Q4 2014 to 41.0% in Q4 2015. The highest NPEs ratio, among the three loan categories overtime, is recorded in consumer loans, increasing from 51.2% in Q4 2014 to 54.7% in Q4 2015. The NPEs ratio for business loans rose to 43.8% in Q4 2015 from 39.8% in Q4 2014. The total NPEs coverage ratio (corresponding to accumulated provisions over NPEs) increased markedly in 2015, to 50.1% in December 2015 from 44.0% in December 2014. In the first quarter of 2016, the total NPEs ratio increased further to 45.1% with the respective ratios for consumer, business and mortgage loans reaching 55.2%, 44.6% and 42%, respectively.

The annual credit growth to domestic private sector remained in negative territory in 2015, though at a decelerating pace compared to previous years (2015: -2%; 2014: -3.1%; 2013: -3.9%). In July 2016, credit growth to domestic private sector, decelerated further, standing at -1.6% yoy (June 2016: -2.0% yoy). Credit growth to corporations stood at -0.4% yoy in July 2016 against -1.0% yoy in June 2016, whereas the annual credit growth to households stood at -2.8% yoy from -3.0% yoy in the previous month. In particular, the growth rate of housing loans stood at -3.3% yoy in July 2016 against -3.4% yoy in June 2016. Consumer credit fell by -1.0% yoy in July 2016, against -1.5% yoy in the previous month and -2.5% yoy in July 2015.

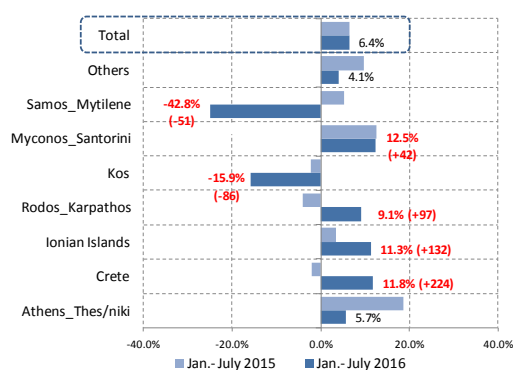
¹ In 2014, the European Banking Authority (EBA) developed definitions on forborne and non-performing exposures in order to attain a more comparable and harmonized basis for asset quality across the EU (EBA, ITS, 2014). Compared to the previously employed definition of non-performing loans, non performing exposures include also exposures which are current or less than 90 days past due, but are unlikely to be paid in full without realization of collateral.

Tourist Arrivals, excl. cruises (in thousands)



Source: Bank of Greece, * SETE forecasts

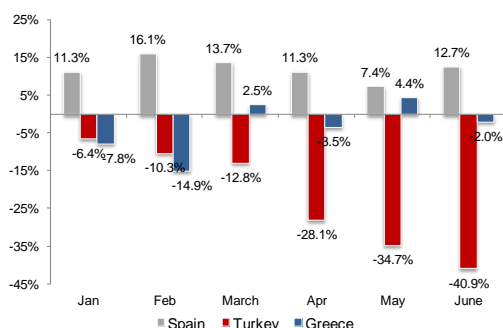
International Arrivals at Main Airports (% yoy change)



Source: SETE

Note: In the parenthesis we calculate the difference of the number of arrivals between Jan. - July 2016 and Jan. - July 2015 (in thous).

Tourist Arrivals: Greece, Turkey and Spain 2016, (% yoy change)



Sources: BoG, Turkey: Ministry of Culture & Tourism, Spain: National Statistics Institute

Box 1. Tourism surges in the wake of security concerns in other traditional tourism destinations

The new recessionary shock has been contained, because of, inter alia, the performance of tourism. More specifically, despite the strong rise in tourist arrivals for a third consecutive year in 2015, the increase of international terrorism and the refugee crisis, the Greek tourism seems to be fairly resilient. Tourist arrivals are expected to increase in 2016 as well, though at a slower pace than in the previous year. This may be attributed to the following reasons:

a) Despite the increase in terrorism and geopolitical tensions, the UN World Tourism Organization foresees a global increase of 4% of international arrivals in 2016, albeit at a slower pace than previously (2015: 4.4%, 2014: +4.2%). Especially in Europe, the organization estimates that tourism arrivals will increase between 3.5% and 4.5%.

b) Despite the impact of the refugee crisis, tourism shows remarkable resilience. According to the Greek Tourism Confederation (SETE), international air arrivals in main airports increased in July 2016 by 9.1% yoy, due to the surge in 'last minute' bookings, which are expected to also affect positively the August figures. Furthermore, in January-July 2016 the number of tourist arrivals at main airports in Greece surged by 6.4% yoy, the same rate as in the corresponding period of 2015. The growth rate of arrivals remained stable due to the geographical redistribution of tourist flows within the country. Specifically, in H1 2016 the fall in the number of air arrivals in islands with refugee hot spots, such as Samos and Mytilene (-42.8% yoy) and Kos (-15.9% yoy), was offset by an increase at airports of Mykonos and Santorini (+12.5%), Rhodes and Karpathos (+9.1%), the Ionian Islands (+11.3%) and Crete (+11.8%).

c) This year international tour operators and tourists prefer secure tourist destinations such as Spain, Portugal and Greece than other traditional package holiday destinations like Turkey, Tunisia and Egypt. Tourist arrivals to Turkey decreased significantly in H1 2016 by -28% yoy (-40% in June). Political upheaval in Turkey is expected to benefit the Greek tourism sector. Among Greece's main competitors Spain gets the largest gains from the redistribution of tourist flows in the Mediterranean as tourist arrivals increased by 11.4% yoy in H1 2016. On the contrary,

d) There is an increase in Russian visitors that it is expected to partially compensate for the loss of foreign visitors from traditional sources of Greek tourism, such as France. In 2015, 513,000 Russians tourists visited Greece while for 2016 are likely to far exceed this level (during the first six months of 2016, Russian tourist arrivals increased by 7.7%). It is noted that, there is a significant drop in Russian visitors in Turkey, and in June in particular, they decreased by 93% yoy.

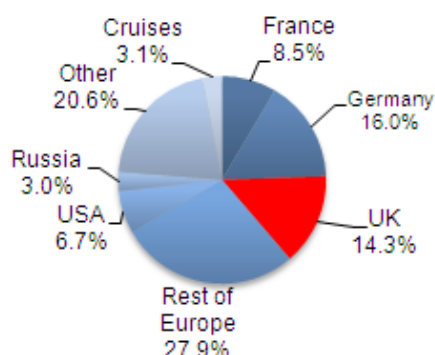
The change to the better of the Schengen visa process for Russian and Chinese citizens is expected to facilitate the increase of tourist inflows from these countries to Greece.

e) Tourism confidence indicators are up; implying that tourism activity in 2016 is expected to increase. In particular, the composite confidence indicator in "Hotels-Restaurants-Travel Agencies" showed in September 2016 a significant increase to 109.5 units from 94.1 units in July 2016 and stood at a much higher level than in December 2015 (66.4 units).

However, an alarming factor for the evolution of tourism remains the downward trend of the average non-resident expenditure per journey, which fell by 4.0% yoy in June 2016, and by 4.9% yoy in H1 2016, reaching a five year low, €507.

Tourism Receipts per Country of Origin (2015)

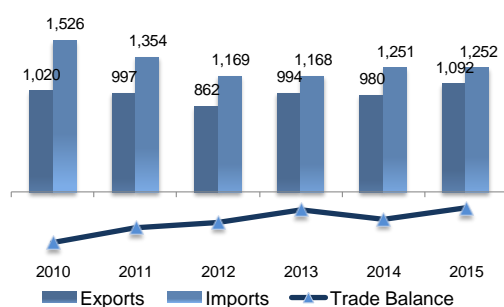
(% yoy change)



Source: Bank of Greece

Bilateral Goods Trade Between Greece and the UK

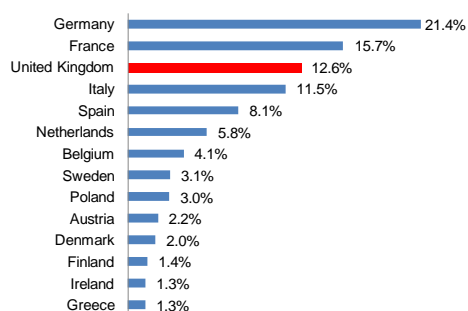
(in € mln), Goods



Source: Hellenic Statistical Authority

Share of National Contributions to the European Union Budget (%)

2015



Source: European Commission

Box 2. Brexit: Spillover effects for Greece

The negative effects of the British referendum outcome to leave the EU on the Greek economy seem to be contained. **What are the possible consequences of Brexit on the Greek tourism sector?** In case the sterling continues to depreciate, a negative impact on Greek tourism could not be avoided in the medium term as travelling abroad for British travelers becomes more expensive.

In 2015, 2.3 million British tourists visited Greece, representing 10.2% of total tourist arrivals and 14.3% of total tourism receipts. These figures represent the second largest share after the German visitors.

Furthermore, the average expenditure per journey of British visitors has increased in recent years from €690.4 in 2010, to €842.4 in 2015 (a 22% cumulative increase).

Concerning **the trade flows between Greece and the UK** the effects will depend on the future trade agreements between the UK and the European Union. If tariffs are to be imposed, depending on the trade agreement; additional costs may incur and affect the volume of trade. A weakening sterling along with a possible slowdown of the EU economy as a result of the Brexit may lead to a decrease in Greek exports towards the UK.

The expected corresponding increase in imports may be limited due to capital controls, at least in the short-term. In 2015, the external trade between Greece and the UK stood at €2.35 bn. with exports amounting to €1.1 bn., while imports stood at €1.25 bn. Exports to UK account for the 4.4% of total exports of goods and imports from the UK correspond the 3.0% of total imports of goods. The trade deficit of Greece against UK follows a downward trend since 2010 while in 2015 was almost balanced (2015: €150 mln. deficit).

It should be mentioned that the UK is the seventh largest exporting destination for Greek products.

The **evolution of investment in Greece** may also be affected by Brexit. The expected reduction of the UK contributions to the EU budget amounts to €7 bn. The UK had the third highest contribution to the EU budget (12.7% in 2015). This may imply for Greece i) An increase in contributions to EU Budget ii) A decline in the received EU structural funds, with a negative impact on investment recovery.

Finally, the UK is the largest recipient of FDI in the EU. It has been shown that EU membership is a key factor in attracting FDI, both from outside and inside the EU. In the case of Greece, the increases in corporate tax rates may be proved significant hurdles to gain from any FDI reallocation.

Box 3. Prior actions legislated in May

Prior actions legislated in May 2016, included among others, reforms regarding income tax and pensions, further squeezing households' disposable income.

More specifically, the **income tax reforms** aim at increasing the income taxes by € 1.8 bn, through:

- a) an increase in income tax for medium and high income earners,
- b) the exemption of income taxation is reduced to a yearly average of around € 8,800,
- c) a hike in the tax rate on corporate dividends and,
- d) an increase in taxation for those gaining incomes from property rentals.

Further, **pension reforms** put in effect in May 2016 and aiming at reducing the total pension costs by € 1.8 bn, include:

- a) the establishment of a single main pension fund (EFKA),
- b) higher social security contributions by employees and employers and a € 2,372 ceiling on the maximum monthly pension outlay for new pensioners,
- c) the gradual phasing out of the solidarity grant (EKAS) and,
- d) a new minimum guaranteed basic monthly pension of € 384 after 20 years of employment.

Moreover, for 2016-2018, an automatic contingency correction mechanism is foreseen in case the primary surplus falls short of the target set by the economic adjustment programme. In that case, a package of additional measures will be automatically activated, equivalent to an expenditure cut up to 2% of GDP. Alternatively, Greece may adopt permanent structural measures in replacement to economic adjustment measures, including measures on the revenue side.

Other prior actions refer to **the Privatization and Investment Fund** and to the NPL framework. The Privatization and Investment Fund should be fully operational within 2016, incorporate most of state-owned assets, its staff is subject to approval by the EC and ESM and its revenues will be directed to debt reduction and investment.

Prior actions also require a new framework will immediately launch the procedure for selling and servicing performing and non-performing loans.

Greece and its official creditors during the Eurogroup of May 24th also touched upon **a debt relief**.

For a debt relief, measures to optimize debt management should be taken in the short term.

In the medium term, longer grace and payment periods could be considered, subject to the successful implementation of the ESM programme as well as measures, such as the use of the SMP and Agreement on Net Financial Assets (ANFA) equivalent profits.

In the long term, at the end of the programme, there will be an assessment whether possible additional debt measures are required to ensure that Greece's gross financing needs remain on a sustainable path.

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Economic Data – Greece

as of 12/10/2016

Macroeconomic Environment	ANNUAL				QUARTERLY					MONTHLY				
	2012	2013	2014	2015	2015			2016		2016				
					II	III	IV	I	II	May	June	July	Aug.	Sept.
AGGREGATE DEMAND														
GDP at current prices (in € billion), SA	191.4	180.1	177.2	175.6										
(annual % change)	-7.6	-5.9	-1.6	-0.9	0.1	-2.6	-1.0	-1.0	0.5					
GDP at constant prices 2010 (in € billion), SA	190.2	184.3	185.6	185.0										
(annual % change)	-7.3	-3.1	0.7	-0.3	0.8	-1.7	-0.8	-1.0	-0.9					
Components (annual % change, at constant prices)														
Private Consumption	-7.9	-2.5	0.7	0.3	1.6	-0.3	-0.9	-1.0	-1.7					N/A
Public Consumption	-7.2	-5.5	-2.4	-0.1	-1.5	-2.0	2.8	-2.6	-2.7					
Gross Fixed Capital Formation	-23.4	-9.3	-2.7	0.9	0.1	-11.7	5.4	-2.5	7.0					
Exports of Goods and Services	1.0	1.7	7.4	-3.8	1.5	-10.5	-9.2	-11.5	-11.4					
Imports of Goods and Services	-9.4	-2.9	7.8	-6.9	-3.3	-19.8	-12.5	-11.9	-7.1					
LABOUR MARKET (annual % change)														
Nominal Unit Labour Costs ⁽¹⁾	-1.4	-6.6	-2.9	0.9	-2.6	2.4	2.9	3.5	3.1					
REER Unit Labour Costs ⁽²⁾	-6.2	-6.3	-2.6	-6.4	-7.4	-5.6	-4.9							
Unemployment Rate (%) ⁽³⁾	24.4	27.5	26.5	24.9	25.0	24.7	24.4	24.1	23.8	23.6	23.4	23.2		
PRICES (average annual % change)														
National CPI	1.5	-0.9	-1.3	-1.7	-2.1	-1.8	-0.6	-0.9	-0.9	-0.9	-0.7	-1.0	-0.9	-1.0
National CPI excl. Fresh Fruits - Vegetables & Fuels (BoG)	0.3	-1.7	-0.7	-0.5	-0.9	-0.5	0.3	0.2		0.3	0.5	-0.3	-0.2	-0.3
GDP Deflator, SA	-0.4	-2.5	-2.2	-0.6	-0.6	-0.9	-0.4	-0.1						
PUBLIC FINANCES														
General Government Primary Balance (in billions, cumulative) ⁽⁴⁾	-1.9	2.9	0.6	1.1	0.2	2.4	4.1	3.2	3.3	2.5	3.3	3.9		
G.G. Primary Balance (% of GDP)	-0.9	1.6	0.3	0.7	0.1	1.4	2.4	1.8	1.4					
General Government consolidated Gross Debt (in billions) ⁽⁵⁾	305.1	320.5	319.7	311.5	312.8	314.6	321.3	321.0	328.3					
G.G. Gross Debt (% of GDP)	149.6	177.7	180.1	176.9										
EXTERNAL BALANCE & COMPETITIVENESS INDICATORS														
Current Account Balance (€ bil.) ⁽⁵⁾	-7.3	-3.7	-3.8	-0.3	-3.9	1.7	-0.3	-2.3	-2.5	-3.5	1.0	1.4		
Current Account Balance (% of GDP) ⁽⁶⁾	-3.8	-2.0	-2.1	-0.1	-2.2	1.0	0.0	-1.3	-1.4					
Greece: Real Effective Exchange Rate Index ⁽⁶⁾	-3.5	-0.7	-1.8	-4.5	-5.8	-3.4	-2.5	-0.1						
Greece: Nominal Effective Exchange Rate Index ⁽⁶⁾	-2.0	2.0	0.7	-2.7	-0.7	1.2	-0.5	1.0	0.0	0.1	-0.2			
Tourism Competitiveness Index (rank out of 140) ⁽⁷⁾		32		31										

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

⁽¹⁾ NSA, Nominal Unit Labour Cost based on hours worked

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

⁽⁴⁾ Yearly data are according to the definition of primary balance used under the Economic Adjustment Programme for Greece, while quarterly and monthly data are compiled from cash based public accounting data (without the impact of the support to financial

⁽⁵⁾ The Quarterly Current Account Balance as % to GDP for 2016 is divided with €175.1 bil. Quarterly data are cumulative.

⁽⁶⁾ As 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.

⁽⁷⁾ The index is CPI-based and includes the 28 main trading partners of Greece. A positive sign denotes loss of competitiveness of Greece's trade partners

⁽⁸⁾ Travel and Tourism Competitiveness Report 2015. The smallest the number, the better

⁽⁹⁾ Yearly data as defined in the Maastricht Treaty

Business Economy	ANNUAL				QUARTERLY					MONTHLY				
	2012	2013	2014	2015	2015			2016		2016				
					II	III	IV	I	II	May	Jun.	July	Aug.	Sept.
(annual % change unless otherwise indicated)														
INDUSTRY														
Industrial Production Index ⁽¹⁾	-2.0	-3.2	-1.9	0.7	-2.8	1.2	2.0	-0.7	1.8	3.0	7.5	4.1	-0.3	
Manufacturing Production Index	-3.5	-1.1	1.8	1.3	-1.0	-0.8	1.4	1.4	4.3	6.6	8.5	9.2	2.1	
Turnover Index in Industry	2.8	-5.9	-1.1	-10.4	-6.1	-16.0	-10.9	-13.3	-12.4	-13.4	-9.4	-5.9		
CONSTRUCTION ACTIVITY														
Production Index in Construction (WDA, 2010=100) ⁽¹⁾	-33.4	-8.2	15.5	1.3	5.3	-28.4	0.9	-9.3						
Index of Apartment Prices	-11.7	-10.9	-7.5	-5	-4.9	-5.8	-5.0	-4.7	-2.7					
Private Building Activity (volume in 000m ³) ⁽²⁾	-30.6	-25.6	-5.8	-0.2	-5.6	-22.2	5.9	11.9	-22.9	-39.8	-26.1	38.3		
TRADE														
Turnover Index in Retail Trade ⁽³⁾	-11.0	-8.6	-1.1	-2.8	-0.9	-5.9	-2.9	-5.0	-5.4	-8.0	-5.2	7.1		
Turnover Index in Wholesale Trade ⁽³⁾	-12.1	-12.1	0.1	-4.3	-3.3	-11.2	-2.0	-4.6	3.8					
CAR TRADE														
Turnover Index in Car Trade ⁽³⁾	-29.3	-3.1	18.6	7.8	12.4	-6.9	9.0	-2.0	15.1					
New Passenger Car Registrations ⁽²⁾	-41.7	3.1	30.1	13.8	26.9	-2.2	2.1	0.1	11.3	37.1	-4.2	37.1	6.5	6.1
SERVICES														
(cumulative)														
Tourism Receipt, BoG (incl. cruises)	-0.6	16.4	10.2	6.0	9.5	4.7	6.0	-0.1	-5.8	-10.4	-5.4	-3.5		
Tourism Receipt (in mln euros)	10,442	12,152	13,393	14,194	4,171	12,570	14,194	515	3,929	1,095	1,851	2,853		
Tourist Arrivals, BoG (excl. cruises)	-5.5	15.5	23	7.1	20.8	8.6	7.1	-6.2	-1.6	4.4	-2.0	5.8		
Tourist Arrivals (in thous people)	15,517	17,919	22,033	23,559	7,566	20,617	23,559	1,621	7,446	1,953	2,971	4,664		
Turnover Index in Tourism (hotels & restaurants) ⁽³⁾	-17.2	4.8	11.8	3.1	8.6	4.8	-9.1	-11.2	-1.1					
EXPECTATIONS INDICES (in units)														
Economic Sentiment Indicator	80.6	91.2	100.0	89.4	92.2	80.7	87.3	90.2	89.9	89.7	89.7	90.9	92.5	91.4
Index of Consumer Confidence	-74.8	-69.4	-54.0	-50.7	-43.6	-60.6	-61.6	-67.5	-71.2	-71.9	-68.0	-69.2	-70.1	-65.9
Index of Bus. Expect. in Industry	77.2	87.8	94.6	81.9	85.7	71.9	82.9	90.6	91.9	90.1	92.0	88.3	90.9	94.0
Index of Bus. Expect. in Construction	43.2	65.0	80.4	56.4	57.6	44.0	58.8	68.0	62.9	65.7	65.4	41.5	46.6	43.8
Index of Bus. Expect. in Retail Trade	57.1	70.2	89.1	81.0	90.4	65.8	82.4	93.6	100.2	102.6	100.6	98.0	98.4	99.6
Index of Bus. Expect. in Services	54.8	70.4	87.2	70.6	73.2	62.3	70.5	69.0	74.3	76.6	75.7	77.7	80.2	80.0
Index of Bus. Expect. in Tourism ⁽⁴⁾	-	80.3	102.9	91.2	99.5	93.5	78.0	75.1	85.4	88.9	87.5	94.1	100.5	109.5

Sources: Hellenic Statistical Authority, Bank of Greece, IOBE

⁽¹⁾ Production at constant prices, SA.

⁽²⁾ Cumulative for quarterly data

⁽³⁾ Turnover at current prices.

⁽⁴⁾ Accommodation and Restaurants

Blank indicates no available data.