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Weekly Economic Outlook

GREECE

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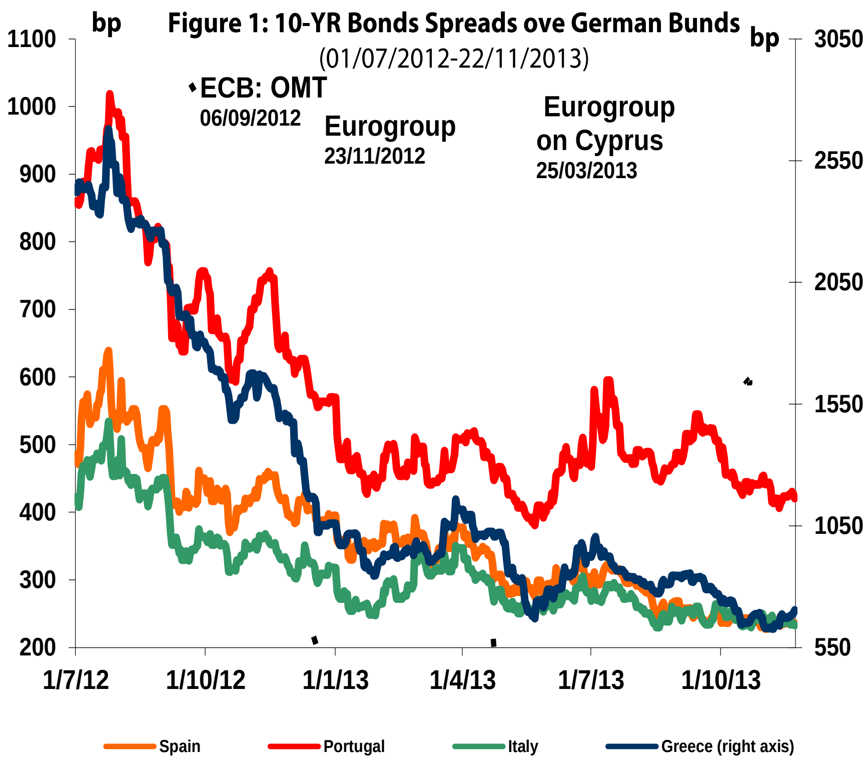
Window of opportunity for an early December agreement on the 2014 fiscal gap

- 2014 Budget does not have the approval of the troika. If agreement is achieved the budget may not need to be updated later on. The key challenges for the Government include:
  - ❖ The attainability of the revenue targets with most prominent those from the real estate tax.
  - ❖ Solution on the pending structural reforms including the lift on foreclosures
- A solution for the debt overhang is expected after the European Elections. A draft agreement may be finalized before.
- Central Government budget balance for January-October 2013 at a surplus even if we subtract SMP revenues and tax refunds arrears.
- Current Account Balance: over the period January-September 2013, it recorded a surplus of €2.6 billion due to a notable decline in the trade deficit and to increases in the current transfers and services surpluses.
- Unemployment rate: in August remained unchanged at 27.3% s.a. compared to the previous month. In recent months, the seasonally adjusted data point to a stabilization in the unemployment rate.

Figure 1: 10-YR Bonds Spreads ove German Bunds
(01/07/2012-22/11/2013)



Source: Bloomberg

A solution for the debt overhang is expected by mid-2014 conditional on the closure of the open issues regarding the 2014 budget and the implementation of structural reforms

After almost three months of negotiations there is still no agreement between the Greek Government and the troika on the size of the 2014 fiscal gap, the effectiveness of the plan proposed by the Greek Government to close it and the implementation of the prerequisite structural reforms. However, given the deadlines of the Parliamentary procedures, the FinMin G. Stournaras submitted to Parliament on Thursday the 2014 Budget. Voting is expected to take place on December 8th 2013. Even though we do not expect major changes in the Budget we cannot rule out a reshuffling, at least of some of the measures proposed so far, in order to bridge the 2014 fiscal gap. In addition, the troika still has objections regarding the revenues and the applicability of the new real estate tax. We expect an agreement on these issues before the next Eurogroup (09/12/2012). Amendments in the budget could be done even after the vote, via for example the supplementary budget process or an update of the Medium Term Fiscal Plan 2014-2017 (MTFS2014-17). However, we do not consider it as the most appropriate way to address the problems of the Greek public finances given the remaining open issues regarding:

a) The financing gaps for 2014 and 2015-16. These gaps according with the 2nd Adjustment Programme amount to ca. €11 bn. (€4.5 bn for 2014 and €6.5 bn for 2015-16). A two-stage solution is expected. In the first, a solution for the 2014 gap will be cleared out in order for the IMF to continue the financing of the programme while the 2015-16 gap solution will be addressed in a later stage probably together with the debt-overhang relief. The solution for the 2014 gap will include probably a credit line from the EFSF (using the ANFA holdings non-disbursements as the pretext for the intervention). The use of the remaining funds from the bank recapitalization and the possible access to the markets will be there but only as second best solutions. In any case, the negotiations over this issue require first a credible solution for the 2014 fiscal gap and the implementation of structural reforms.

b) The process of debt relief that the Eurozone members are committed to initiate conditional on the achievement of a sustainable primary surplus. Last week's meeting between the PM A. Samaras and the German Chancellor A. Merkel even though it had no results for the current negotiation on the 2014 fiscal gap but highlighted a timeline for the debt relief plan. An agreement is expected after the European elections in May 2014 but the basic guidelines of the solution will become public before the elections and after the official confirmation of the 2013 primary surplus by Eurostat (April 2014). Conditional on the current information, we consider an indirect haircut method including an extension of maturities and lower official interest rates as the most plausible solution for the debt relief. Despite the pressure from the IMF, a solution including a direct official haircut is not attainable at the moment. However, we cannot rule out such a solution in the medium term conditional on the progress of the Greek economy regarding the implementation of the structural reforms. Again, discussions over the above issues cannot start without a prior agreement on the issues still open for 2014.

On the structural reform front now it is clear that the troika will not step-back and will ask for the implementation of the planned reforms. As of now these reforms include not only the prerequisites for the disbursement of October 2013 (€1.0bn) but also those of the upcoming December 2013 review. Starting from the former, the issue of the restructuring of the defense industries (namely EAS) is still open. There are some signals that point toward a final agreement that will include the shrinkage of the defense industry. The Government requires that any lay-offs from the defense industry should count to the required public sector lay-offs.

The cornerstone of the structural reforms need to be accomplished in the current review included the lift to the general ban on foreclosures. As of now, the Greek Government – with a majority of only for seats in the parliament – is seeking a compromise that would protect first-home owners unable to keep up with installments on the basis of their income and wealth, from those that use the asymmetric information problem in order "strategically default" even though they have the means for paying their obligations to the banks. A solution to this problem is necessary in order to clear the environment for the Greek banks and avoid the need for new recapitalization in the future.

Regarding the implementation of structural reforms, the Eurogroup meeting of November 14th, 2013 was bitter for Greece. Not only because of the message to the Greek Government to continue with the structural reforms (the prerequisites for the October review but also those included in the upcoming December 2013 review), speed up the privatization process, close the expected 2014 fiscal gap, etc. but also because Ireland exited its respective EU/IMF programme after the strict implementation of the structural and fiscal reforms agenda. Ireland was in better shape in terms of competitiveness compared with Greece back in 2010. So the exit from the EU/IMF did not come as a surprise. Nevertheless, the strict programme implementation did not come without a significant cost. Apart from the serious competitiveness gap, the main difference between the two countries has to do mainly with the programme's ownership. In the Irish case the Government took over the ownership of the programme early on. Public discussion and efforts focused on the retaining of the major competitiveness advantages of the Irish economy gained during the previous decade i.e. the low corporate tax and the foreign direct investments inflow.

This was not the Greek way for addressing the challenges of the EU/IMF programme and the competitiveness gap. Successive Greek Governments focused on the fiscal consolidation issue and treated structural reforms as a secondary issue or tried to avoid the implementation because of significant pressure from vested interests and / or under the threat of significant political cost. Even for fiscal consolidation their favorite tool was horizontal cuts and not the rationalization of the public expenditure via the abolishment of the various obsolete structures and organizations and the efficient operation of the remaining public sector. The Greek Government only recently showed signs for changing that trend. The final agreement with the troika on these issues and the behavior of the Government in the following period will determine whether the Irish example will be the benchmark in what follows

2014 Budget, is this the last draft before the next one? The macro economic assumptions and the revenues from the real state tax the key challenges ahead.

The primary macro assumptions of the 2014 Budget remain unchanged compared with the Draft released in early October 2013. Adjustments on revenue and expenditures led to an improvement of the primary balance mainly for 2013. Starting from the macro assumptions GDP is expected to contract by -4.0% in 2013 and return to positive growth rate at 0.6% in 2014, for the first time since 2007. The return to positive growth is mainly attributed to the improvement in investments in 2014 and the significant deceleration of private consumption contraction to 1.6 percent in 2014 from 6.7 percent in 2013. However, there are serious doubts over these targets. The OECD in its recent report[1] points toward a better outcome for 2013 at -3.5% of GDP while GDP growth for 2014 remains at negative levels at -0.4% mainly because of a shortfall in investments. Given the uncertainty over the debt relief, the pressure on the Greek Banks by the increasing NPLs (at 29.3% in Q2 according with Bank of Greece), the delays in the implementation of the structural reforms and the privatization agenda such an adverse scenario cannot be ruled out altogether.

The 2013 primary balance in 2nd Adjustment Programme terms (i.e. without the one-of revenues from ECB's ANFA and SMP programme, without the support to financial institutions and without the retrospective decrease on the interest rate of the bilateral loans of the 1st Adjustment Programme) is at ca €0.84 bn or 0.4% of GDP, more than double compared with the respective balance included in the Draft 2014 Budget (October 2013) on the basis of improved projection for the revenue of the income tax relative to the respective target of the Medium term Fiscal Strategy 2013-16 (MTFS2013-16) and the over-performance of the VAT revenues excluding tobacco and oil products. The latter development came as a surprise since the reduction in the VAT rate that was decided in mid-2013 was expected to cause a decline in the respective revenues by €0.14 bn but instead led to an increase of ca €0.16 bn. Part of this increase is attributed to the better than expected performance of the tourism sector in 2013, a result not only of the decrease of the respective costs but also a result of the political developments in the East Mediterranean (Egypt, etc). We expect that the Government will use this over-performance as an argument for keeping the VAT rate at its current levels.

The 2013 primary surplus was not among the targets of the 2nd Adjustment Programme (target for a zero primary balance in 2013). Positive primary balance was expected only for 2014. The achievement of the primary surplus a year earlier than initially expected will be the main argument of the Greek Government in order to ask from the official lenders for more debt relief measures in the upcoming negotiations in mid-2014. The second step includes the sustainability of the primary surpluses for the following years.

For 2014, the Government expects a primary balance of ca €2.95 bn. This is based primarily on **a)** the better than expected primary surplus for 2013, **b)** the improvement in tax compliance that is expected to increase revenues especially for tax arrears, **c)** the revenues from measures already agreed in the past under MTFS2013-16, **d)** the revenues from the new real estate tax and **e)** the rationalization of social security and health expenditure by €2.66 bn. Salaries and pensions are expected broadly stable at €18.4 bn in 2014.

However, the issue of the real estate tax is still open between the Government and the troika. The Government's initial revenue target for the 2014 tax on real estate was at €2.9 bn. The current target after the reshuffling of the respective real estate tax bill – in order to calm the objections from the Government MPs – is for €2.65 bn.

[1] For more information: http://www.oecd.org/eco/outlook/greeceeconomicforecastsummary.htm

Table 1
Draft 2014 Budget: Main Macroeconomic and Fiscal Indicators

Greece: Main Macroeconomic and Fiscal Indicators (%, annual changes, constant prices)				
		2012	2013	2014
1	GDP Growth	-6.4	-4.0	0.6
2	Private Consumption	-9.1	-6.7	-1.6
3	Public Consumption	-4.2	-4.9	-4.0
4	Investment	-19.2	-5.9	5.3
5	Exports of G&S	-2.4	2.5	4.6
6	Imports of G&S	-13.8	-7.0	-1.3
7	HCPI	1.0	-0.8	-0.4
8	GDP Deflator	-0.8	-1.7	-0.5
9	Unemployment	22.8	25.5	24.5
10	Fiscal balance	-6.1	-2.2	-2.3
11	Primary balance in ESA95 terms	-1.1	2.1	2.9
12	Primary balance (Budget 2014 in 2nd Adjustment Prog. Terms)	-1.5	0.4	1.6
13	Primary balance (2nd Adjust. Prog. (July 2013))	-1.5	0.0	1.5
14	Difference between (12) and (13)	0.0	0.4	0.1
15	Ordinary budget revenue (€ bn)	48.2	47.4	49.7
16	Ordinary budget expenditure (€ bn)	61.5	52.7	49.4
17	Real estate property tax	2.9	2.8	3.9
18	PIB revenue (€ bn)	3.6	5.1	5.0
19	PIB expenditure (€ bn)	6.1	6.7	6.8
20	Gross Debt	156.9	175.5	174.8
21	Nominal GDP (€ bn)	193.7	182.9	183.1

Notes

1. Primary balance in ESA95 terms follows the Eurostat definition and also excludes financial assistance to the the financial\banking sector. The primary balance according with the definition of the 2nd Adjustment Programme for Greece excludes the the SMF and ANFA revenues and the financial assistance to the the financial\banking sector.

2. PIB: Public Investment Budget

Source: Draft Budget 2014, 2nd Adjustment Programme for Greece (July 2013)

In order to counterbalance this shortfall the Government reduced the Public Investment Budget expenditure target by ca €0.20 bn from €7.0 bn in the Draft 2014 Budget (October 2013) to €6.8 bn in the current draft. Obviously the reduction of the PIB expenditure even though it is a quick fix for the budget balances (see also below on the budget execution for January-to October 2013) it is clearly a policy that affects the growth of the economy. Moreover, there is another issue with the current real estate tax scheme. As we mentioned in the past, the troika still does not trust the ability of the Greek tax collection system to handle the new tax and so is in support of the previous scheme of collecting the real estate tax via the electricity bills. According to the most recent information, the gap estimated by the troika from the initial target is at least 0.45 bn. In other words according with the troika's estimates the PIB cut is not enough for bridging the gap created by the new real estate tax.

Regarding public debt, this is expected at 175.5% of GDP for 2013 and at 174.8% of GDP for 2014 in line with the respective projections of the 2nd Adjustment Programme (July 2013). Bond redemptions for 2014 amount to €16.5 bn and stem from: **a)** €4.5 bn issued in 2009 for bank recap, under the Liquidity Support Program introduced in late 2008, in exchange for bank preference shares, b) €1.2 bn also issued in 2009 for the Hellenic Fund for Entrepreneurship and Development (ETEAN) and **b)** "pre-PSI" GGBs of €10.0 bn held by ECB, NCBs, EU and EIB. As we already mentioned, the 2nd Adjustment Programme recognizes a financing gap of ca €4.5 bn for the second half of 2014. The Government intention to tap the markets in the second half of 2014 remains unchanged. We believe that the issuance of new GGBs is not viable without a prior solution to the debt overhang problem or at least a plan for it.

Privatization revenues amounted to €3.8 bn from 2012 onwards with the €2.1 bn related to transactions that took place in 2013. According with the 2014 Budget there is a long list of assets for which the privatization process has already started including the developments of the former Elliniko airport in the south coast of Athens, various ports and marines around Greece, various state owned hotels etc. In the following months the privatization process for DEPA is expected to start again. The target for 2014 was set at €3.6 bn. Note here that the privatization process is among the main concerns of the troika not only because the delay has negative consequences for the debt sustainability path but also because privatizations are considered as the main source of FDIs at least in the medium term. The main problem that the privatization agenda currently faces has to do mainly with the delays in the legal clearance of various real estate assets.

Central Government budget balance for January-October 2013 at a surplus even if we subtract SMP revenues and tax refunds arrears

According with the preliminary data on Central Government budget execution for the January-October 2013 period, the fiscal balance on a non-consolidated cash basis[2] was negative (fiscal deficit) of ca €3.0 bn, decreased by ca -75.9% yoy. Compared with the respective MTFS2013-16 target the fiscal balance was reduced by ca -66.1%. The primary balance remained positive (a surplus) at ca €2.6 bn.. Note that for the respective 2012 period the primary balance was recording a deficit of €1.1 bn. The MTFS2013-16 target for January-October 2013 was also negative €3.0 bn.

Once more, the critical parameter for the achievement of the 2013 primary surplus target of €0.84 bn or 0.4% of GDP (2014

[2] This figure does not include the support for the financial institutions (bank recapitalization) but includes revenues from ECB's SMP programme and the reduction of the interest rates in the bilateral loans of the 1st Adjustment Programme decided in late November 2012. For more details on the rules recording Eurostat's deficit with and without the support for the financial institutions refer to: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Eurostat_guidance_note_FT_-_10_September_2009.pdf and http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/The_impact_of_bank_recapitalisations_on_government_fina1.pdf

Budget) is the tax revenue performance. Revenues before tax refunds were at €40.9 bn, decreased by -2.5% yoy but increased by 3.9% relative to the respective MTFS2013-16 target. If we subtract revenues from ECB's SMP programme (€1.5 bn) then revenues before tax refunds fall to €39.4 bn which is higher by ca 0.1% relative to the respective MTFS2013-16 target. In other words, total tax revenues before refunds increased by ca 0.1% relative to the MTFS2013-16 target. The continuation of such a pattern for tax revenues is among the necessary requirements for the achievement of the 2013 primary surplus target. Note that revenues from the ECB's SMP do not count in the primary balance according with the terms of the 2nd Adjustment Programme for Greece.

Another encouraging fact for the achievement of the 2013 primary surplus target is that For the January to October 2013 period, the primary surplus remains positive at ca €0.8 bn even if we subtract not only revenues from ECB's SMP programme (€1.5 bn) but also the difference between the MTFS target for tax arrears refunds and the tax arrears refund paid so far (€0.3 bn).[3]

Additional factors that affect the 2013 primary surplus figure include:

- Improvement on the Public Investment Budget (PIB) balance by €0.7 bn because of **a)** increased revenues from the EU structural funds[4] (PIB revenues at €4.0 bn, increased 51.7% yoy and 13.0% relative to the respective MTFS2013-16 target) and **b)** the continuation of the anti-growth practice of reducing PIB expenditures (PIB expenditures at €2.8 bn, decreased -0.6% yoy and -36.4% relative to the respective MTFS2013-16 target). On the above primary balance exercise if we subtract the difference between the target of the PIB expenditure and the respective actual expenditure then the primary balance turns negative (deficit) at ca -€1.0 bn[5].

- Lower primary expenses. For the January-October 2013 period primary expenses were at €35.8 bn decreased by -6.7% yoy and -4.0% relative to the respective MTFS2013-16 target. We expect that by the end of the year primary expenditure will reach the annual target and a part of this target will be covered via funds initially earmarked for the payment of arrears to the private sector that remained undisbursed[6].

[3] 2.6-1.5-0.3=€0.8 bn which is the primary surplus for January-October 2013 excluding revenues from ECB's SMP programme and assuming that the government will disburse the full amount of tax refund arrears. Note however, that this holds only for the tax arrears target and not for the public investment target (see below).

[4] This increase is mainly due to different time allocation of the EU structural funds' disbursement. In other words the annual figure will be the one recorded in the MTFS2013-16 (and did not change in the Draft 2014 Budget), at ca €5,1 bn.

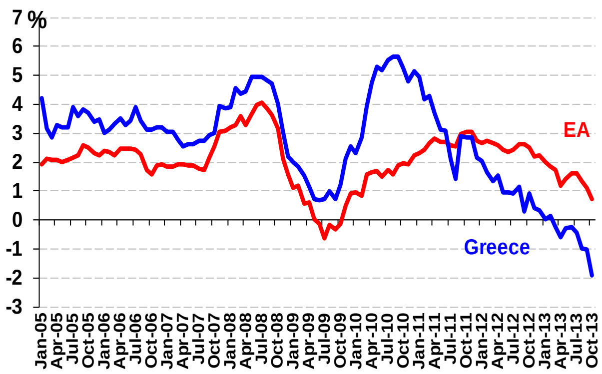
[5] 2.6-1.5-0.3-1.6=-€1.0 bn, where €1.6=4.9-1.3, i.e. the difference between the target for the PIB expenditure for January-October 2013 and the respective actual expenditure.

[6] This is mainly due to a) payments of arrears to the private sector by the General Government own means and b) to arrears for which a legal dispute process is under way.

Statistical Appendix

Inflation[7]: consumer prices continued to decline in October 2013, with the annual rate of decline rising to -2.0% from -1.1% in September 2013. Prices fell on an annual basis for the eighth consecutive month. The acceleration in the rate of decline is mainly attributed to lower heating oil prices (-4.2%) compared to October 2012, when a special tax was imposed on heating oil (base effect). In particular, lower heating oil prices reduced inflation by 0.19 points. If we take into account the period of mid-season sales in November, we expect a further decline in inflation during the current month. Regarding the Harmonized Index of Consumer Prices, it declined by 1.9% yoy in October, while in the Euro area the HICP increased by 0.7% (Figure A1). The internal devaluation in Greece is even more evident in the evolution of the HICP excluding the impact of changes in taxes: in October 2013, the HICP at constant tax rates was negative, -1.0%, for the twelfth consecutive month (Figure A2). We estimate the average inflation rate in Greece (based on the consumer price index) at -0.8% in 2013.

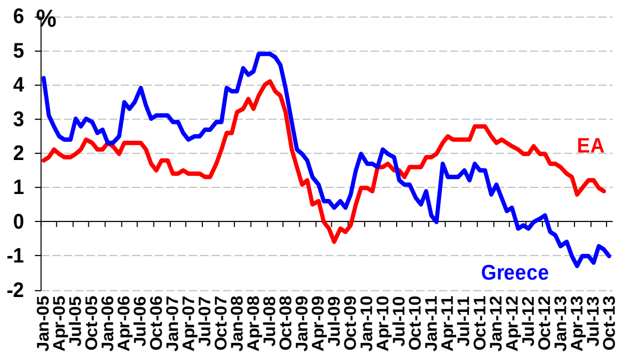
Figure A1
Inflation Greece – Euro Area
(Harmonized Index of Consumer Prices, Jan. 2005 – Oct. 2013, % annual change)



Source: EL.STAT., EUROSTAT

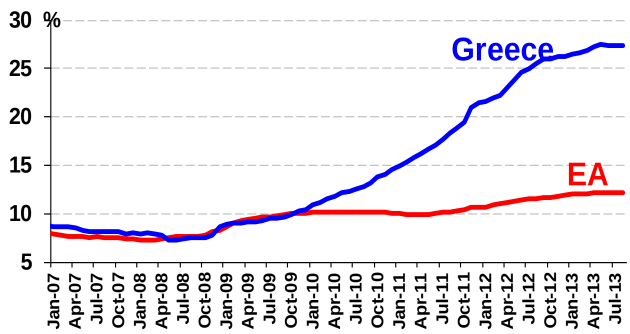
Unemployment[8]: In August 2013, the unemployment rate in Greece remained unchanged at 27.3% (seasonally adjusted) compared with the previous month, as the unemployment rate in July was revised down to 27.3% from 27.6%. Compared to a year ago, unemployment rate is higher by 1.8 percentage points (25.5% in August 2012). In recent months, the seasonally adjusted data point to a stabilization in the unemployment rate. The seasonally adjusted unemployment rate remains the highest in the EU -27, along with Spain (26.6%). In the Euro area, the unemployment rate in August 2013 increased slightly to 12.2% from 12.1% in July 2013, while the estimate for September is that it remained unchanged at 12.2% (Figure A3).

Figure A2
Inflation without the tax effect Greece – Euro Area
(Harmonized index of consumer prices at constant tax rates, Jan. 2005 – Oct. 2013, % annual change)



Source: EL.STAT., EUROSTAT

Figure A3:
Unemployment Greece – Euro area
(Jan. 2007 – Aug. 2013, seasonally adjusted data, % of economically active population)



Source: EL.STAT., EUROSTAT

Industrial Production[9]: Although the manufacturing sector continued to be in recession in September, the contraction rate of industrial production improved compared to both a year ago and the previous month. Industrial production in September 2013 decreased by 1.8% yoy, against a decline of 7.2% yoy in September 2012 (Aug. 2013/2012: -7.3%). The improvement in the rate of decline compared to Sep. 2012 is mainly attributed to the increase in electricity production index by 6.8% (includes only the production and distribution of electricity by the Public Power Corporation) (Sep. 2012/2011: -11.9%). The 12-month moving average of

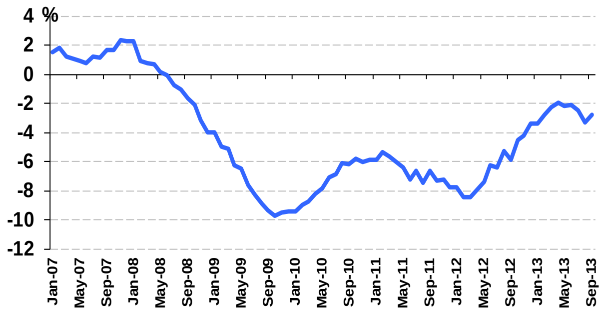
[7] For more details see the press release by the Hellenic Statistical Authority:
http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0515/PressReleases/A0515_DKT87_DT_MM_10_2013_01_F_EN.pdf
http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0515/PressReleases/A0515_DKT90_DT_MM_10_2013_01_F_EN.pdf

[8] For more details see the press release by the Hellenic Statistical Authority:
http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0101/PressReleases/A0101_SJO02_DT_MM_08_2013_01_F_EN.pdf

[9] For more details see the press release by the Hellenic Statistical Authority:
http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0503/PressReleases/A0503_DKT21_DT_MM_09_2013_01_P_EN.pdf

industrial production index, which is in a negative territory since June 2008, fell by 2.8% (Aug. 2013: -3.3%) (Figure A4).

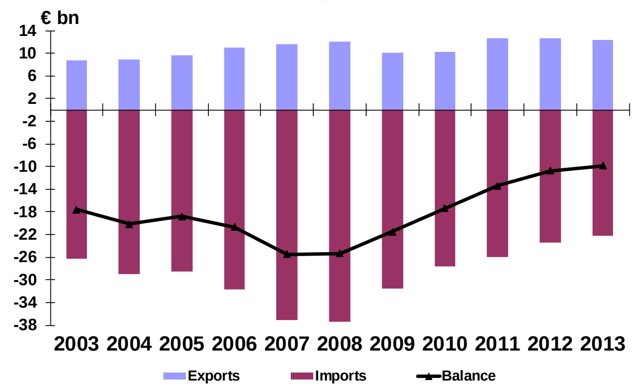
Figure A4
Industrial Production Index
(12-month moving average index, Jan. 2007 – Sep. 2013, working day adjusted data according to the real number of working days, % annual change)



Source: EL.STAT.

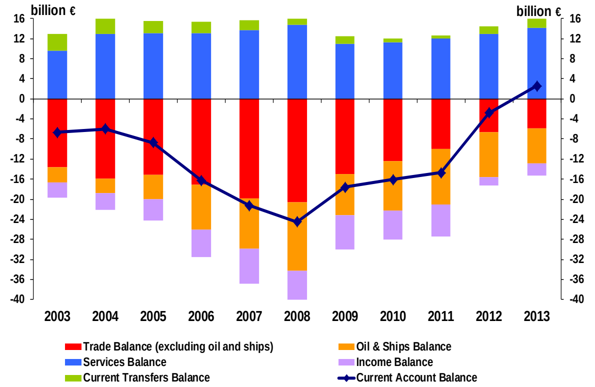
Commercial Transactions[10]**:** The Hellenic Statistical Authority announced its estimates for commercial transactions in September 2013, according to which the impact of oil products trade remains significant. Imports amounted to €4.02 bn, up by 7.7% compared with Sep. 2012 (€3.73 bn). Exports amounted to €2.39 bn, down 2.3% (Sep. 2012: €2.45 bn). The increase in imports and the simultaneous decline in exports led to an increase in the trade deficit by 26.7% yoy. Excluding oil products, the picture is different as the trade deficit fell by 9.2% yoy, with imports and exports declining by -5.0% and -1.5%, respectively. In the first nine months of the year, the trade deficit excluding oil products declined by -8.1% (Figure A5).

Figure A5
Commercial Transactions
(Imports & exports of goods excluding oil products, data Jan.-Sep., bn €)



Source: EL.STAT.

Figure A6
Evolution of the current account balance and its components
(9-month data Jan.–Sep., billion €)



Source: BoG

Current Account Balance[11]**:** According to the latest data from the Bank of Greece, over the period January-September 2013, the current account balance recorded a surplus of €2.6 billion (for the first time since 2003, when data are available from the BoG), continuing the upward trend started in 2011 (Figure A6). The significant improvement of the current account balance compared to the same period a year ago is mainly attributed to a notable decline in the trade deficit (down by €2.8 billion) and to increases in the current transfers and services surpluses (up by €2.1 billion and €1.3million, respectively).

Travel Services Balance: According to the latest data from the Bank of Greece, the travel services balance continued its positive trend in September 2013, recording a surplus of €1,835 million, which is 17.2% higher than a year ago. In the first nine months of 2013, the travel services balance improved by +17.7 % compared to 2012, as receipts increased by 14.4% and payments declined by -3.9 % (Figure A7).

Turnover in Industry[12]**:** In September 2013, the Turnover Index in Industry dropped by 8.0% compared with September 2012, according to the latest data from the Hellenic Statistical Authority. This decline was a result of both the decline in the domestic and the non-domestic market by 6.4% yoy and 10.9% yoy, respectively (Figure A8). As far as the non-domestic market is concerned, the deterioration came from the decline in demand from countries outside the Euro area (-15.3%), while demand from the Euro area

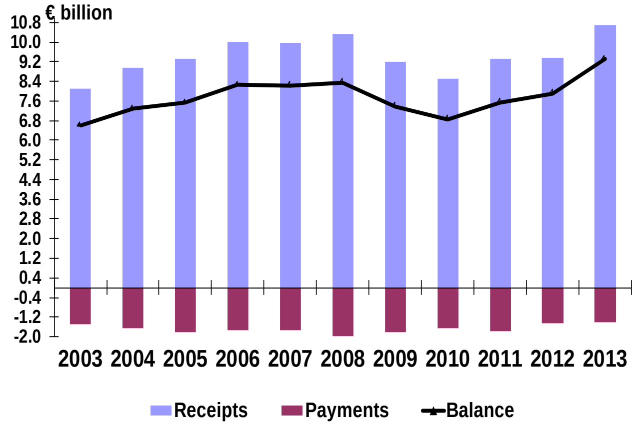
[10] For more details see the press release by the Hellenic Statistical Authority:
http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0902/PressReleases/A0902_SFC02_DT_MM_09_2013_01_E_EN.pdf

[11] For more details see the press release by the Bank of Greece:
http://www.bankofgreece.gr/Pages/en/Bank/News/PressReleases/DispItem.aspx?Item_ID=4416&List_ID=1af869f3-57fb-4de6-b9ae-bdfd83c66c95&Filter_by=DT

[12] For more details see the press release by the Hellenic Statistical Authority:
http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0503/PressReleases/A0503_DKT24_DT_MM_09_2013_01_P_EN.pdf

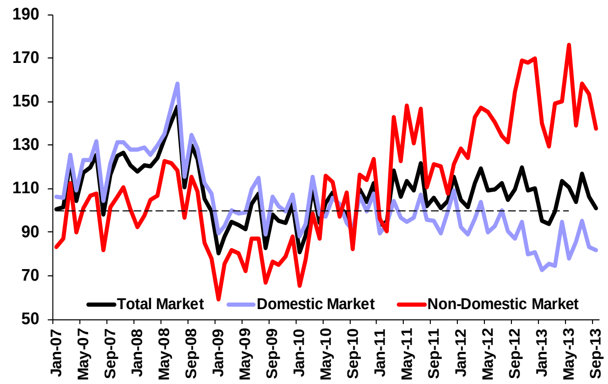
countries increased by 2.3%. It should be noted that this increase is mainly attributed to the energy sector which registered an annual increase of 24.5%.

Figure A7
Evolution of the Travel Services Balance
(9-month data Jan.–Sep., billion €)



Source: Bank of Greece

Figure A8
Turnover Index in Industry
(2010=100, Jan. 2007 – Sep. 2013)

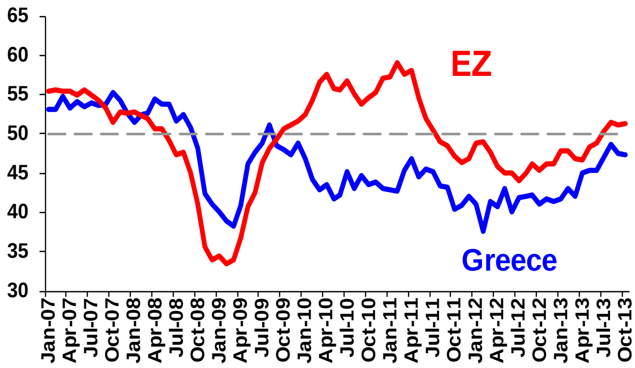


Source: Eurostat

New Orders in Industry[13]**:** The New Orders Index in Industry declined by 0.9% yoy in September 2013. The decline in September is attributed to the decline in new orders from the domestic market (down by 4.8% yoy), while new orders from abroad increased by 1.6% yoy and, in particular, from non-Euro area countries (+2.0%). The above data do not cover all industry sectors and refer to current values, thus the changes may be related to changes in the prices of goods.

Manufacturing Purchasing Managers' Index (PMI)[14]**:** the manufacturing sector in Greece remained in recession in October 2013 for the fiftieth consecutive month, with the PMI index declining further for a second month in a row after a 6-month period of an upward trend. The PMI fell in October to 47.3 from 47.5 in September and 48.7 in August (the highest level in the past 44 months) (Figure A9). The worst performance of October is attributed to the decline in new orders from both domestic and foreign customers and the consequent reduction in production levels. Output charges fell again in September for the 32nd consecutive month, squeezing profit margins. Meanwhile, the employment sub index fell at an accelerated rate in October due to the increase in the job shedding rate for the first time in seven months. In the Euro area, the manufacturing PMI index rose slightly in October to 51.3 from 51.1 in September 2013, remaining in positive territory for the fourth consecutive month (Figure A9). Production and new orders continued to grow at the highest rates in the past two years.

Figure A9
Manufacturing PMI, Jan. 2007 – Oct. 2013
(Seasonally adjusted)



Note: Values above 50 indicate expansion, values under 50 indicate contraction
Source: Markit, Bloomberg

Vehicle Circulation Licenses: According to the Hellenic Statistical Authority, in October 2013, 9,244 road motor vehicles were put into circulation in Greece for the first time, registering an annual increase of 5.7%. In contrast, in October 2012, an increase of 1.2% had been recorded compared to the same month of 2011. The data for the period January-October 2013 shows that the decline in road motor vehicles sales, which began in 2008 and intensified over the next four years, continues, though with decreasing rates. During the first ten months of 2013, 4.0% fewer vehicles were released compared to the same period in 2012. Regarding October 2013, 5,627 (+1.2%) were passenger cars, 31 were buses (+55.0%), 1,192 were lorries (-5.7 %) and 2,394 motorcycles over 50 cc (-19.0 %).

[13] For more details see the press release by the Hellenic Statistical Authority:
http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0503/PressReleases/A0503_DKT27_DT_MM_09_2013_01_P_EN.pdf

[14] For more details see the press release by the Markit Economics:
http://www.markiteconomics.com/Survey/PressRelease.mvc/656bd0d5713644f18df155bd9ab843a1
http://www.markiteconomics.com/Survey/PressRelease.mvc/15ea3e8c87c84f588424617cd2576d3a

Table A1: Greece-Key Indicators Last period 2012-13	Last	Respective 2012 period	2012	2011	2010	2009	2008	2007
Macroeconomic indicators								
GDP growth (%YoY, %YoY)*	-3.0 (Q3 13)	-6.7 (Q3 12)	-6.4	-7.1	-4.9	-3.1	-0.2	3.5
Budget deficit (% of GDP, forecast for 2013)	-4.1	-	-6.0	-9.8	-11.1	-15.8	-9.9	-6.8
Gross public debt (% of GDP,2012 forecast for last)	175.2	-	156.9	170.3	148.3	129.7	112.9	107.2
CPI (%YoY, %YoY, end of year)	-2.0 (10/ 13)	1.6 (10/12)	1.5	3.3	4.7	1.2	4.2	2.9
HCPI constant taxes (%YoY, %YoY, end of year)	-1.0 (10/13)	0.2 (10/12)	0.1	1.3	1.4	1.1	4.2	2.9
Unemployment rate (%YoY, %YoY, end of year)	27.3 (08/13)	25.5 (08/12)	26.4	21.0	14.8	10.2	8.9	8.9
Economic Sentiment (index level, index level, period average)	91.2 (10/13)	79.2 (10/12)	80.0	72.8	75.1	76.3	76.1	94.9
Competitiveness Indicators								
Real harmonised comp/ness indicator CPI deflated (%YoY)	0.3 (Q3 13)	-4.8 (Q3 12)	-3.8	-0.5	-1.7	3.4	0.3	1.5
Unit Labor Cost (%YoY)	-10.2 (Q2 13)	-5.2 (Q2 12)	-8.0	-0.1	-2.0	11.6	5.0	1.5
Labor Cost (%YoY)	-7.4 (Q1 13)	-11.1 (Q1 12)	-12.3	-6.0	-2.7	5.3	2.4	3.4
Consumer indicators								
Private consumption in constant prices (% YoY)	-6.3 (Q2 13)	-8.6 (Q2 12)	-6.4	-7.1	-4.9	-3.1	-2.2	3.5
Retail sales, non-food sector except automotive fuel, volume (% YoY)	-12.1 (08/13)	-10.4 (08/12)	-15.2	-12.0	-8.3	-12.2	-2.2	3.6
New private passenger car registrations (% cum. ytd)	-3.3 (10/13)	-39.9 (10/12)	-40.1	-31.0	-35.6	-17.8	-4.5	4.5
Consumer confidence (index level, index level, period average)	-66.2 (10/13)	-77.5 (10/12)	-74.8	-74.1	-63.4	-45.7	-46.0	-28.5
Retail trade expectations (index level, index level, period average)	-22.8 (10/13)	-48.4 (10/12)	-36.1	-35.4	-33.7	-15.4	14.2	34.2
Industrial-activity indicators								
Industrial production (% YoY)	-1.8 (09/13)	-7.2 (09/12)	-3.4	-7.8	-5.9	-6.8	-8.2	2.0
Capacity utilization in industry (index level, index level, period average)	67.6 (08/13)	63.6 (08/12)	64.3	67.4	68.6	70.5	75.9	77.0
Industrial confidence (index level, index level, period average)	-9.9 (10/13)	- 20.1(10/12)	-21.5	-20.6	-22.5	-28.4	-5.9	5.2
Manufacturing PMI (index level, index level, period average)	47.3 (10/13)	41.0(10/12)	41.2	43.6	43.8	45.4	50.4	53.8
Construction sector & other investment-activity indicators								
Gross fixed capital formation in constant prices (% YoY)	-11.0 (Q2 13)	-21.5 (Q2 12)	-17.6	-14.3	-9.2	-23.1	-5.5	13.1
Housing investment in constant prices (% YoY)	-36.8 (Q2 13)	-31.1 (Q2 12)	-32.9	-23.4	-18.4	-20.2	-25.8	-5.8
Other construction in constant prices (% YoY)	5.7 (Q2 13)	-8.1 (Q2 12)	-8.0	-18.9	-5.9	18.2	44.3	-5.5
Private building permits volume (%YoY, %YoY)	-15.2 (06/13)	-40.0 (06/12)	-26.1	-37.1	-24.1	-26.8	-17.3	-5.0
Construction confidence (index level, index level, period average)	-37.1 (10/13)	-53.3 (10/12)	-58.3	-68.3	-55.4	-39.5	-9.6	-9.2
Balance-of-Payments statistics *(Bank of Greece Data)*								
Current Account (cum ytd %YoY)	-191.0 (09/13)	-81.0 (09/12)	-77.6	-8.3	-12.8	-25.8	6.7	37.2
Tourism revenues (cum ytd %YoY)	14.4 (09/13)	0.3 (09/12)	-0.6	9.3	-7.6	-10.6	2.8	-0.3
Transportation revenues (%YoY, %YoY, cum ytd, %YoY)	-11.1 (09/13)	-3.4 (09/13)	-5.7	-8.6	13.8	-29.4	13.3	18.3
Gross External Debt (% of GDP, % of GDP, cum ytd, % of GDP)	229.8 (Q2 13)	215.8 (Q2 12)	225.8	177.5	183.2	178.4	155.7	138.5
Customs-based statistics *(ELSTAT data)***								
Goods exports excl. oil (%YoY)	-1.4 (09/13)	-6.6 (09/12)	0.9	16.3	8.3	-15.1	1.0	6.3
Goods exports to EU excl. oil (YoY%)	-3.1 (09/13)	-8.1 (09/12)	-3.6	14.1	8.4	-17.3	-5.5	25.1
Goods exports to non-EU countries excl. oil (YoY%)	2.0 (09/13)	-3.4 (09/12)	8.3	17.1	7.9	-10.7	17.5	-23.1
Goods imports excl. oil (%YoY)	-4.7 (09/13)	-15.0 (09/12)	-7.6	-7.5	-12.2	-15.7	0.0	15.9
Goods imports from EU excl. oil (%YoY)	2.6 (09/13)	-19.9 (09/12)	-10.0	-3.8	-13.8	-17.2	-0.3	17.1
Goods imports from non-EU countries excl. oil (%YoY)	-20.5 (09/13)	-2.1 (09/12)	-0.3	-20.9	-8.4	-12.5	0.6	13.5
Domestic MFI credit to domestic enterprises & households *(oustanding balances and net flows)* & NPLs								
Private sector (% YoY, % YoY, end of year)	-3.9 (09/13)	-4.5 (09/12)	-4.0	-3.1	0.0	4.1	15.9	21.5
Enterprises (% YoY, % YoY, end of year)	-4.7 (09/13)	-4.9 (079/12)	-4.4	-2.0	1.1	5.1	18.9	20.8
Households (% YoY, % YoY, end of year)	-3.6 (09/13)	-4.2 (09/12)	-3.8	-3.9	-1.2	3.0	12.6	22.2
Housing loans (% YoY, % YoY, end of year)	-3.2 (09/13)	-3.7 (09/12)	-3.4	-2.9	-0.3	3.7	11.2	21.5
Consumer credit (% YoY, % YoY, end of year)	-4.8 (09/13)	-5.3 (09/12)	-5.1	-6.4	-4.2	1.8	16.0	22.4
Non Performimg Loans (NPLs) (% of total gross loans)	29.3 (Q2 2013)	21.4 (Q2 2012)	24.5	16.0	10.4	7.7	5.0	4.5
Private-sector credit outstanding (% GDP) ***								
Total domestic enterprises & households	113.3 (09/13)	118.9 (09/12)	110.4	111.8	108.6	108.0	107.1	96.5
Domestic households	56.0 (09/13)	58.7 (09/12)	55.0	54.2	53.2	51.8	50.3	46.6
Stock Indices****								
Athex General Index (level)	1168.9	-	907.9	680.4	1413.9	2196.2	1786.5	5178.8
FTSE/ASE 20 Index (level)	389.2	-	309.7	264.9	663.1	1125.4	932.5	2752.5
Athex Banks Index (level)	185.3	-	226.3	262.9	1251.0	2661.7	1899.4	7296.4
Baltic Dry Index (level)	1483.0	-	699.0	1738.0	1773.0	3005.0	774.0	9143.0
Bond/CDS spreads **, †**								
10yr Bond Spread over Bund (bp)	702.2	-	1058.4	3313.4	950.9	238.7	227.4	32.2
5yr Bond Spread over Bund (bp)	-	-		5163.1	1163.1	254.2	264.3	21.2
2yr Bond Spread over Bund (bp)	-	-		13408.3	1134.4	211.9	240.1	26.8
5yr CDS Spread (bp)	-	-		10231.4	1037.3	282.8	238.0	-
T-Bills, Auction Rate								
26-Weeks average rate (%, last auction, last auction of year)	4.15 (05/11/2013)	-		4.95	4.82	0.35	5.09	4.18
13-Weeks average rate (%, last auction, last auction of year)	3.90 (12/11/2013)	-		4.68	4.10	0.59	4.46	4.14

Source: Hellenic Statistical Authority, PDMA, Bank of Greece, ECOWIN, AMECO, Bloomberg, Eurobank EFG Research

* Non-seasonally adjusted GDP data were used . Seasonally adjusted data not available. Growth rates for 2007-9 include the recent ELSTAT's revision.

**Note that custom based statistics (Source: ELSTAT) on imports and exports are subject to frequent revisions.

***For 2013 the respective GDP forecast of EuroBank Research (€ 183.3 bn) was used . For 2007-2012 the respective AMECO figures were used

****Stocks, BDI and Bond spread as of 11/22/2013

† Note that according with the Private Sector Involvement (PSI) process, the Greek bonds swap took place on 12/03/2012.

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