

PIRAEUS BANK



Data vs Sentiment: The Great Divide

Economic Research & Investment Strategy

September 2015

Ilias Lekkos
Irini Staggel
Dimitris Gavalas
Anastasia Aggelopoulou

Lekkosi@piraeusbank.gr
Staggelir@piraeusbank.gr
Gavalasd@piraeusbank.gr
Aggelopouloua@piraeusbank.gr

Piraeus Bank

94, Vas. Sofias Ave. & 1, Kerassountos str., 115 28 Athens
T: +30 210 3288187, F: +30 210 3739580

researchdivision@piraeusbank.gr
Bloomberg Page: <PBGR>

1. The Great Divide

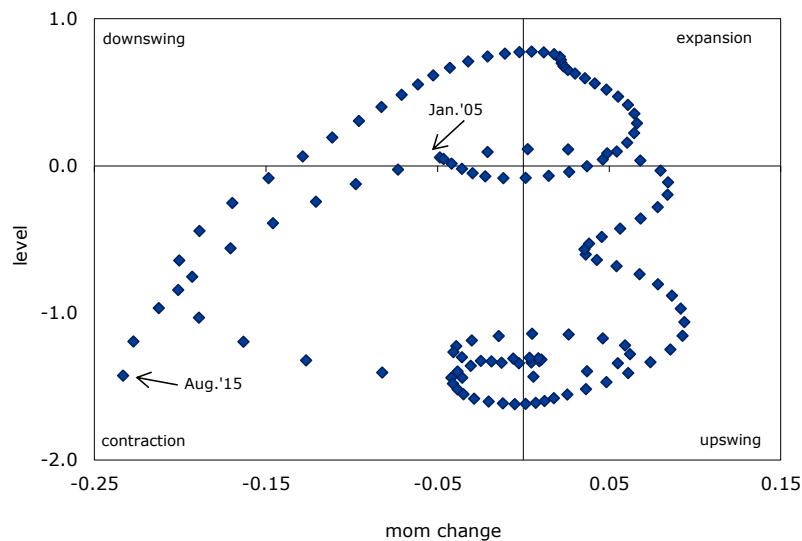
2. 3rd Economic Adjustment Programme

3. Outlook in detail

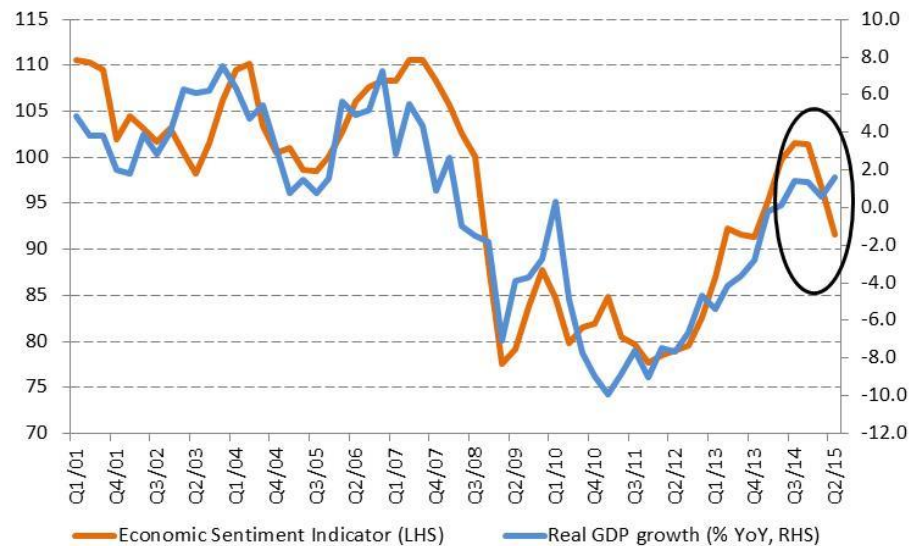


The Great Divide between Macro & Sentiment

Economic Tracer



ESI vs GDP growth rate

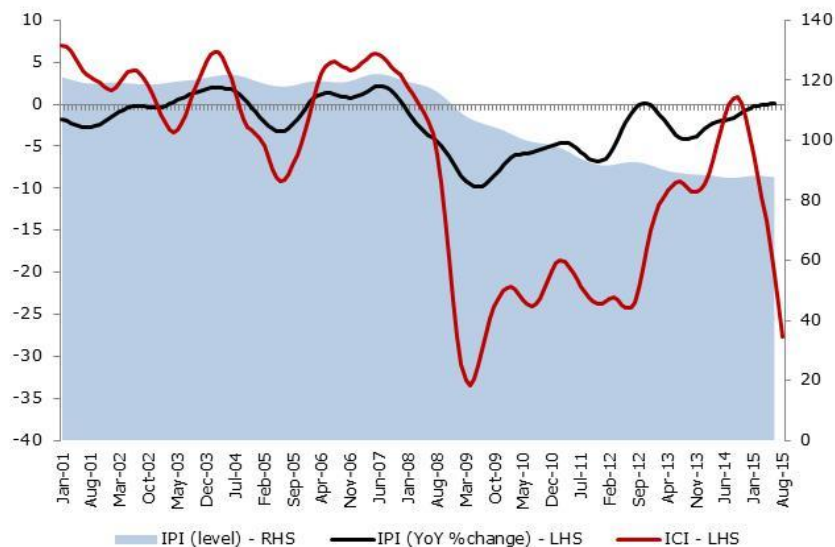


Source: ELSTAT, DG ECFIN, Piraeus Bank Research

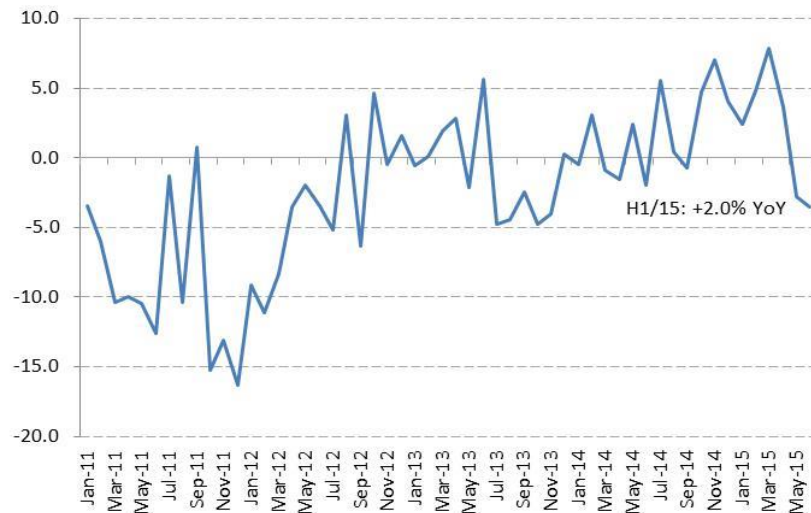


The Great Divide in Industrial Production

**Industrial Production Index (IPI) &
Industrial Confidence Indicator (ICI)**
(Trend & Cycle)



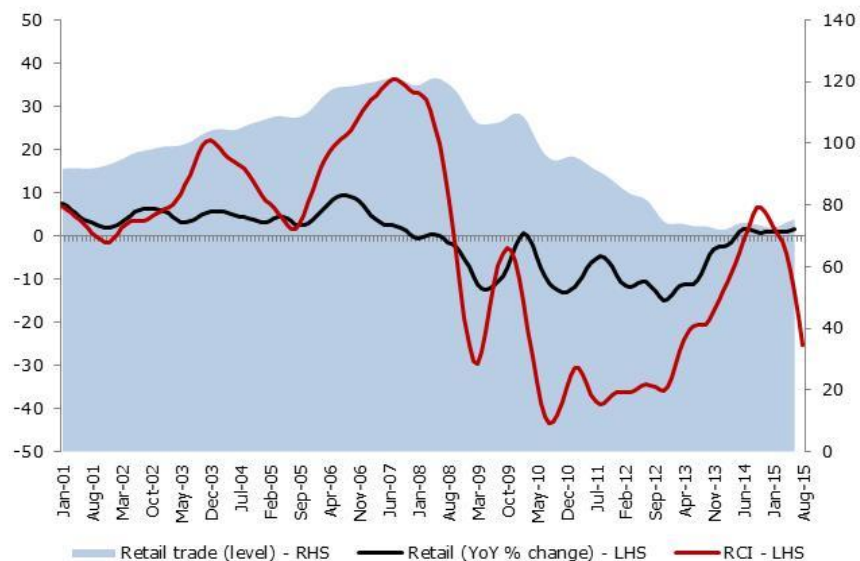
**Industrial Production Index in
Manufacturing (YoY % change, sa data)**



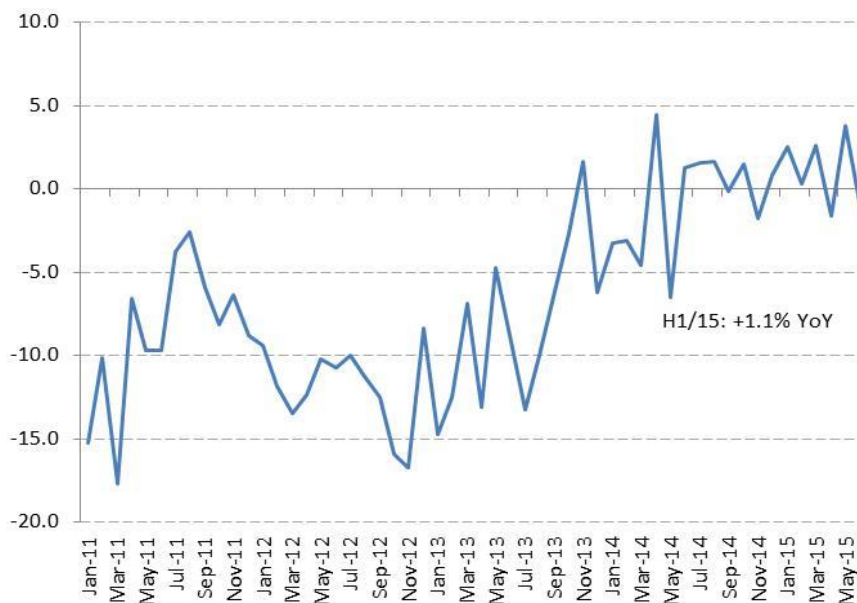


The Great Divide in Retail Sales

Retail Trade Volume Index (excl. automotive fuels) & Retail Confidence Indicator (Trend & Cycle)

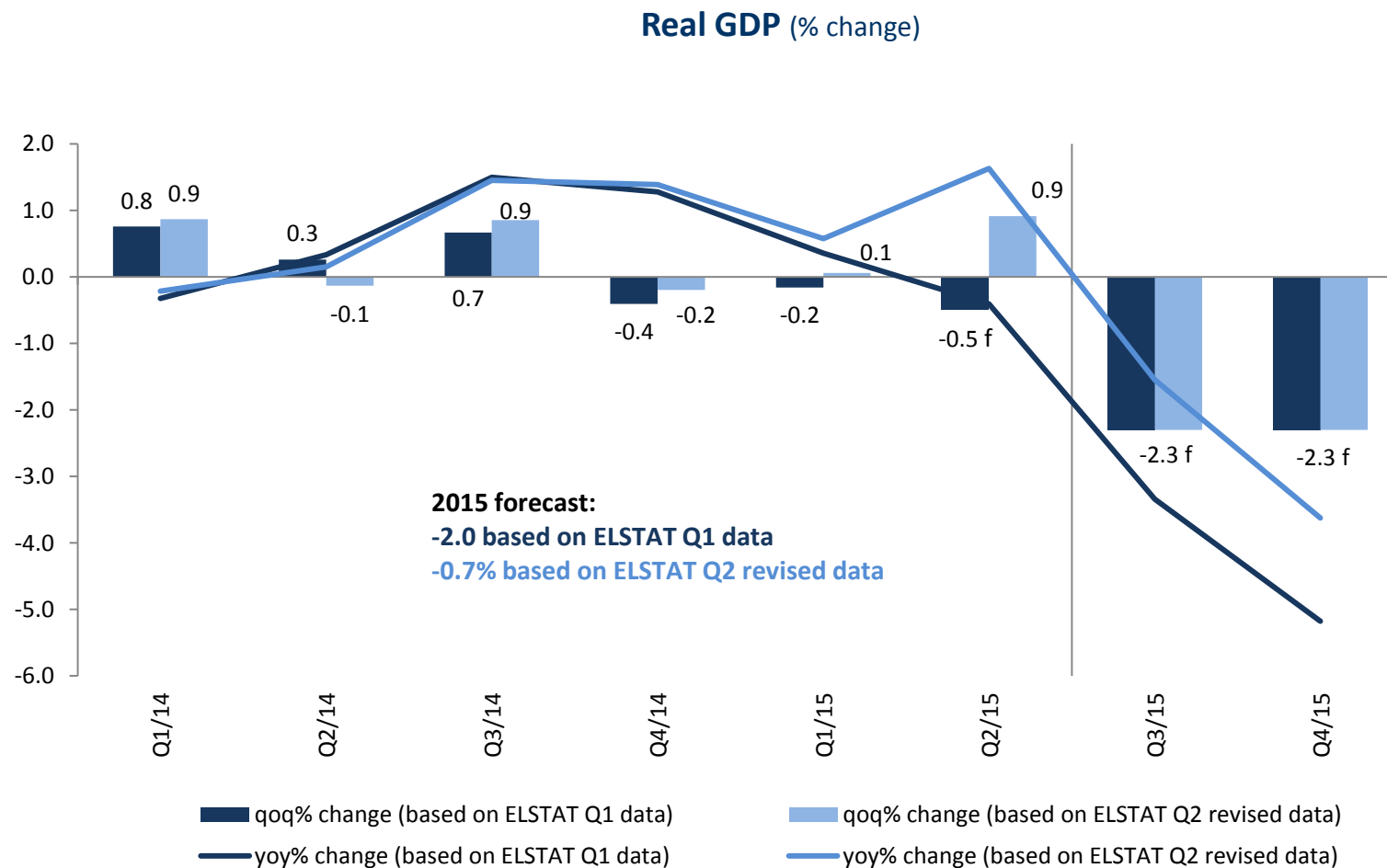


Retail Trade Volume Index (excl. automotive fuels, YoY % change, sa data)





From the Great Divide to the Great Revision





Yielding to the new data: Economic Outlook 2015-17

Economic Outlook (YoY% change, unless otherwise stated)

	2014	2015		2016	2017
		(as of July)	(as of end-Aug)		
Real GDP	0.8	-2.0	-0.7	-3.0 to -2.0	2.0 to 3.0
Nominal GDP	-1.8	-4.0	-1.7	-1.0 to -2.0	3.0 to 4.0
GDP Deflator	-2.6	-2.0	-1.0	0.5 to 1.5	1.0 to 2.0
CPI	-1.3	-1.5	-1.5	1.0 to 2.0	1.0 to 2.0
Unemployment (% of labour force)	26.5	27.0	26.0	25.5 to 26.5	24.0 to 25.0
Private Sector Deposits (residents)	-2.4	-22.0	-22.0	4.5	8.0
Private Sector Loans	-3.1	-2.5	-2.5	0.0	3.5

Source: ELSTAT, Bank of Greece, Piraeus Bank Research

1. Data vs Sentiment

2. 3rd Economic Adjustment Programme

3. Outlook in detail



Time Relativity in action

27 June

Referendum voted for by Greek Parliament

29 June 2015

Introduction of capital controls

30 June

Termination of the 2nd economic support programme of Greece

5 July

Referendum

8 July

Greece makes an official request for stability support – in the form of a loan facility – to the ESM

15 July & 22 July

The Greek authorities pass several sets of legislation

20 July

Short term bridge loan under EFSM (€7.16 bn)

19 August

The European Commission & Greece sign a MoU.
(3rd Economic Adjustment programme)

20 August

A first disbursement of funds under ESM (€13 bn & €10 bn for Banks Recap.



Overview of the 3rd Programme

- **Total amount of loans from the ESM:** up to €86 billion
- Loans to be used for:
 - debt service
 - bank recapitalisation (€25 bn)
 - arrears clearance
 - budget financing
- Duration: August 2015– August 2018
- Maximum weighted average loan maturity: 32.5 years
- Interest rate: funding cost plus small fees; currently around 1%

- **First tranche** totals €26 billion
- €10 billion buffer (comprising ESM notes) for banks to a segregated account at ESM
- €13 billion disbursed 20 August 2015
- €3 billion to be disbursed by the end of November

- **Privatisation fund** will be established in 2015; targeted total value of assets to be sold: €50 billion
 - sale of assets will be used to repay ESM; to decrease debt; and to fund investment
 - fund will be managed by Greek authorities under supervision of European institutions

- **The IMF** expected to contribute to the overall €86 billion programme for Greece after European creditors adopt debt relief measures

- **Conditionality:** reform agenda focused on four areas:
 1. Restoring fiscal sustainability
 2. Safeguarding financial stability
 3. Enhancing growth, competitiveness and investment
 4. A modern State and public administration

Source: ESM



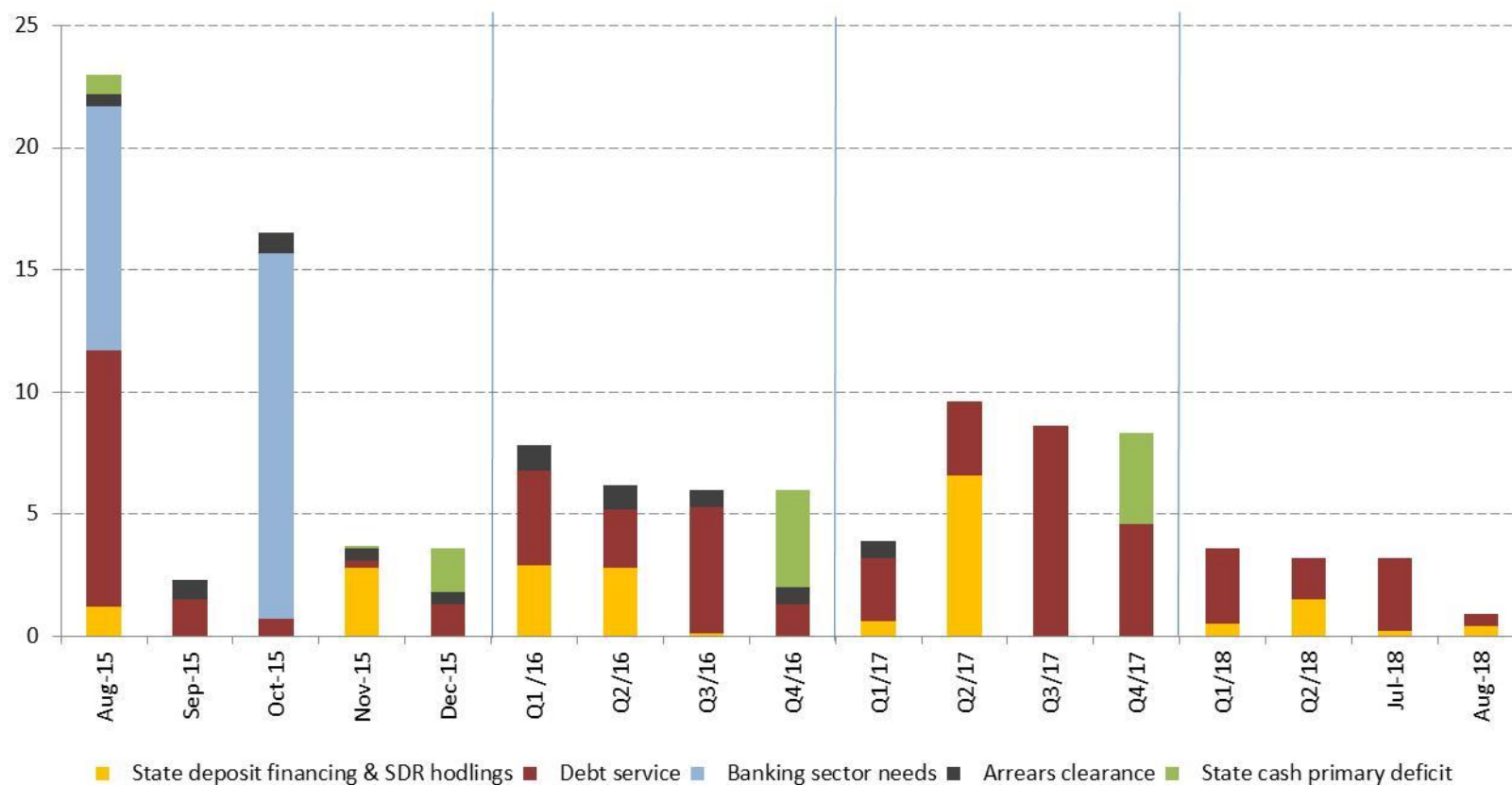
The 3rd Programme in a nutshell ...

		2015	2016	2017	2018
LAW 15 July 2015 (mn €)	VAT reform	795	2,390	2,390	2,390
	Tax on Insurance	-	76	76	76
	Increase in corporate income tax to 29% from 26%	-	410	410	410
	Luxury Tax	-	49	49	49
	Increase in Solidarity Surcharge	-	251	251	251
	Increase in the advance payment on corporate income	-	445	-	-
	Increase in the health contribution for pensioners & extension to supplementary pensions	422	854	854	854
	Integration into ETEA of all supplementary pension funds & supplementary pensions reform	-	16	16	16
	Elimination of early retirement	4	26	43	60
	Total	1,221	4,516	4,089	4,106
	Total (as % of GDP)	0.7	2.6	2.3	2.3
Further Reforms (% of GDP)	Fiscal Measures (pending for Oct. 15')	:	:	0.75	0.75
	Fiscal Measures (pending for Oct. 15')	:	:	:	0.25
	Pension reforms	0.25	0.25	0.25	0.25
	Pension reforms		0.75	0.75	0.75
	Others	0.4	:	0.2	:
Total (% of GDP)		1.4	3.6	4.2	4.3



The financing needs are set. The funding sources are not

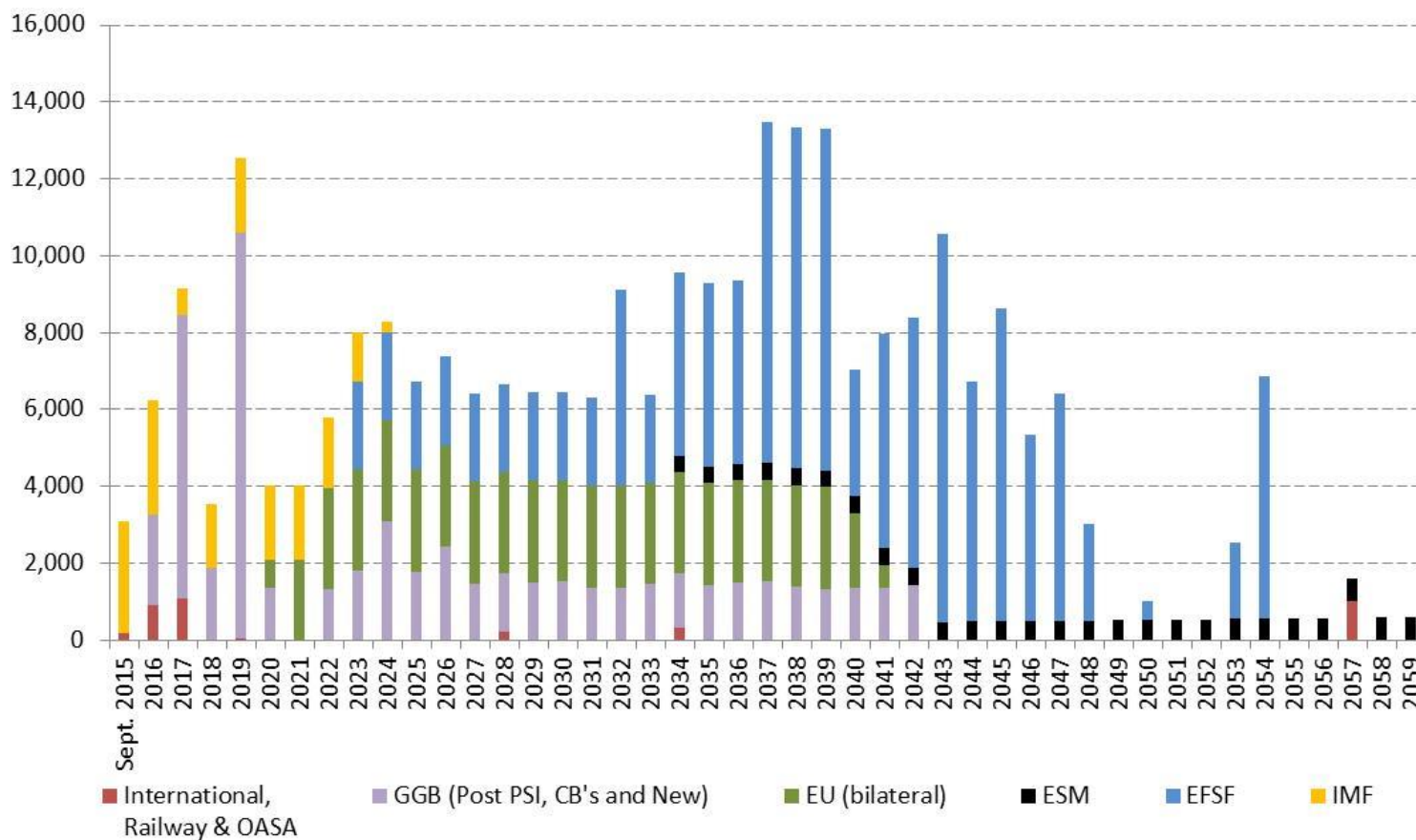
Outflows (bn €)





Debt maturities now stretch all the way to 2059

Bonds & Loans Maturities (as of Sep. 15', mn €)



* Figures do not include short-term securities (T-bills) and circa €27 bn related to Bank of Greece loans, special and bilateral loans, other internal and external loans, repos and external securitizations.

1. Data vs Sentiment

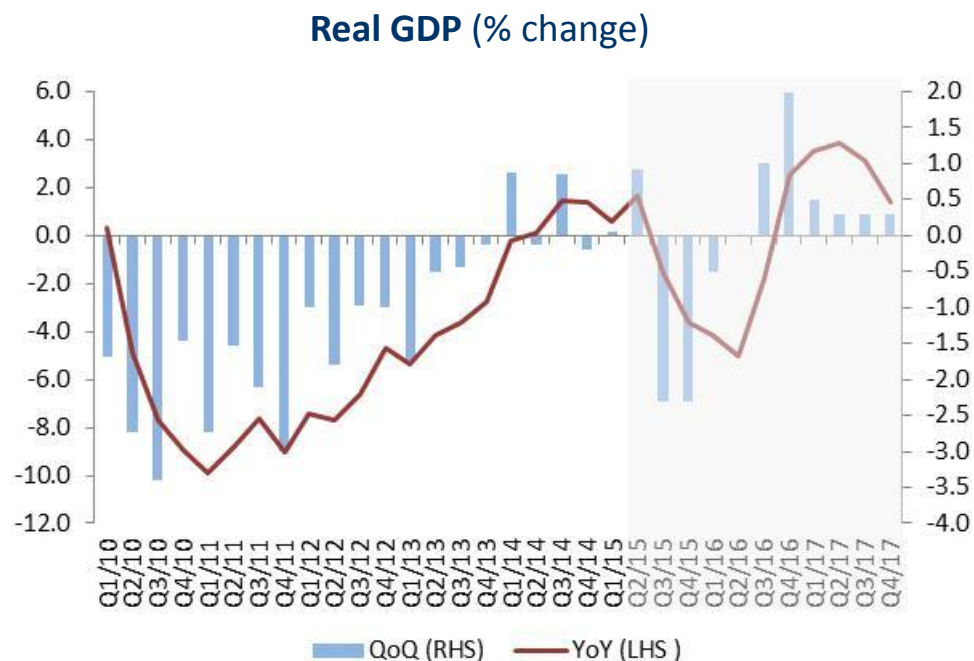
2. 3rd Economic Adjustment Programme

3. Outlook in detail



Economic Outlook: Real GDP 2015 – 2017

- **For 2015**, we estimate an annual contraction of -0.7%
- **For 2016**, we estimate a negative carry-over effect of approx. -2.5%. The quarterly GDP profile we estimate is -0.5% in Q1, 0% in Q2, +1.0 in Q3 and +2.0% in Q4, as tourism and privatisations provide a positive boost to the economy.
- **For 2017**, we estimate GDP to grow between 2% -3% based on a positive carry over effect of 2% and QoQ growth of 0.3%.



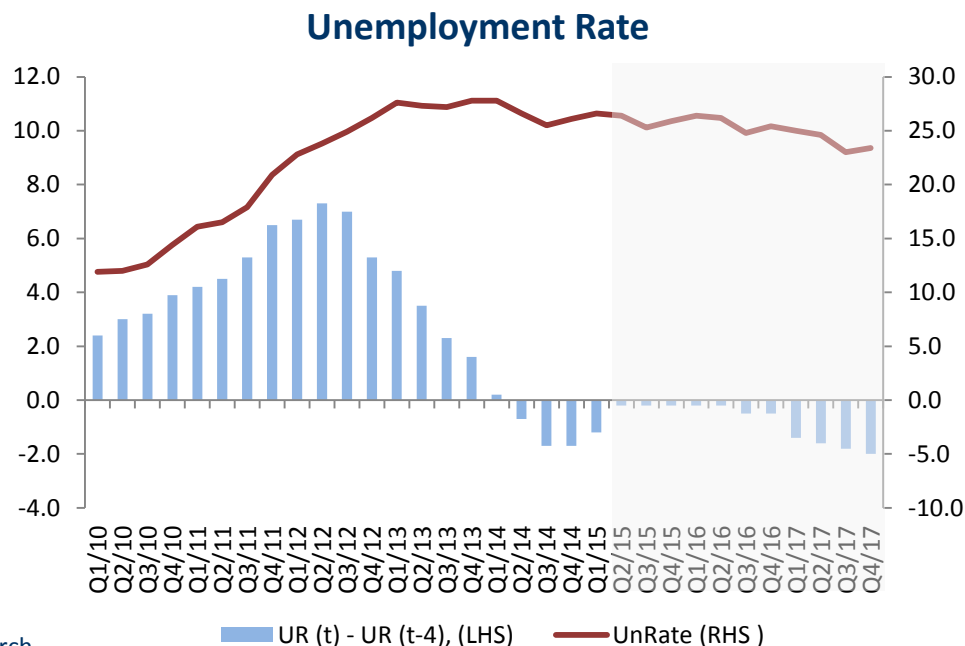


Economic Outlook 2015 – 2017: Unemployment Rate

In **2015**, the job creation schemes in addition to the hiring of public sector employees and the latest available data for GDP growth by 1.6% YoY in Q2/15 and unemployment rate 25.0% on May 15' (24.0% nsa data) - the lowest value since June 2012- forced us to **revise downward our estimate to 26%**.

In **2016**, we expect the **unemployment rate to range between 25.5% and 26.5%**, as we estimate that the employment schemes will continue to support the labour market and that, towards the end of the year, activity will strengthen.

In **2017**, we expect the **unemployment rate to range from 24% to 25%**, as the economy will return to growth and the first positive results of the privatizations will be reflected in the employment figures.





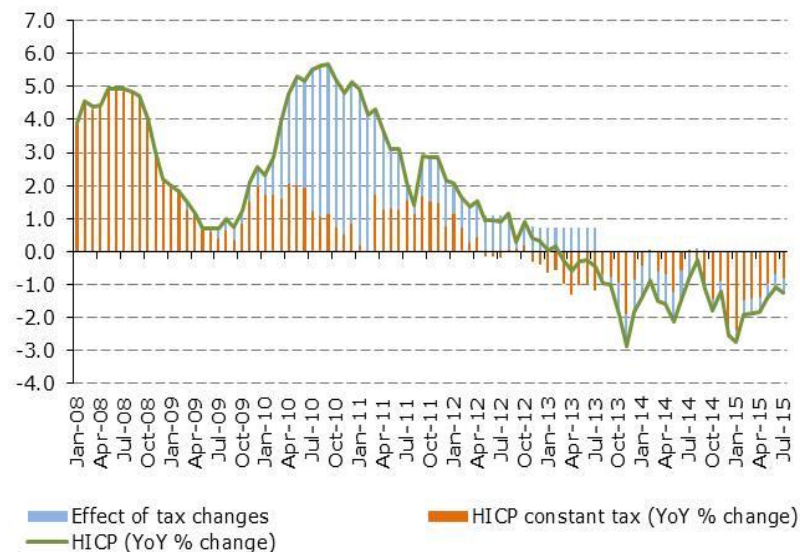
Economic Outlook 2015 – 2017: Inflation

- In H1 2015, inflation reached -2.3%.
- **In Q3-2015** the upward trend of inflation due to VAT reform will be partly eliminated by the decline of the prices due to sales. However **in Q4-2015 prices will increase as an effect of tax changes**.
- **In 2016**, tax changes effect as well as the estimated stability of the economy towards the year – end, will force inflation back to positive territories.

Inflation Rate (CPI, YoY % change)



HICP & Effect of tax changes

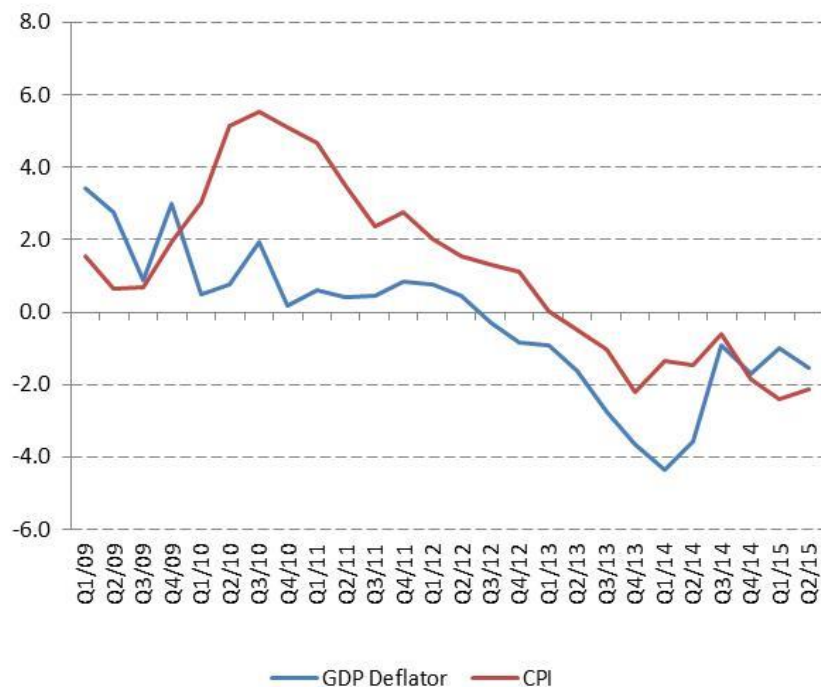




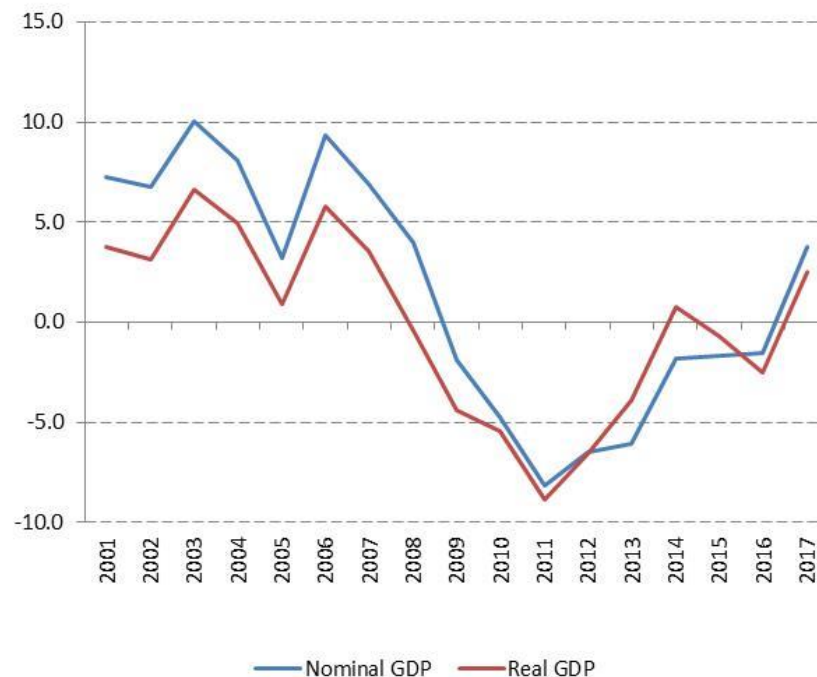
Economic Outlook 2015 – 2017: Nominal GDP & GDP Deflator

- Since 2010 GDP deflator moves lower than inflation. We had estimated that **this gap will gradually close**. However based on the latest available data in H1/2015 this gap has already closed. Following this assumption we estimate that if CPI stands at -1.5% then GDP deflator will stand at -1.0%
- In that case we revise upward our previous forecast for **nominal GDP growth rate to -1.7% in 2015**.

GDP Deflator & CPI (YoY % change)



Nominal & Real GDP (YoY % change)





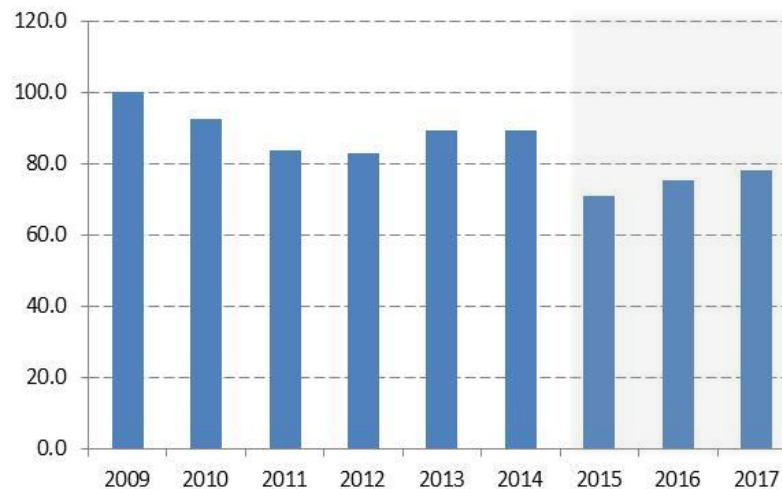
Economic Outlook 2015 – 2017: Loans & Deposits

- **In 2015** the outflow of deposits and the dependency of Greek bank to the Eurosystem funding has an adverse impact to the total credit formation.
- **In 2016 – 2017** the recapitalization and the gradual restoring of domestic confidence on the banking system will increase deposits inflows. The positive credit growth will support the economy.

Private Sector Loans (% of GDP)



**Private Sector Deposits
(residents, % of GDP)**





Disclaimer: This note constitute an investment advertisement, is intended solely for information purposes and it cannot in any way be considered investment advice, offer or recommendation to enter into any transaction. The information included in this note may not be construed as suitable investment for the holder, nor may it be considered as an instrument to accomplish specific investment goals or relevant financial needs of the holder and may neither be reckoned as a substitute to relevant contractual agreements between the Bank and the holder. Before entering into any transaction each individual investor should evaluate the information contained in this note and not base his/her decision solely on the information provided. This note cannot be considered investment research and consequently it was not compiled by Piraeus Bank according to the requirements of the law that are intended to ensure independence in the sector of investment research. Information comprised in this note is based on publically available sources that are considered to be reliable. Piraeus Bank cannot be held accountable for the accuracy or completeness of the information contained in this note. Views and estimates brought forward in this note represent domestic and international market trends on the date indicated in the note and they are subject to alteration without previous warning. Piraeus Bank may also include in this note investment research done by third parties. This information is not modified in any way, consequently the Bank cannot be held accountable for the content. The Piraeus Bank Group is an organization with a considerable domestic and international presence, and provides a great variety of investment services. In cases where conflicts of interest issues should arise while Piraeus Bank or the rest of the companies of the group provide investment services in relation to the information provided in this note, Piraeus Bank and the companies of the Group should be underlined that (the list is not exhaustive): a) No restrictions apply in dealing for own account, or with regards to trading in relation to portfolios managed by Piraeus Bank or companies of its group before the publication of this note, or with regards to trading before an initial public offer. b) It is possible that investment or additional services are provided to the issuers included in this note against a fee. c) It is possible that Bank or any of its subsidiaries participate in the share capital of any of the issuers included in this note or may attract other interests financial or not from them. d) The Bank or any of its subsidiaries may act a market maker or an underwriter for any of the issuers included in the note. e) Piraeus Bank may have issued similar notes with different or incompatible content with the content of this note. It should be explicitly noted that: a) Figures refer to past performances and past performances do not constitute a safe indication for future performances. b) Figures constitute simulation of past performances and they are not a safe indication of future performances. c) Any projections or other estimates are not safe indications for future performances. d) Taxation treatment of information provided in this note may differ according to the rules that govern each individual investor. Therefore the holder should seek independent advice in relation to taxation rules that may affect him/her. e) Piraeus Bank is not under any obligation to keep data and information provided herein updated.