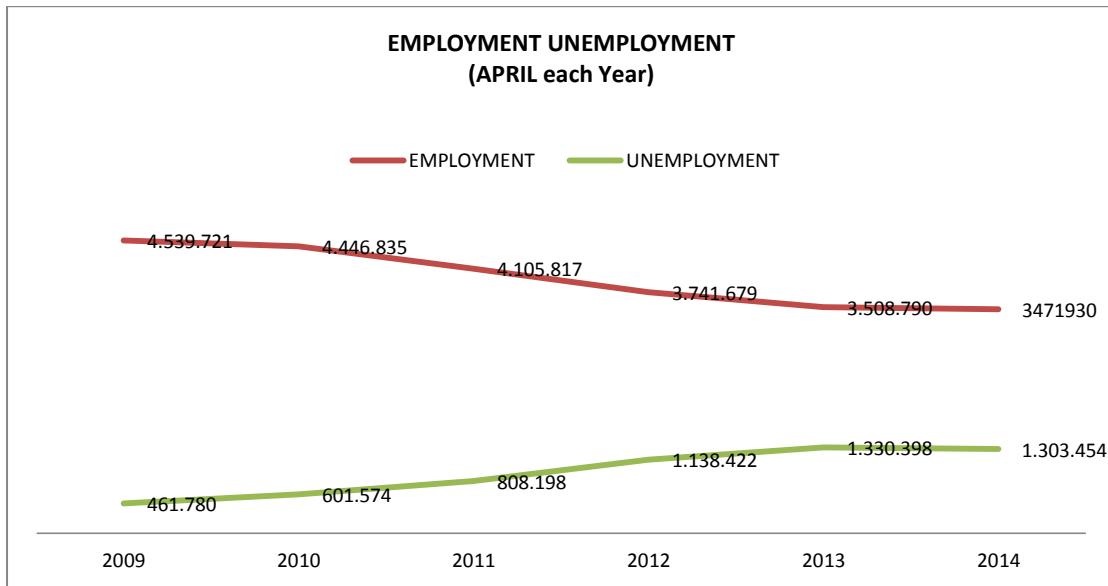


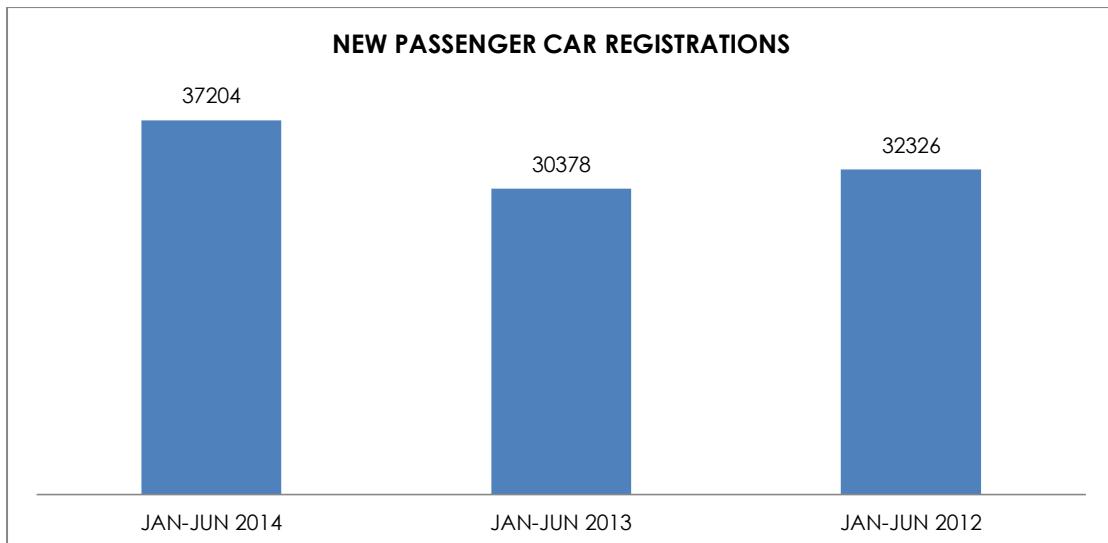
WHERE IS GREECE HEADING?

Signs of improvement in the horizon

Two months after the European elections and the ensuing reshuffle Greece is again appearing to lose direction and drifting. This is despite some indications of economic recovery. First, unemployment is showing signs of ebbing and there is a deceleration in the decline of employment.



Second, new car registrations is recovering fast and taking by surprise even the car dealers. The recovery is mainly due to the company and rented vehicles segments of the market but retail is also picking up.



The sector has gone through a catastrophic five year period during which car registrations declined by over 200,000 cars (from 266,887 in 2008 to 58,659 in 2013) and employment fell from 21,000 in 2008 to just 9,500 in 2013. In 2014 car

registrations are expected to reach 70.000 recording an annual increase of 12%.

Third, tourism is also heading for another record year with an increase in arrivals in the first semester of 17% compared to last year.

More commitments to fulfill and recurring problems

However, investors remain worried as they wait (a) for the results of troika evaluation that has already started but it will gain momentum during September and (b) the solution that will be adopted for the "red" loans of firms and households.

Greece has yet to fulfill the second set of prerequisites that was agreed during the last assessment. Although the most difficult piece of legislation regarding the break-up of PPC has been passed through parliament, other contentious issues have not yet been addressed. These include the merging of the Security Services personnel's supplementary funds with the Unified Insurance Fund Subsidiary, the abolition of third party contributions that are collected in favour of the supplementary funds, the enactment of the Forest Act and the adoption of laws to reduce bureaucracy as well as for the funding of political parties. Furthermore, there are about 600 issues that have to be addressed by various ministries some requiring legislative initiatives pending from the last evaluation's recommendations. The Minister of Finance has decided to send letters to his colleagues pointing out the urgency of the process so that by September the government is ready for the new evaluation.

Furthermore, there is a growing sense of unease regarding privatisations. The current leadership of HRADF has failed to push forward on major projects and has lost sight of priorities as if they have their own agenda. The privatization of water companies is all but shelved following the State Council's decision on the public nature of water provision based on a weird justification that if generally adopted will kill off other privatisations as well. The privatization of the Athens International Airport has also been delayed due to complications arising from the poor handling of the earlier transfer of shares from Hochtief to the Canadian fund PSP. The preparation of other privatisations is also patchy.

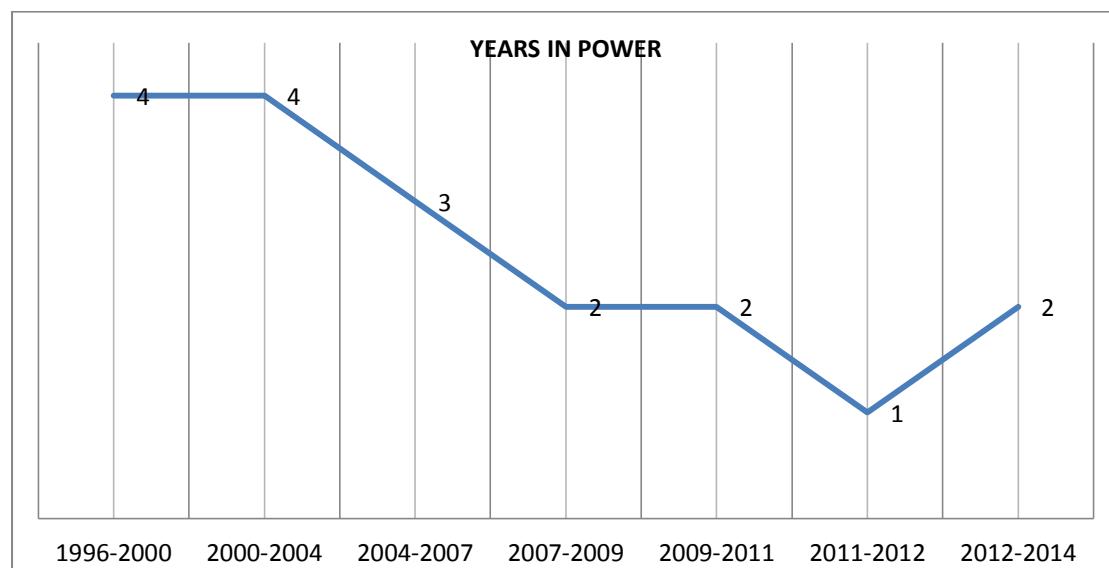
Other issues are also difficult to tackle. A new pension reform seems to be again required as the system cannot get over the damage of the persistent unemployment and the loss of revenue due to the crisis. Due to the crisis the number of employs seeking early retirement grew while contributions to the system have stagnated. Such is the scale of the problem that earlier painful reforms have been unable to address it.

The issue of the non-performing loans has taken a new urgency but a resolution is difficult to be found without committing more funding to the

banks. At the moment PWC estimates that 650 corporations out of a total of 2959 are not viable and they should wind up. The total debt of these corporations is estimated at 25 billion euro. Over the short term default and restructuring will lead to more unemployment and loss of capacity but in the longer term consolidation will release resources for the more competitive groups. Bank of Greece has organized a workshop on the issue but it seems that the market is expecting a very long process of resolution of up to five years. Major shareholders in overexposed corporations will be faced with a dilemma to either participate in capital increases or leave and be replaced by other interested investors that hopefully will show some interest. For the time being the banks are calling the shots and the government is looking from a distance. The corporate sector weakened and destabilized lacks the power to enforce a more balanced resolution of the crisis.

Life expectancy of governments is declining fast

The phases of the electoral cycle have been shortened. Since the elections of the 2007 no government survived more than two years. Moreover, all post 2007 governments have totally collapsed with governing parties facing heavy defeats.



Mr Samaras is a stubborn player. But he is facing now a combination of reform fatigue and the pile up of discontent from the middle classes. The latter keep paying heavy taxes and they see no end to their misery. The last straw was just before the European elections when the government decided to give handouts to the poorest part of the society in an attempt to gain electoral ground. But the middle classes continued to pay real estate and other taxes and they showed no mercy at the polls.

Now Mr Samaras is facing a difficult dilemma: to keep pushing for reforms or to cut loose and go for early elections. In any case he might not be able to avoid elections in early 2015 when the election of a new President of the

Republic takes place. For that he requires 180 votes but this is increasingly becoming difficult to achieve. Furthermore, his junior partner in the coalition is disintegrating and may not be considered a reliable ally. So the Prime Minister is both running out of options and time.

The most likely scenario is that the government will make a final attempt to fulfill the obligations of Greece towards its creditors by early October. Then they will tell the Europeans that either a generous arrangement is found concerning debt or they will go to the polls. Another government will negotiate the debt arrangement and the Europeans and the markets will have to face some more months of uncertainty.

What we have learned from the first five years of the crisis is that no one is eager to take the initiative and resolve problems. All sides require protracted negotiations and posturing because after all their clients are their electorates and as we have seen in the last European elections they move leaderless to different directions.

S. Travlos 21/07/2014