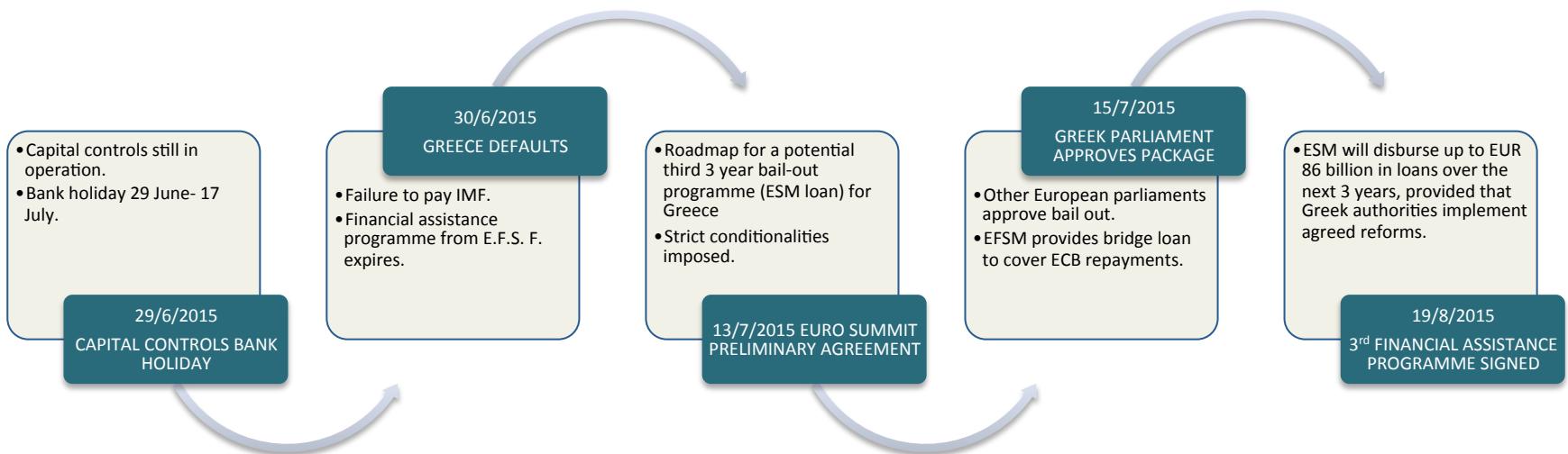


CAPITAL CONTROLS ELECTIONS AND THE ROAD TO NORMALITY

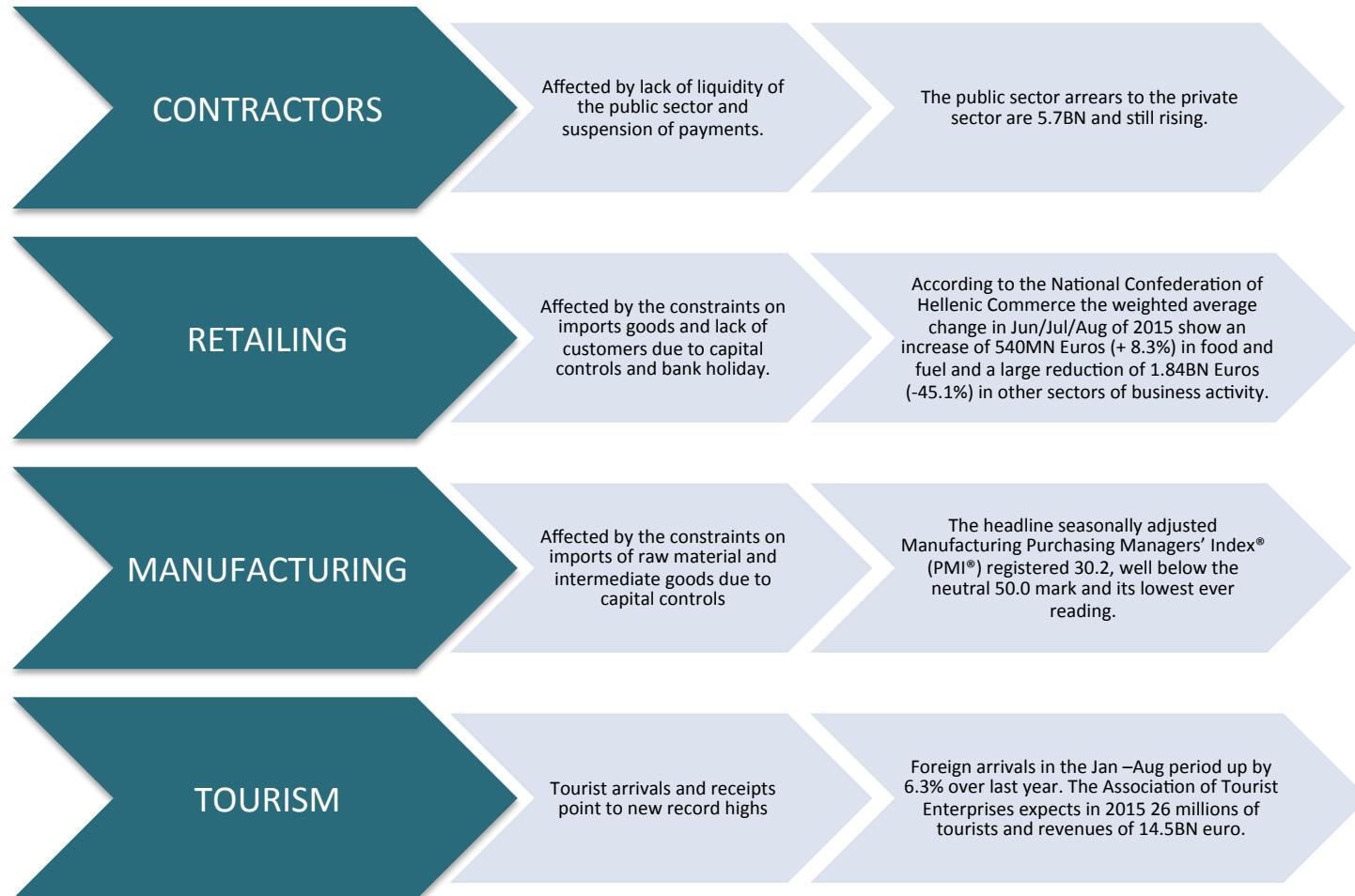
**GREECE ON THE RECOVERY PATH
WITH CONSIDERABLE UNCERTAINTY**

S. TRAVLOS

THE TIMELINE OF EVENTS



CAPITAL CONTROLS AND BANK HOLIDAY HAD A SEVERE IMPACT ON THE ECONOMY

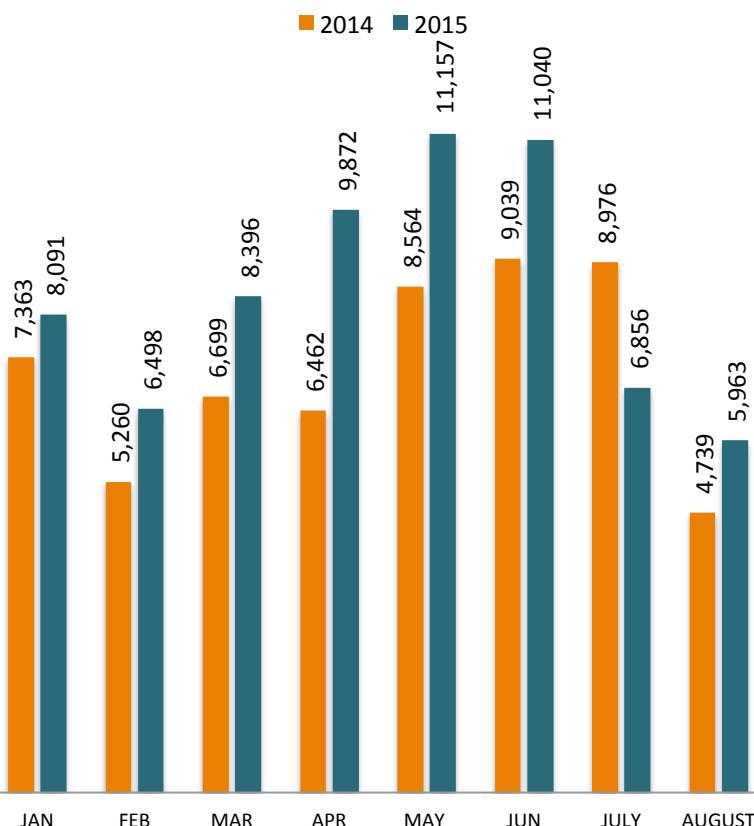


THE CAR MARKET SHOWS RESILIENCE

- The number of new passenger cars in August 2015 increased to 5963, compared to 4.739 in August 2014 thus registering an increase of 25.8% year on year.
- In the first eight months, new registrations of passenger cars rose to 67.873 from 57.102 in the same period of 2014, reflecting an increase of 18.9%, compared however to a higher increase by 23.9% in the corresponding period last year. There was a significant rise in turnover in the auto industry since the first half 2015 increased further by 14.3% year on year, compared with 21.5% in the respective period of 2014. It should be noted in this regard and the significant increase of 20.5% of the cost for import passenger cars in the first half of 2015 year on year (according to the Bank of Greece).
- However, in the first eight months of 2015 the percentage of used to total sales of private cars rose to 22.2%, compared with only 9.7 % for the eight months of 2014.
- The rise in the number of passenger cars expected to materialise in 2015 is mainly due: (a) to rising demand from car rental companies in order to meet the growing tourist activity in 2015, (b) replacement trends towards smaller cars and petrol engines and (c) the shift in consumption patterns favouring car and durables purchases as opposed to real estate purchases or other major acquisitions.

CAR MARKET RECOVERY FOLLOWING CAPITAL CONTROLS DIFFICULT TO LAST IF IMPORTS ARE NOT LIBERALISED

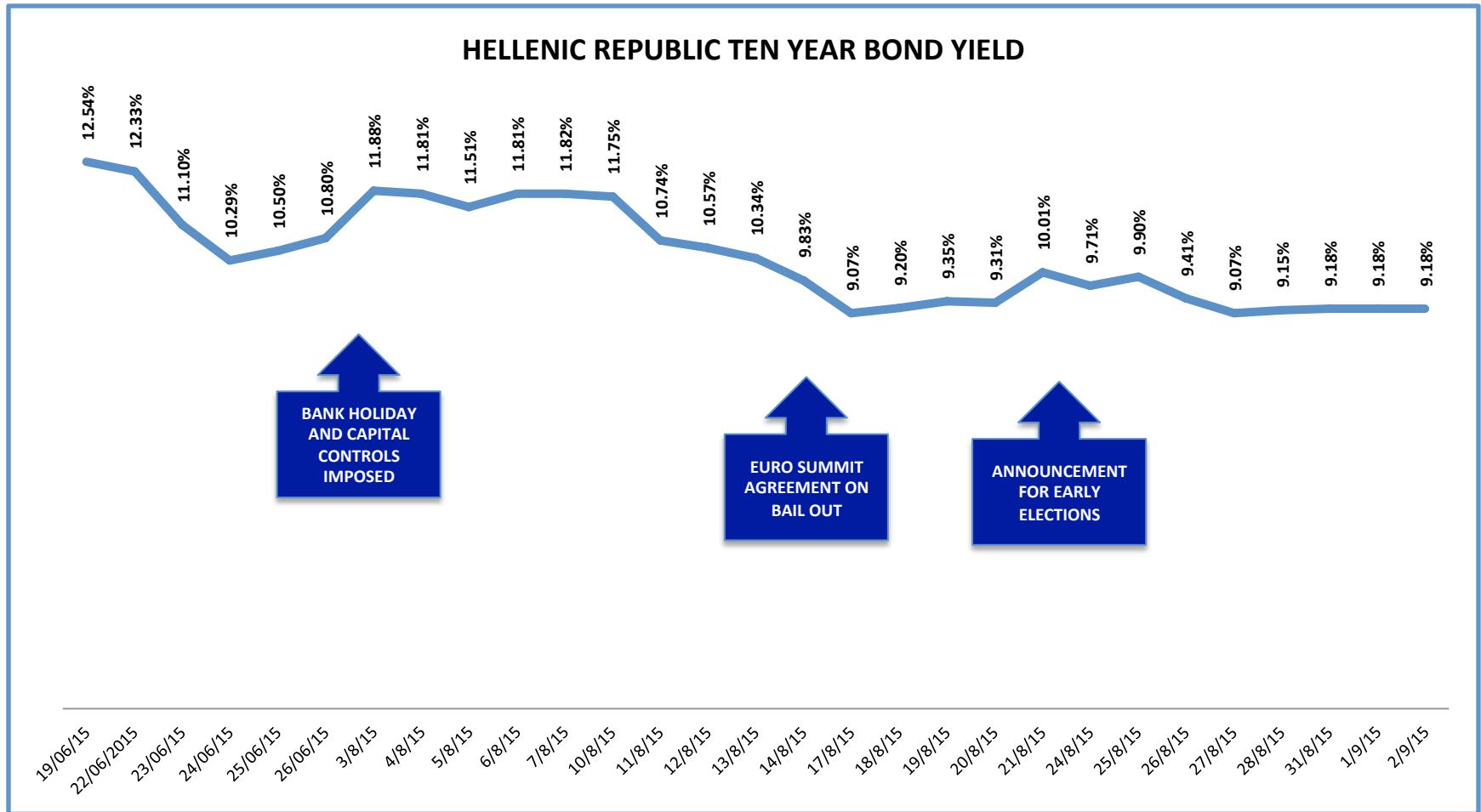
CAR REGISTRATIONS



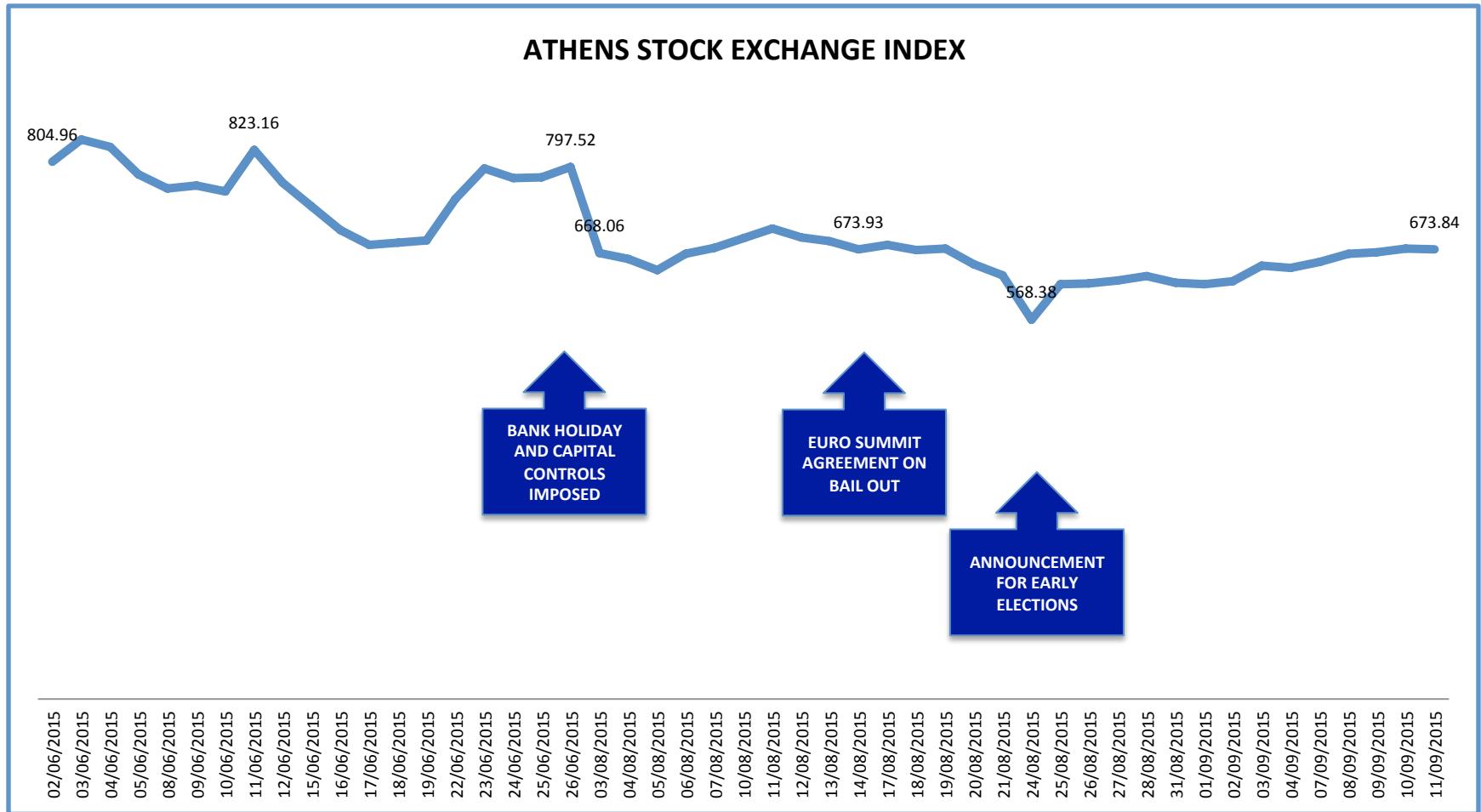
YEAR ON YEAR 2015/2014



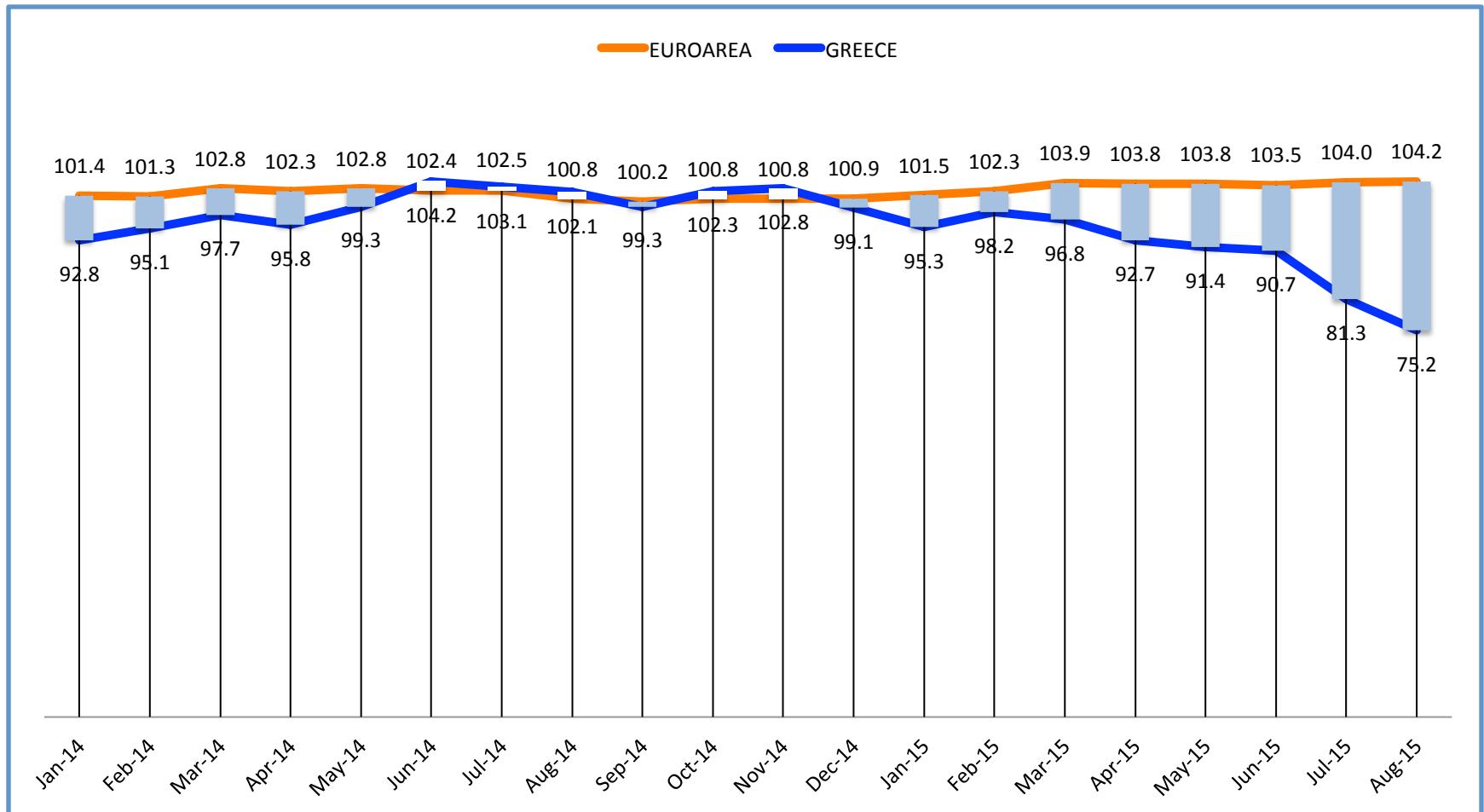
FINANCIAL MARKETS IN TURMOIL BUT STABILISING



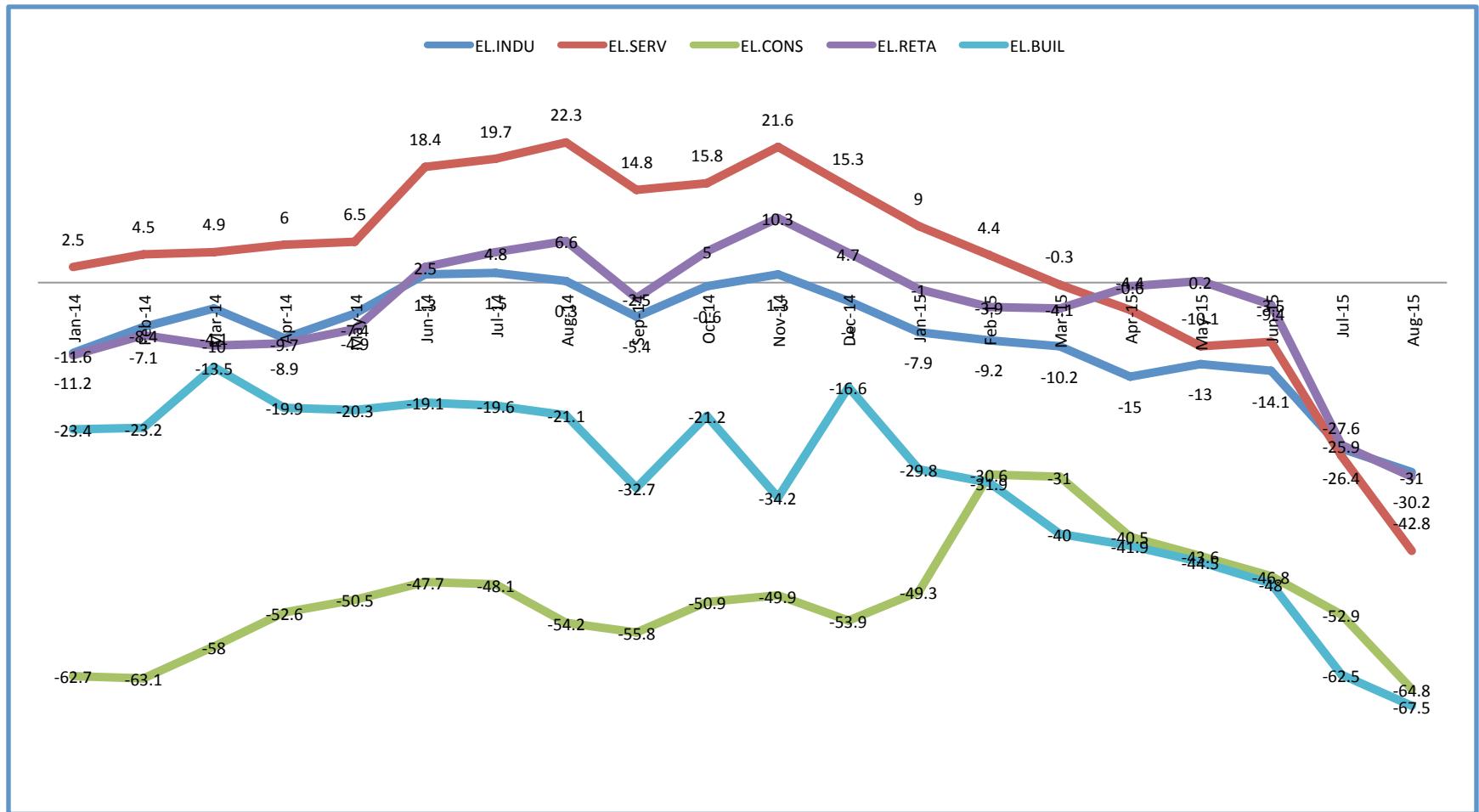
STOCK EXCHANGE STABILISED BUT LONG TERM RECOVERY IS LINKED TO BANK RECAPITALISATION PROCESS



ECONOMIC SENTIMENT COLLAPSED: GREECE MOVES AWAY FROM EURO-AREA AVERAGE



BUILDING AND CONSUMPTION EXPECTATIONS HAVE SHARPLY DETERIORATED

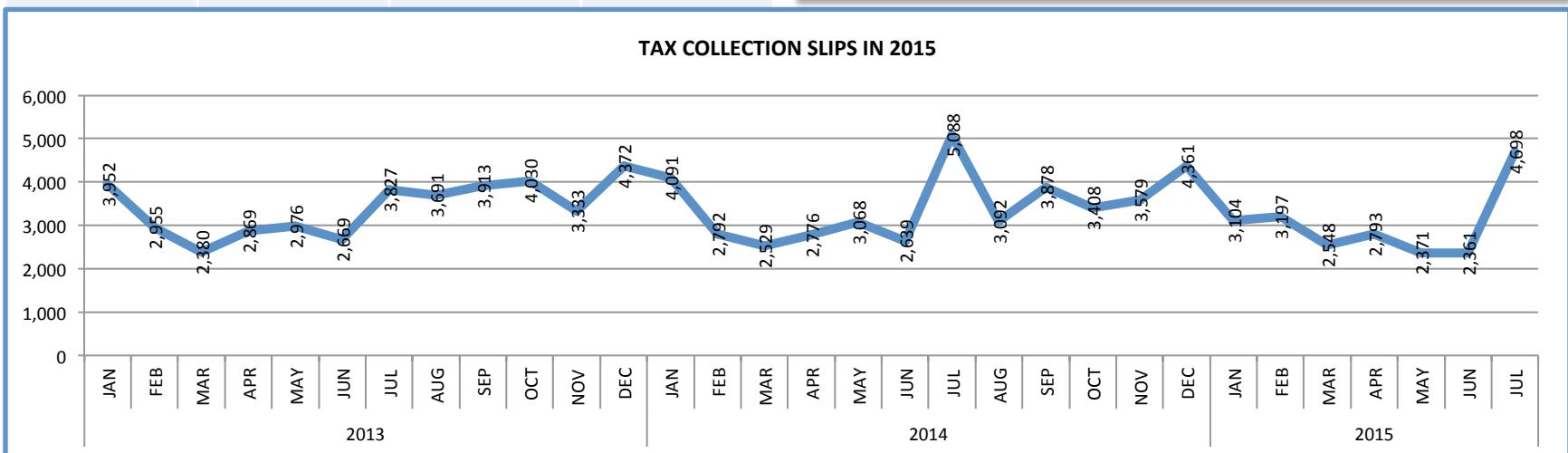


PUBLIC FINANCES UNDER STRESS

EXECUTION OF BUDGET JANUARY – JULY 2015			
In million of EURO	JAN/JUL2015	TARGET 2015	DIVERGENCE
REVENUES	26784	30726	-12.8%
EXPENDITURES	27714	32191	-13.9%
INVESTMENT	1198	2570	-53.4%
DEFICIT	840	1375	-38.9%
PRIMARY SURPLUS/ DEFICIT	3712	2988	24.2%

The execution of the budget has been affected by two main elements:

- First, the suspension of payments by the government which has resulted in lower expenditures as many public projects have been discontinued and contracts were not honoured.
- Second, tax collection has slipped as all the main dates for submission of tax declarations have been postponed until the 30th of August.



KEY REFORMS TO BE IMPLEMENTED REQUIRE IRON WILL AND POLITICAL DETERMINATION

Restoring fiscal sustainability

- Greece will target a medium-term primary surplus of 3.5% of GDP (primary surplus targets of -0.25%, 0.5%, 1.75%, and 3.5% of GDP in 2015, 2016, 2017 and 2018 and beyond) to be achieved through a combination of upfront parametric fiscal reforms, including to its VAT and pension system, supported by an ambitious programme to strengthen tax compliance and public financial management, and fight tax evasion, while ensuring adequate protection of vulnerable groups.

Safeguarding financial stability

- Greece will immediately take steps to tackle Non-Performing Loans (NPLs). A recapitalisation process of banks should be completed before the end of 2015, which will be accompanied by concomitant measures to strengthen the governance of the Hellenic Financial Stability Fund (HFSF) and of banks. Bank stress tests are already underway.

Growth, competitiveness and investment

- Greece will design and implement a wide range of reforms in labour markets and product markets (including energy) that not only ensure full compliance with EU requirements, but which also aim at achieving European best practices. There will be an ambitious privatisation programme, and policies which support investment.

Modern State and public administration

Particular attention will be paid to increasing the efficiency of the public sector in the delivery of essential public goods and services. Measures will be taken to enhance the efficiency of the judicial system and to upgrade the fight against corruption. Reforms will strengthen the institutional and operational independence of key institutions such as revenue administration and the statistics institute (ELSTAT).

THE OUTLOOK IS UNCERTAIN BUT THE RECESSION MAY NOT BE AS DEEP AS INITIALLY PREDICTED

- After six years of recession, the economy rebounded in 2014 with real GDP increasing by 0.8% y-o-y.
- The rebound of the economy continued in the first semester of 2015 (1.1% y-o-y), supported by higher employment and private consumption.
- **Looking forward:**
 - The **Bank of Greece** expects growth to decline sharply in the second semester of 2015, as a result of the increased fiscal burden, the deterioration in economic sentiment and the imposition of capital controls. The turning point of the real economy is expected in 2016:Q3.
 - The **Economist Intelligence Unit** expects GDP to decline by 3% in 2015.
 - **S&P** also expects the Greek economy will shrink by 3% this year.
 - The **Foundation for Economic and Industrial Research** expects a GDP decline of 2% in 2015.
 - The **Eurobank Macromonitor** forecast is more optimistic expecting a GDP contraction of 1.5%.

- S&P uncertainty about the forecast is shared by most economists:
 - *"Risks to the GDP projection are substantial. On the one hand, the introduction of capital controls has severely depressed retail trade, and has hindered export performance by shutting down trade financing lines for key inputs. On the other, the disbursement of the first €26 billion tranche of the Financial Assistance Facility Agreement loan to Greece, which includes €10 billion in fresh capital for Greece's distressed banks, should help gradually to restore confidence in Greece's financial stability. The very high output gap--with domestic demand down by about 40% since 2008--may drive a statistical recovery commencing in late 2015 and early 2016, should confidence gradually rebuild".*

Key additional uncertainties include:

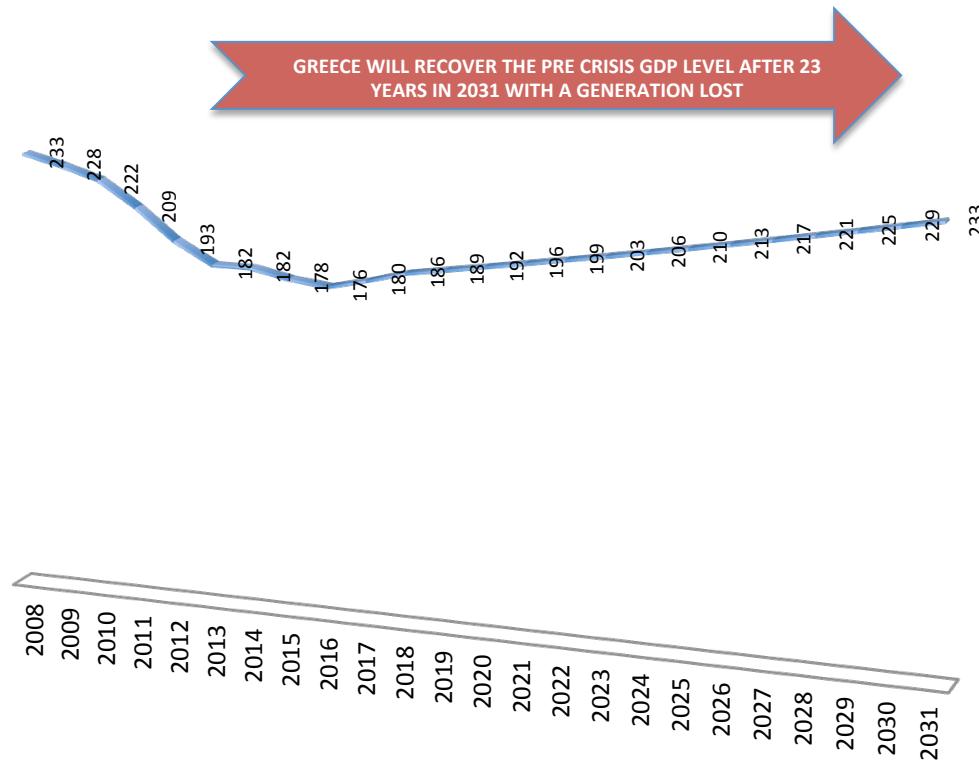
- Timing and scope of bank recapitalisation,
- Tax revenues evolution as all major payment dates have been pushed to the second semester,
- Recovery in the investment climate,
- Privatisation progress including the establishment of the new entity.

LONG TERM RECOVERY

The **European Commission** expects: "Real GDP growth projections are currently at -2.3 in 2015, -1.3 in 2016, 2.7 in 2017 and 3.1 in 2018. Long-term growth is assumed at 1.75% in the baseline scenario". (Debt sustainability analysis 10th July 2015 p.1).

The **International Monetary Fund** agrees but adopts a more pessimistic long term view even before the imposition of capital controls: "There is a substantial weakening in the delivery of structural reforms and in the reform commitments... Thus, relative to the last review, staff has downgraded the real long-term growth rate by 50 basis points to 1.5 percent. (Growth in the 2-3 percent range is assumed over the next few years, as confidence returns and the output gap is gradually closed)". (Preliminary Draft Debt Sustainability Analysis 26th June 2015 p. 5).

LONG TERM GDP FORECAST EC ESTIMATES



SUMMARY OF ECONOMIC DEVELOPMENTS AND PROSPECTS

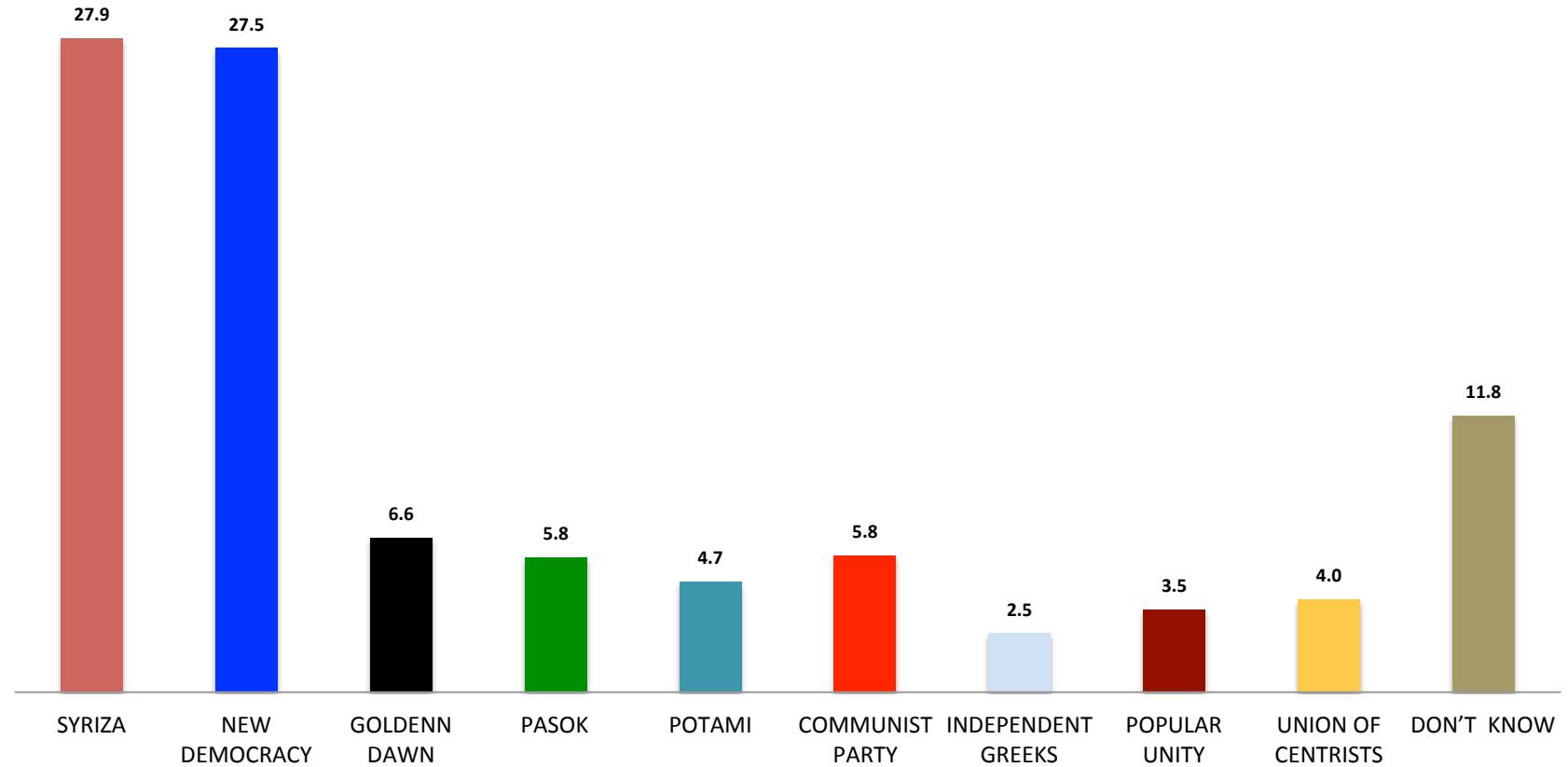
- **On 19 August, the European Commission signed a Memorandum of Understanding (MoU) with Greece** following approval by the ESM Board of Governors for stability support accompanied by a third economic adjustment programme. This paves the way for **mobilizing up to €86 billion in financial assistance to Greece over three years** (2015-2018). The Greek authorities also signed a **Financial Assistance Facility Agreement with the ESM** to specify the financial terms of the loan.
- Since the imposition of capital controls and the bank holiday (effective 29 June to 17 July), economic activity has been severely affected. Small retailers and SMEs in manufacturing and services have been affected by limits on access to cash. Larger companies are more affected by the constraints on imports of raw material and intermediate goods due to capital controls. The estimated fall in manufacturing and retail trade is expected to affect employment negatively. Counterbalancing this picture is the recent data on tourist arrivals and receipts which point to record highs. The **car market** has recovered following a steep decline in July.
- **Greek sovereign bond yields** have climbed; ten-year yields are now at levels previously seen in 2013Q4, having declined since early August. Moreover, the lessening of the negative slope of the Greek sovereign yield curve suggests acute risks at the short-term horizon are retreating. **Yields on bonds issued by Greek non-financial corporations** and share prices have also been strongly affected by the deterioration in investors' confidence in the Greek economy and have not followed the recent declines in Greek sovereign bond yields.
- The short term outlook is uncertain but the GDP is expected to decline both in 2015 and 2016 albeit in a more moderate fashion than originally envisaged.
- The long term recovery will be more protracted and less robust as low total factor productivity remains historically the key weakness of the economy.

ELECTIONS IN A NEW ENVIRONMENT

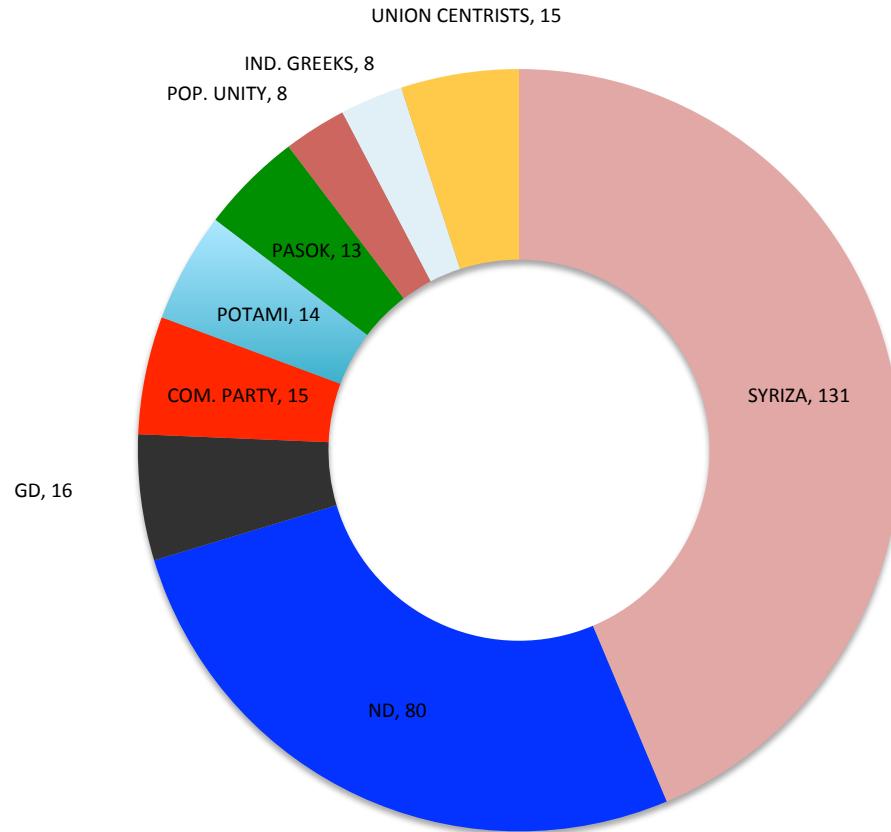
- These are the first elections that will be held in a completely new environment compared to the past six years. All major political forces have now accepted the inevitability of adjustment within the current institutional arrangement of EMU.
- SYRIZA has been split as radical policies have been replaced by austerity and debt cancellation by re-profiling.
- The anti-MOU forces do not add up to more than 15% with Golden Dawn on the extreme right and the Communist Party with Popular Unity on the left.
- The electoral body has finally realised that there is no easy way out of the current predicament.
- In the past two months the rising popularity of A. Tsipras has been halted. He is now second in general popularity behind the New Democracy leader. As a credible prime minister he is only slightly ahead of Mr. Meimarakis. His negotiating strategy is now rejected by the voters which blame him for the selection of Varoufakis. Voters also blame him for the handling of the notorious referendum. His communication skills are now obscured by policy errors and weaknesses of substance.
- Now the key dilemma is simple: do we give a second chance to a leader which has proved to be a liar and ineffective negotiator or we turn to the old guard that we know its limitations but at least they are reliable in what they are doing?
- SYRIZA retains a slight lead and has the potential to win the election by persuading disgruntled voters not to abstain but to vote again for the party. However, as Greek voters usually vote according to the perception they form about their prospective leader the last debate between Tsipras and Meimarakis on Monday might prove decisive.

THE POLL OF POLLS

AVERAGE OF 8 POLLS PUBLISHED FRIDAY THE 11TH - SUNDAY THE 13TH



ALLOCATION OF SEATS POINTS TO AT LEAST 3 PARTIES REQUIRED TO FORM A GOVERNMENT



BASED ON ESTIMATES OF
METRON ANALYSIS POLL
WHICH GIVES INDEPENDENT
GREEKS 3%.

WHAT THE FUTURE HOLDS

- With the polls as they are now the most likely outcome will be a hang parliament. Coalition governments will be the order of the day. A grand coalition between SYRIZA and New Democracy is the hidden wish of the creditors. But is it feasible?
- Greece will require a major effort to recover. The country cannot indefinitely muddle through. It is not about just implementing the reform package. The new government has to regain credibility with foreign investors and markets. Long term recovery rests on attracting more greenfield investment in industry and services, creating new export oriented high value activities. This will not happen if the new government has a limited horizon of 12 months.
- Therefore, creditors and markets must apply considerable pressure in order to establish a government on a minimum policy agreement that will last at least 3 years so that results can be seen in all fronts. New Democracy is keen to participate in such an arrangement but SYRIZA will try to evade and form another short term coalition government. It all comes down to which is first in the polls.