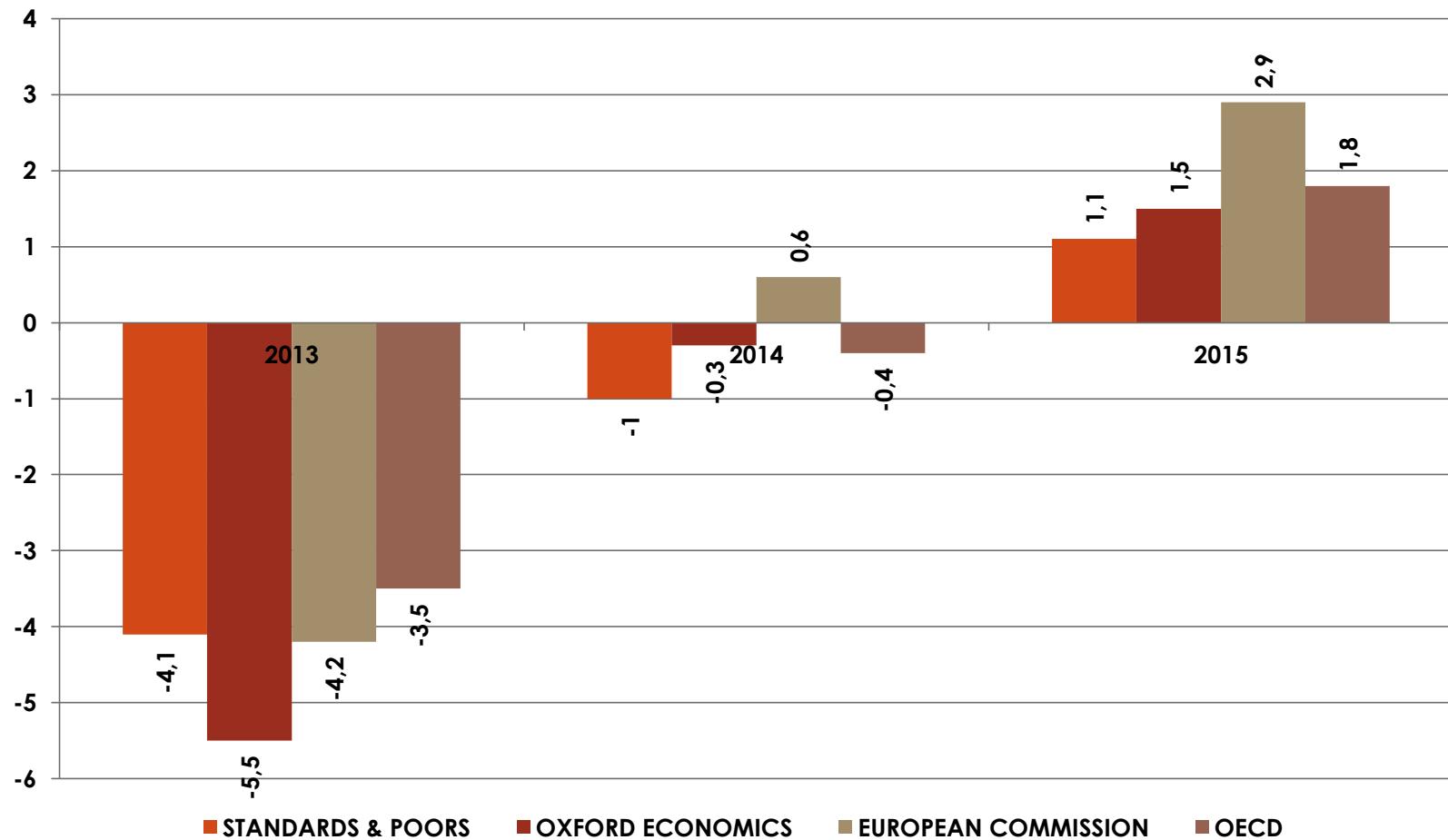


GREECE UPDATE: 2014 OUTLOOK

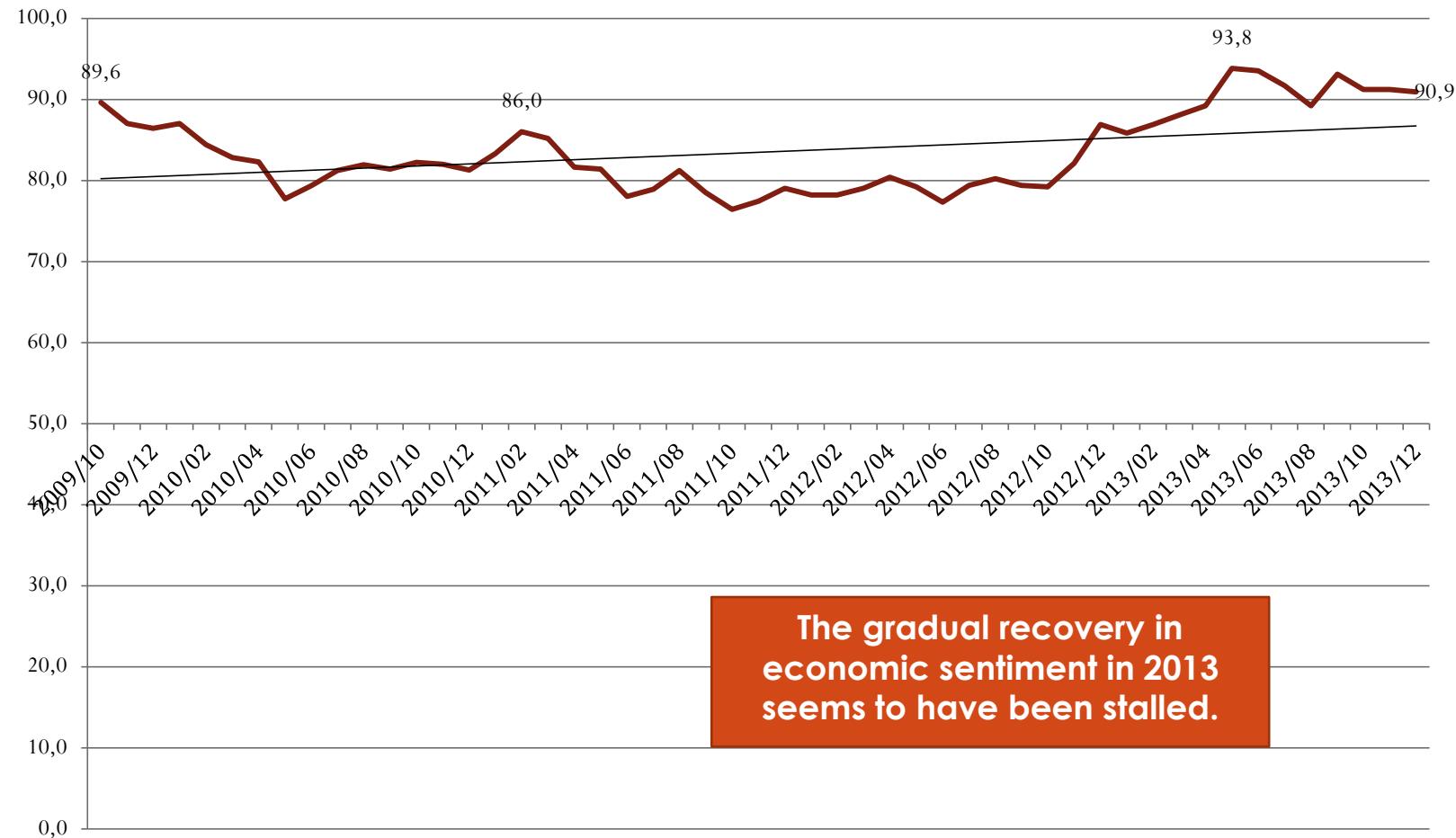
S. TRAVLOS

JANUARY 2014

MACROECONOMIC FORECASTS ON THE CAUTIOUS SIDE



ECONOMIC SENTIMENT STALLED



The gradual recovery in
economic sentiment in 2013
seems to have been stalled.

RECOVERY FOR 2014 IS STILL UNCERTAIN

- Despite expectations the prospects for recovery in 2014 remain uncertain.
- The business community has been weakened and unable to undertake major investments.
- New investment during the crisis continues to be directed towards non tradable services.
- Corporate debt restructuring has not proceeded as systemic banks are unable to take the cost of more debt relief.
- The tourism sector is recovering for a second year but margins are low and the value added to the economy is still limited.
- The restart of the large infrastructure road projects may prove a respite as up to 20.000 jobs may be created around Greece in 2014.

TROIKA NEGOTIATIONS DIFFICULT IN THE CURRENT CLIMATE

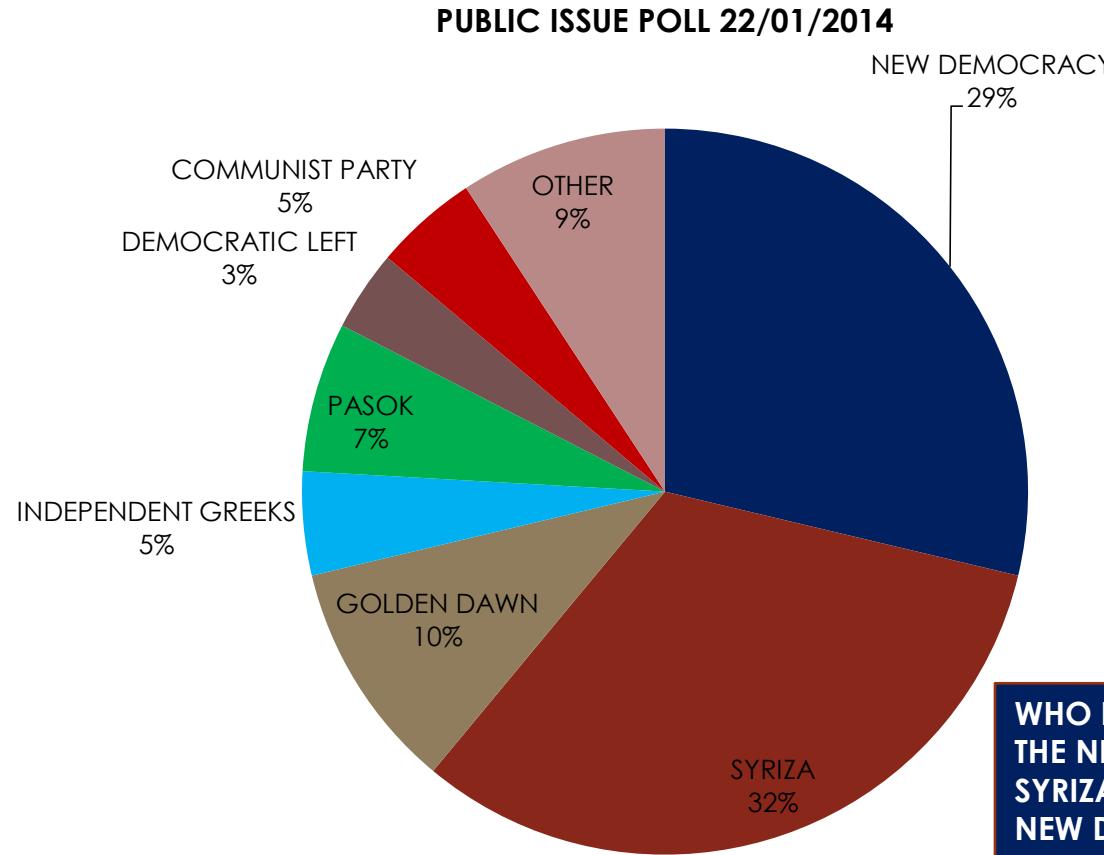
- Four outstanding issues have to be resolved in the next round of negotiations:
 - The public financing gap of 2014 estimated by the government at 1.2 billion euro has not been agreed yet with troika. Main differences include the equivalent measures for the permanent reduction of the VAT on restaurants to 13% and the expected realized revenue from the new real estate tax.
 - The reduction in employers social security contribution by 3.9% gradually until 2016. The government cost estimate (400-500 million) considerably deviates from the troika estimate (800-900 million).
 - The public financing gap for 2015 with troika pressing for concrete measures to be agreed so that the government will be fully committed to specific interventions.
 - The strengthening of the reform effort with the full adoption of the OECD proposals for reducing the administrative cost of the economy and the facilitation of privatizations.

A new major issue has emerged as the State Council has decided to impose on the government a reversal of salary cuts for the country's security services initially imposed in 2012. The cost of the reversal if extended to all special salary groups exceeds 1 billion euro.

DOUBLE ELECTIONS OR MAY BE TRIPLE IN MAY?

- The two elections in May will be the ultimate crash test for government and opposition. The electoral performance of PASOK is of crucial importance for the stability of the government.
- The election of opposition supported mayors in the top three cities and in several regions around Greece will be a clear sign of resentment and will render Greece ungovernable.
- The prime minister may opt for triple elections in May hoping to cut the losses and prevent an outright majority of SYRIZA.

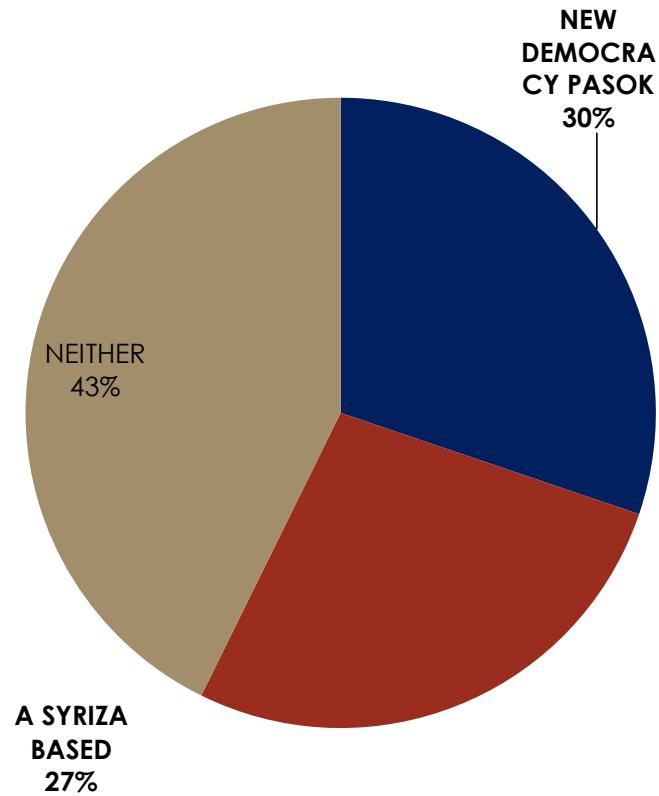
SYRIZA IS LEADING THE POLLS



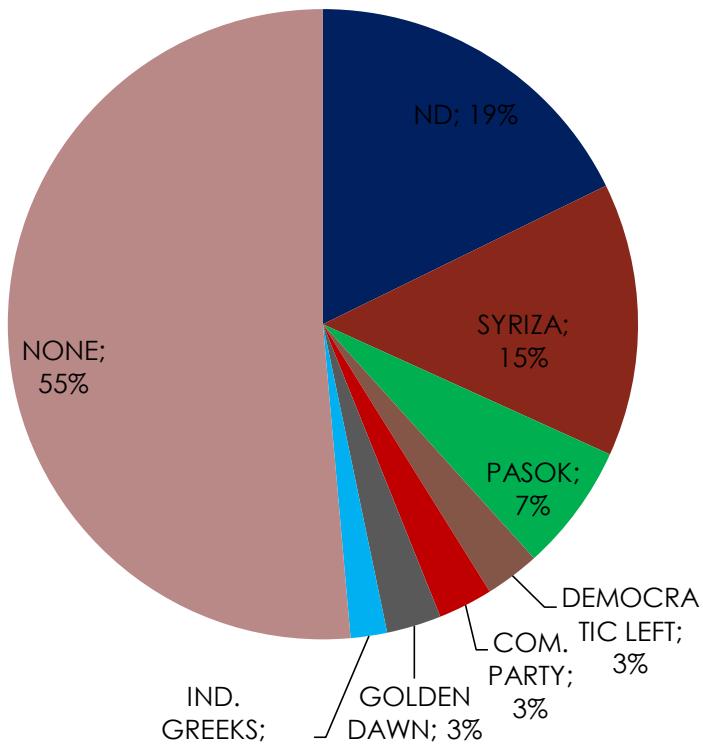
WHO IS GOING TO WIN
THE NEXT ELECTIONS?
SYRIZA – 52%
NEW DEMOCRACY – 35%

THERE IS NO CLEAR CUT POLITICAL ADVANTAGE JUST A PROTEST VOTE

WHICH GOVERNMENT IS BETTER PLACED TO ADDRESS THE COUNTRY'S PROBLEMS?



WHICH PARTY DO YOU TRUST MORE TO GOVERN GREECE?



GOVERNMENT v OPPOSITION

- The government has lost the initiative and their image is suffering as it becomes apparent that the current program is not producing results.
- Reforms have stalled and the government is now suffering from the usual reform fatigue as all post crisis governments.
- The real economy is suffering and the recovery is uncertain.
- The corporate sector is likely to go through a difficult adjustment in 2014 as reserves are dwindling and liabilities rise.
- The overtaxed middle class is turning against its traditional representatives.
- The government has been unable to elaborate any concrete post troika vision for the country.

- The opposition has one thing to offer: they have no governing past and in the blame game they take the high moral ground.
- They have increasingly declaring their allegiance to the euro.
- They are vague as to the policy mix they will adopt if elected. But it is certain that more taxes are on the way.
- They are very reluctant in undertaking structural reforms especially privatizations. In fact some privatizations may be overturned.
- They will be inclined to introduce more regulations and reverse some of the reforms especially in the labor market.

The protest vote will determine all electoral battles with the exception of some municipal and regional elections where a strong political personality will be able to rally broad based cross party support.

PERCEPTIONS ARE CHANGING

- The public has in general a negative attitude towards the political system.
- A clear dichotomy is emerging between those which can still manage their personal economic situation and those completely marginalized. The underlying social situation is worrying.
- The electorate realizes that there are no easy solutions but they will tend to punish those that have failed to deliver and they will look for something else sending a message to the Europeans as well.

POLITICAL OUTLOOK

- The next electoral battle may be fought around very simplistic dilemmas.
- The government has lost credibility and they are loosing support from their traditional electoral base.
- The probability of having national elections within 2014 is very high.
- In this case the likelihood is that a SYRIZA based government will be formed.
- Economic policy in a SYRIZA based government will be centered around more taxation and reversal of reforms.
- The only possible reversal to this dominant scenario may come from a an earlier than anticipated new debt relief agreement.