



**GREECE: IMPROVED PROSPECTS
BUT MORE TURBULENCE IN 2013**

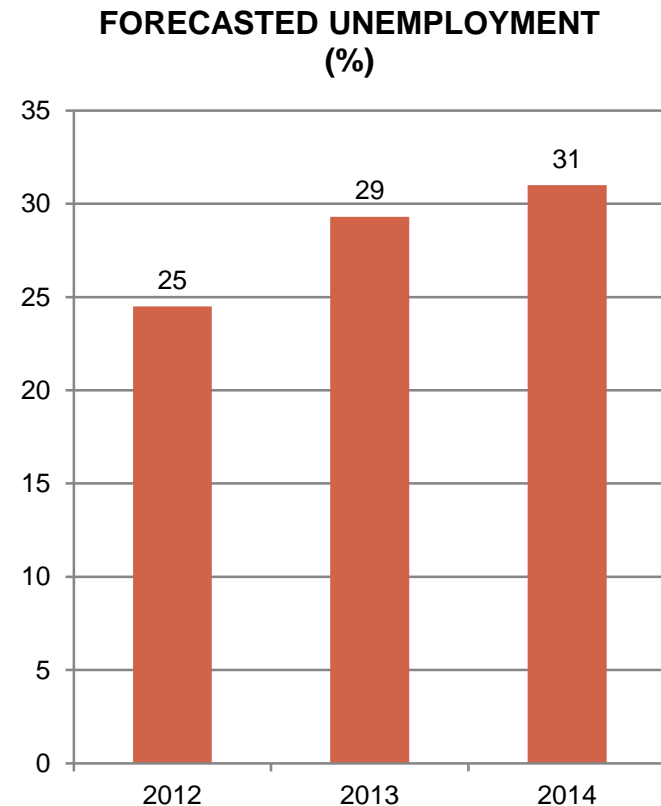
DR. S. TRAVLOS – 6TH JANUARY 2013

BASIC TROIKA MACROECONOMIC FORECASTS

	2010	2011	2012	2013	2014	2015
GDP (REAL)	-7,1	-6,0	-4,2	0,6	2,9	3,7
EMPLOYMENT (%)	-5,6	-7,9	-2,1	1,4	2,0	3,0
UNEMPLOYMENT LEVEL	16,5	22,4	22,8	21,0	19,4	16,7
COMPENSATION PER EMPLOYEE (PRIVATE)	0,4	-4,0	-9,7	-10,6	1,9	2,2
GROSS FIXED CAPITAL FORMATION	-19,4	-13,6	-4,3	6,2	9,7	13,3
PRIVATE CONSUMPTION	-4,6	-6,7	-7,6	-2,0	1,6	3,5
GOVERNMENT CONSUMPTION	-11,0	-8,9	-9,6	-4,4	-3,5	-3,0
EXPORTS	5,7	3,9	2,6	5,8	6,2	5,7
IMPORTS	-1,3	-6,3	-5,4	0,7	2,6	3,5
GEN. GOV. PRIMARY SURPLUS (% GDP)	-2,3	-1,5	0,0	1,5	3,0	4,5
GEN. GOV. DEBT (%GDP)	170,6	176,7	188,3	188,9	184,2	174,7

Troika forecasts notoriously unreliable. They tend to underestimate the impact of fiscal measures on economic activity. The forecasted increase in exports will not occur unless is preceded by a rigorous investment recovery.

OTHER ANALYSTS HAVE A MORE CAUTIOUS APPROACH



The German IFW forecasts a more protracted recession and higher level of unemployment.

AN IMPROVING ENVIRONMENT

Liquidity is gradually improving as:

- Repayment of state arrears to suppliers has started and,
- Return to the banks of hoarded money is gaining some momentum.

A number of major privatizations are in the final stages:

- The State Lottery has been privatized and the transaction will be completed within the first quarter of 2013.
- The privatization of the Postal Bank is also close to completion with 4 domestic banks taking an interest.
- The Public Gas Corporation's privatization is moving to the final stages.
- The Football Prognostics privatization is also attracting considerable interest.

The implementation of the Budget is improving and the outcome for 2012 may be better than expected:

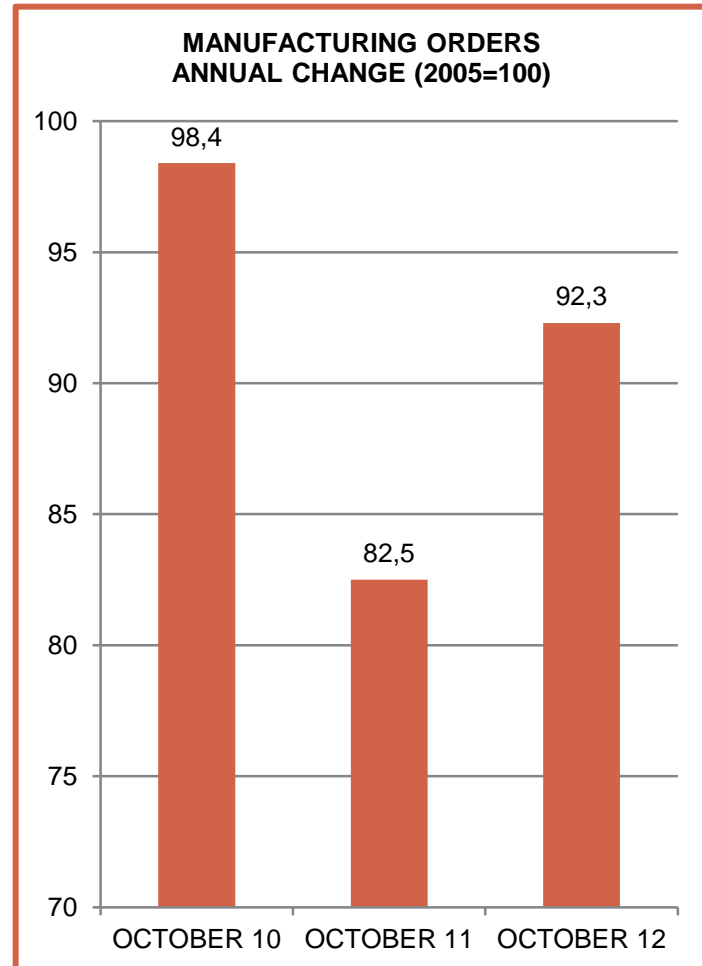
- The primary deficit in the eleven month period to November is down to 1.4 billion or 0.7% of GDP (compared to 6 billion or 2.9% of GDP for the corresponding period in 2011).
- Primary spending is lower by 9.5% compared to 2011 and the salary bill is lower by 6.9%.

BUT STILL A LOT OF UNFINISHED BUSINESS

- **The new tax law is expected to pass through parliament by next Friday the 11th of January.**
- **The more general reform of the tax system will be delayed until the second quarter of 2013. It remains to be seen whether the government will be able to address the issue of tax evasion.**
- **The plan for the 25.000 redundancies in the public sector has to be finalized and implemented.**
- **The containment of spending for health and especially pharmaceutical drugs remains a major challenge.**
- **Major structural reforms related to the opening up of markets and professions have yet to be fully implemented.**
- **The recapitalization of banks is expected to be completed by April 2013 but allocated funds may be insufficient to cover for non-performing loans (50 billion euro or 24% of total loans in December 2012 as against 16% December 2011).**

WITH REAL ECONOMY SLOWLY REACTING

- Real economy completing defensive restructuring with huge reductions in wage costs in 2012 and 2013.
- But new investments are still isolated initiatives and they do not create a critical mass for recovery.
- Exports growth slowing down in 2012 compared to 2011 as the labor cost impact peters out and capacity constraints limit potential for growth.
- Manufacturing shows some signs of recovery largely based on foreign demand.



AND MORE UNCERTAINTIES AHEAD

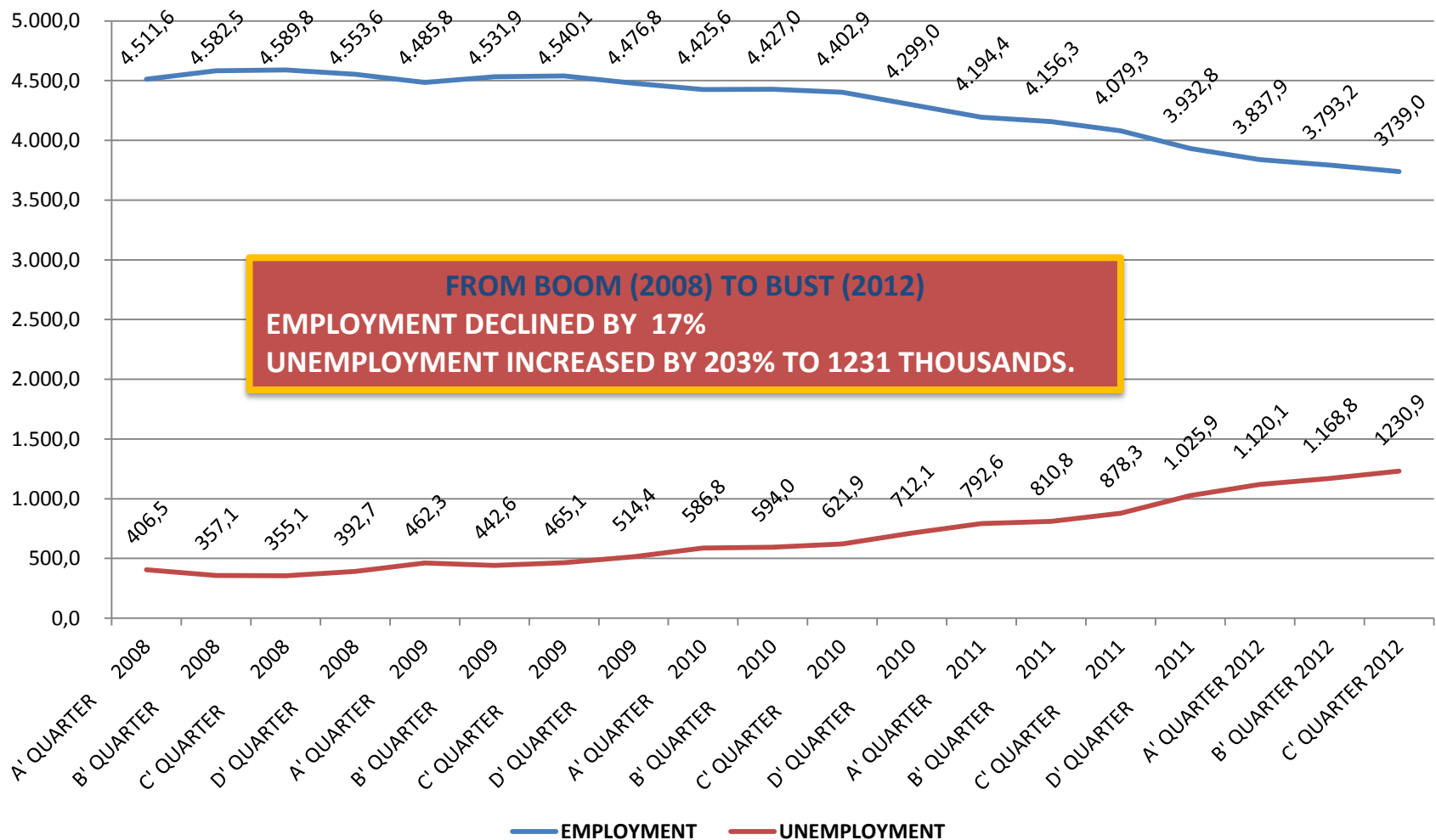
The economy suffers from tax exhaustion as people increasingly draw on their deposits to cover tax payments. An increasing number of tax payers fail on their payments.

New tax regime on SMEs may lead to an exodus of enterprises to neighboring countries and further undermine the recovery.

Major corporations may be unable to keep up with their debt service and go into bankruptcy increasing the pressure on banks and the labor market.

The international economy may not provide any push to the Greek economy in 2013 and thus recession is again deeper than forecasted.

WHILE UNEMPLOYMENT UNDERMINES SOCIAL COHESION



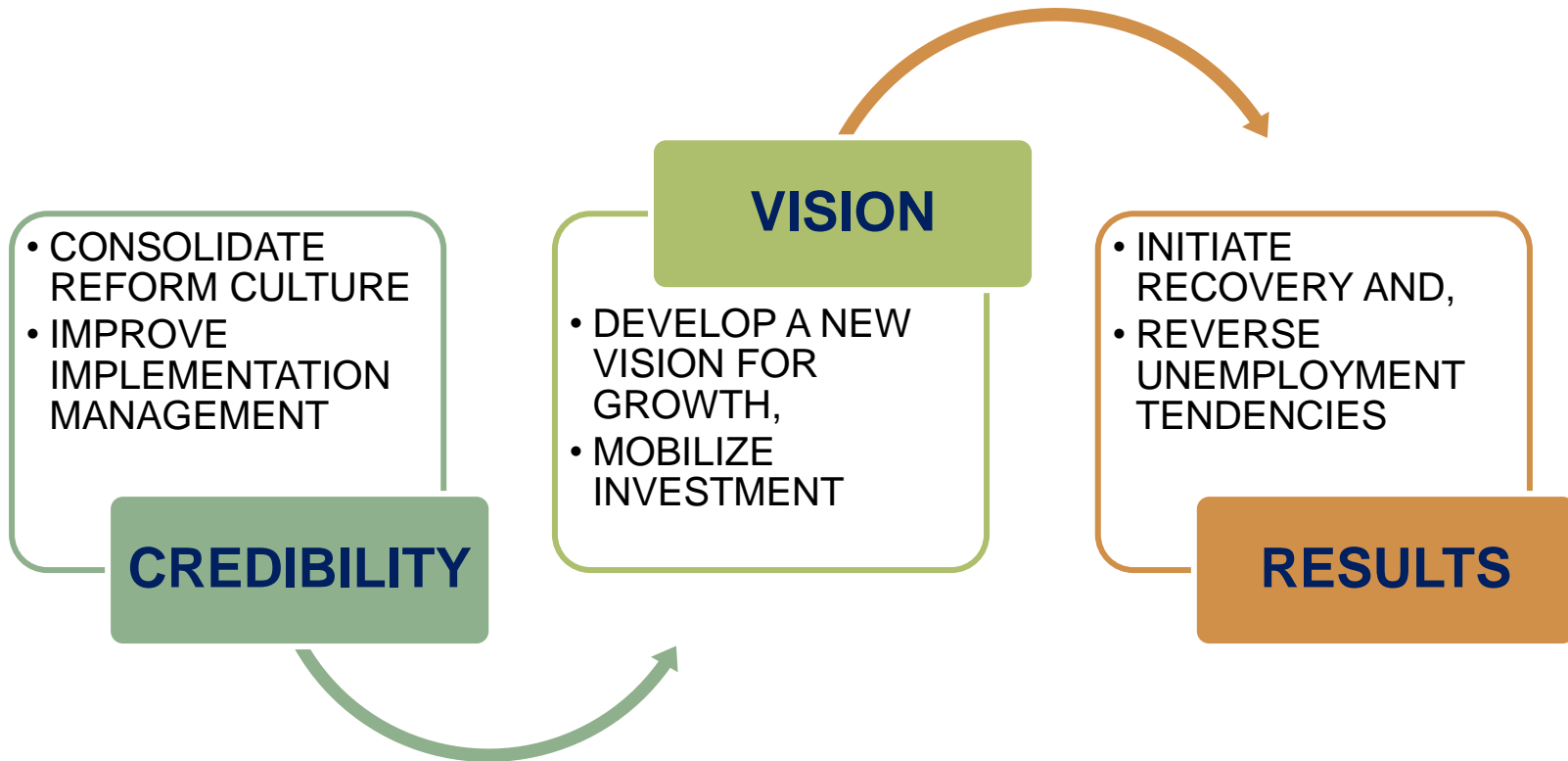
GOVERNMENT DETERMINED TO IMPLEMENT REFORMS

The Prime Minister and the Minister of Finance are determined to implement the agreed reforms and speed up privatizations.

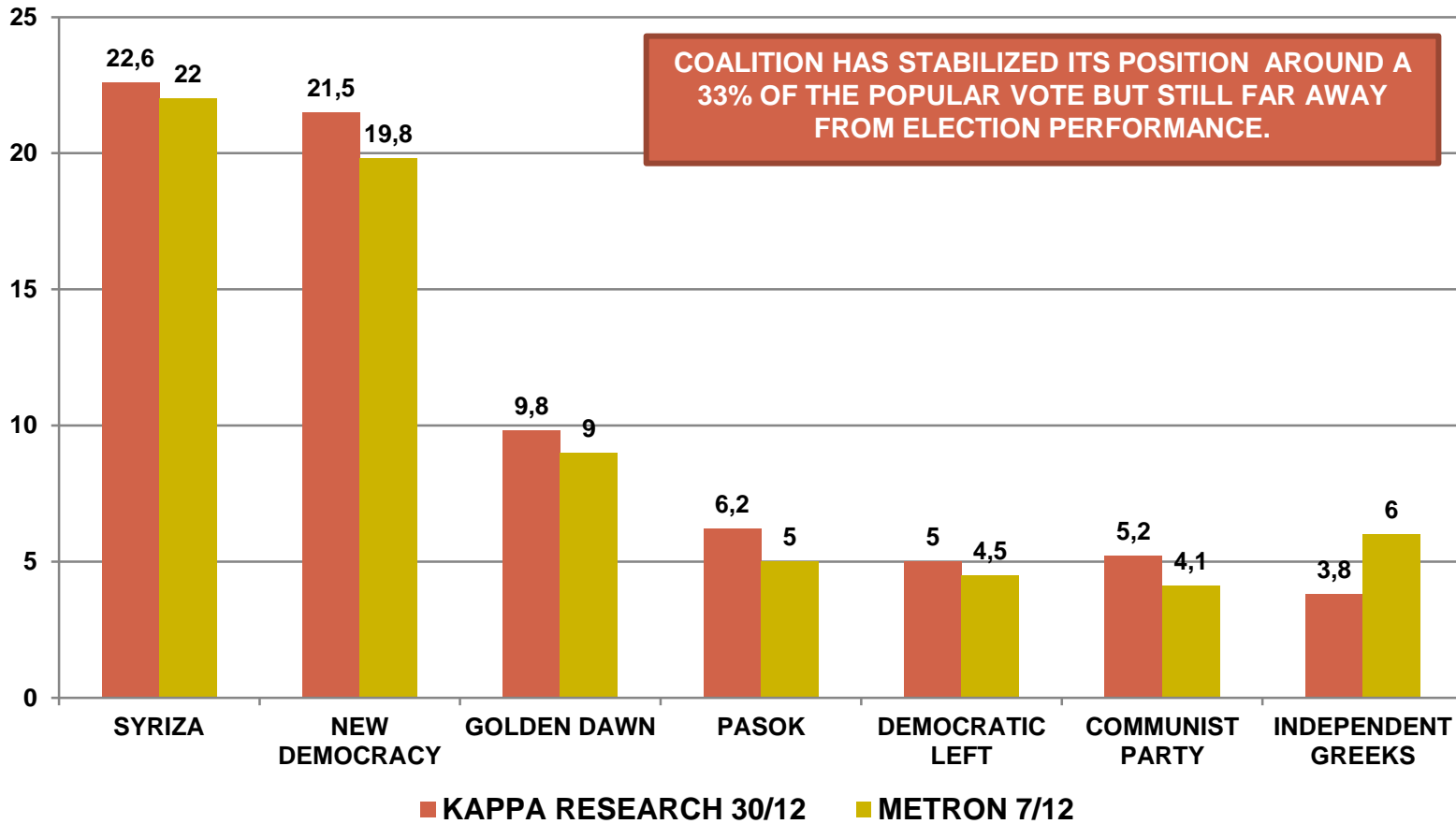
But the structure of the coalition government is a handicap to the efficient implementation of reforms.

And the people are loosing faith on the willingness or ability of government in combatting tax evasion and on whether reforms alone can trigger new growth.

COALITION PRIORITIES IN 2013



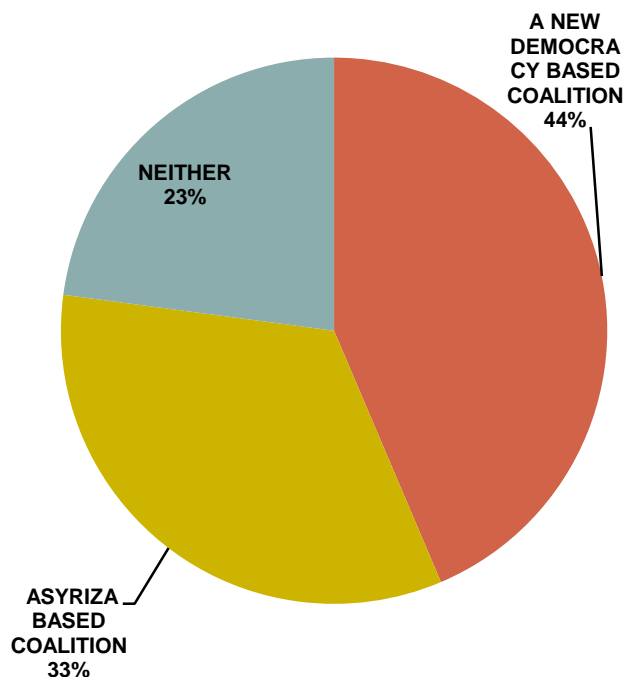
DOMESTIC POLITICS IN AN IMPASSE



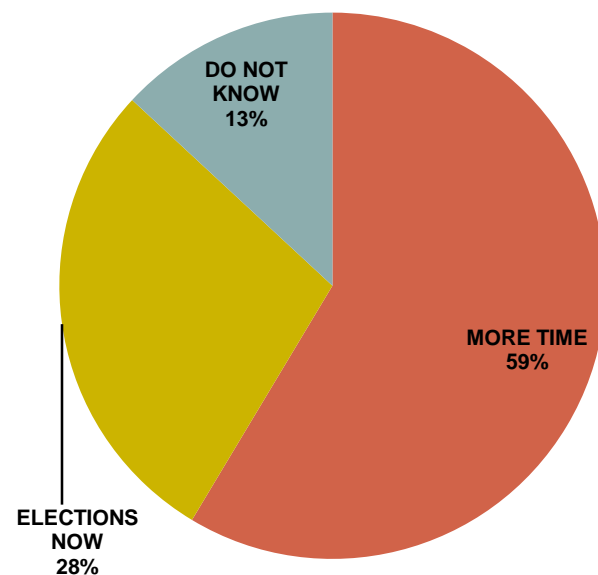
SOURCE: VIMA 30.12.12 & EFIMERIDA SYNTAKTON 7.12.12

BUT THE COALITION IS STILL IN COMMAND

ARE YOU IN FAVOR OF A NEW DEMOCRACY BASED OR SYRIZA BASED COALITION?

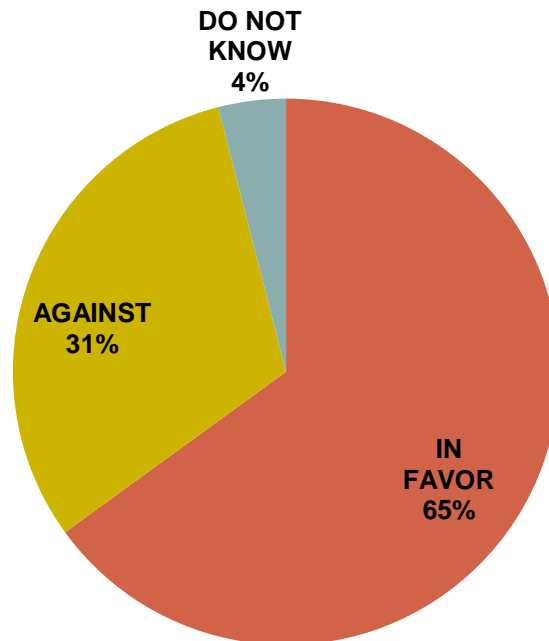


WILL YOU GIVE MORE TIME TO THE GOVERNMENT OR HAVE ELECTIONS NOW?

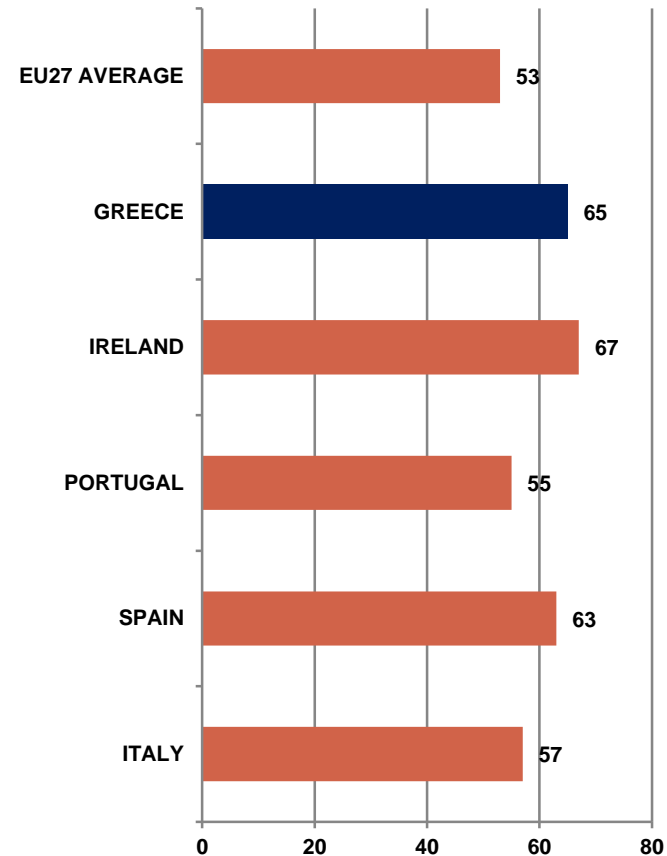


SOURCE: KAPPA RESEARCH FOR VIMA 30.12.12

AND GREEKS REMAIN STRONGLY IN FAVOR OF EURO



THOSE IN FAVOR OF THE EURO?



SOURCE: EUROBAROMETER 78 DEC 2012

POLITICAL CLIMATE POISONED BY SCANDALS

- **The Lagarde list remains the focus of political confrontation with the Coalition and especially PASOK under pressure.**
- **New developments may further destabilize the political system with an accident leading to a collapse of the Coalition and early elections.**
- **SYRIZA not able to capitalize and build on the protest vote as they are increasingly unable to project a viable alternative vision concentrating on scandals and failures of the Coalition government.**
- **The lack of a coherent alternative enhances people's perception of the inevitability of prescribed policy mix but the government has a very small window to show some results in terms of recovery of the real economy.**

THE LAGARDE LIST SAGA



Ms. Lagarde hands over the original list to Mr. Papakonstantinou sometime in 2010.



Mr. Papakonstantinou admitted losing the original CD but he gave 10 names to the then head of the Financial Crime Service for investigation. He hands over a USP device to the new head of FCS when he left the Ministry of Finance in June 2011.



Mr. Venizelos learns about the list from the head of FCS who is of the opinion that the list cannot be legally used by authorities. Mr. Venizelos fails to do anything about the list or give directions.



Mr. Stournaras asks for a new copy of the original and gets it. Three close relatives of Mr. Papakonstantinou are on the original list but have been erased from the copy. A parliamentary committee is scheduled to examine the case against him and possibly indict him.

INCOMPETENCE+NEPOTISM+ARROGANCE

POLITICAL SYSTEM IN TRANSITION

COALITION PARTIES PAY THE PRICE OF AUSTERITY WITHOUT VISION

The Coalition has lost valuable time in negotiations with troika and the economy has further submerged into deeper recession.

Lack of coordination frictions and pure incompetence are threatening the implementation of reforms.

New Democracy has failed to open a new agenda for growth based on a vision for a new development model for the country.

PASOK has failed to renew its political agenda and improve its image by discarding all those associated with the previous failed leadership.

SYRIZA FEEDING ON THE DISPOSSESSED BUT WITHOUT OFFERING ANY ALTERNATIVE

SYRIZA has a solid support from the underclass created by the implementation of the reform package the austerity and the failures of the government.

SYRIZA is not part of the old order and therefore it can reap the fruits of discontent.

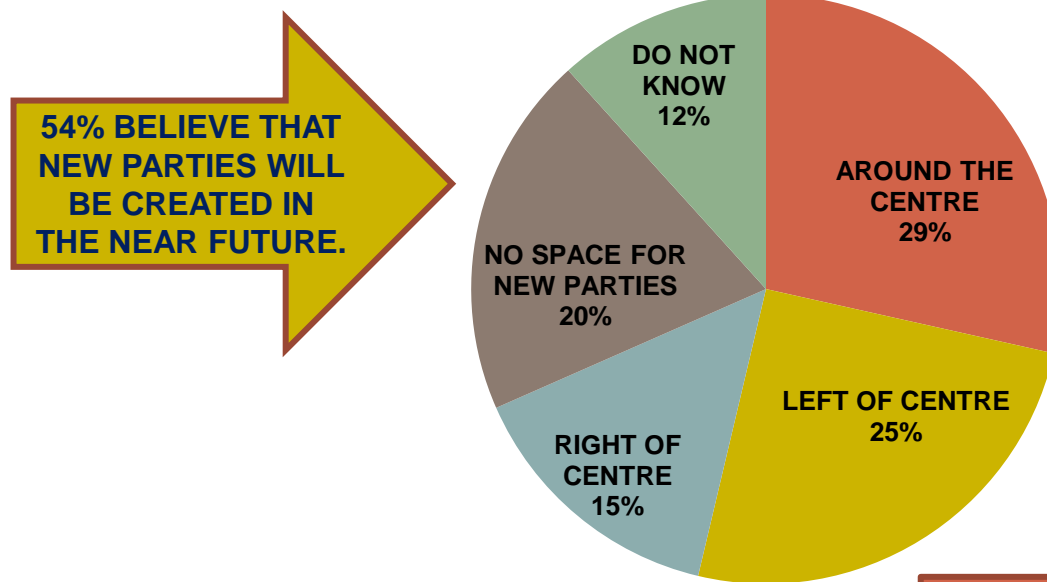
SYRIZA's support is based on revulsion for the old parties fuelled by scandals.

SYRIZA is a party consisting of reformists and anti-capitalists and confusion about its program will persist.

SYRIZA has failed to develop a realistic alternative for government and continues to make communication blunders.

PASOK IS COLLAPSING AND SYRIZA FAILS TO TAKE THE INITIATIVE: DEMAND FOR NEW PARTIES INCREASES

IN WHICH AREA OF THE POLITICAL SPECTRUM NEW PARTIES MAY BE CREATED IN THE NEAR FUTURE?



SOURCE: MARC FOR ETHNOS 22.12.12

CONCLUSIONS FOR 2013

- Prime Minister has improved his standing and strengthened his position.
- Coalition under threat by a collapsing PASOK and the poor crisis management of scandals.
- New political initiatives have not yet managed to take off.
- SYRIZA will be tested on policy issues.
- Improved environment in the economy but few concrete signs for recovery yet.