NATIONAL BANK
OF GREECE

GREECE
Macro View
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The resurgence of capital inflows would have provided critical liquidity to the economy; however, the reduction in Eurosystem dependence has weakened the transmission mechanism

Macroeconomic Indicators &
Fiscal Outlook in pages 9-23

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- Solid progress in fiscal adjustment, the reversal of a large current account deficit, and a meaningful reduction in uncertainty attracted more than €50 bn of net capital inflows through the financial account of the balance of payments, as well as through the accumulated surplus in current account transactions (c. 27% of 2013 GDP).
- This achievement is remarkable, as it occurs only two years after the peak of the crisis, which had been accompanied by massive outflows of private capital from the economy that cumulatively reached €115 bn during the period 2010-June 2012.
- These inflows should have boosted the liquidity position of the economy, but it appears that only a small fraction of the capital inflows have actually reached the real economy, as reflected in the increase in private sector deposits by only €16 bn during the past 2 years.
- Two interrelated processes are weakening the transmission of external financing to the economy:
  - ✓ The ongoing deleveraging by healthy borrowers, which has reached €40 bn in net terms (i.e., adjusting for the accumulation of new loan provisions) in the period July 2012-July 2014.
  - ✓ A sharp reduction in Greek banks' borrowing from the Eurosystem (by €91 bn), broadly equivalent to the sum of net inflows to the private sector through the current and financial accounts (€50 bn) and net deleveraging (€40 bn). This decline also reflects the preemptive adjustment by banks to the March 1 2015 ECB deadline that renders ineligible for use in Eurosystem operations about €26 bn of Greek banks' collateral (cash value) in the form of government guaranteed securities.
- Though the repayment of ECB funding is a necessary eventuality, the pace may be too rapid, especially when the economy is recovering. Therefore, the adoption by the ECB of amendments to broaden collateral rules so as to eliminate a further constraint on Greek banks' access to Eurosystem financing would be highly supportive of liquidity generation and economic growth.
- NBG Research estimates suggest that the €22 bn of estimated net financing needs of the domestic non-financial private sector for 2015-16 -- consistent with real GDP growth of 3.1% per year -- could be entirely covered by external capital and current account inflows, assuming that these inflows maintain the momentum of the period H2:2012-14, and there is no further reduction in ECB exposure by Greek banks from the current level of €43 bn (11% of total assets).

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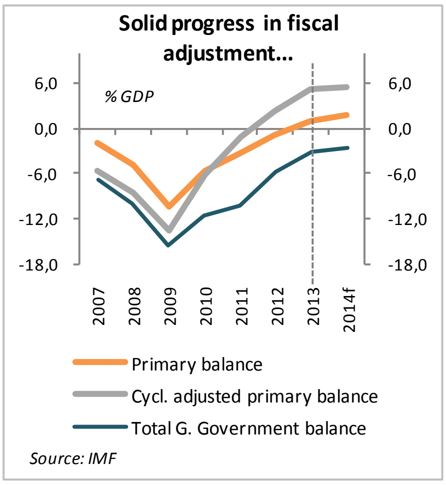
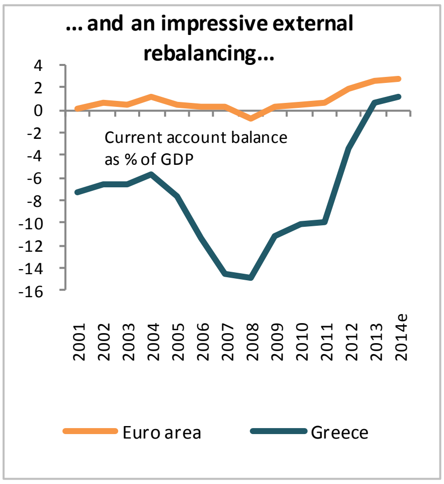




The resurgence of capital inflows would have provided vital liquidity to the economy; however, demand-driven deleveraging and a preemptive reduction in Eurosystem borrowing restrain the monetary transmission mechanism

Introduction

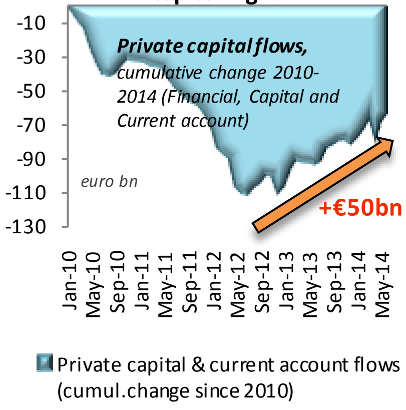
Solid progress in fiscal adjustment, the reversal of a sizeable current account deficit and a meaningful reduction in uncertainty, combined with attractive valuations of Greek assets, have begun to attract increasing inflows of private capital into the Greek economy over the past two years. Specifically, the Greek private sector (including Greek banks) received, in the two years to July 2014, about €50 bn of net financing from abroad in the form of net private capital inflows through the financial account of the balance of payments (comprised of direct investment, portfolio and other investment), as well as the counterpart from the current account surplus.

This achievement is remarkable as it occurs only two years after the peak of the crisis, which had been accompanied by massive outflows of private capital from the economy that cumulatively reached €115 bn in the period 2010-June 2012. It is important to remember that these outflows were initially buffered by an unprecedented intervention from the official sector, which injected about €280 bn by June 2012 in the form of Troika and Eurosystem funding to meet the large financing needs of the Greek economy (see below).

More recently, the return of private capital inflows since mid-2012 should have boosted the liquidity position of the economy, providing critical financing to a liquidity-starved market. This funding should have had a direct and a second-round effect on the economy. First, it covers the financing needs of the private sector receiving the funds. Subsequently, it flows into the economy through deposit creation by the banking system (the traditional money transmission mechanism).

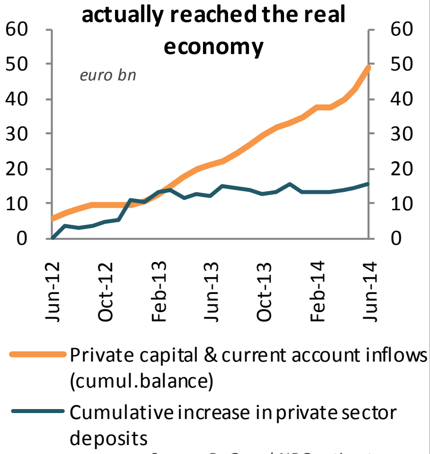
However, the second-round effect does not appear to be functioning properly. Only a small part of the capital inflows have actually reached the real economy. A key sign of this shortfall is that private sector deposits increased by only €16 bn during the period July 2012-July 2014, a small percentage of the net foreign inflows to the private sector of €50 bn during the same period. Moreover, financing costs remain relatively high.

...are starting to attract foreign capital inflows signaling the end of a period of severe capital flight



Source: BoG and NBG estimates

However, only a small fraction of private capital inflows have actually reached the real economy



Source: BoG and NBG estimates

Overall, it appears that there are underlying forces that are weakening the transmission of external financing to the rest of the economy. They mainly reflect:

a) the restructuring of the Greek private sector, which involves further deleveraging by healthy borrowers; and

b) a notable acceleration in the reduction of Greek bank borrowings from the Eurosystem.

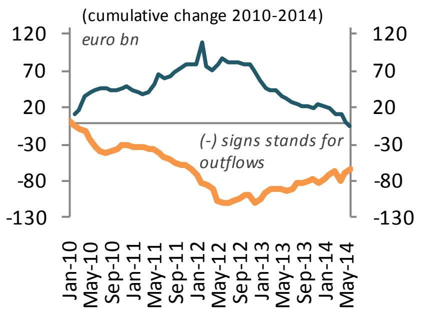
In fact, these two interrelated processes corresponded to a direct elimination of liquidity, which offset most of the recorded liquidity gains through capital inflows.

Specifically, deleveraging reached €40 bn in net terms (i.e., adjusting for the accumulation of additional NPL provisions), while in gross terms it amounted to €27.4 bn during the past two years. Moreover, Greek banks are reducing their Eurosystem dependence ahead of the forthcoming ECB deadline that renders ineligible for use in Eurosystem operations about €34 bn of Greek banks' collateral in the form of government guaranteed securities, €26 bn in cash value of which about €17 bn is currently utilized. Indeed, Eurosystem dependence is down by €91 bn over the past two years, broadly equivalent to the sum of net inflows to the private sector through the current and financial accounts (€50 bn) and net deleveraging (€40 bn). This accounting reveals that the Greek economy is aiming to return liquidity to the ECB rather than putting it at the disposal of growth generating activity.

Though the repayment of ECB funding is a necessary eventuality, the pace may be too rapid, especially when the economy is recovering. Therefore, the adoption by the ECB of amendments to broaden collateral rules so as to eliminate a further constraint on Greek banks' access to Eurosystem financing would be highly supportive of liquidity generation and economic growth.

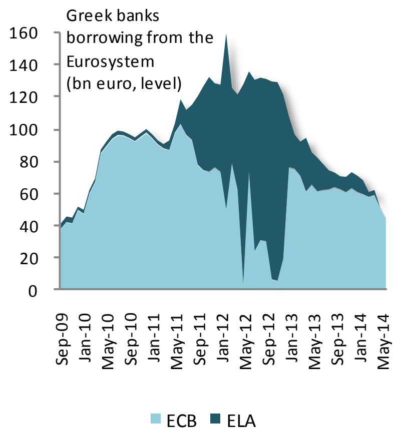
NBG Research estimates suggest that the €22 bn of net financing needs of the domestic non-financial private sector for 2015-16 -- consistent with GDP growth of 3.1% per year -- could be entirely covered by external capital and current account inflows, assuming that these inflows maintain the momentum of the period H2:2012-14 and the deleveraging process comes to an end, and there is no further reduction in ECB exposure by Greek banks from the current level of €43 bn (11% of total assets).

Eurosystem loans compensated for the massive pullback of private capital...



Source: BoG and NBG estimates

...but have started to decline rapidly since 2013...



The crisis gave rise to severe capital flight, which was initially offset by sizeable inflows of official funding

Sizeable macroeconomic imbalances in the Greek economy, combined with systemic turbulence in the euro area and a very gradual policy response, led to a dramatic reappraisal of country risk and a massive withdrawal of private capital from Greece.

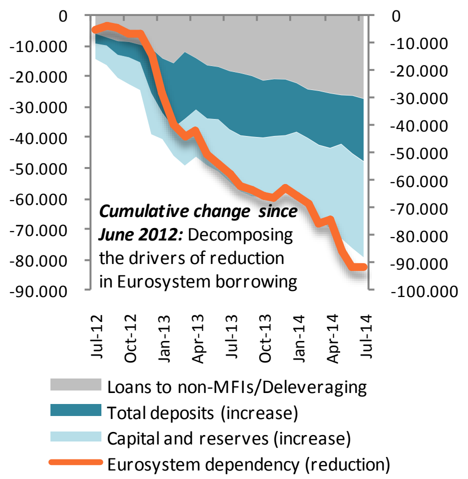
Cumulative capital outflows from the private sector exceeded €115 bn in the period 2010-H1:2012, when Grexit fears peaked. This sharp pullback of private capital from the Greek economy has taken the following forms:

- ✓ About €40 bn of net outflows registered under “other investment” in the BoP, which mainly reflect deposit flight,
- ✓ A net divestment through the portfolio account of about €55 bn that reflected a sell-off of Greek financial assets,
- ✓ A cumulative current account deficit that reached €18 bn during this period,
- ✓ A cumulative reduction in net FDI of €2.5 bn.

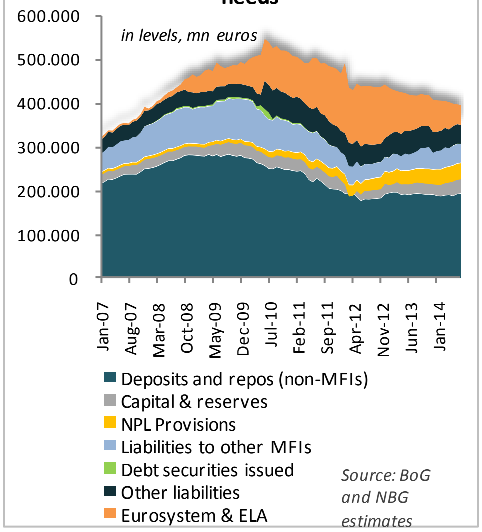
Thus, the overall financial divestment and liquidity leakages through the current account corresponded in total to about €115 bn. Note that, from the €103 bn decline in deposits during this period, only €30 bn were recorded as direct deposit flight, while the rest occurred indirectly through cash burn and other international capital movements.

The Greek crisis effectively closed private sector sources of external financing to the economy, leading to the activation of the extraordinary support mechanisms of the economic support programmes for Greece. In this respect, the official sector disbursed about €285 bn in the form of Troika loans (€198 bn) and Eurosystem funding (€86 bn) to counteract the impact of capital flight and cover the financing needs of the Greek Government (including the PSI). This funding protected the economy from the devastating consequences of a large unilateral sovereign default, and an even sharper adjustment in the external position and, concomitantly, in activity. In a stylized representation of the role of official funding during the crisis, Troika loans have broadly covered the Greek Government’s financing gap (estimated at €190 bn including the cost of the PSI), as well as the recapitalization of Greek banks, while Eurosystem loans compensated for the pullback of private capital -- including deposit flight -- from the economy (excluding GGBs). These interventions were critical in

...on the back of accelerating net deleveraging and bank capital replenishment



Greek banking system liabilities structure - Balance sheet deleveraging contributes to the reduction of external financing needs



Source: BoG and NBG estimates

permitting a more gradual and controlled adjustment of the fiscal and external positions of the country, buttressing the decline in activity (which, in any event, was a massive 26% in constant price terms).

The reversal of capital flows began in H2:2012, following the June elections, when the macroeconomic adjustment programme was clearly bearing fruit, and was reinforced by a more favorable international environment

Capital flight ended during the summer of 2012, with investors taking heart from a favorable sequence of events that followed the Greek parliamentary elections in June 2012. The main components of this turnaround were the following:

- ✓ solid progress in fiscal adjustment and a gradual improvement in macroeconomic conditions in Greece, along with the reduction in uncertainty;
- ✓ progress in the implementation of the structural reform agenda; and
- ✓ a more constructive stance by euro area partners who had started to recognize the adjustment effort.

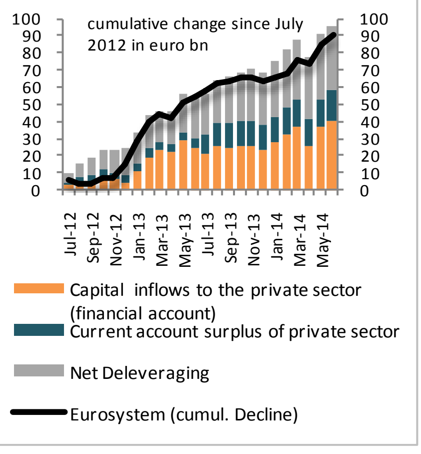
As a result, the first notable inflows into Greek government bonds and equity started in Q3:2012. These trends gathered momentum in 2013 when the country managed to overperform compared with its ambitious fiscal targets -- a fiscal adjustment of 19.5% of GDP in the primary balance in cyclically-adjusted terms during 2010-2013 -- providing a solid track record in implementing crucial reforms. At the same time, external rebalancing led to the first current account surplus in 60 years.

Overall, in the 2 years to July 2014, around €50 bn of net private-sector capital and financial inflows entered the economy, reflecting:

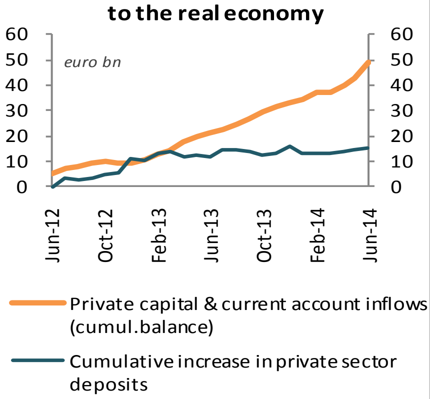
- ✓ net portfolio and other investment to the domestic private sector of €31.2 bn (excluding Troika and Eurosystem loans);
- ✓ a cumulative surplus in the current and capital account of the Greek private sector of €15.3 bn (including current and capital transfers);
- ✓ a cumulative increase in net foreign direct investment to the private sector of €4.1 bn (excluding privatization revenue earmarked for fiscal purposes).

The cumulative financing inflows to the private sector through the above channels have, so far, reversed only about half of the outflows of private capital during the period 2010-H1:2012.

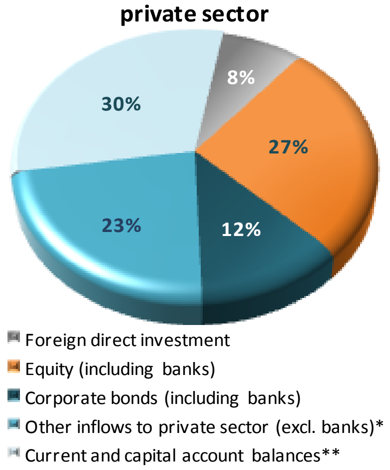
Private capital inflows, deleveraging and a decline in Eurosystem borrowing



However, the reduction in Eurosystem borrowing was too aggressive to allow private capital inflows to trickle down to the real economy



Indicative decomposition of net capital inflows to the Greek private sector



** Includes Greek residents disinvestment from abroad and capital repatriation*
*** excluding SMP, ANFA revenue*
Source: BoG, HELEX, and NBG estimates

External liquidity injections have been offset by ongoing deleveraging and a rapid reduction in Eurosystem financing

All other things being equal, this €50 bn of net inflows from abroad should have provided a direct boost to domestic liquidity by increasing banks' deposits and the money supply by a broadly analogous amount, especially as the external position of the economy was broadly balanced. It should be noted that the Greek Government's external financing gap had been entirely covered by Troika loans during 2013-2014.

However, two important and largely interrelated parameters/ shocks have occurred, offsetting the effective liquidity push from capital inflows:

- ✓ The process of deleveraging in the non-financial private sector has resulted in a cumulative reduction of gross loans by €27 bn (c. -10%) in the two years to July 2014. In net terms -- i.e., including the accumulation of new provisions for non-performing loans -- the deleveraging reached €40 bn during the same period. This deleveraging corresponds to an equivalent reduction in bank financing needs.
- ✓ The pace of reduction of Greek banks' Eurosystem dependence was surprisingly strong: -€91 bn. In fact, Greek banks have fully reversed the €86 bn increase in Eurosystem loans that occurred during the period 2010-H1:2012, and their total borrowing by July 2014 had declined to the lowest level since Q3:2009 -- just before the eruption of the Greek crisis. Most notably, this adjustment has occurred despite the fact that private sector deposits remain €79 bn lower than their 2009 peak.

The rapid reduction in Eurosystem financing reflects the unavoidable repayment of what is by its very nature transitory liquidity provisions from the central bank. However, it also reflects the fact that Greek banks are trying to reduce their ECB dependence ahead of the non-eligibility by end-February of €34 bn of Greek banks' collateral in the form of government guaranteed securities (around €26 bn in cash value, of which around €17 bn is currently utilized). The ECB assisted Greek banks in difficult circumstances due to the downgrade of Greece's credit rating, combined with the near elimination of sovereign paper due to the PSI cum buyback, by making them eligible for repo financing for an exceptional 5-year period. Market estimates are that, come March 1 2015, Greek banks may have to return to stigmatized ELA funding, based on their current financing needs.

Thus, the sum of net inflows to the private sector through the current and financial accounts (€50.6 bn), as well as the impact

Major changes in the Greek banking system balance sheet (July 2012 - July 2014)			
cumulative change in euro bn			
Assets		*Liabilies*	
Deleveraging Gross	-27,4	Provisions	12,8
PSI bonds buyback*	-10,2	Deposits *private sector*	16,3
EFSF securities*	7,5	Deposits *public sector*	4,9
		Net Capital	15,0
		Net interbank lending	13,1
...		Eurosystem	-91,2
Total	**-30,1**		**-29,1**

** Systemic banks*

Source: BoG, EFSF, HFSF and NBG estimates

Sectoral balance of payments cumulative figures July 2012 - July 2014	*Private sector*	*Public sector*	*Total Economy*
Current account*	15,3	-13,6	**1,7**
Financial Account (excl. Program financing & Eurosystem)	35,3	-29,0	**6,3**
Programme financing**	29,3	48,4	**77,7**
Balance of payments *(excl. Eurosytem)*	**79,9**	**5,8**	**85,7**
Eurosystem *(as reported in BoP)*			***-91,2***

** capital & current transfers excluding ANFA, SMP profit refunds are included in private sector balances*

*** Includes program financing used for recapitalization of systemic banks disbursed post July 2012, Programme financing for government arrears clearance and estimated government cash buffer in July 2014*

Source: BoG, HFSF, EFSF and NBG estimates

from (net) deleveraging (€40 bn) appears to have gone to reduce ECB funding.

From the analysis of the banks' aggregate balance sheet, the counterpart of the reduction in ECB financing of €91 bn mostly comprises: i) the €21 bn increase in total deposits (i.e., including government); ii) the €40.2 bn of net deleveraging; and iii) about €15 bn in net capital increases (capital increases from the HFSF and the markets of €24.7 bn between July 2012 and July 2014 minus losses from the buyback of PSI bonds and other capital adjustments amounting in total to €9.7 bn).

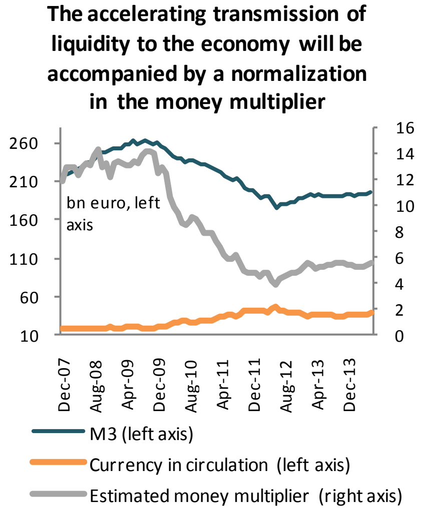
From a balance of payments perspective, the private-sector current account surplus (including current and capital transfers to the private sector) of €15.3 bn, private-sector financial inflows of €35.3 bn and almost €30 bn of Programme financing directed to the private sector in the form of official support to systemic banks and for government arrears clearance, largely offset the outflows to the ECB between July 2012 and July 2014.

External capital inflows will play a pivotal role in economic recovery, along with a pick-up in credit demand and a stabilization of Eurosystem loans

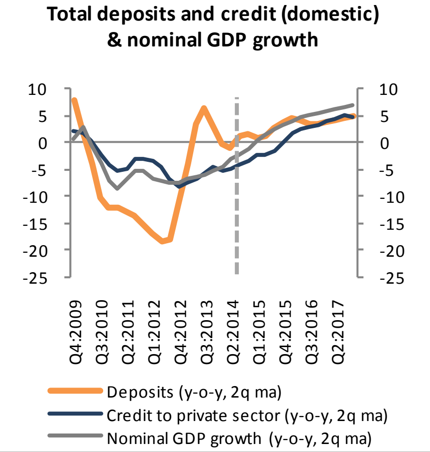
The ongoing private sector enterprise restructuring, in conjunction with the pick-up in economic activity, combined with the restructuring of the banking system following 2 successive rounds of recapitalization, intensive operational rebalancing and the completion of the comprehensive assessment, sets the stage for the re-activation of the economy's internal liquidity generation mechanism.

Low uncertainty, rising incomes, higher private sector financial savings, and increasing loan demand from high quality borrowers -- especially in pro-cyclical segments of activity such as business investment -- are the cornerstones of the internal liquidity generation mechanism of the economy. In this vein, improving collateral values, lower financing costs and the concomitant increase in the debt servicing capacity of the private sector, in conjunction with an improvement in asset quality, are expected to reinforce credit expansion by the banking sector.

There is, however, an important element of timing to this process following 6 years of economic depression that has resulted in a severe hit to the private sector's financial position and the economy's productive potential. In this respect, external financing



Source: BoG and NBG estimates



is projected to play a key role in financing the recovery process and in kick-starting the impaired liquidity circuit of the economy.

NBG research estimated the domestic private sector's financing needs in 2015-2018 from a loan demand equation. It expresses the annual change in total credit to the private sector as a function of real GDP growth (as projected by the Programme), the share of non-residential investment in real GDP (by benchmarking historical patterns based on data from other euro area countries, during cyclical upswings), and real lending rates to the private sector.

Our model projects loan demand to turn positive in 2 to 3 quarters. The demand for credit will be mainly driven by the healthiest and most competitive segments of the business sector, which will enter a phase of re-leveraging and investment, in line with increasing consumer demand. Households will follow suit, in parallel with increases in employment and income, leading to a bottoming-out in demand for consumer and mortgage loans.

The empirical estimates suggest that the cumulative financing needs of the private sector will reach €22 bn in the period 2015-2016 and €48 bn in the period 2015-2018. In this respect, the pace of foreign capital and current account inflows achieved since mid-2012 (€25 bn per year, on average) should be more than sufficient to entirely cover private sector financing needs in 2015-16, assuming an end of deleveraging and a stabilization in borrowings from the Eurosystem.

In this respect, external inflows will begin to directly feed into the money creation process. As credit growth gains traction, the size of the money multiplier will tend to normalize compared with its current extremely low level, and the effective elasticity of liquidity creation for each euro of external capital inflows will exceed unity -- reflecting a normalized level of money multiplier -- compared with a current elasticity of about 0.4 (change in total deposits / net capital inflows).

However, a further decline in Eurosystem borrowings prompted by the limited availability of collateral would slow the improvement in financing conditions. This risk could be minimized in the near term through amendments in the ECB's collateral acceptance rules, which preserve or increase the capacity of the banking system to access refinancing operations (as regards both collateral types, ratings and applied haircuts).

GREECE

Macro View - Economic Outlook

The Greek economy exited recession in Q2:2014, supported by a buoyant tourism season and improving consumption, although some downside risks remain

Most activity indicators suggest that economic activity maintains a sustainable recovery momentum in H2:2014

Greece: Tracking the economy's cyclical position

	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
PMI (index level)	43,1	40,1	41,9	42,1	42,2	41	41,8	41,4	41,7	43	42,1	45	45,3	45,4	47	48,7	47,5	47,3	49,2	49,6	51,2	51,3	49,7	51,1	51	49,4	48,7	50,1	48,4	48,8
Industrial confidence (index level)	-21,9	-24,9	-25,5	-25,4	-21,8	-20,1	-17,6	-11,7	-13,7	-12,5	-11,6	-11,1	-6,7	-8,8	-10,6	-10,7	-5,3	-9,9	-11	-10,6	-11,2	-7,1	-4,1	-8,9	-4,9	1,3	1,5	0,3	-5,4	-0,6
Manufacturing production (yoy)	-3,4	-4,9	-6,1	2,5	-6,5	3,9	-0,2	1,4	-0,6	0,1	1,9	2,9	-2,1	5,7	-4,7	-4,3	-2,6	-4,9	-4,2	0,2	-0,6	2,8	-1,8	-2,3	0,8	-2,3	3,6	-1,3	-2,1	
Industrial production (yoy)	-1,8	0,9	-2,9	3,2	-6,0	4,5	-2,4	1,8	-3,1	-2,8	-0,4	1,0	-4,4	2,3	-7,2	-5,5	-3,2	-6,1	-6,6	-1,4	-2,9	0,3	-4,7	-3,9	-0,9	-5,6	-1,3	-5,9	-5,1	
Services confidence (index level)	-31,1	-43,2	-42,8	-41,8	-40,9	-46	-38,4	-31,4	-28,6	-22,5	-22,4	-22,7	-13,1	-2,5	-4,6	-7	-9,7	-7,1	-8,1	-4,9	2,5	4,5	4,9	6	6,5	18,4	19,7	22,3	14,8	15,8
Consumer confidence (index level)	-75,8	-70,4	-64,7	-65,2	-75,6	-77,5	-74,1	-72,1	-71,9	-71,4	-71,2	-71,8	-63,4	-66,5	-70,9	-76,6	-72,2	-66,2	-66,7	-63,3	-62,7	-63,1	-58	-52,6	-51	-47,7	-48	-54	-56	-51
Retail confidence (index level)	-34,9	-35,2	-31	-26,6	-37	-48,4	-40,1	-33,5	-30,5	-33,1	-25,9	-26,7	-15,2	-19,1	-21	-21,3	-22,5	-22,8	-18,1	-15	-11,6	-8,4	-10	-9,7	-7,4	2,5	4,8	6,6	-2,5	5,0
Retail trade volume (yoy)	-10	-11	-9	-9	-12	-18	-17	-8	-17	-14	-6	-14	-2	-8	-14	-8	-5	-1	3	-6	-0,3	0,9	-1,3	7,2	-3,6	3,9	4,6	7,5		
Construction Permits (yoy)	-8	-40	-49	-29	-47	-31	-66	-33	-28	-45	-56	-16	-51	-15	-4	-30	-37	9	89	-44	-41	-5	4	-8	10	53	-24	-5,3		
House prices (yoy, quarterly series)	-11	-11	-13	-13	-13	-13	-13	-13	-12	-12	-12	-12	-12	-12	-10	-10	-10	-10	-10	-10	-9	-9	-9	-8	-8	-8	-7	-7	-7	
Construction confidence (index level)	-61	-62	-56	-53	-58	-53	-57	-63	-59	-47	-46	-39	-35	-34	-32	-30	-18	-37	-33	-39	-23	-23	-14	-20	-20	-19	-20	-21	-33	-21,2
Employment (y-o-y)	-8,9	-10,5	-9,4	-8,9	-8,7	-7,8	-7,6	-6,9	-7,5	-7,0	-7,0	-6,4	-6,1	-4,1	-4,8	-3,9	-3,5	-3,5	-2,7	-2,4	-1,1	-0,7	0,0	-0,2	1,6	0,4	1,6	0,9		
Interest rate on new private sector loans (CPI deflated)	4,8	5,0	4,6	4,1	4,9	4,1	4,7	5,0	5,7	5,7	6,0	6,3	6,0	5,9	6,2	6,8	6,7	7,6	8,4	6,8	7,1	6,5	6,8	7,2	7,4	6,3	6,1	5,6	6,0	
Credit to private sector (y-o-y)	-4,4	-5,3	-7,8	-7,7	-8,4	-8,2	-8,1	-8,4	-9,5	-8,9	-6,8	-6,8	-7,4	-6,8	-5,1	-4,8	-4,7	-4,8	-4,7	-4,3	-3,5	-3,7	-5,5	-4,9	-4,4	-4,0	-3,9	-3,7	-3,7	
Private sector deposits (y-o-y)	-18,4	-19,9	-17,8	-18,6	-16,2	-12,6	-10,5	-7,4	-6,2	-2,3	-2,3	-3,9	1,6	4,9	2,4	2,5	1,7	0,5	0,4	-1,5	-2,4	-3,9	-3,0	-1,5	-2,1	0,3	0,7	1,4	2,2	
Interest rate on new time deposits (households, CPI deflated)	3,5	3,7	3,5	2,8	3,7	3,0	3,6	3,9	4,4	4,4	4,6	4,8	4,5	4,3	4,2	4,6	4,2	5,0	5,7	4,5	4,3	3,9	4,2	4,1	4,5	3,5	3,0	2,4	2,9	
Economic sentiment index (EU Commision, NBG weights, Greece)	80	78	80	80	80	80	82	87	86	87	89	90	94	94	92	90	94	92	92	91	93	95	98	96	99	104	103	102	99	102
Economic sentiment index (EU Commision, Euro area)	92	92	89	88	86	86	87	88	90	91	91	89	90	92	93	96	97	98	99	100	101	101	103	102	103	102,1	102	101	99,9	101
Exports (other (excl.oil&shipping) y-o-y 6m mov.avg	6,2	6,9	4,0	2,9	-0,9	0,9	-1,2	2,0	3,2	5,2	7,3	8,3	7,2	2,9	3,0	2,4	3,4	0,7	0,9	1,4	-1,0	-1,5	-1,3	-1,5	0,2	3,0	5,7	5,6		
Imports (other (excl.oil&shipping) y-o-y 6m mov.avg	-12	-13	-16	-15	-17	-16	-17	-17	-16	-14	-9	-6	-6	-4	-1	-2	0	-3	0	4	2	4	2	2	2	0	2	2		
NBG Composite Index of cyclical conditions ► ► ► ►	-32,8	-34,6	-32	-27,1	-37,6	-29,4	-31,4	-25,8	-27,8	-24,4	-21,9	-17,8	-17,1	-9,31	-16,9	-13,7	-7,01	-12,1	-9	-3,97	-0,8	-1,2	-0,2	0,5	1,3	4,9	3,5	0,5	1,8	

Color map scale

Rapid contraction | Moderate contraction | Slow contraction | Stabilization | Slow expansion | Moderate expansion | Rapid expansion

Sources: NBG, BoG, ELSTAT, EU Commission, IOBE

Greece: Growth Outlook

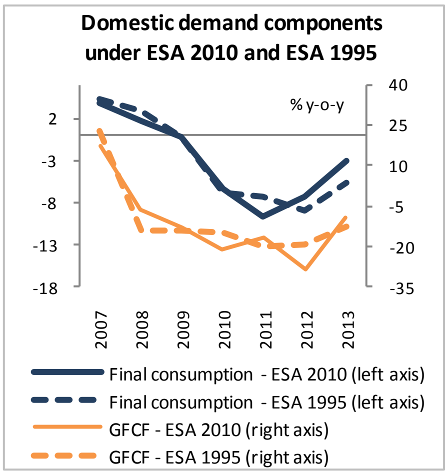
	2011	2012	2013	2014f	2015f	2013				2014f			
						Q1	Q2	Q3	Q4	Q1	Q2	Q3e	Q4f
GDP (% yoy, s.a.)	**-8,9**	**-6,6**	**-4,0**	**0,9**	**2,5**	**-5,4**	**-4,1**	**-3,5**	**-2,9**	**-0,3**	**0,4**	**1,4**	**1,9**
GDP (% q-o-q, s.a.)	…	…	…	…	…	-1,8	-0,4	-0,4	-0,4	0,8	0,3	*0,7*	*0,2*
Domestic Demand (y-o-y)	**-10,5**	**-9,2**	**-5,1**	**0,3**	**2,0**	**-6,1**	**-5,6**	**-4,3**	**-4,3**	**-2,2**	**0,7**	**1,3**	**1,5**
Final Consumption (y-o-y)	**-9,7**	**-7,2**	**-3,0**	**0,9**	**1,3**	**-6,4**	**-3,8**	**-2,2**	**0,2**	**0,3**	**0,8**	**1,2**	**1,1**
Private Consumption (y-o-y)	-10,7	-7,9	-2,1	0,8	1,3	-4,9	-2,5	-2,4	1,6	0,2	0,5	1,5	1,1
Public Consumption (y-o-y)	-6,4	-5,1	-6,6	0,4	1,0	-12,0	-8,8	-1,9	-3,6	0,7	2,2	2,7	-4,0
Fixed Capital Formation (y-o-y)	**-17,0**	**-28,5**	**-9,2**	**-2,7**	**6,8**	**-12,5**	**-12,8**	**-2,4**	**-8,9**	**-5,9**	**-5,2**	**-1,5**	**1,7**
Residential construction	*-14,7*	*-33,4*	*-27,5*	*-40,4*	*-15,0*	*-26,7*	*-30,7*	*-27,9*	*-24,4*	*-50,0*	*-57,7*	*-31,0*	*-23,0*
Total GFCF excluding residential	*-17,9*	*-26,4*	*-2,1*	*9,0*	*13,0*	*-6,2*	*-5,0*	*7,2*	*-4,6*	*9,4*	*11,3*	*7,5*	*7,8*
Inventories* (contribution to GDP)	**0,4**	**1,3**	**-1,4**	**-0,2**	**0,1**	0,9	-0,8	-2,1	-3,5	-1,9	0,5	0,3	0,4
Net exports (contribution to GDP)	**2,5**	**3,2**	**1,3**	**0,5**	**0,4**	1,0	1,7	0,9	1,6	2,0	-0,3	0,2	0,3
Exports (y-o-y)	1,0	1,0	1,6	7,3	7,5	0,2	4,5	4,4	-2,7	7,3	8,9	8,1	4,8
Imports (y-o-y)	-7,6	-9,5	-2,9	4,9	5,7	-3,1	-1,9	0,9	-7,6	0,1	9,1	7,1	3,4

*also including other statistical discrepancies

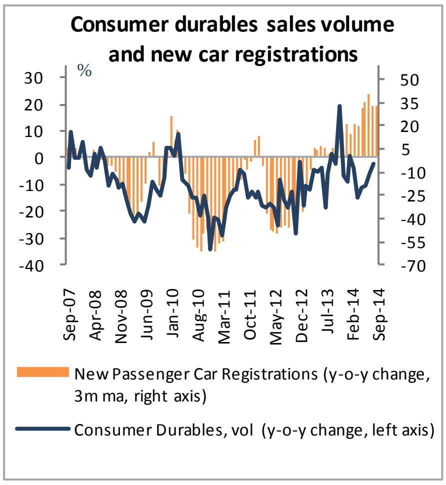
Source: EL.STAT. and NBG Research Estimates

The economy exited the most severe recession since WWII in Q2:2014, with GDP increasing by +0.4% y-o-y for the first time since Q1:2008, and by +1.4% y-o-y in Q3:2014 (+0.7% q-o-q s.a.)

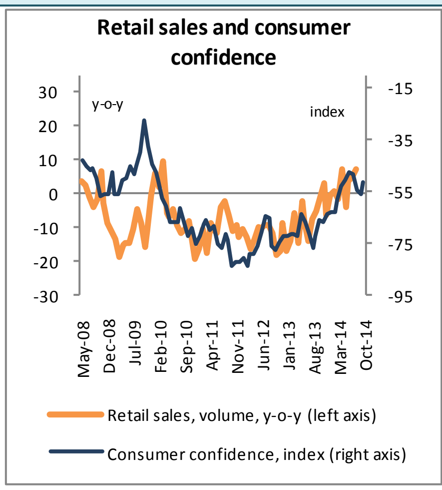
Revised GDP figures (ESA 2010) revealed a frontloaded decline in real GDP (-26% in 2008-13), with final consumption contracting by -3.1% y-o-y in 2013 compared with initial estimates of -5.6%



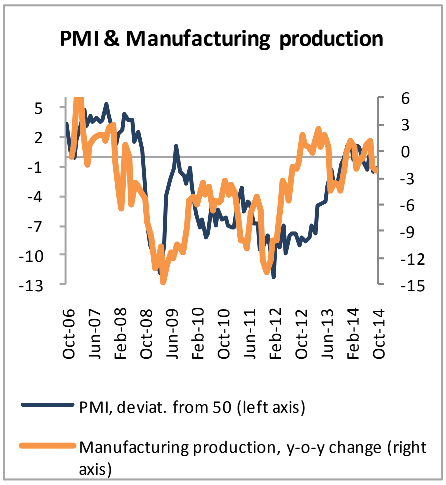
Retail trade volume data suggest that private consumption began to expand in H1:2014, on the back of steadily improving confidence, increasing employment …



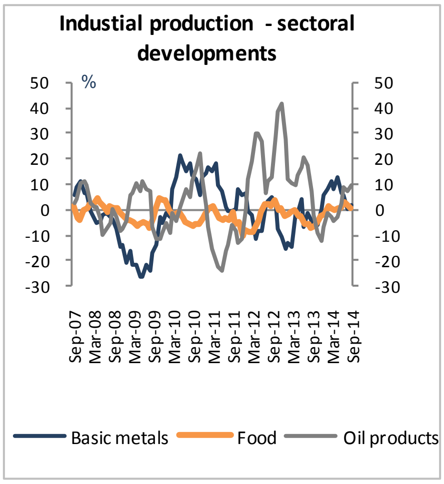
… and a supportive impact on real disposable income from the buoyant tourism season and continuing disinflation



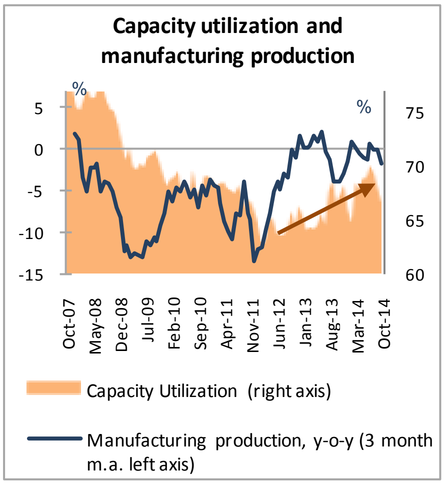
Manufacturing production has not yet gained traction…



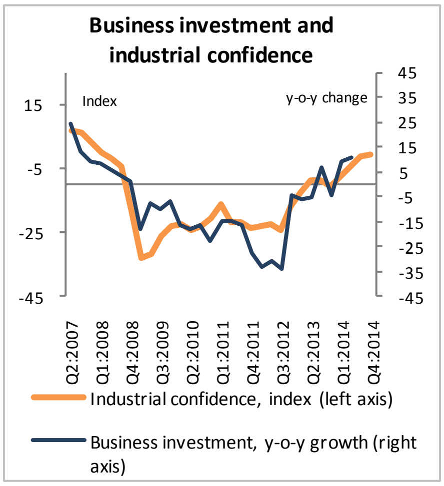
…as sectoral activity trends continue to diverge



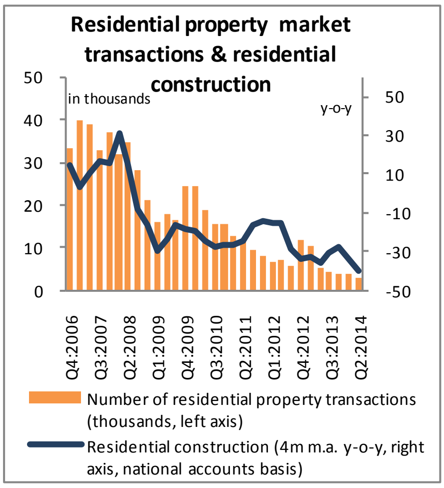
However, further increases in capacity utilization, in conjunction with…



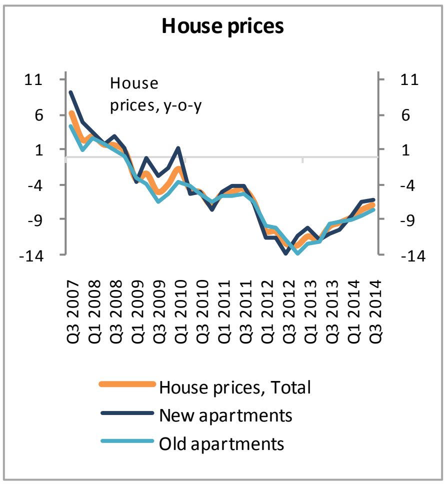
…solid gains in business sentiment, are supportive of a further acceleration in business investment in the following quarters, albeit downside risks remain



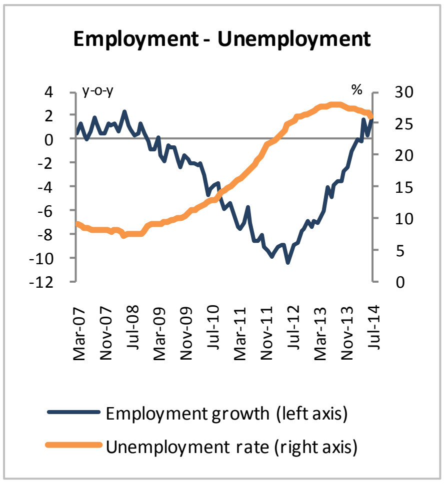
The adjustment in the residential segment -- building activity and housing transactions -- shows no signs of easing



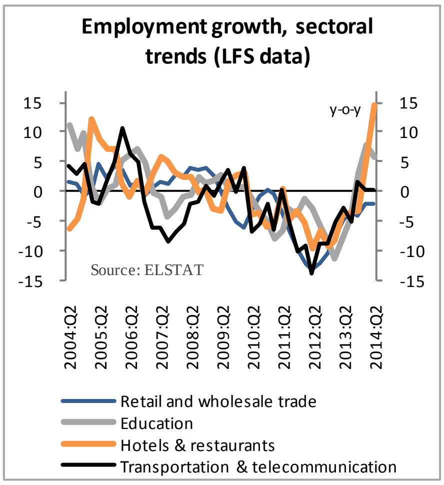
The decline in house prices was somewhat slower in Q3:2014 (-7.0% y-o-y from -7.7%, y-o-y in Q2), with the peak-to-Q3:2014 adjustment reaching -37.4%



Employment increased for the first time since Q4:2008, by +1.1% y-o-y in the period May-August 2014, and the unemployment rate declined to 25.9% in August from 27.2% in Q1:2014



Tourism activity was the main driver of new employment creation in Q2:2014



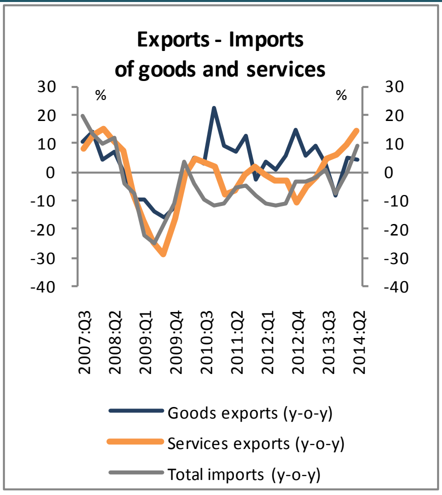
The current account balance is heading for an even higher surplus in 2014 of about 1.4% of GDP…

Balance of Payments (as % GDP)

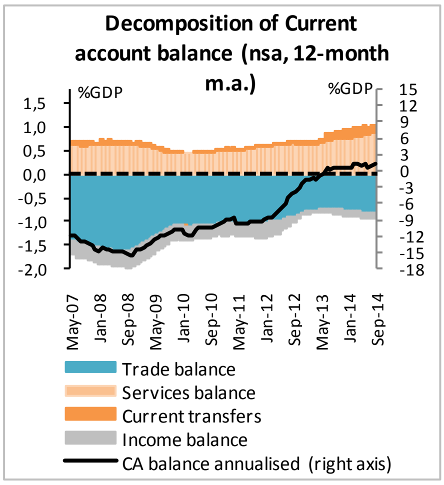
	2013	2014f	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3
Current Account	0,6	1,4	-1,3	-0,1	2,7	-0,7	-0,6	-0,1	2,8
Non-oil Trade Balance	-5,2	-5,9	-1,2	-1,3	-1,2	-1,5	-1,3	-1,7	-1,3
Non-oil Exports	8,0	8,6	1,9	2,0	2,0	2,1	1,9	2,2	2,2
Non-oil Imports	13,2	14,5	3,2	3,3	3,2	3,6	3,3	3,9	3,4
Oil Balance	-4,2	-4,2	-1,3	-0,7	-1,3	-0,9	-1,2	-0,8	-1,3
Services Balance	9,3	11,1	0,8	2,3	4,8	1,5	1,1	2,7	5,6
Income Balance	-1,7	-1,5	-0,5	-0,5	-0,4	-0,3	-0,4	-0,4	-0,4
Current Transfers, net	2,4	1,9	0,9	0,2	0,9	0,5	1,2	0,1	0,2
Capital transfers	1,7	1,1	0,6	0,0	0,9	0,1	0,8	0,2	0,0

Source: Bank of Greece

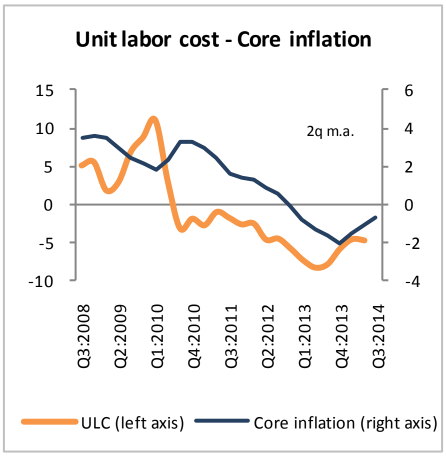
… as the solid growth in services exports…



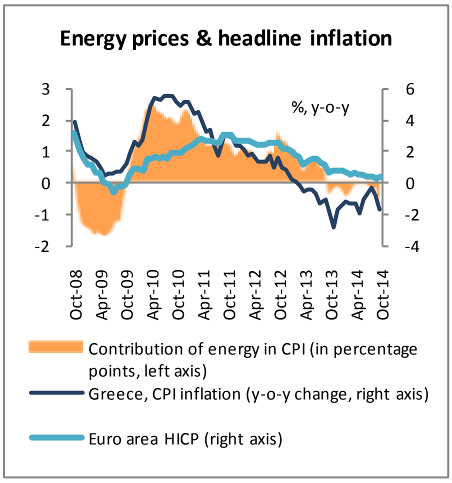
…together with higher EU transfers, more than compensated for the deterioration in the trade balance



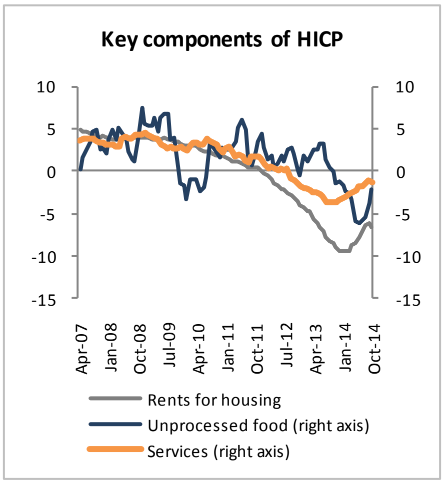
Disinflation continues at a still rapid pace …



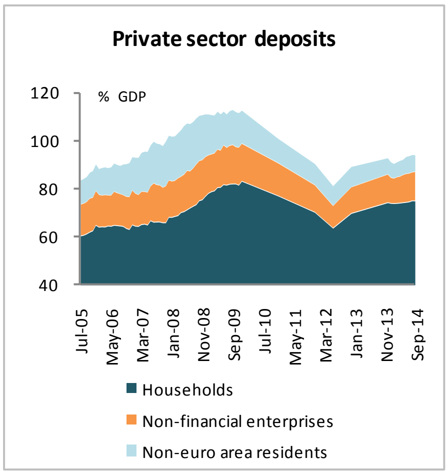
…on the back of declining energy prices and very low imports inflation….



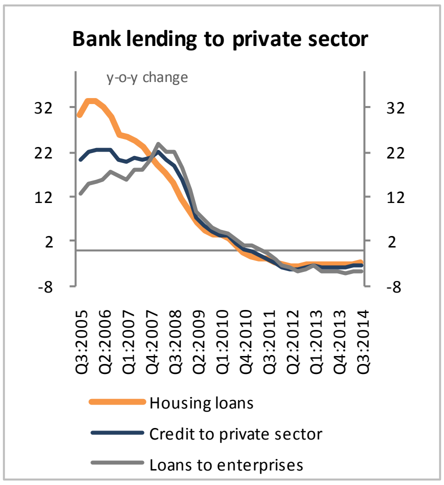
… in conjunction with falling prices of unprocessed food and services and a further adjustment in housing rents



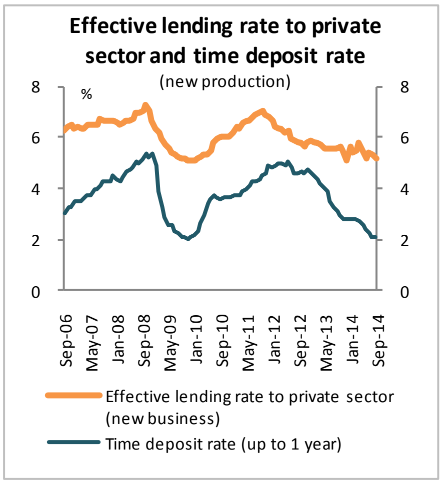
Private sector deposits have increased in September for a 7th consecutive month (+€4.6 bn compared with January 2014)



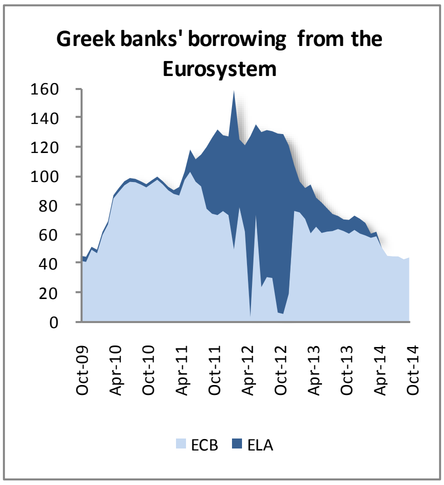
Bank credit continues to contract at a broadly stable pace of -3.5% y-o-y in Q3:2014



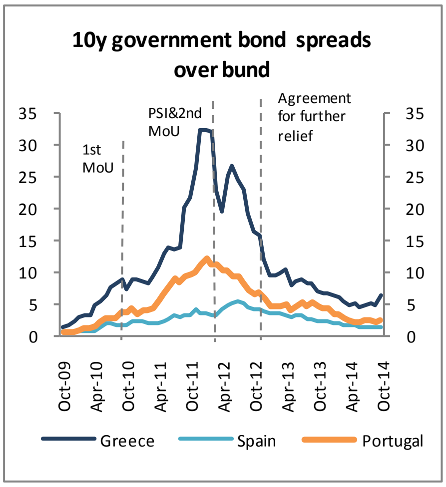
Deposit rates are declining, but the transmission to lending rates is gradual, reflecting, *inter alia*, credit risk and liquidity concerns



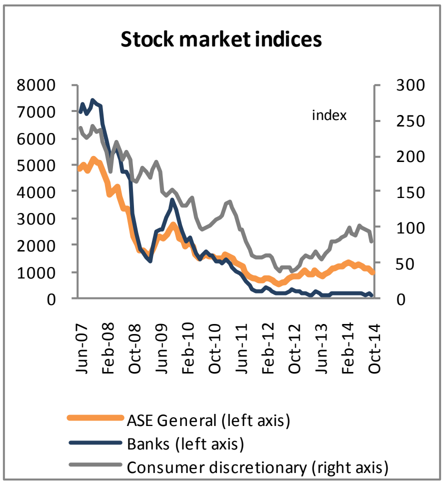
The Eurosystem funding to Greek banks increased marginally in October (€43.9bn from €136bn in June 2012)



Greek government bond yields climbed to above 8% since October -- for the first time since Q4:2013 -- as the discussion on the evolution of Greece's relationship with its lenders in the following years…



…and emerging political uncertainty ahead of the forthcoming Presidential election in Q1:2014 began to weigh on financial market sentiment



ECB's 2014 Comprehensive Assessment Results

Greek banks successfully passed the very demanding evaluation – with no additional capital needs required

On October 26 2014, the ECB and the EBA announced the much-awaited results of a year-long Comprehensive Assessment of European banks' balance sheets, comprised of an asset quality review (AQR) and a forward-looking stress test exercise that evaluates the bank capital adequacy in baseline and adverse economic scenarios for the period 2014-2016.

The comprehensive assessment of euro area banks, in conjunction with the activation of the Single Supervisory Mechanism (SSM) and the establishment of the Single Resolution Mechanism (SRM) -- with the latter planned to become fully operational from 1 January 2016 -- are the cornerstones of the European Banking Union, along with the ECB assuming its new supervisory tasks and responsibilities in the context of the Single Supervisory Mechanism (SSM) starting from November 4 2014.

In this context, the four systemic Greek banks participated together with 126 other major European banks in this comprehensive and rigorous assessment. The results demonstrated that the Greek banking system is sound and adequately capitalized.

More specifically, balance sheet evaluation of Greek banks, as well as of other European banks with approved restructuring plans, was conducted on the basis of two approaches: i) a static evaluation on the basis of their balance sheet position as of December 2014; and ii) a dynamic balance sheet evaluation, which incorporated in the analysis the estimated impact of approved capital enhancing actions of Greek banks.

The AQR resulted in a negative capital impact of €6 bn at a system level that mainly reflects: i) an extremely conservative treatment of restructured loans; ii) very aggressive collateral valuation assumptions, especially as regards real estate exposures (-26.5% additionally to the already experienced 31% as regards residential valuations); iii) very strict classification of what constitutes "gone concern" businesses in the context of the deep Greek recession of -26% of GDP (debt to EBITDA test above 6×); and iv) severe liquidation assumptions.

The static approach (adverse scenario) identified a system-wide capital shortfall of €8.7 bn from the CIT1 reference levels of 5.5% in the adverse scenario of the stress test, notably close to the capital shortfall identified in the previous IMF programme report and very close to BlackRock's lifetime credit loss estimates.

However, Greek banks' capital raising from the markets in H1:2014, in conjunction with the returns from approved restructuring plans and other mitigating actions, have more than compensated for this deficit under the more realistic dynamic assessment. Indeed, the capital deficit declines to €2.2 bn when capital increases that took place in 2014 are taken into account. Recall that Greek banks raised €8.3 bn of new capital from the markets in H1:2014, following the stress test conducted by BoG/BlackRock. In net terms, these capital increases amount to €6.5 bn when adjusting for the repayment of €1.8 bn Greek State preference shares.

In its dynamic version, the exercise also takes into account the supportive impact of non-core asset disposals, and a concomitant improvement in the pre-provision income trajectory. In particular, in the dynamic approach, the ECB has allowed banks to take into account the estimated returns of legally binding restructuring plans approved by the DG COMP (European Commission's Directorate General of Competition). The returns from the latter adjustment fully covered the remaining capital gap of the banks from the threshold of the 5.5% CT1 ratio under the stress scenario, excluding any supportive impact from the recent DTA-DTC conversion.

In this respect, Greek banks have passed the official review without having to raise additional capital from the markets. In fact, excess capital of about €4.5 bn is estimated to exist at a system level in 2016 under the adverse dynamic balance sheet evaluation (with respect to the 5.5% CT1 threshold).

Following the enactment of the new law on deferred tax, Greek banks benefit from the conversion of deferred tax assets (DTA) into deferred tax credits (DTC) -- the benefit corresponds to a removal of DTA phase-in as required by CRD IV, both for the existing DTAs, as well as for DTAs created during the stress test period. The capital in the system could potentially rise by about €3 bn from this measure, albeit most of the benefit is already included in the stress test.

The broader and very strict definition of non-performing exposures (NPE), that effectively include "distressed" restructurings -- led to an average NPE ratio for systemic banks of about 42% (following AQR adjustments) compared with an NPL ratio of 31.9% at end-2013, reducing the end-2013 coverage ratio from 55% to 39%.

Overall, despite its austerity and the extremely unfavorable position of Greek banks as regards the evaluation point -- the cyclical trough from a once-in-a-generation economic crisis -- and very conservative assumptions of the exercise as regards the evolution of critical parameters in the period 2014-16, the assessment confirmed the solid position of the Greek banking system.

Greece remains on a credible course to meet its annual fiscal targets in 2014

Preliminary data on budgetary developments in 10M:2014 confirm credible budget execution on the back of continued spending restraint, while revenue trends are broadly on track to meet the annual budget targets despite the pressures related to the delay of the first installment of real estate tax (ENFIA), higher-than-budgeted tax refunds, and lower revenue from the public investment programme.

State Budget implementation trends in 9M:2014 (where analytic data are available on a modified cash basis) suggest that the revenue performance is compatible with the achievement of the annual target. In particular, total tax revenue has increased by +3.3% y-o-y in 9M:2014, albeit remaining €0.56 bn lower than the 9M target (on the basis of MTFS 2015-18). About €0.4 bn of this slippage reflects the negative effect from the one-month delay in the payment of the first installment of the unified real estate tax (ENFIA), which will be recovered on an annual basis. Direct tax revenue is in line with the 9M target, as the overperformance in personal income tax revenue of €0.4 bn (+7.5% y-o-y in 9M:2014) broadly offsets the €0.5 bn slippage in revenue from corporate income tax (+76.8% y-o-y in 9M:2014 versus an annual target of +120% y-o-y). These trends reflect the impact from the implementation of personal income tax reform in 2014 -- which effectively treated a significant portion of income from unincorporated entrepreneurial activity and income of the self-employed as corporate income leading to an ambitious upward adjustment in corporate tax revenue targets and a related downward adjustment in PIT revenue targets for FY:2014. Moreover, the abolition of most of the remaining tax deductions on personal income has supported revenue from personal income tax.

Indirect tax revenue trends improved notably in the five months to September, on the back of stabilizing domestic demand and a buoyant tourism season. Indirect tax revenue is in line with the 9M target, and its decline of 1.4% y-o-y in this period compares favorably with nominal GDP growth of -2.5% y-o-y in 9M:2014. In fact, this outcome was achieved despite the sharper-than-expected disinflation -- a decline in the GDP deflator of 3.0% y-o-y in 9M:2014 compared with a Programme Target for a FY decline of 0.7% and the continuing weakness of domestic demand, especially in income elastic spending categories where the high VAT rate applies (23%). Overall, the combined overperformance of €0.3 bn in VAT, other transaction taxes and consumption tax revenue, has more than compensated for the €0.2 bn slippage in fuel related taxes.

Near-term risks on the revenue side appear broadly balanced. Government revenue is expected to be supported by the pick-up in activity and the implementation of the new debt settlement law that allows debtors to repay their arrears to the state and social insurance funds in up to 100 installments. This law is expected to contribute to the resolution of uncertainty that gave rise to an acceleration in arrears formation in Q3:2014. This favorable effect is expected to offset, at least in the near term, the negative impact from the relatively high number of installments. Moreover, the recent decline in heating oil tax is expected to be supportive of revenue (a net impact of about €0.1 bn in Q4:2014) leading to a notable increase in oil consumption volumes following 3 years of sharp compression. The main downside risk on the revenue side is related to the increase in uncertainty that is evident since October 2014 against a backdrop of discussions on Greece's relationship with its official lenders and the emerging political uncertainty ahead of the forthcoming presidential elections in February 2015, which could trigger early parliamentary elections in late Q1:2015. This uncertainty could give rise to tactical considerations by taxpayers, and thus, weaken compliance.

Continued spending restraint remains the key driver of the adjustment, with primary government spending declining by 5.7% y-o-y in 9M:2014 (€1.2 bn lower than the 9 M:2014 target and €1.9 bn down compared with the same period in 2013). The main drivers of the improvement are further reductions in social security financing (-€1.5 bn or -15.6% y-o-y compared with 9M:2013) and operational spending (-€0.25 bn or -17%), while aggregate payments for wages and pensions in the public sector remain broadly flat, as higher spending related to accelerated retirements broadly offsets gains from a further downward adjustment in wages and allowances of public sector employees. However, despite the reductions in social security system financing, there are still considerable tensions in segments where the savings targets were extremely ambitious. Indeed, the slow improvement in labor market conditions, continuing wage declines and relatively high levels of unreported employment undermined the attainability of annual targets for a decline in the financing of main social security funds such as OGA, IKA and OAEE as well as of the public health system (EOPYY) in the ranges of -20% to -40% y-o-y. In this regard, an annualized slippage of about €0.6 bn is expected to emerge in the social security and health systems, which will be offset by a sharper contraction in operational spending along the lines of 9M:2014.

On a positive note, it should be noted that the public investment programme execution, as well as planned tax refunds -- traditional sources of budgetary savings -- exceeded 9M:2014 targets set by the MTFS 2015-18 by €0.5 bn (+€2.0 bn y-o-y), providing considerable support to domestic liquidity conditions.

Overall, the primary surplus in the state budget in 9M:2014 reached 1.4% of GDP, exceeding by 0.5% of GDP the respective 9M MTFS target. The programme definition for the general government primary balance includes the surplus of the entities forming the rest of general government (extra budgetary funds, local governments, social security funds, state-owned enterprises) -- an estimated 1.2% of GDP in FY 2014 according to the MTFS 2014-18 -- which is largely financed by transfers from the state budget. Data on general government budget implementation in 9M:2014 (cash basis) indicate that the surplus of these general government entities amounted to 0.4% of GDP. Moreover, the continuing financial pressure in social security entities is likely to lead to a deterioration in their financial position in Q4:2014 when pressures to cover a large part of their remaining arrears to third parties are expected to intensify.

Overall, the implementation data for 9M:2014 suggest that the general government budget surplus (on a modified cash-basis) remains significant (c. 1.8% of GDP) and exceeds the Programme target of 1.4% of GDP. Recently released headline data for the state budget for 10M:2014 indicate a weakening of the fiscal performance. This may be temporary as it reflects: i) a €0.7 bn increase in the public investment programme deficit due to the significantly lower EU financing in October (-€0.6 bn below the 10M target) and higher investment spending of €0.1 bn; and ii) a further increase in tax refunds that now exceed their 10M target by €0.3 bn. It is encouraging, however, that primary spending restraint continues (-€1.4 bn below the 10M target), while the increase in the revenue shortfall by €0.4 bn largely reflects a further accumulation of tax arrears ahead of the implementation of the new private debt settlement law. It should be noted that the public investment budget is expected to normalize in the remainder of the year.

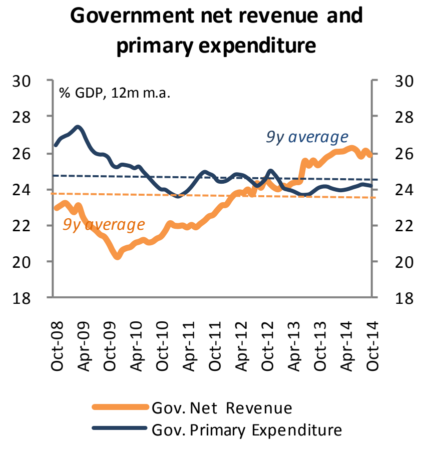
However, the fiscal outcome is being facilitated by the accumulation of new government arrears to the private sector. In this respect, it is estimated that new government arrears of €0.4 bn have been accumulated in 9M:2014, with total outstanding arrears at €4 bn. This formation mainly reflects overruns in the main health care fund EOPYY, where the full returns from corrective actions in the form of clawback mechanisms and further spending cuts have not yet been achieved fully -- as well as continuing delays in payments by social security funds, hospitals and local governments. A total amount of about €3.5 bn is earmarked for the clearance of these arrears in the period 2014-15.

The main near-term risks on the revenue side relate to sensitivity of tax compliance to the elevated political uncertainty -- provided that a significant share of household tax payments is concentrated in Q4:2014 -- the degree of revenue responsiveness to the pick-up in activity and the still high pace of the disinflation process. On the spending side, financing demands of the social security funds and the health system, in conjunction with the elevated pressure for the clearance of their arrears in Q4:2014 and Q1:2015, remain the key challenges.

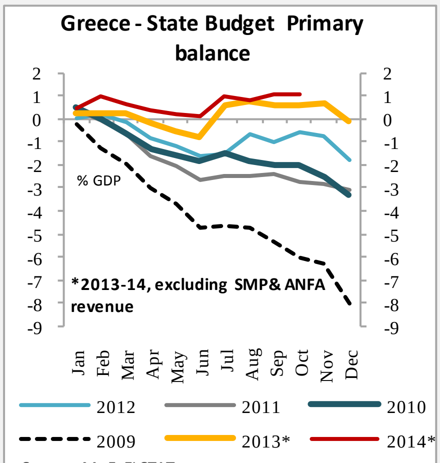
Government Budget Implementation9m.2014 (modified cash basis)

	9m.2013	9m.2014			9m.2014/13 y-o-y change	MTFS 2015-2018 Estimates/3	Budget 2/
		Outcome	9m.Target	*Deviation from target*	Outcome 9m	Target	Target
		as % of GDP			*y-o-y*	*as % GDP*	
I. State Budget Net Revenue (1+2)	**20,8**	**20,1**	**20,3**	**-0,2**	*-3,7*	**30,8**	**30,1**
1. Ordinary Budget Net Revenue (a+b)	**18,6**	**18,3**	**18,4**	**-0,2**	***-2***	**28,0**	**27,4**
a. Revenue before Tax Refunds	19,4	19,7	19,7	0,0	*1*	29,6	28,8
b. Tax refunds	0,8	1,4	1,2	0,2	*74*	1,7	1,5
2. Public Investment Budget Net Revenue:	2,2	1,8	1,9	0,0	*-15*	2,8	2,8
II. State Budget Expenditure (3+4)	**22,2**	**21,3**	**22,3**	**-1,0**	*-4*	**31,2**	**31,0**
3. Ordinary Budget Expenditure	**20,7**	**19,4**	**20,4**	**-1,1**	***-7***	**27,4**	**27,2**
of which 3.1 **Primary expenditure**	17,3	16,4	17,1	-0,7	*-6*	23,5	23,1
3.2 **Net interest payments**	2,8	2,6	2,8	-0,2	*-9*	3,3	3,4
4. Public Investment Budget Expenditure	1,5	2,0	1,9	0,1	*32*	3,7	3,7
State Budget Primary Balance (I-II+3.2)	**1,4**	**1,4**	**0,8**	**0,5**	**...**	**2,9**	**2,5**
State Budget Balance (I-II)	**-1,4**	**-1,2**	**-2,0**	**0,7**	***-14***	**-0,3**	**-0,9**

Source: MoF monthly release on Budget implementation and Government Budget 2014



Source: MFIN , ELSTAT, Datastream



Source: MoF, ELSTAT

The fiscal adjustment strategy for 2015

The government budget for 2015 aims to maintain the adjustment momentum of previous years, and result in a general government primary surplus of 3.0% of GDP (Programme definition) from an estimated surplus in the range of 1.5%-2.0% of GDP in 2014 (i.e., an adjustment of c. 1.3% of GDP in 2015 compared with 0.5%-0.7% in 2014 and about 2.0% in 2013). It is important to note that the effective fiscal effort, as approximated by the change in the cyclically-adjusted primary balance, is expected to be substantially smaller in 2015 (about 0.4% of GDP compared with an estimated 0.8% in 2014 and 2.8% in 2013 (IMF Fiscal Monitor, October 2014 and NBG adjustments for new ESA 2010 national accounts data). The prospective recovery in real GDP by 2.9% y-o-y in 2015 (or +3.3% in nominal terms) is the single most important determinant of fiscal adjustment in 2015, provided that it supports revenue growth, while spending will be cut in nominal terms. In this respect, total tax revenue is projected to increase by 3.1% y-o-y, and remain broadly flat as a per cent of GDP, i.e., the underlying elasticity of total revenue to nominal GDP is about 0.9 and directly comparable to the 2000-2008 average of 1.1. In fact, the international experience suggests that the cyclical sensitivity of revenue to the turning point of the economic cycle is typically higher than the long-term average elasticity, while any additional efficiency gains in tax collection would support further revenue performance in 2015.

On the spending side, the planned reduction in primary spending in 2015 is estimated at 1.3% of GDP or -1.2% y-o-y compared with 1.1% of GDP or -5.6% y-o-y in 9M 2014, mainly arising from further cuts in operational spending, salaries and other state transfers to other general government entities. Overall, it appears that the targeted fiscal adjustment in 2015 is compatible with the underlying macroeconomic scenario and the already approved measures. In fact, the GDP recovery scenario by itself is based on the assumption of a nearly zero fiscal drag.

The Troika's more conservative estimates result in a fiscal gap in 2015 in the range of €1.5 bn-€2.5 bn. The Troika is concerned over the financing needs of the social security system and EOPYY; and the impact of the new private debt settlement law.

As regards the financing needs of the Greek government in 2015, the solid fiscal performance in conjunction with the issuance of €4.5 bn of debt in Q2:2014 covers the net financing needs for 2014 (including a cash buffer at end-2014). Programme financing would be supported by over €7 bn assuming full disbursement of the funding related to the completion of the current review (€1.8 bn from the EFSF, €3.6 bn from the IMF and SMP/ANFA profit refunds of €1.8 bn). The residual financing gap for 2015 is estimated at €7.3 bn assuming full disbursement of the remaining funding under the current financing programme and would need to be filled by access to markets. The latter would require an agreement on some form of a precautionary arrangement to assuage markets. It would follow on from the termination of the current programme at end-2014.

Estimated Financing Needs of Greek State and Sources of financing (euro bn)

	Q4:2014	2015
Financing needs	**2,8**	**21,9**
Gen. Gov. budget primary Cash (Surplus)	**-0,6**	**-1,8**
Amortization	**2,4**	**16,3**
Bonds	*0,1*	*7,9*
IMF	*2,3*	*8,4*
Interest payments	**1,0**	**5,9**
Arrears clearance*	**0,0**	**1,5**
Financing sources	**7,3**	**14,6**
Official financing	**5,4**	**10,7**
EFSF	*1,8*	*0,0*
IMF	*3,6*	*10,7*
ECB related income (SMP/ANFA)	**1,8**	**2,0**
Privatization	**0,1**	**1,9**
Estimated financing gap* *(Programme disbursements as planned in MoU, + is surplus)*	**4,5**	**-7,3**
Estimated financing gap* *(excluding remaining Programme financing)*	**-2,7**	**-20,0**

** an estimated additional cash buffer of c. 3.3 bn euro exists in Q4:2014*

Source: MinFin, IMF and NBG estimates

Greece: Dates to Watch

2014

November	
27	**28**
Euro Working Group	Moody's credit rating review for Greece

December			
4	**8**	**11**	**18-19**
ECB Governing Council meeting in Frankfurt	Eurogroup/ECOFIN finance ministers' meeting	ECB's 2nd TLTRO	European Council – EU leaders' Summit

2015

February	
12	
European Council	Presidential elections in Greece

Greek Economy: Selected Indicators

	2012	2013					2014					2014e	2015f
	year aver.	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Most recent			
Real sector (y-o-y period average, constant prices)													
GDP	-6,6	-5,4	-4,1	-3,5	-2,9	-4,0	-0,3	0,4	1,4	Q3:14	1,4	0,9	2,5
Domestic demand	-9,2	-6,1	-5,6	-4,3	-4,3	-5,1	-2,2	0,7	…	Q2:14	0,7	0,3	2,0
Final Consumption	-7,2	-6,4	-3,8	-2,2	0,2	-3,0	0,3	0,8	…	Q2:14	0,8	0,9	1,3
Gross fixed capital formation	-28,5	-12,5	-12,8	-2,4	-8,9	-9,2	-5,9	-5,2	…	Q2:14	-5,2	-2,7	6,8
Exports of goods and services	1,0	0,2	4,5	4,4	-2,7	1,6	7,3	8,9	…	Q2:14	8,9	7,3	7,5
Imports of goods and services	-9,5	-3,1	-1,9	0,9	-7,6	-2,9	0,1	9,1	…	Q2:14	9,1	4,9	5,7
Coincident and leading indicators (period average)													
Retail sales volume (y-o-y)	-12,2	-12,5	-8,4	-9,1	-1,8	-8,1	-0,2	2,4		Aug	7,5		
Retail confidence (15-yr. average: -1,5)	-36,1	-29,8	-20,3	-21,6	-18,6	-22,6	-10,0	-4,9	3,0	Oct	5,0		
Car registrations (y-o-y)	-41,7	-12,5	7,0	6,4	15,2	3,1	21,3	36,0	31,5	Sep	46,7		
Consumer confidence (15-yr. average: -43,4)	-74,8	-71,5	-67,3	-73,3	-65,4	-69,4	-61,3	-50,3	-52,7	Oct	-50,9		
Industrial production (y-o-y)	-2,0	-2,1	-0,4	-5,4	-4,7	-3,2	-2,5	-3,5	-4,0	Sep	-5,1		
Manufacturing production (y-o-y)	-3,5	0,5	2,2	-3,9	-3,0	-1,1	0,1	-1,3	0,2	Sep	-2,1		
Capacity Utilization (15-yr. average: 72,8)	64,3	64,5	64,7	66,9	67,3	65,9	66,3	68,5	69,0	Oct	66,5		
Industrial confidence (15-yr. average: -6,1)	-21,5	-12,6	-8,9	-8,9	-10,5	-10,2	-7,5	-4,2	-1,2	Oct	-0,6		
PMI Manufacturing (base=50)	41,2	42,3	45,2	47,7	48,7	46,0	50,7	50,5	49,1	Oct	48,8		
Construction permits (y-o-y)	-30,6	-43,5	-30,7	-21,9	2,2	-25,6	-17,0	17,4		Aug	-5,3		
Construction confidence (15-yr. average: -21,9)	-58,3	-50,6	-36,2	-26,7	-36,6	-37,5	-20,0	-19,8	-24,5	Oct	-21,2		
PIP Disbursements (y-o-y)	-10,6	-1,9	-16,3	32,5	28,5	14,5	91,7	11,7	29,3	Sep	53,4		
Stock of finished goods (15-yr. average: 12,2)	10,7	4,9	-0,5	3,4	7,0	3,7	6,7	3,2	4,4	Oct	1,8		
External sector (period average)													
Current account balance (% of GDP)	-2,4	-1,3	-0,1	2,7	-0,7	0,6	-0,6	-0,1	2,8	Q3:14	2,8	1,4	
Current account balance (EUR mn)	-4615	-2316	-261	4979	-1313	1089	-1153	-198	5104	Q3:14	5104	2506	
Services balance, net (EUR mn)	15139	1477	4129	8709	2664	16979	1924	4836	10030	Q3:14	10030	…	…
Current Transfers, net (EUR mn)	1432	1691	302	1652	821	4466	2198	244	348	Q3:14	348	…	…
Merchandise exports-- non-oil (y-o-y cum.)	3,9	1,9	1,3	1,1	0,0	0,0	-1,4	3,9	5,4	Q3:14	5,4	…	…
Merchandise imports-- non-oil (y-o-y cum.)	-20,4	-7,1	-5,4	-2,8	0,6	0,6	1,7	9,3	8,0	Q3:14	8,0	…	…
Employment													
Unemployment rate	24,6	27,0	27,6	27,9	27,6	27,5	27,2	26,8	…	Aug	25,6	26,6	24,4
Employment growth (y-o-y)	-8,9	-7,2	-5,5	-4,1	-2,9	-4,9	-0,6	0,6	…	Aug	0,9	0,6	1,9
Prices (y-o-y period average)													
Headline inflation	1,5	0,0	-0,5	-1,0	-2,2	-0,9	-1,3	-1,5	-0,6	Oct	-1,7	-1,2	0,5
Core inflation	0,4	-1,2	-1,4	-2,0	-2,1	-1,7	-1,0	-1,2	-0,1	Oct	-0,8	-0,8	0,7
Producer prices excl.energy	0,8	0,3	0,3	0,0	-0,5	0,0	-0,7	-0,7	-0,6	Sep	-0,5	…	…
Fiscal policy													
Government deficit/GDP (ESA & Progr. adj.)	-5,9					-3,1				…	…	-2,4	-1,3
Gen.Gov.primary balance/GDP (ESA & Progr.adj.)	-0,9					1,0		…		…	…	1,8	3,0
Government debt/GDP	156,9					174,9		…		…	…	178	
Revenues--Ordinary budget (cum. % change)	-5,2	-9,1	-8,9	-1,5	-0,1	-0,1	4,7	3,9	1,0	Q3:14	1,0		
Expenditure--Ordinary budget (cum. % change)	-12,3	-32,7	-23,3	-17,2	-15,8	-15,8	-7,3	-8,2	-7,0	Q3:14	-7,0		
Monetary sector (y-o-y, end of period)													
Total deposits	-5,4	2,0	7,6	6,3	-0,4	-0,4	-3,4	1,0	0,3	Sep	0,3		
Loans to private sector (incl. sec. & bond loans)	-4,0	-3,5	-4,1	-3,9	-3,9	-3,9	-4,1	-3,5	-3,5	Sep	-3,5		
Mortgage loans (including securitized loans)	-3,4	-3,2	-3,2	-3,2	-3,3	-3,3	-3,4	-3,2	-3,1	Sep	-3,1		
Consumer credit (including securitized loans)	-5,1	-5,3	-5,2	-4,8	-3,9	-3,9	-3,4	-2,7	-2,5	Sep	-2,5		
Interest rates (period average)													
10-year government bond yield	24,2	11,1	10,3	10,2	8,6	10,0	7,5	6,2	6,0	Oct	7,3		
Spread between 10 year and bunds (bps)	2266	960	887	845	682	841	586	473	493	Oct	641		
Exchange rates (period average)													
USD/euro	1,29	1,32	1,31	1,33	1,36	1,33	1,37	1,37	1,33	Oct	1,27		

Sources: BoG, NSSG, MoF, ASE,NBG,Bloomberg

GREECE

Macro View

November 2014

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OF GREECE

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