

PIRAEUS BANK



Greece: Short-term uncertainty, long-term potential

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Where do we go from here...

Clearly the momentum that the Greek economy developed between mid - 2012 and Q3 - 2014 is lost. Starting from a 2% GDP forecast for 2015 we had already downgraded our estimates to 0.8% and currently we expect a flat GDP growth with the risks squarely to the downside.

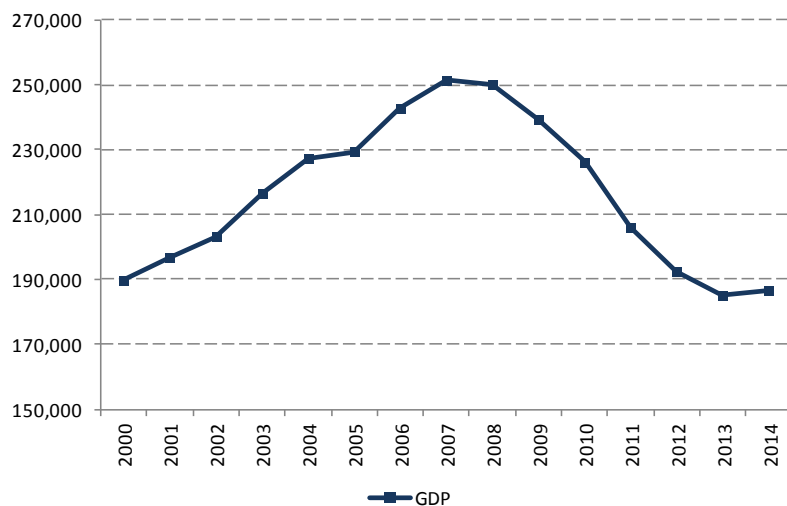
Yet, all is not lost. Defying negative expectations and doomsday scenarios we show that sectors such as tourism, manufacturing and retail sales are still supporting economic activity.

But **if we are serious about restarting the Greek economy**, we should start thinking hard about securing the extra funding which would revitalize the Public Investment Programme, identifying new export oriented and dynamic economic sectors that have the potential to attract new investment and finally making a serious commitment to attracting foreign investment through the Privatizations Programme.

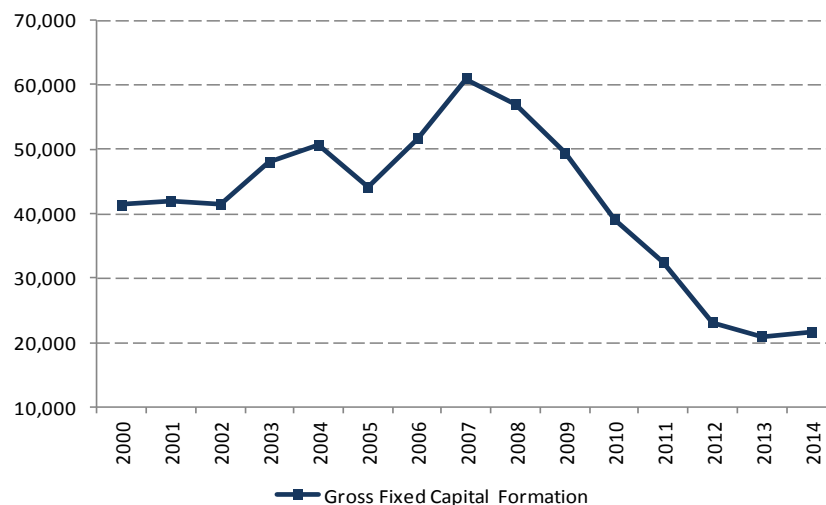


GDP Components – “Back to the year 2000”

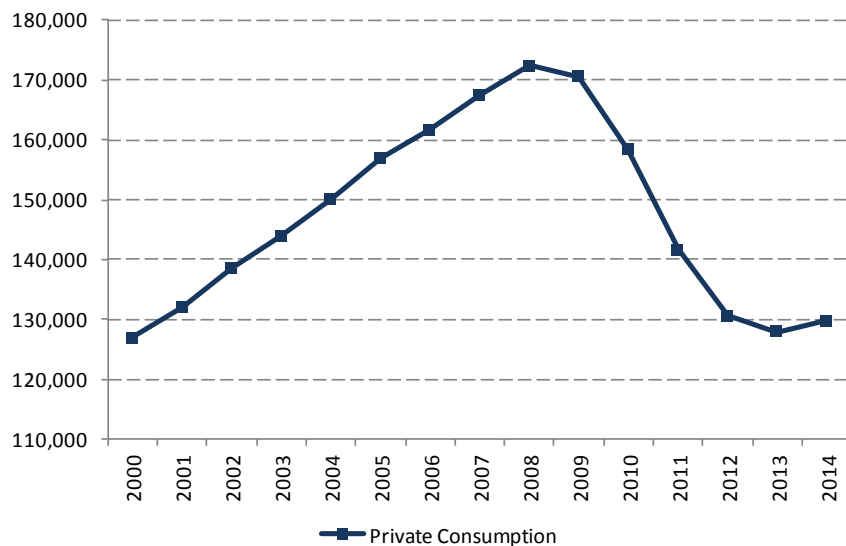
GDP (€ mn, constant prices)



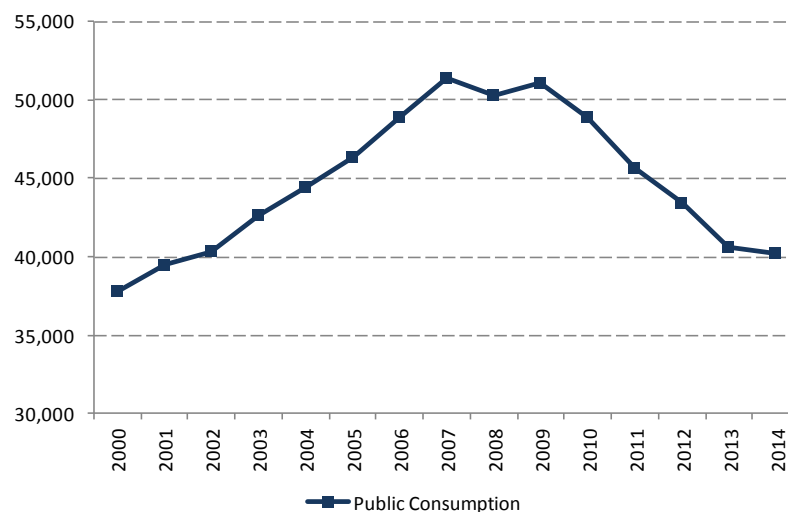
Gross Fixed Capital Formation (€ mn, constant prices)



Private Consumption (€ mn, constant prices)



Public Consumption (€ mn, constant prices)

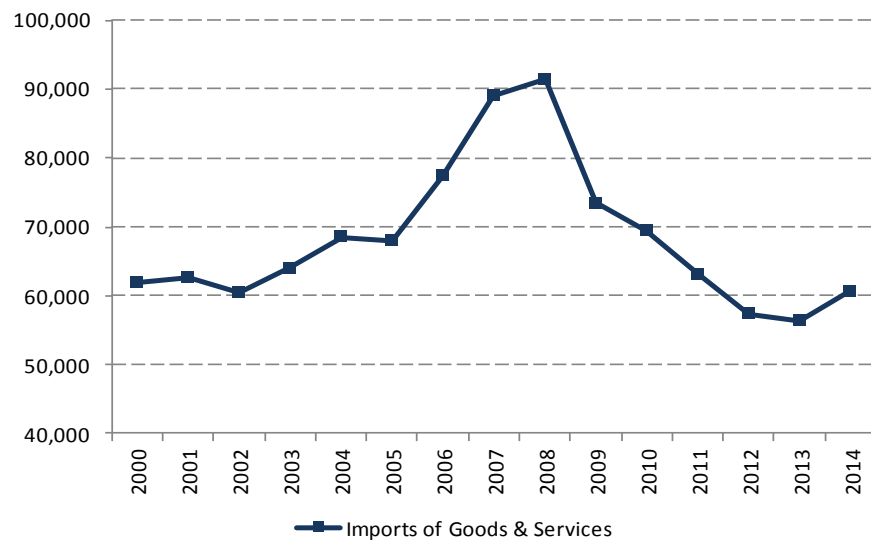




GDP Components – External trade has improved

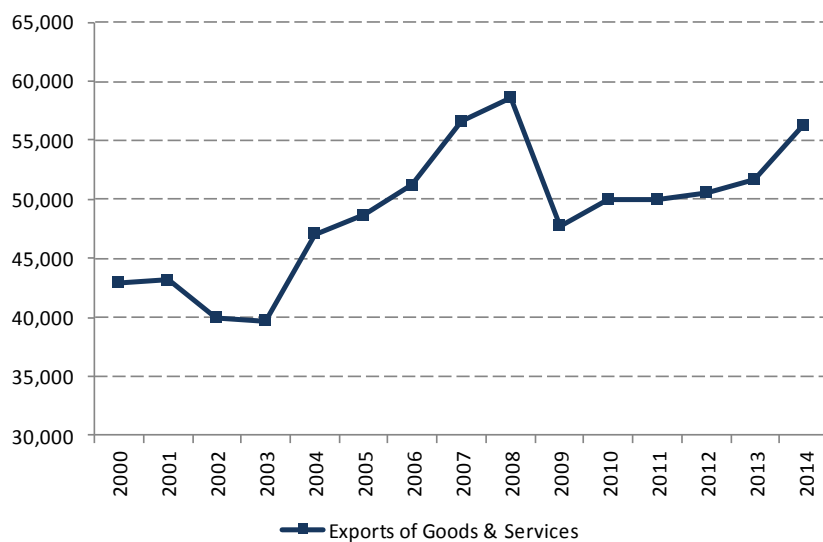
Imports of goods & services

(€ mn, constant prices)



Exports of goods & services

(€ mn, constant prices)

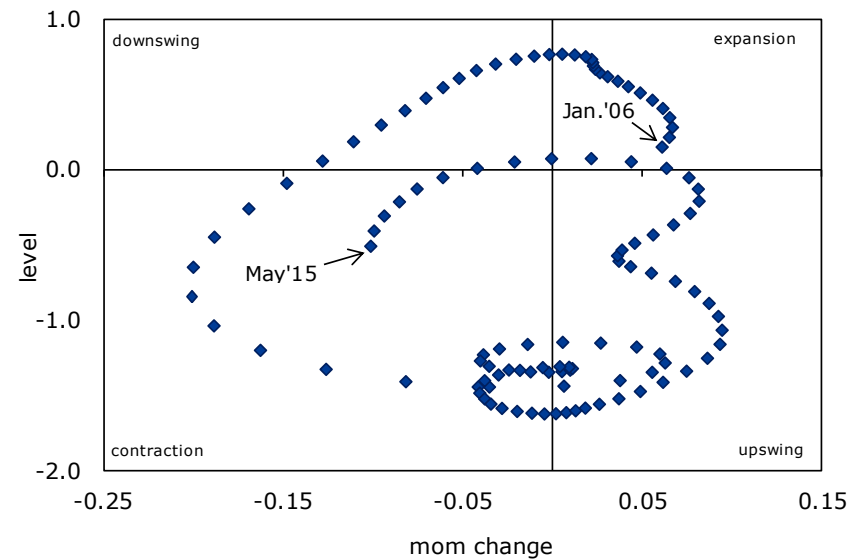




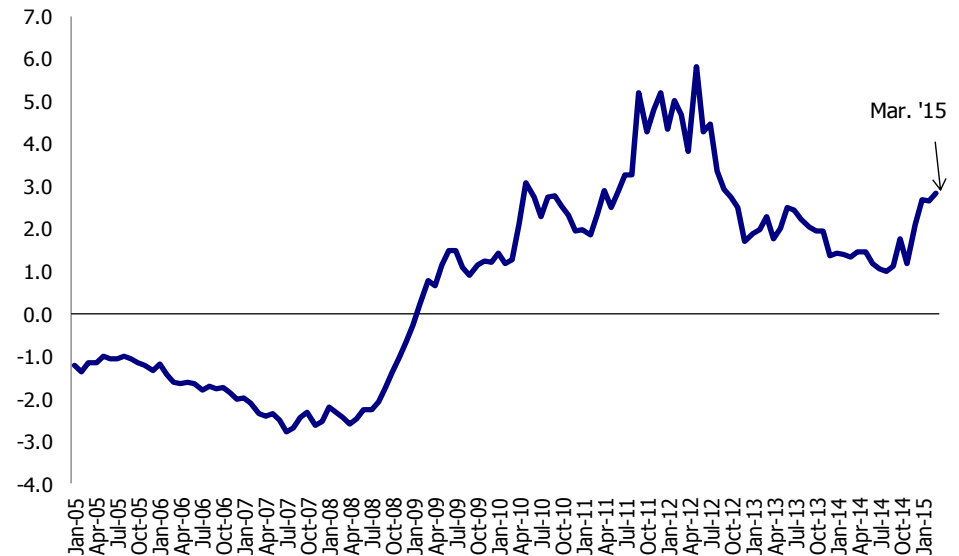
A bird's-eye view of the Business Cycle: Back to recession

Recent events have pushed the Greek economy back into recession, while Financial Distress has spiked.

Economic Climate Tracer



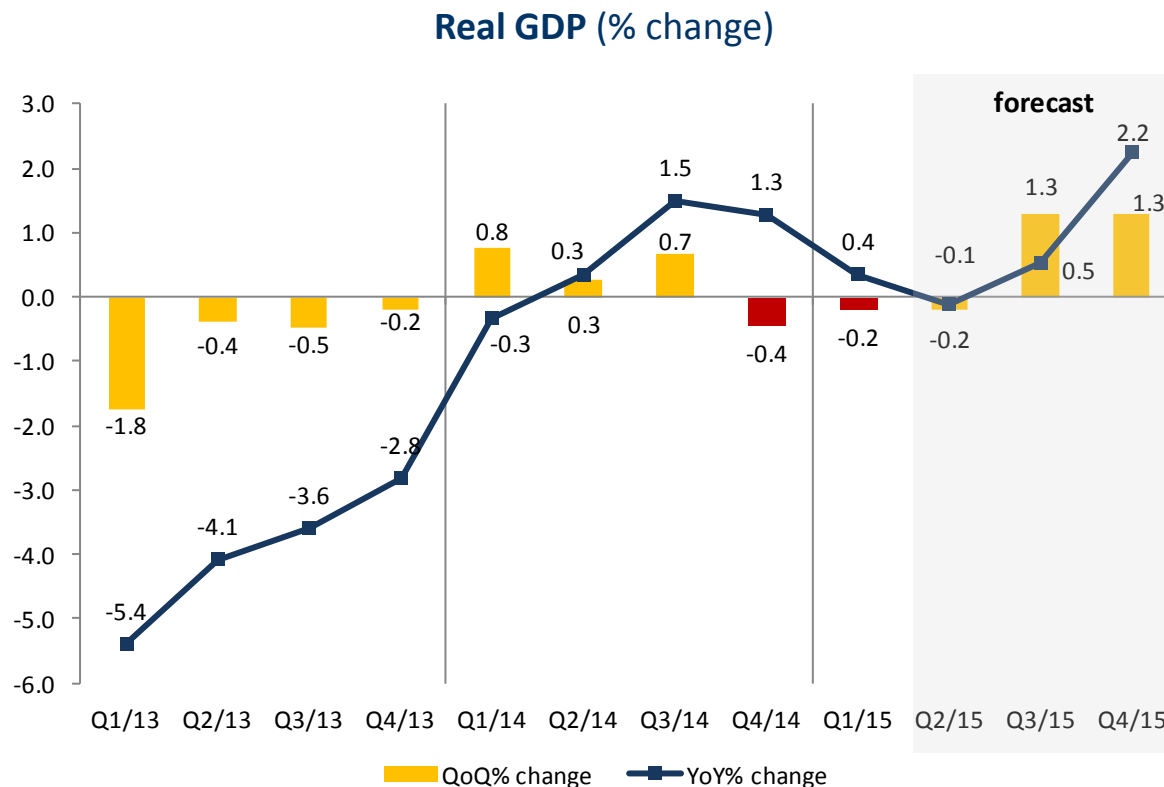
Greek Financial Distress Index





GDP Outlook 2015: It was always going to be a game of two halves

Q1 – 2015 GDP growth exactly matched our forecast of -0.2% QoQ. Nevertheless, the strong rebound that we were forecasting for the second half of 2015, is highly unlikely to materialize, pushing Greece very close to contractionary levels.

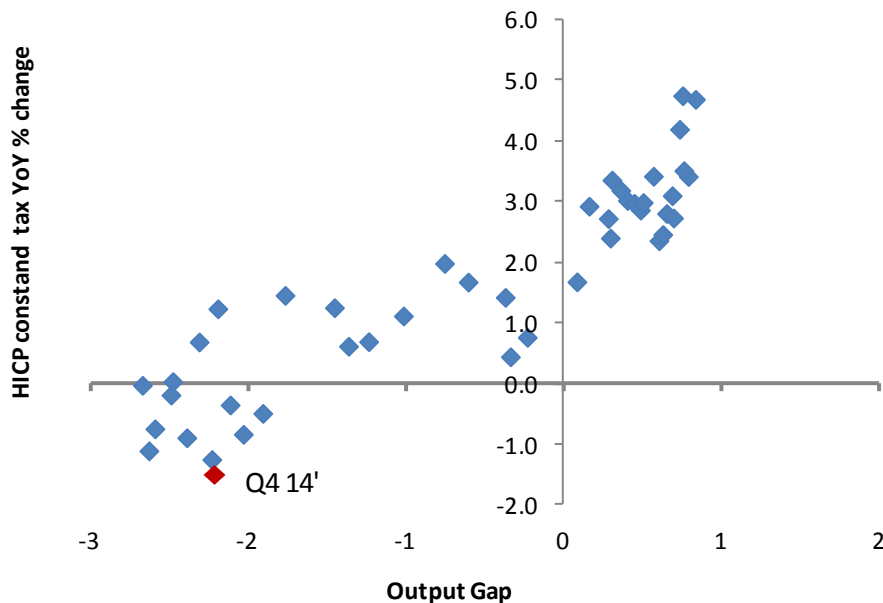




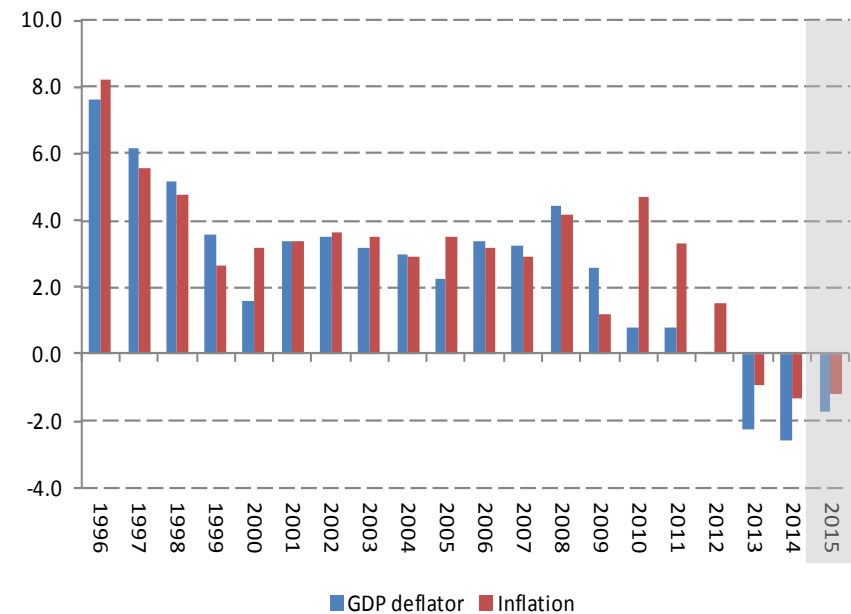
Cyclical Position: Deflation and a negative Output Gap

Given the substantial negative output gap in the Greek economy and taking into account the global lowflationary environment, we expect the Greek economy to remain in a deflationary mode with inflation at -1.2%.

Inflation & Output Gap



Headline Inflation (CPI) vs GDP deflator

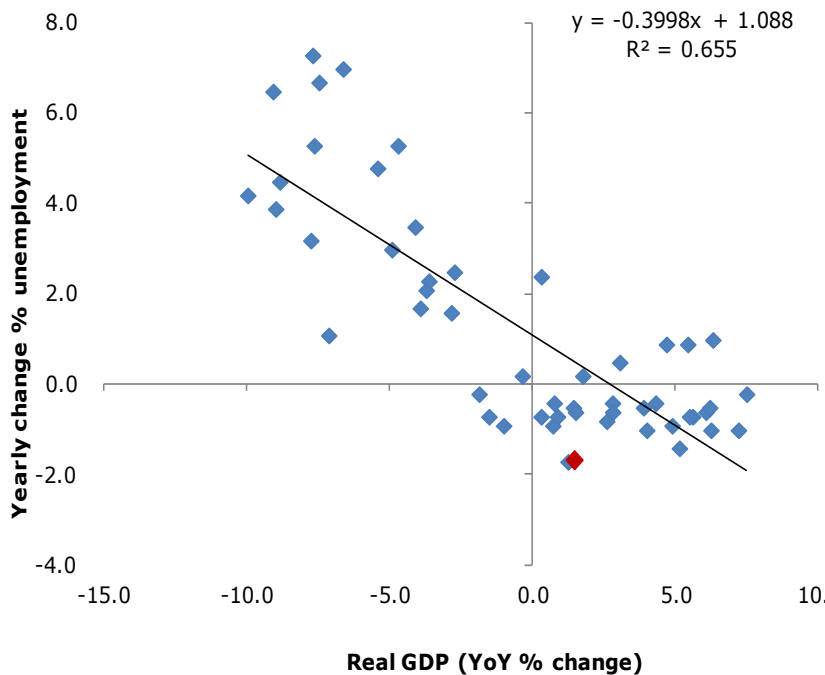




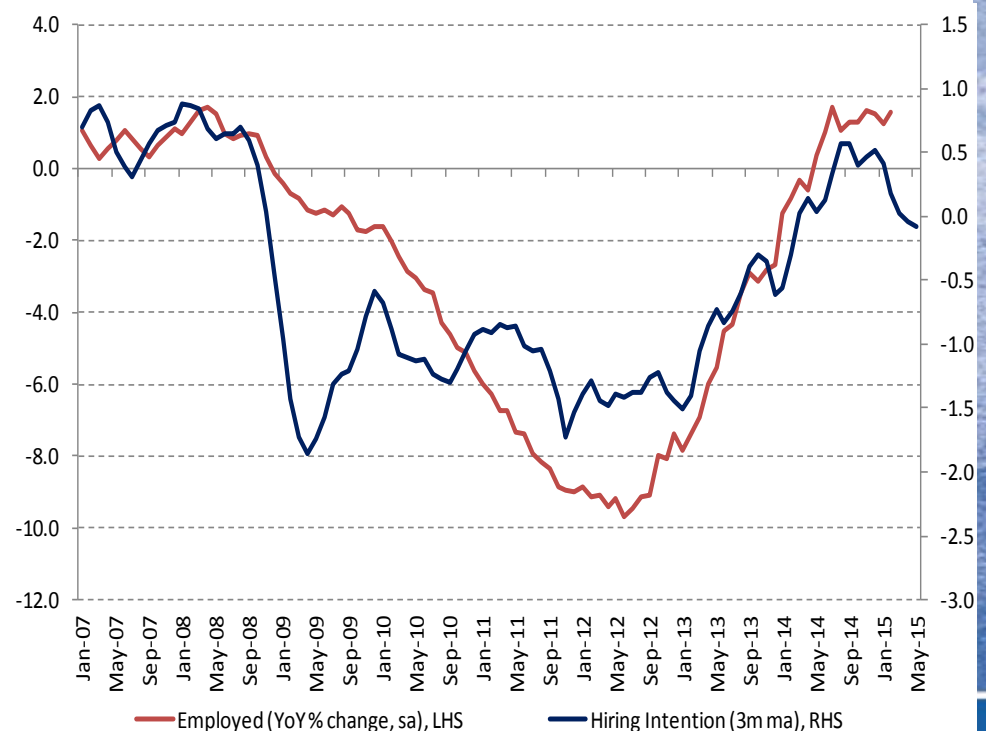
Cyclical Position: Labour Market in “Mechanical support”

Job creation schemes have supported employment in recent times, but uncertainty is beginning to spill over into the labour market.

**Economic Growth vs
Unemployment rate**



Hiring Intentions (normalized data, sa, 3m moving average) vs Employment (YoY% change, sa data)

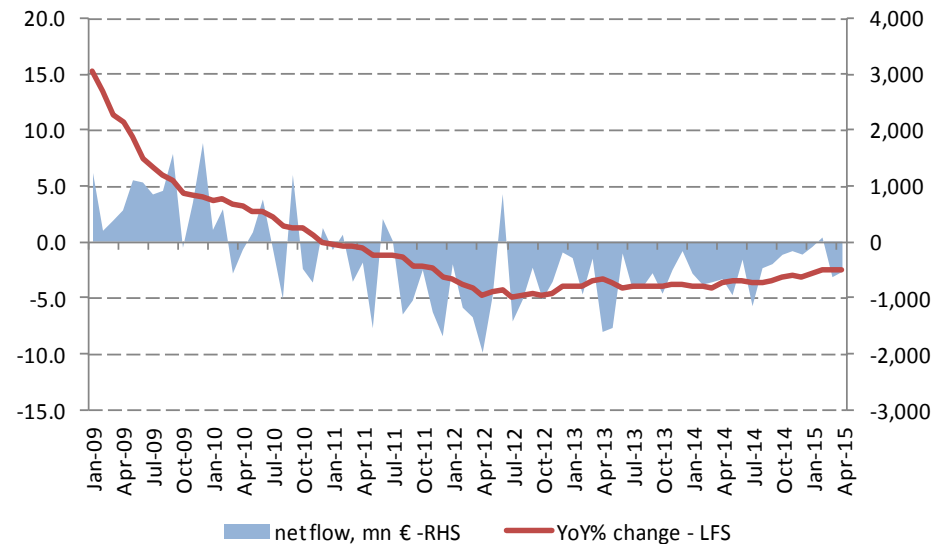




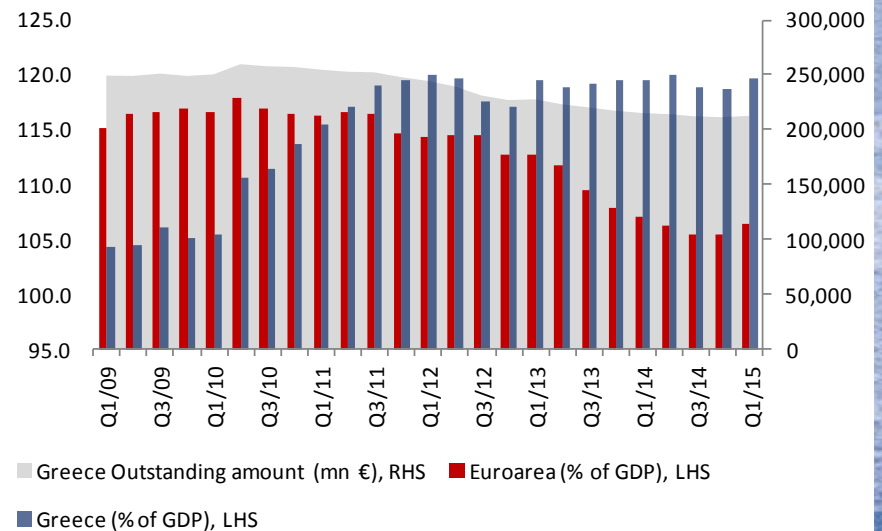
Cyclical Position: Negative Credit = More Debt

Despite negative credit growth for more than 5 years in a row, the private sector's debt to GDP ratio has increased from 104% to 120%.

Total Credit



Total Credit (% of GDP)

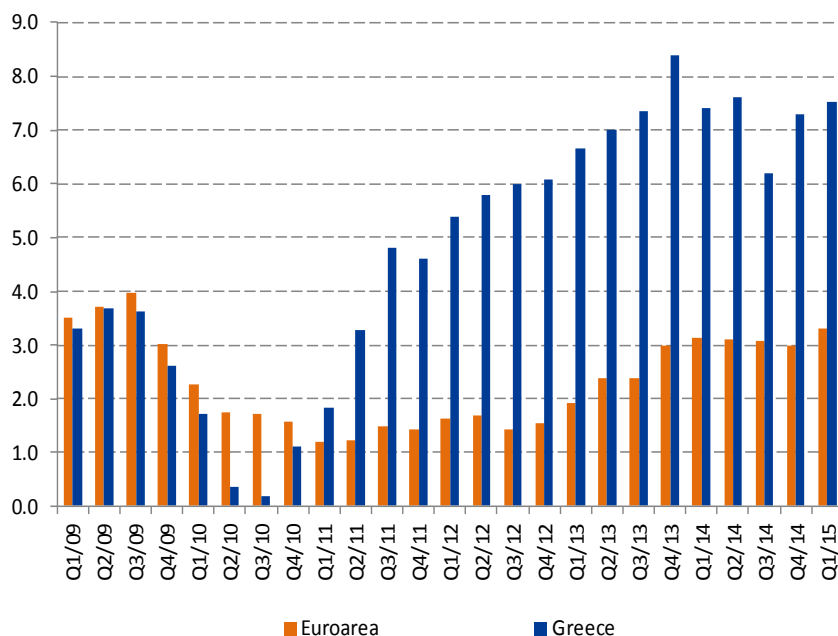




Headwinds (I): Sky – high cost of funding

One of the biggest side - effects of the lack of liquidity and the political uncertainty is the high cost of funding for Greek Corporations.

**Average Real Interest Rate on New bank loans
(<€1mn) to Non Financial Corporations**
(nominal rate minus change in HICP, %)



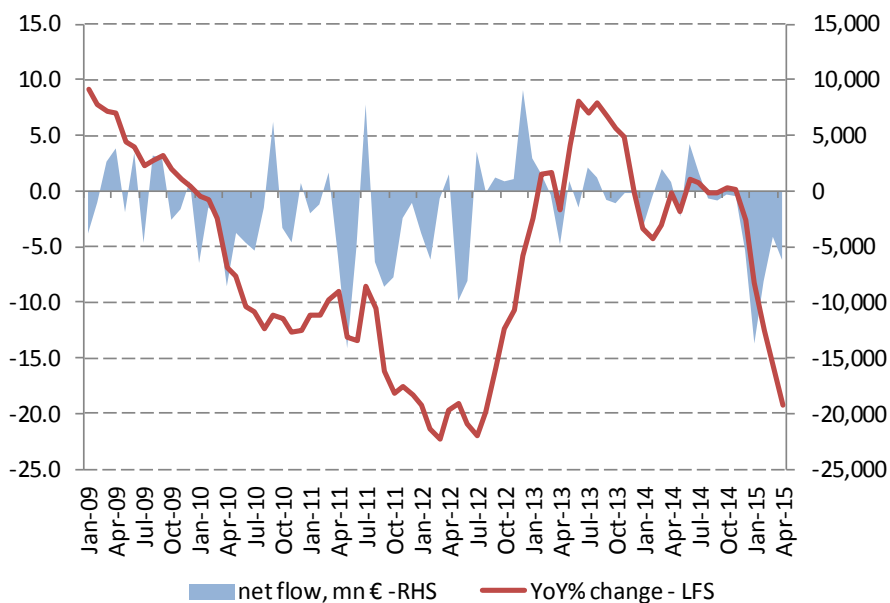
**Piraeus Bank Greek Corporate Bond
Index – Weighted Average Yield**



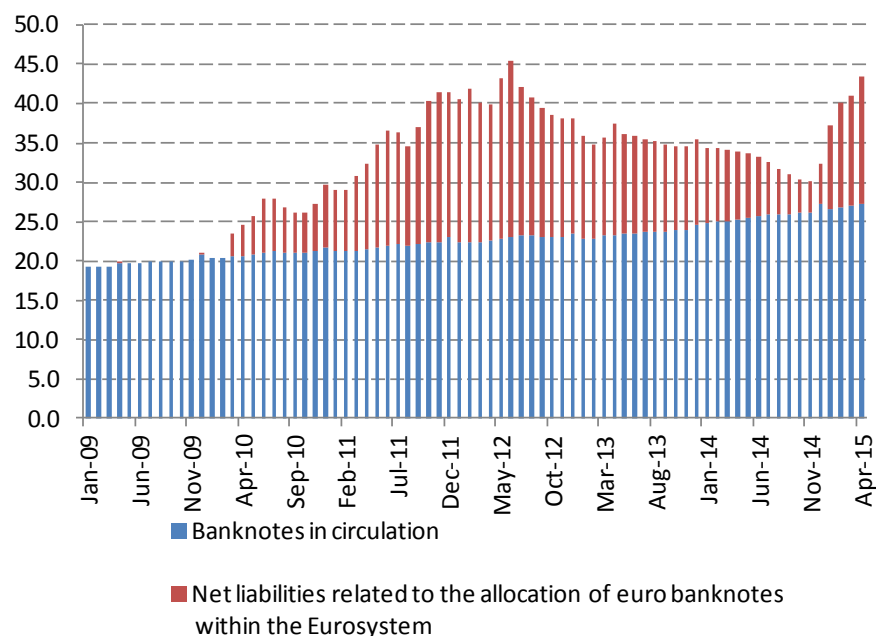


Headwinds (II): Lack of Liquidity but lots of cash !

Deposits Outflow



Banknotes in circulation (€ bn)

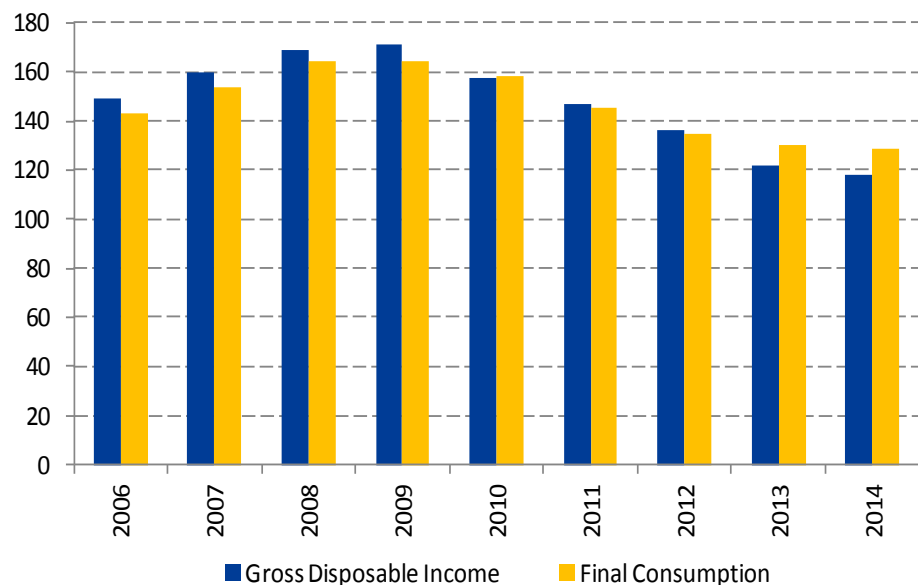




Headwinds (III): Negative Savings = No Cushion

Gross disposable income continues to decline; households in their effort to preserve their living standards have moved into a negative savings ratio.

Households' Gross Disposable Income vs Consumption (current prices, ESA 2010, bn €)



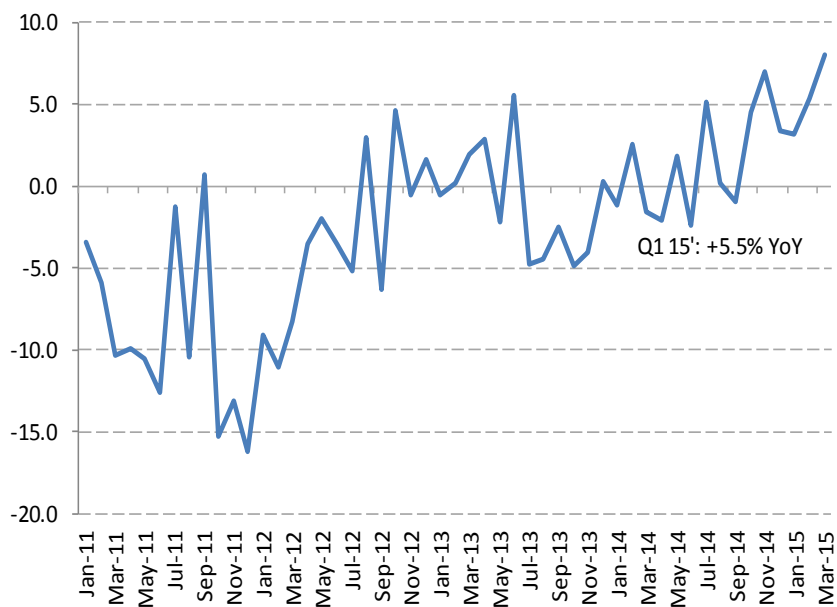
Gross Saving Ratio, 4QMA
(current prices, % of disposable income)



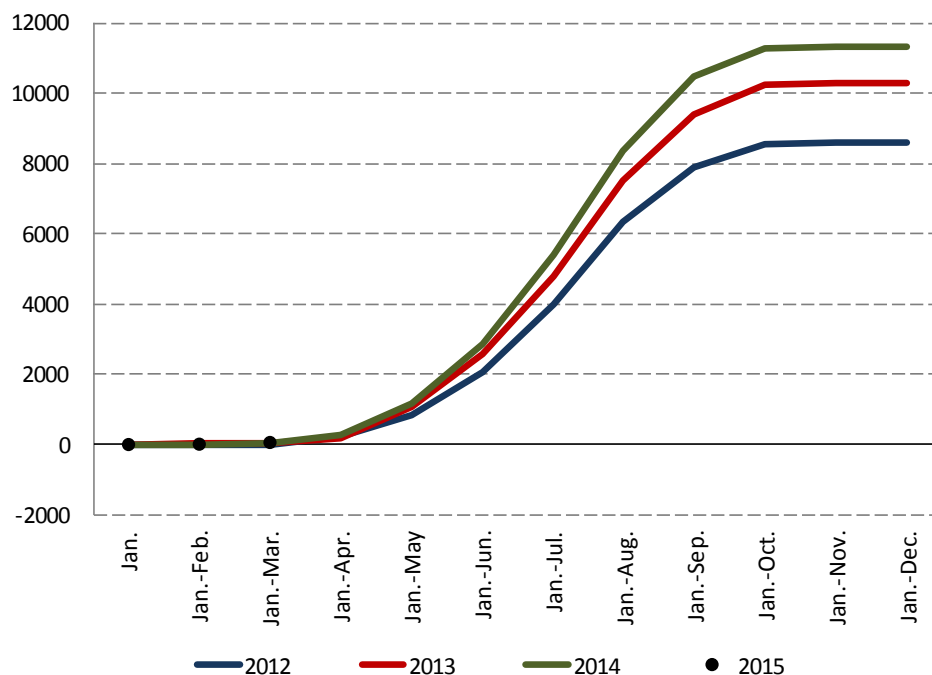


Growth Support (I): Manufacturing & Tourism defy expectations

Industrial Production Index in Manufacturing (YoY % change, sa data)



Travel Balance (cumulative, mn €)

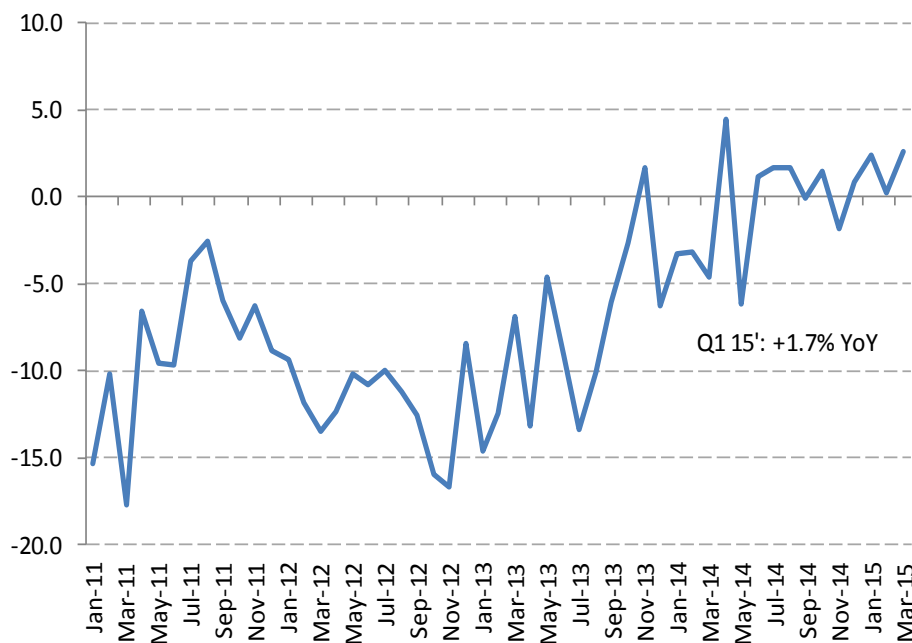




Growth Support (II): Retail & Motor trade also positive

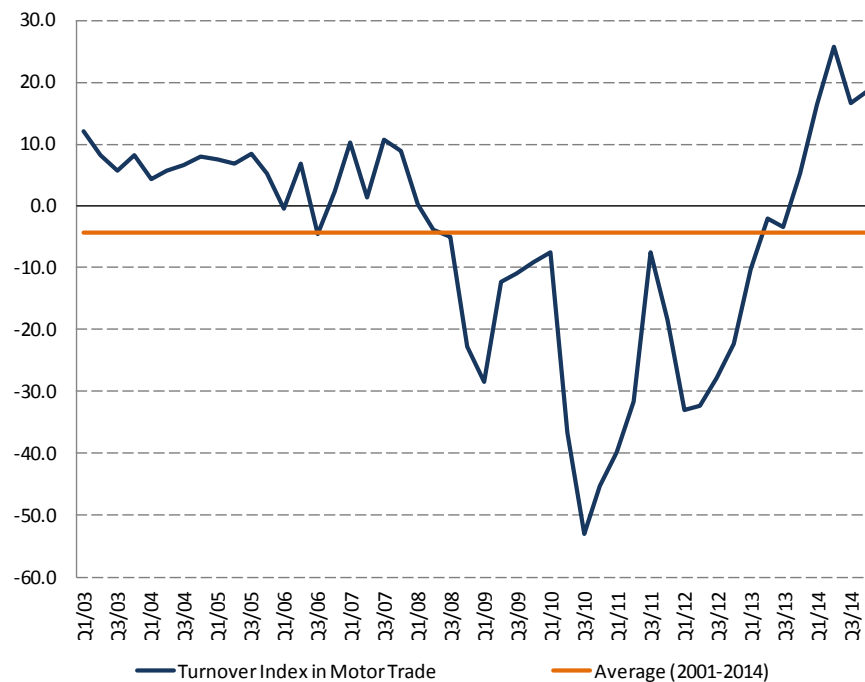
Volume Index in Retail Sales

(excl. automotive fuels, YoY % change, sa data)



Turnover Index in Motor Trade

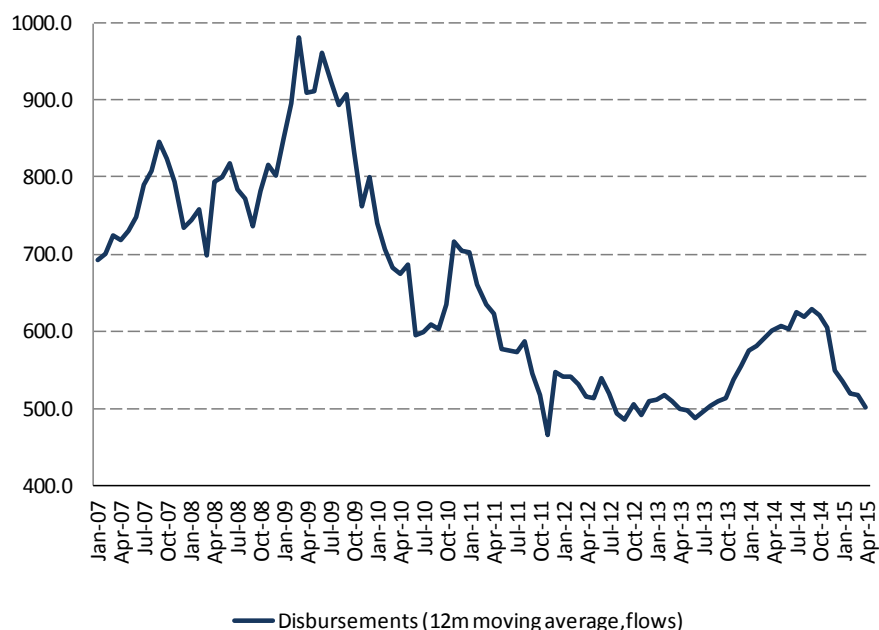
(YoY % change, sa data)



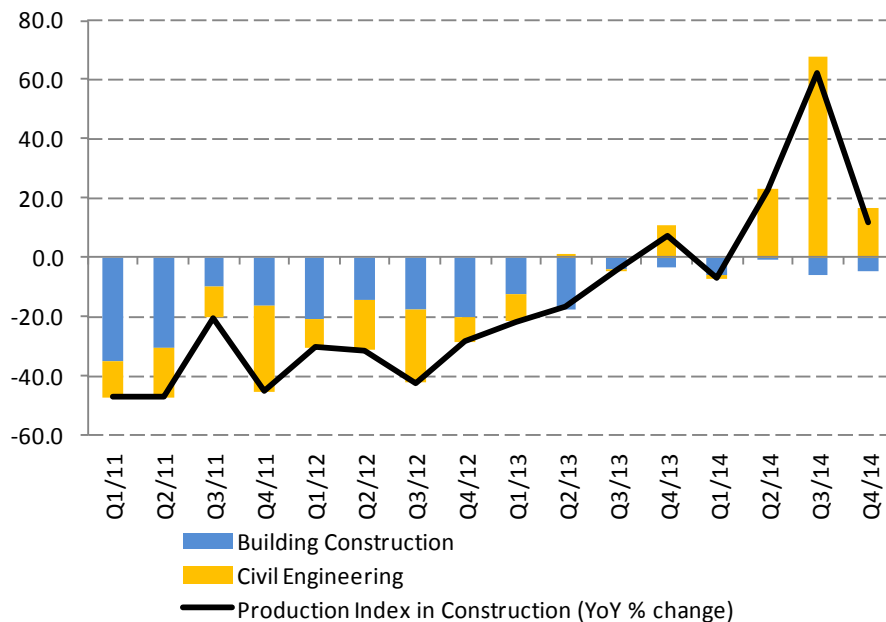


Growth Potential (I): Public Investments should lead the way

Public Investment Programme, Disbursements
(flows, mn €, 12m MA)



Production Index in Construction
(contributions, 2010=100)

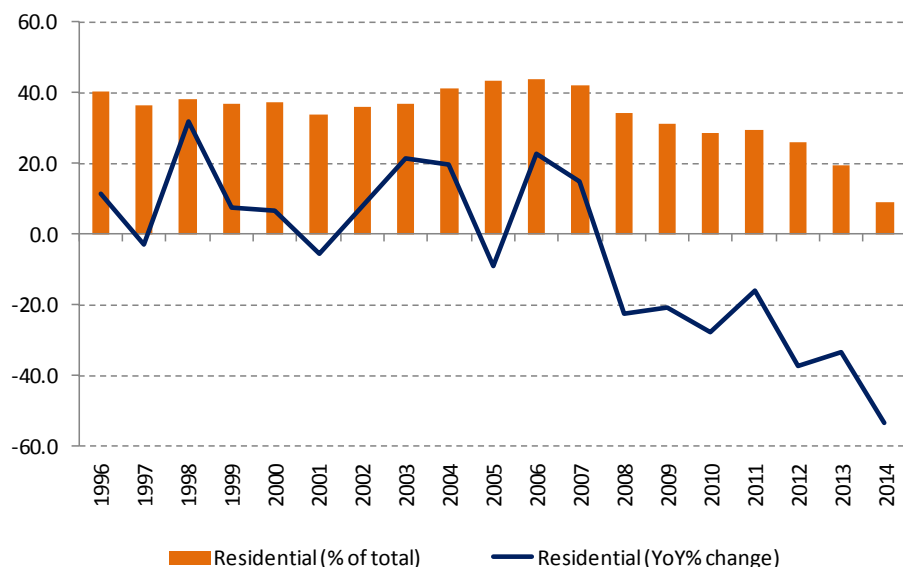




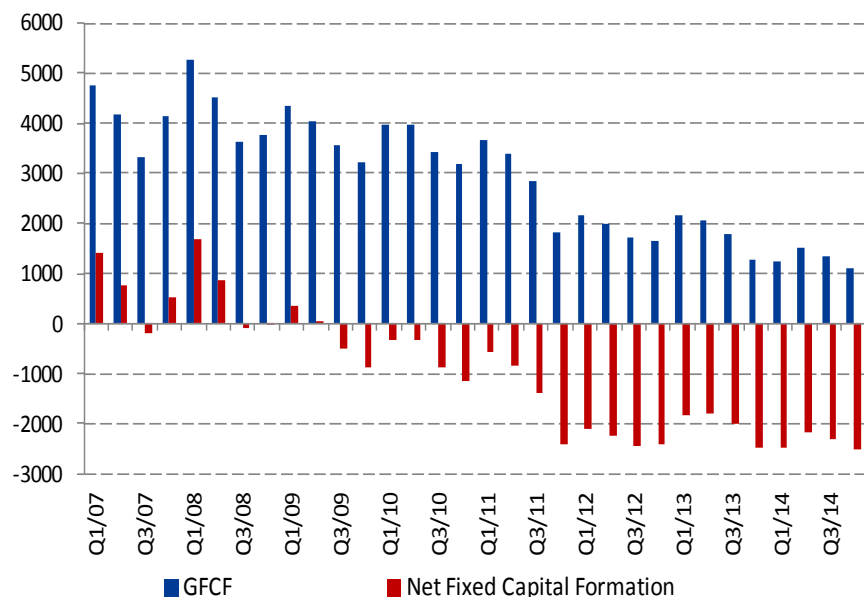
Growth Potential (II): Corporations must add to “Physical Capital”

Residential Investment is still suffering in the aftermath of the recession and from an uncertain tax environment. The significant decline in the fixed capital formation and the continuing high level of capital consumption are driving the net capital formation into negative territory.

Gross Fixed Capital Formation, Residential
(current prices, ESA 2010)



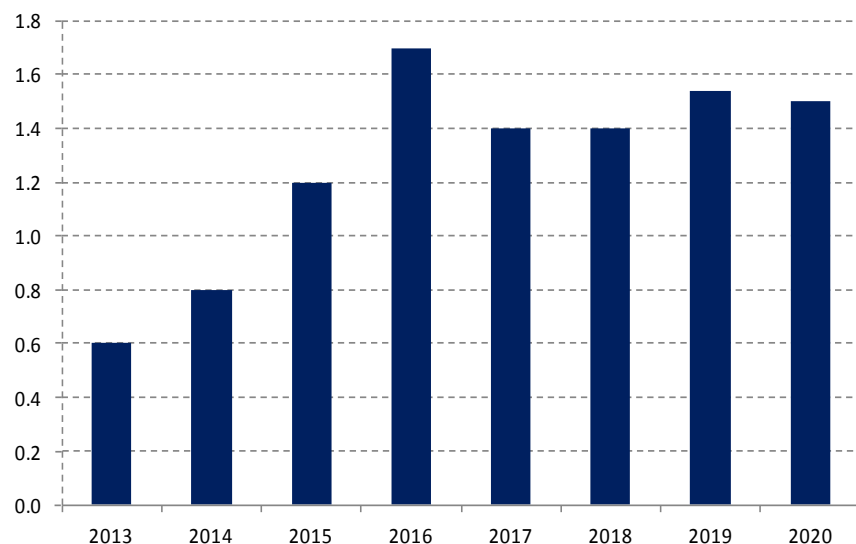
Fixed Capital Formation in Non Financial Corporations (current prices, €mn. ESA 2010)



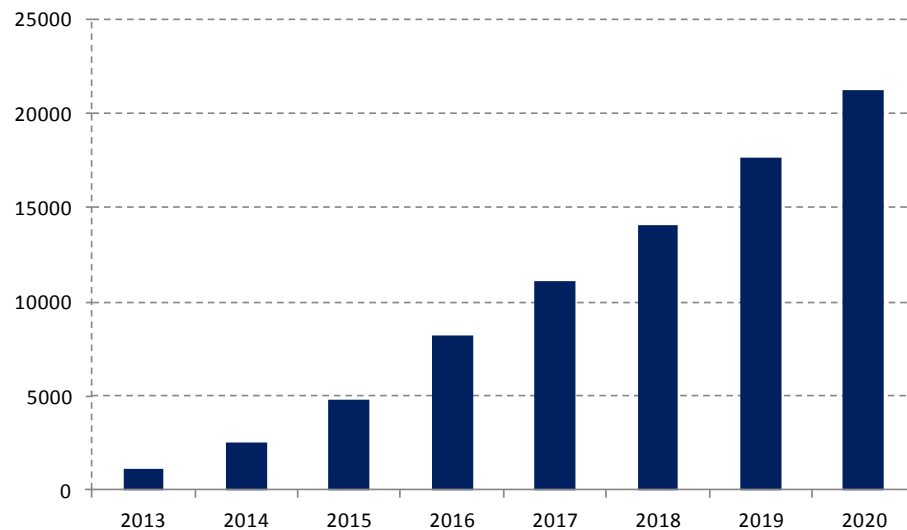


Growth Potential (III): Capacity of up to € 21bn of Privatizations

Privatisation Revenues (% of GDP)



Privatisation Revenues (mn €, cumulative)





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