

Greece

Current trajectory & macroeconomic outlook

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Adjustment program achievements & socioeconomic costs

Notable progress in correcting macro imbalances

- Current account deficit eliminated & price competitiveness restored (*ULC-REER back to pre-euro entry levels*)
- Fiscal adjustment unprecedented by historical standards (*c. 20ppts-of-GDP in the structural primary balance*)
- Serviceability of Greek public debt has improved dramatically
(*average maturity of debt now 16 years vs. 6.3 in 2011; effective IR on debt <3%, currently*)

But, fiscal adjustment heavily frontloaded and progress on structural reforms broadly uneven

- Adjustment in consumer prices has seriously lagged behind adjustment in wages
- Goods exports performance improved lately, but not yet in line with huge adjustment in relative ULCs
- Unemployment still at unacceptably high levels, despite small improvement last year
- Problem exacerbated by weak social net
(*limited jobless benefits and health care to long-term unemployed*)

Short-term challenges

State financing needs

- Sizeable funding needs & limited domestic sources of financing in the remainder of 2015
€14bn in interest & amortization payments in June-December (€10.2bn in Q3) & sizeable T-bill maturities
- Borrowing requirement much more manageable in 2016-2020 (< €10bn/annum on average)
- Progress in implementing February 20th Eurogroup agreement to allow disbursement of €7.2bn loan tranche
- Remaining IMF commitments & HFSF buffer could secure c €20bn of additional financing

Budget execution

- Central government primary surplus above target in January-April, but sizeable increase in government arrears
- Multi-year primary surplus targets likely to be revised downwards (*to c. 1%-of-GDP from 3.0%-of-GDP in 2015*)

Bottom line

- Uncertainty likely to prevail for as long as official negotiations continue, without reaching a positive conclusion
- Completion of current review and timely agreement on follow up arrangement could go a long way towards stabilizing sentiment

I. The current trajectory

Current macroeconomic trajectory

Latest data point to a renewed standstill in domestic economic activity

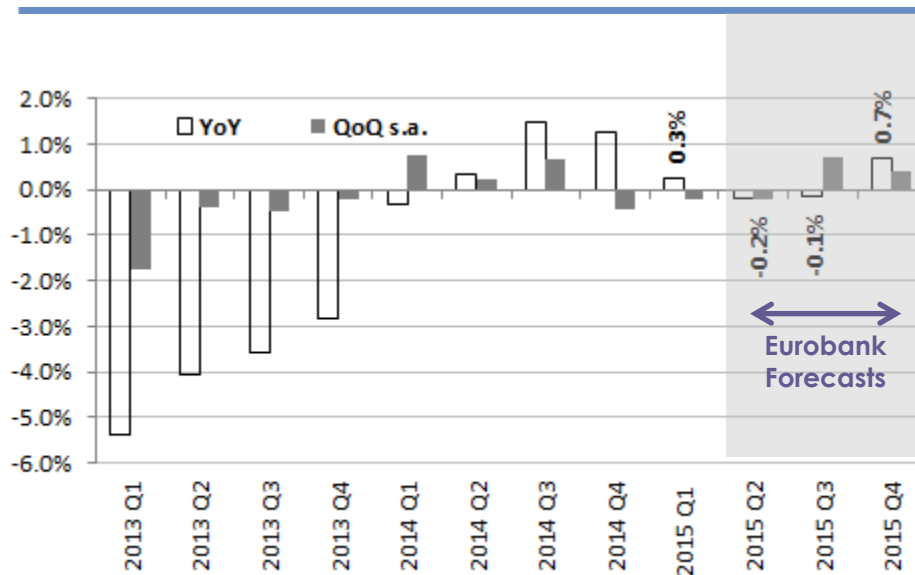
Domestic economy built positive momentum in 2014

- Positive real private consumption growth after 5 consecutive years of steep declines
- Double-digit growth of private investment in H2 2014, albeit from very depressed levels

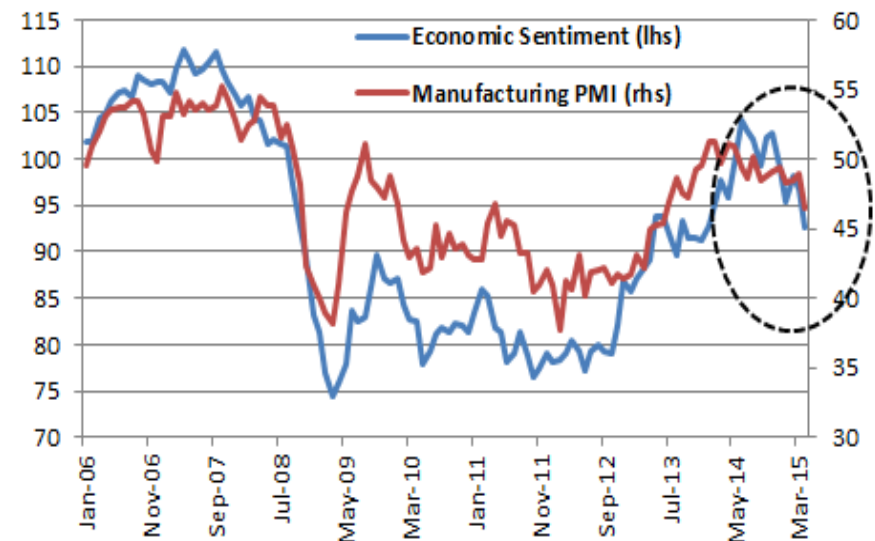
Data releases in first 5 months of 2015 point to a renewed standstill

- Heightened uncertainty and domestic liquidity squeeze already having an impact on the real economy
- Stagnant real GDP growth in Q1 2015 and weakness in latest survey data & forward looking indicators

Greek real GDP growth realizations & forecasts (%, YoY & QoQ s.a.)



Survey data & forward looking indicators



Budget execution in line with targets (at the expense of building up arrears)

Central government budget execution in January-April 2015

- Higher than expected primary surplus, due to *under* execution of primary expenditure
- Tax revenue broadly in line with target, due to increased collection efforts and special settlement schemes
- State arrears to third parties estimated to have increased by more than €1bn in January-April

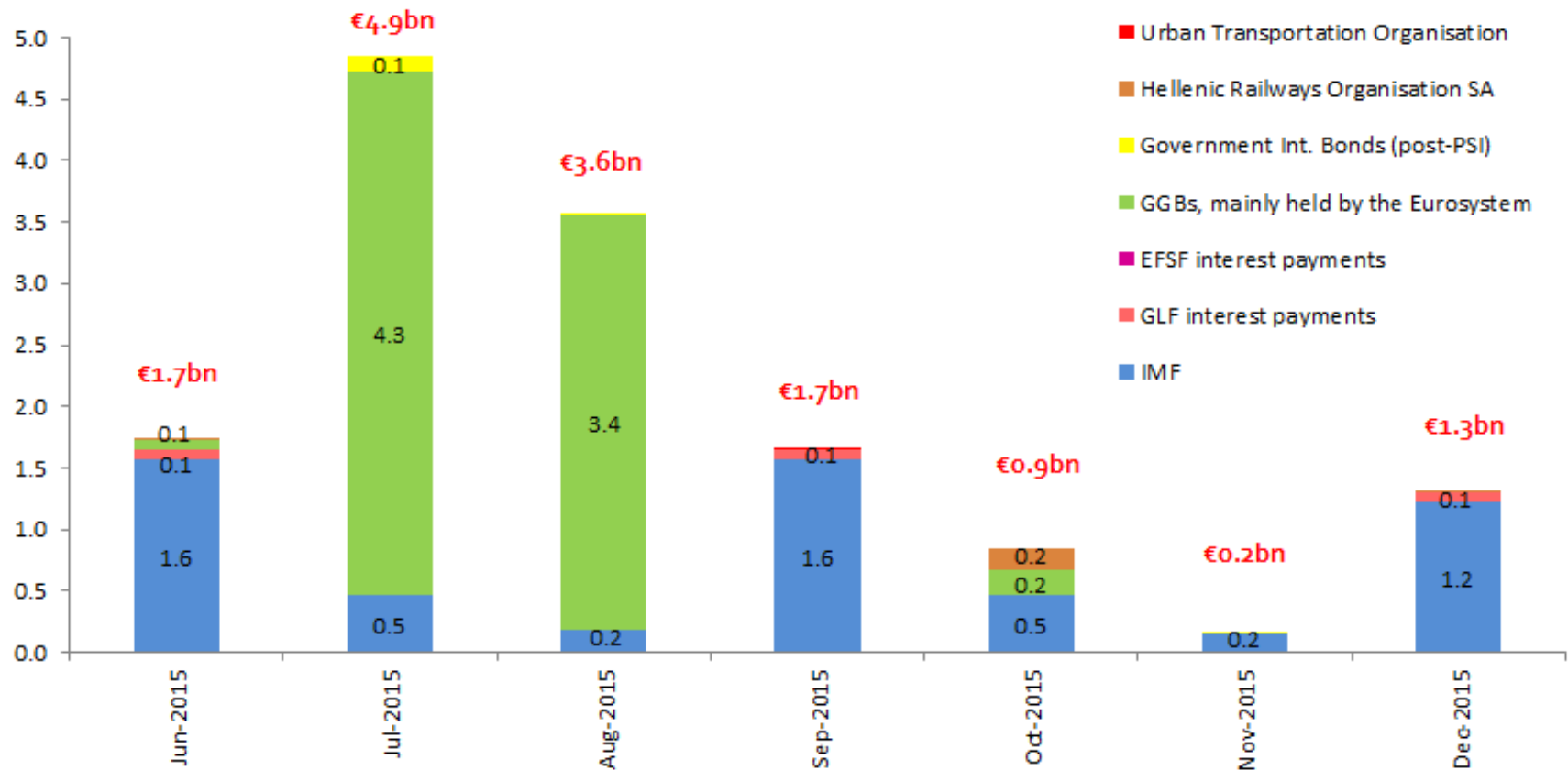
	<u>January-April 2015</u>		
	Outcome	target	Deviation from target (+surplus, -deficit)
I. State Budget Net Revenue (1+2)	15.82	15.44	0.37
1. Ordinary Budget Net Revenue	14.29	14.38	-0.09
2. Public Investment Budget Net Revenue	1.53	1.06	0.47
II. State Budget Expenditure (1+2)	16.32	18.36	-2.04
1. Ordinary Budget Expenditure	15.50	17.13	-1.63
2. Public Investment Budget Expenditure	0.82	1.23	-0.41
III. State Budget Balance (I-II)	-0.51	-2.92	2.41
III. State Budget Primary Balance	2.10	-0.31	2.41

II. Fiscal sustainability

The cash-flow challenge

High debt payments in Q3 2015; situation to improve afterwards

Interest and amortization payments on public debt excl. T-bills (EUR bn)



Urgent need to resume official-sector financing

But, market estimates of future financing gaps too pessimistic

General government borrowing needs & sources of funding (EURbn)

Scenario analysis (+surplus / -deficit)*

	2015	2016	2017	2018	2019	2020
No further official sector financing	-13.9	-5.8	-7.6	-2.3	-10.7	-2.0
Release of pendings loan tranche (€7.2bn)	-6.7	-5.8	-7.6	-2.3	-11.4	-2.6
Release of €7.2bn loan tranche, resheduling of ANFA & SMP bonds , €3.5bn increase in T-bills & market access in 2017-2020 (avrg. €2.4bn/annum)	0.0	0.0	0.0	0.0	0.0	0.0
Release of €7.2bn loan tranche, 3 rd bailout package (€12.5bn IMF and partial utilization of HFSF buffer) & full return to Greece of ANFA & SMP profits	0.0	0.0	0.0	0.0	0.0	0.0

(*) Analysis assumes relaxation of primary surplus target to 1%-of-GDP in 2015, 2%-of-GDP in 2016 & 2.5%-of-GDP in 2017-2020

Some additional relief is needed to strengthen debt sustainability

Stock and cash-flow implications of assumed (soft) OSI structure

	Evolution of the debt ratio			Projected decline of the borrowing requirement (EURbn)		
	2014	2022	2032	2015-2016	2015 - 2020	2015 - 2032
Baseline scenario (*) (no debt relief)	177.7	129.1	96.1			
GLF & EFSF loans restructuring (fixed interest rate at 0.50%)	177.7	128.8	90.9			
GLF & EFSF loans restructuring (fixed interest rate at 0.25%)	177.7	127.1	87.5			
				GLF & EFSF loans restructuring (fixed interest rate at 0.50%)	-0.6	-2.6
				GLF & EFSF loans restructuring (fixed interest rate at 0.25%)	-0.6	-2.6
						-57.4
						-62.0

(*) Baseline macro projections after 2016 same as in IMF June 2014 DSA; 2015-2016 macro projections in line with EC Spring 2015 forecasts

Assumed Soft OSI structure

Transaction 1 - GLF loans

Swap of GLF loans (€52.9bn) into a 50-year fixed coupon amortizing bond, with 10-year grace on interest payments

Examine two fixed interest rate scenarios: 0.50% and 0.25% vs. current 3m euribor+50bps

Transaction 2 - EFSF loans

20-year maturity extension of EFSF loans, with 10-year grace on all interest payments

Examine two fixed interest rates scenarios: 0.50% and 0.25% vs. current variable interest rates inked to 6m euribor or to EFSF funding cost

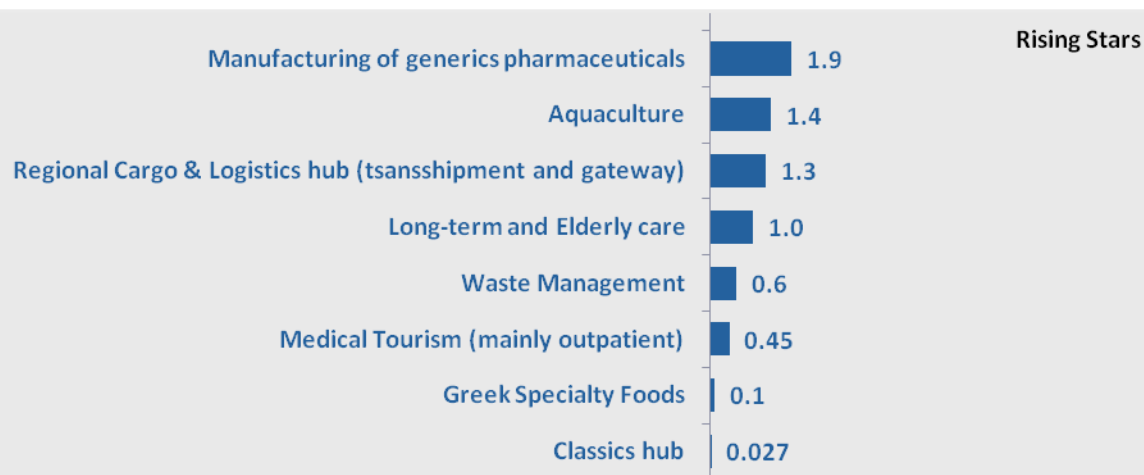
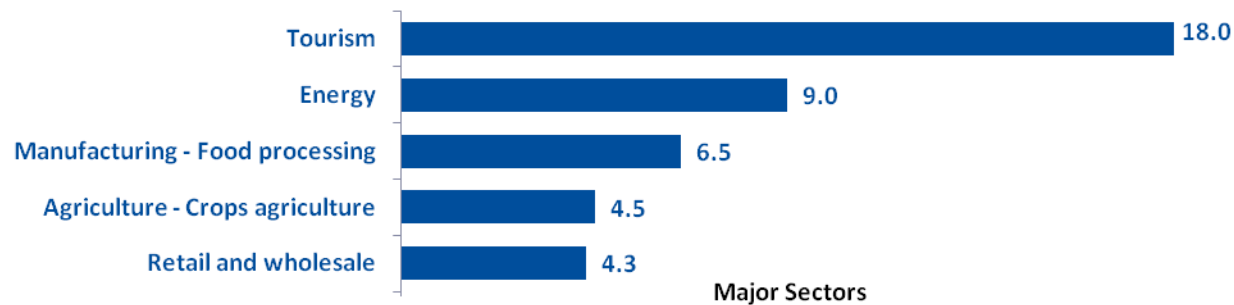
III. Medium-term growth outlook

Short- and medium-term macroeconomic forecasts

Greece - key macro forecasts

	Realizations		Forecasts	
	2013	2014	2015(f)	2016(f)
Real GDP (% YoY)	-3.9	0.8	0.5	2.9
Unemployment rate p.a. (%)	27.5	26.6	25.6	23.2
ULCs whole economy (% YoY)	-7.0	-1.6	0.1	1.7
GDP deflator (% YoY)	-2.3	-2.6	-1.2	0.7
Harmonized CPI (% YoY)	-0.9	-1.4	-1.5	0.8
C/A balance <i>BoP definition (% GDP)</i>	0.6	0.9	1.4	1.1
Primary fiscal balance (% GDP) <i>program definition</i>	1.2	0.4	1.2	1.5
Gross public debt (% GDP)	175.0	177.1	180.2	173.5

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



IV. Annex

Remaining program commitments & other (potential) funding sources

To cover projected funding gaps in 2015-2020

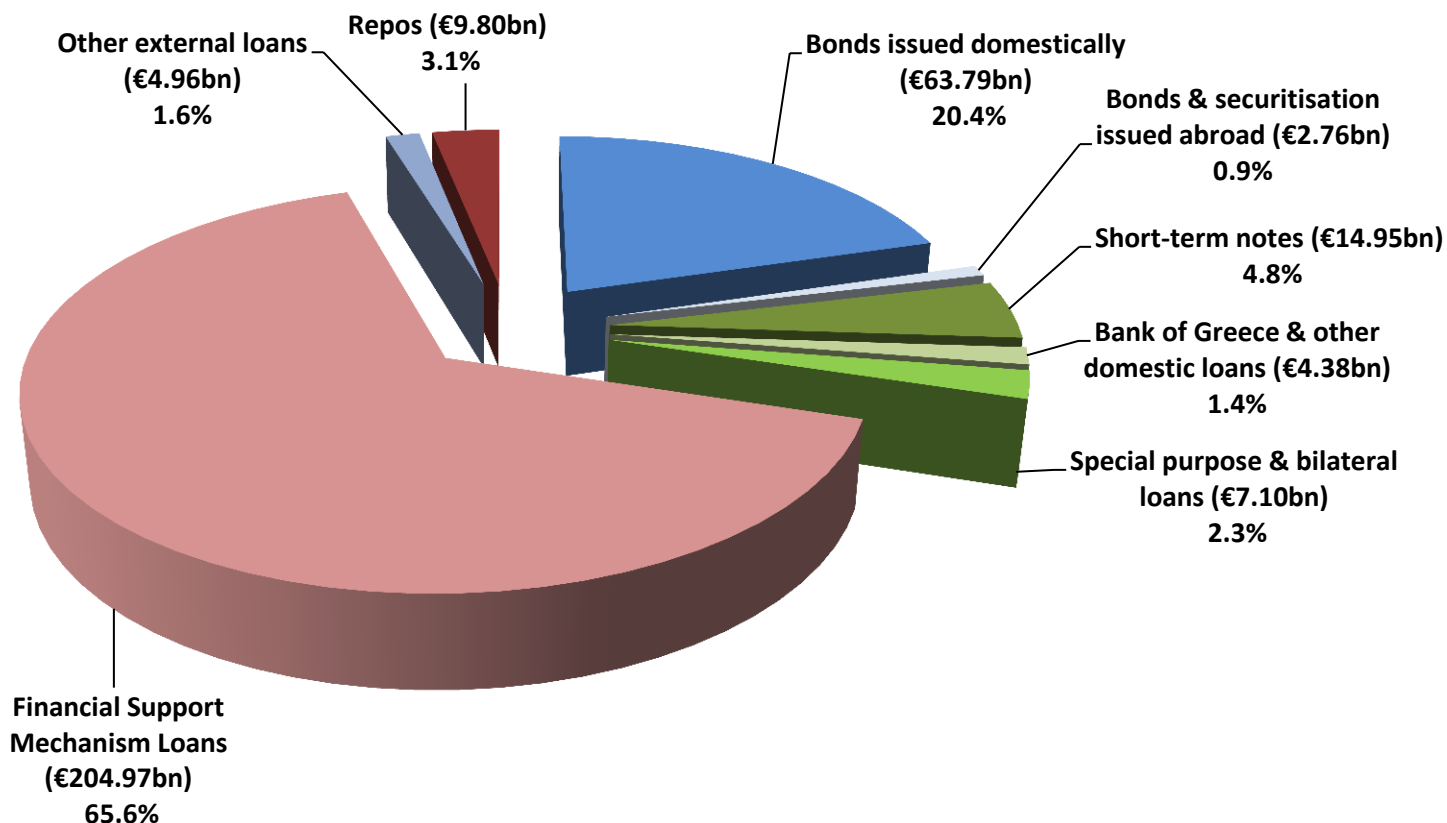
Remaining commitments under 2 nd bailout program	€ Billion
EU/EFSF (MFFA expires end-June 2015)	1.8
IMF (program expires end-March 2016)	16.0
Total (still undisbursed)	17.8
SMP & ANFA	
FY-2015 (amount includes €1.94bn SMP from FY-2014)	3.9
FY-2016	1.7
FY-2017	1.4
FY-2018	1.1
FY-2019	0.9
FY-2020	0.7
Total (2015-2020)	9.7
Privatization revenue (2nd bailout program targets)	
FY-2015 (target <i>reportedly</i> revised from €2.2bn)	1.9
FY-2016	3.4
FY-2017	2.9
FY-2018	3.0
FY-2019	3.4
FY-2020	3.6
Total (2015-2020)	18.2
Primary balance_cash basis (assuming relaxation of fiscal targets)	
FY-2015	1.5
Annual amount assumed (FY 2016-2020)	3.0
Total assumed (2015-2020)	16.5
Other (potential) sources of financing	
HFSF/ESM bank recap. buffer	10.9
Temporary increase in T-bill issuance	3.0
Market access	?
Total funding 2015-2020	
Assuming full utilization of all available/potential sources (excl. market access)	75.0

Central government debt as of March 2015

Amounts in EUR billion, percentage of total & currency of denomination

Central government debt statistics

- More than 70% of Greek debt is in official hands (around 65% financial support mechanism & 8.5% Eurosystem)
- Furthermore, around 95% is euro denominated & 82% under foreign law



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