NATIONAL BANK
OF GREECE

GREECE

Macro View

October 2015

Pre-emptive actions by the household and business sectors limit the recessionary impact of capital controls

Macroeconomic Indicators
& Fiscal Outlook, pages 15-22

- Capital controls were initially expected to have a large impact on a cash-based and import-dependent Greek economy.
- However, the most recent readings of coincident indicators (available for the period July-September) suggest that downside pressures on activity are evident, but not severe.
- This resilience largely reflects the fact that capital controls had been anticipated by Greek households and firms, permitting them to pre-emptively draw up contingency plans to cushion their near-term impact.
  - ✓ The private sector built up liquidity buffers, withdrawing about €41bn of bank deposits since November 2014, of which €9.3bn corresponded to enterprises' deposits (or 39% of their deposit stock in November 2014) and €32bn to households' deposits (24% of their November 2014 level).
  - ✓ Greek firms increased their imported inputs by an estimated 11.7% y-o-y in H1:2015 to minimize the risk of supply shortfalls.
  - ✓ The value of cashless transactions has doubled since July, reducing the impact of the bank holiday and limits on cash withdrawals.
- The resilience also reflects the advanced stage of economic rebalancing in Greece following a painful multi-year economic adjustment, which made it far more resilient to external shocks.
- Moreover, the new programme provides financial resources to cover Greece's external financing needs during the period 2015-2018 and, as such, provides an immediate boost to investor confidence.
- NBG's model for near-term GDP forecasting, that combines information from coincident and survey-based indicators, suggests that GDP will contract by -1.3% y-o-y in FY:2015 (-3.7% y-o-y in H2:2015) -- significantly better than expected -- and by -1.2% in FY:2016, with a quarterly expansion in GDP starting during H1:2016. Moreover, the bulk of the decline in activity will be due to further fiscal adjustment (an estimated fiscal drag of 2.5% of GDP in H2:2015) rather than the impact of capital controls. The prospective acceleration in government arrears clearance is expected to reduce the effective fiscal drag in FY:2016 to 1.0% of GDP from an estimated 1.4% in FY:2015.

Paul Mylonas, PhD
NBG Group Chief Economist
(+30210) 334 1521
e-mail: pmylonas@nbg.gr

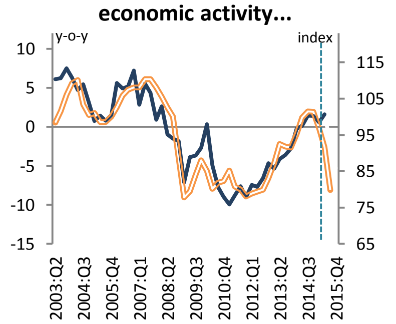
NBG Economic Analysis Department
86 Eolou Str., 102 32 Athens, Greece
https://www.nbg.gr/en/the-group/press-office/e-spot

Nikos S. Magginas, PhD
Head of Greece Macroeconomic Analysis
(+30210) 334 1516
e-mail: nimagi@nbg.gr

Effrosyni Alevizopoulou, PhD
(+30210) 334 1620
e-mail:ALEVIZOPOULOU.E@nbg.gr

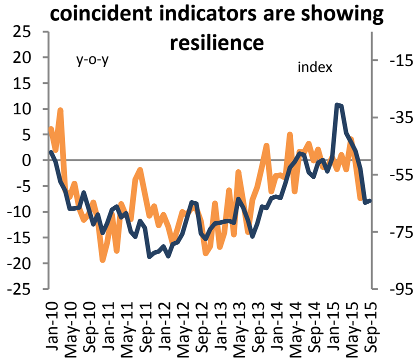
Aikaterini Gouveli, MSc
(+30210) 334 2359
e-mail: gouveli.aikaterini@nbg.gr

Capital controls were initially expected to significantly impact economic activity...



GDP growth (left axis)
EC Economic sentiment indicator (right axis)

...but latest readings of coincident indicators are showing resilience



Retail sales, volume, y-o-y (left axis)
Consumer confidence, index (right axis)

Data Sources: EL.STAT, EU Commission

Pre-emptive actions by the household and business sectors limit the recessionary impact of capital controls

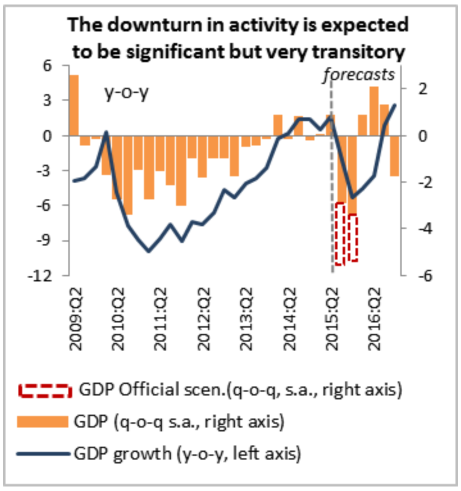
Introduction

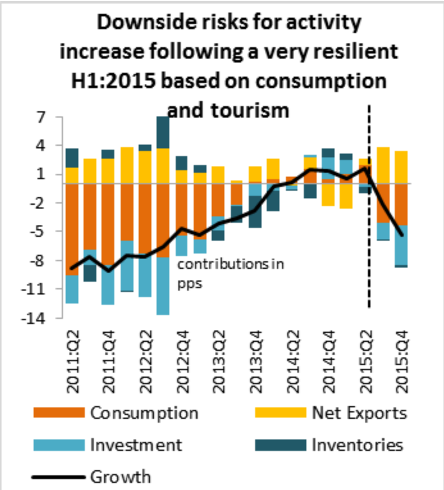
Capital controls were initially expected to have a large impact on a cash-based and import-dependent Greek economy, as the constraints on transactions that could be undertaken outside the banking system (essentially cash withdrawals and transfers abroad), as well as the bank holiday period, were expected to significantly impact firms' and households' activity.

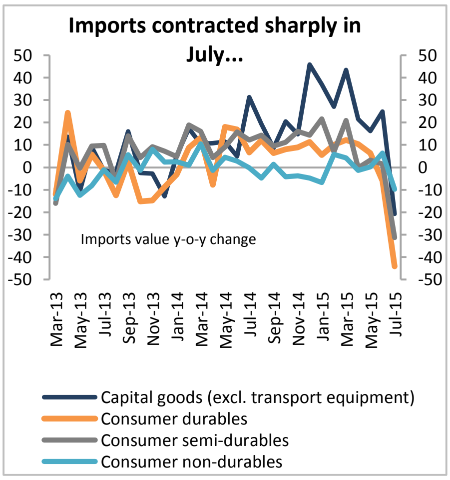
However, the most recent readings of coincident indicators (available for the period July-September) suggest that activity is holding up much better than expected. This resilience largely reflects the fact that capital controls had been anticipated by Greek households and firms, permitting them to pre-emptively draw up contingency plans, accumulate liquidity as well as productive-supply buffers to cushion their near-term impact. Capital controls have also led to a significant increase in remote payments and debit/credit card use, which up to this point, was not as common in Greece as in other European countries, permitting retail consumers to meet their domestic obligations through non-cash transactions.

Moreover, the Greek private sector had been "toughened up" by the incredible adjustment effort over the past 5 years that had led to a sharp improvement in competitiveness, despite a large decline in output. In this regard, the "hard landing" scenario that typically accompanies the imposition of capital controls, and ultimately leads to a forced correction of macroeconomic imbalances, does not fit to the case of Greece, which had already undergone an extremely large macroeconomic and enterprise rebalancing phase. Looking forward, the reduced uncertainty which arises from an agreement on a new 3-year Programme, in conjunction with the supportive role of the ECB and EU structural funds, should lead to liquidity relief and, in fact, should allow a relatively quick lifting of the capital controls.

Nonetheless, downside risks to activity remain in the short term -- albeit not from capital controls -- as the seasonal support from tourism will soon dissipate and the phasing-in of new fiscal measures during this period will weigh on domestic demand. NBG's model for near-term GDP forecasting that combines information from coincident and forward-looking/survey-based indicators and takes into account the estimated fiscal drag, suggests that GDP will contract by 2.1% y-o-y in Q3:2015 and by about 5.3% y-o-y in Q4:2015, with the average annual contraction in GDP reaching -1.3% compared with







Data Sources: EL.STAT, EU Commission, Eurostat, NBG estimates

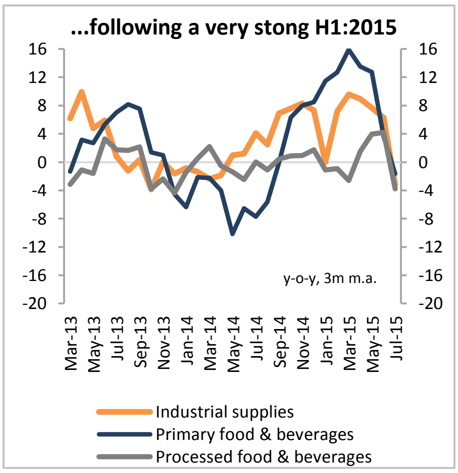
official estimates for a FY decline in GDP of -2.3% in 2015. NBG forecasts correspond to the highest pace of seasonally-adjusted contraction in GDP since 2009. However, in the official scenario, the respective average quarterly contraction in H2:2015 GDP of -5.8% q-o-q per quarter, compared with -3.1% q-o-q by NBG, is a pace that had never been experienced during the 6-year recession in Greece, even during the difficult period of 2010-2012.

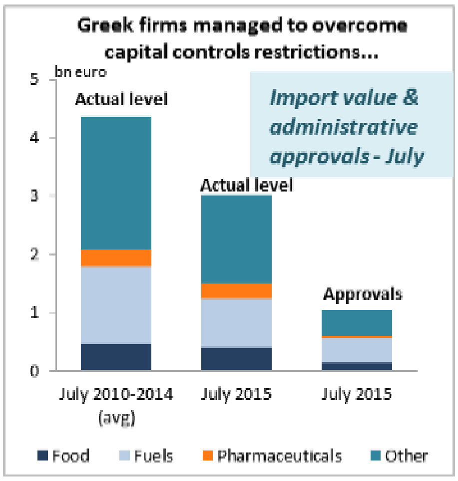
In 2016, output is estimated to contract by 1.2% y-o-y, despite additional fiscal adjustment (an effective fiscal drag of about 1.0% of GDP, including the offsetting impact of government arrears clearance) and a negative carry on GDP of -2.5% y-o-y. However, the base effects on growth are expected to be very supportive by mid-2016, with a rapid improvement in economic confidence. According to NBG projections, the quarterly trajectory of GDP is expected to trend rapidly upward and the first quarterly (s.a.) expansion of GDP is estimated in Q1:2016 or Q2:2016, and real GDP growth in H2:2016 is estimated to be +1.7% y-o-y. In this environment, administrative restrictions on capital flows will be lifted in H1:2016, following the successful conclusion of the bank recapitalization.

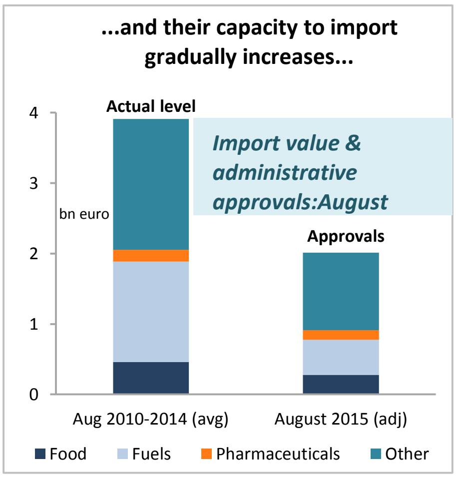
The new agreement and the formation of a stable pro-euro government in September lay the foundation for the restoration of confidence. In this regard, a timely completion of the 1st Review of the new programme and the release of related funding for domestic fiscal needs, in conjunction with an acceleration of EU structural funds inflows, would help contain downward pressures on activity and pave the way for an early lifting of capital controls. These developments are of utmost importance for minimizing the economic cost of capital controls that tends to increase over time, as the cushions of the private sector are exhausted. In this respect, it is encouraging that, during the first three months of capital controls, notable progress has already been made in loosening them, especially for businesses (see appendix).

Coincident indicators suggest that economic activity is holding up relatively well in Q3:2015, supported by tourism and favourable terms of trade effects

Following a surprisingly resilient H1:2015, when real GDP expanded by 1.1% y-o-y, outpacing expectations -- supported mainly by strong tourism activity and the increase in spending power from imported deflation -- activity in H2:2015 will clearly suffer a setback. The sharp increase in uncertainty arising from: i) scenarios of Grexit or a temporary suspension of euro membership; ii) the three-week bank holiday; and iii) payment delays by the Budget -- carried over from





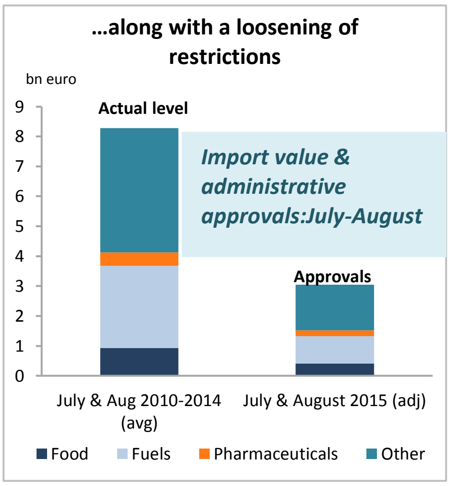


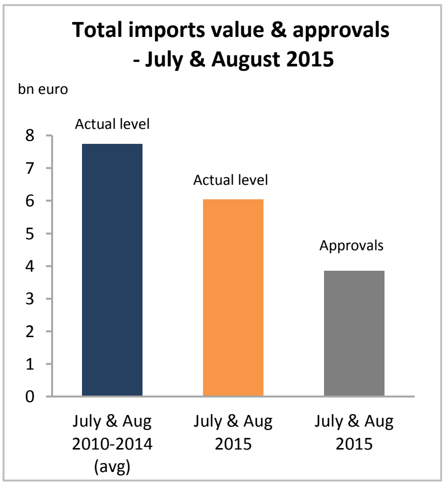
Data Sources: BoG, Minfin, Eurostat, NBG estimates

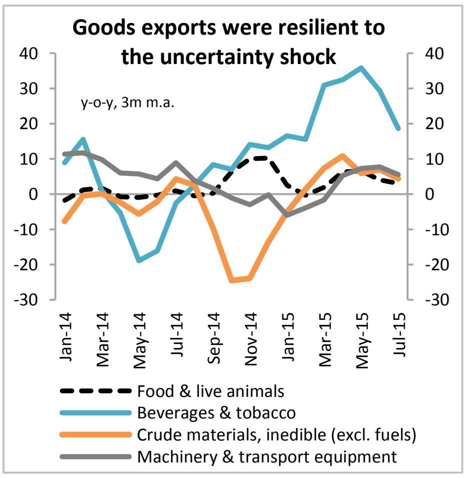
previous months -- combined with the imposition of capital controls, will surely weigh on the economic performance. The question is the size of the impact. Indeed, the dominant role that cash plays in retail transactions, exemplified by the very low share of remote payments and cards in domestic financial transactions until 2014 (about 75% lower than the euro area average), as well as large prospective disruptions in external trade on an import dependent Greek economy, all contributed to a very pessimistic initial assessment of the impact of capital controls in Greece.

However, the latest readings of conjunctural indicators for the period July-September 2015 suggest that activity is holding up better than anticipated. Specifically:

- Goods imports (in value terms, excluding energy) – which are directly affected by restrictions on external payments -- declined by 23% y-o-y in July (in value terms) compared with annual increases of 6.2% in H2:2014 and 1.7% in H1:2015. Specifically, imports of consumer durables and semi-durables (excluding transportation equipment), industrial inputs and capital goods that correspond to c. 40% of imports declined by 35%, 29%, 21% y-o-y, respectively, in July, following three quarters of solid growth. The sharp fall in July for these goods categories has to be placed in the context of their strong increases of 8.2%, 7.9% and 28.3% y-o-y, on average, respectively, in H1:2015. These developments occurred in an environment of increasing uncertainty, and likely reflect a pre-emptive inventory build-up by firms with a view to minimizing the repercussions of prospective financial turbulence in the event of a stand-still in negotiations with official lenders and the concomitant freeze in liquidity provision by the Eurosystem. In this light, the import adjustment in July is less worrying.
- Moreover, it is notable that (non-oil) imports declined by only 23% y-o-y in July 2015 when the value of administrative approvals for import financing was about 64.4% lower than the monthly import value in July 2014 and about 51.6% lower than the average value of imports in this month during the period 2011-2014. This development indicates that a significant number of firms had prepaid imports or used financial resources held abroad, or had taken advantage of available arrangements with foreign suppliers and customers, and succeeded in partially overcoming the constraints imposed by capital controls. Moreover, the monthly value of approvals for imports by the central committee and bank sub-committees is reported to have increased by almost 50% in





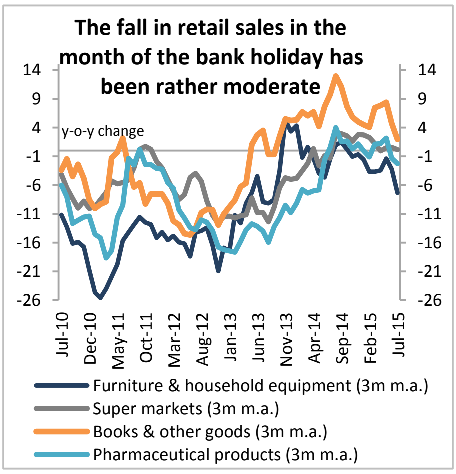


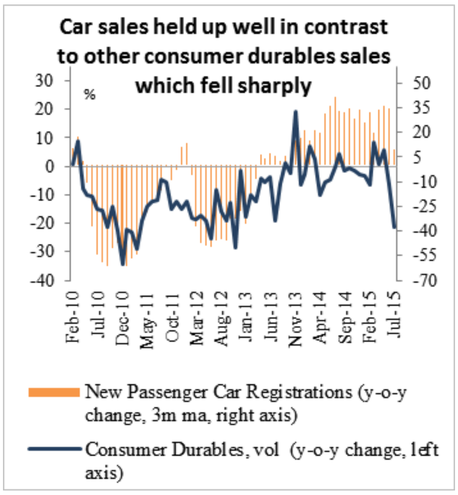
Data Sources: BoG, Minfin, Eurostat, NBG estimates

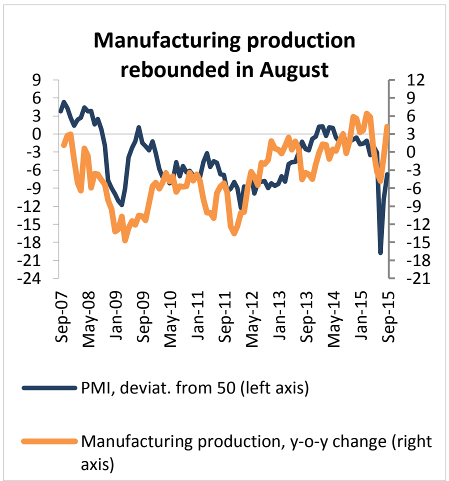
August -- corresponding to 69% of August 2014 imports -- and even further in September (to above 90% of the average import value in this month in the period 2011-2014), with a parallel streamlining of related bureaucratic processes. This development is more important for smaller firms, which are more exposed to the constraints of capital controls. Indeed, on the basis of preliminary data, the value of Greek imports (excluding oil) in August, declined by -8.4% y-o-y (from -22.6% y-o-y in July), exemplifying the supportive impact from the gradual easing in constraints.

- Goods and services exports have showed notable resilience to the shock to confidence and the capital controls. After about 3 weeks of cancellations and an evident slowing in last-minute bookings compared with the previous year, tourism demand gained traction from mid-July, as reflected by the healthy pace of increase in tourism revenue and arrivals of 3.8% and 5.9% y-o-y, respectively, in the period July-August. According to market sources, capital controls are not expected to have a material impact on tourism sector prospects for 2016, when the main challenge will be the impact on Greece's cost competitiveness arising from the increase in VAT on hotels and restaurants, and the abolition of preferential VAT regimes on some of the Greek islands since October 2015. Moreover, goods exports also showed significant resilience in this very challenging environment, increasing by 6.9% y-o-y in July-August (nominal terms excluding oil) compared with +13.8% y-o-y in H1:2015.

- Retail trade volume (excluding fuel) declined by 4.7% y-o-y (s.a.) in July -- the weakest reading in almost 1½ years, albeit far better than the average pace of contraction of about 9% y-o-y per annum during the period 2010-2013. Sales of food, clothing and footwear held up relatively well (declining by -3.3% and -2.0%, respectively in July), whereas sales of consumer durables (excluding cars) registered the sharpest decline in two years (-14.4% y-o-y). According to market sources, demand conditions improved in August, suggesting that the average decline in retail trade is unlikely to exceed -4% y-o-y in Q3:2015. Specifically, preliminary data for August point to only a marginal reduction in supermarket sales, on an annual basis, similar to that during May-June (-2.7% y-o-y), whereas passenger car registrations increased by 21% y-o-y in August, maintaining the positive trend of previous months.





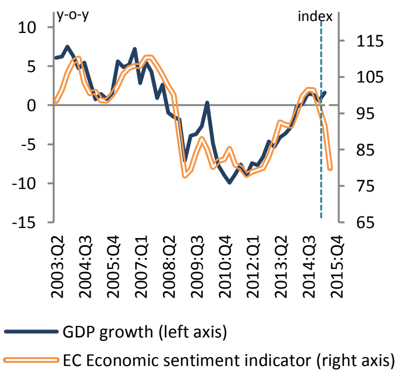


Data Sources: ELSTAT, Eurostat, Markit, NBG estimates

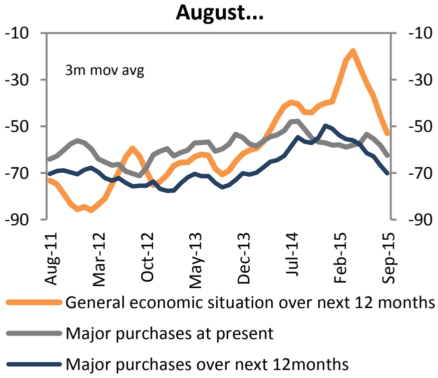
- In a similar vein, the subdued decline in government tax revenue in July-August 2015 compared with the corresponding period in 2014 (-2.2% y-o-y) is also suggestive of a relatively limited impact of capital controls on activity. Indeed, total tax revenue -- adjusted for the 1-month deferral in revenue from PIT and CIT due to the bank holiday -- declined by an estimated 3.5% y-o-y in July-August 2015 compared with -6.3% in 6M:2015. Similarly, non-fuel VAT revenue, which typically is closely related to nominal demand growth, remained broadly flat in July-August compared with the same period in the previous year. However, this data should be adjusted for the shift of June 2015 VAT revenue to July (due to the bank holiday, firms' VAT payments typically made in the last days of June have been delayed to July), and the impact of the increase of almost 10% (since July 20th) in the effective VAT rate applying on about ⅕ goods and services of the domestic consumption basket. Even so, VAT revenue in July-August declined by only -4.8% y-o-y. Evidently, tourism activity also supported VAT revenue during this period. However, with the annual growth in tourism revenue in July-August estimated at c. 4% y-o-y, an adjustment for the impact of tourism has a very marginal impact on VAT revenue (c. -0.3% y-o-y). Overall, a rather conservative estimate of non-fuel VAT revenue trends in July-August, following the above adjustments, stands at about -5.0-5.5% y-o-y, which could be viewed as a proxy of the underlying annual change in nominal final consumption in Q3:2015. Taking into account the impact of private consumption deflator as proxied by core CPI inflation, the underlying contraction in real consumption in Q3:2015 is estimated at about 4.5% y-o-y compared with an increase of +2.1% y-o-y in Q2:2015.

- Manufacturing production, after having contracted in July (-5.7% y-o-y compared with +1.9% in H1:2015), rebounded in August, expanding by 4.2% y-o-y, with export-oriented sectors such as food, beverages, metallic minerals and pharmaceuticals registering the strongest increases. The July outcome was largely expected, as several firms temporarily suspended activity during the bank holiday. In this vein, export orders from the PMI manufacturing survey have improved, for a second consecutive month, in September, following a sharp reduction in the period May-July, indicating that activity in export-oriented sectors will recover further in the coming months. However, pressures will be severe and far more protracted for non-exporting, import intensive sectors – especially in sub-sectors producing discretionary goods and durables – and likely extend beyond

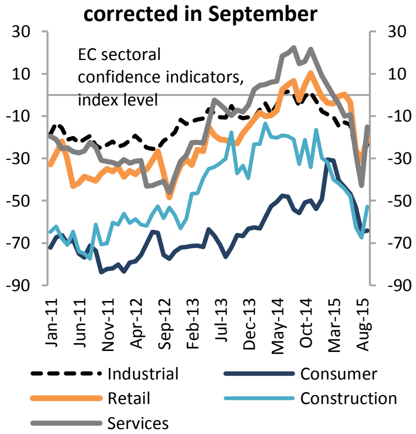
The sharp drop in economic sentiment...



...mainly reflected a very pessimistic re-assessment of near term economic prospects in July August...



...which has been partially corrected in September



Data Sources: ELSTAT, EU Commission

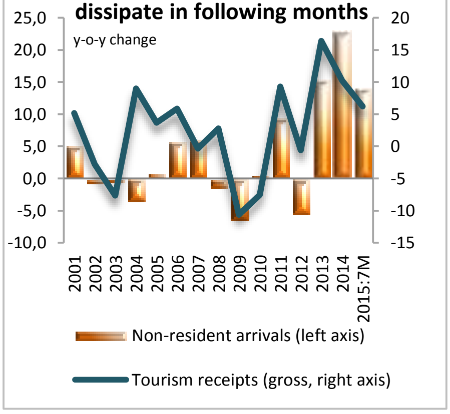
H2:2015, due to the prospective weakening of domestic demand and their high income elasticities.

- The labor market showed notable resilience in July, with employment increasing by 0.9% y-o-y (+1.5% y-o-y, on average, in H1:2015), for a 15th consecutive month, and unemployment declining to 25% in July from 25.9% in December (s.a. data). However, data from the electronic registration system for employment (ERGANI) for August presage a weakening in employment creation, following 5 months of rapid expansion. Employment is expected to decline in the following months -- for the first time since April 2014 -- especially as the seasonal support from tourism fades. But downside risks for employment are expected to be limited, as the market has already undergone a severe adjustment of more than 1 million jobs (or 23.4% of total employment), especially in domestically-oriented sectors and has resulted in – along with significant labor market reforms in previous years – the formation of a very flexible and cost-competitive market. In fact, the cumulative adjustment in the average wage in the economy exceeded 23% between 2009 and 2014 and the reduction in nominal ULC *vis-à-vis* Greece's major trade partners reached 17.5% during the same period. In this regard, new layoffs are expected to play a relatively limited role in labor market adjustment in the event of a short-term contraction in domestic demand. Indeed, firms have very little employment slack and would likely adjust working hours and compensation schemes to weather near-term fluctuations in activity.

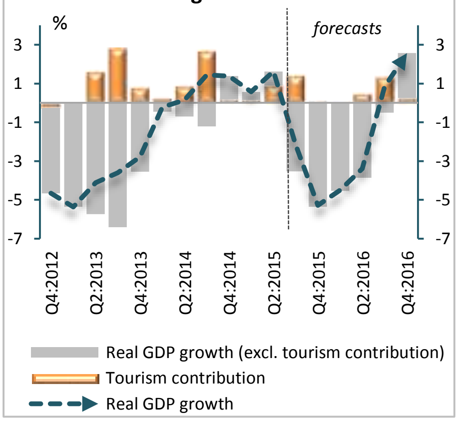
The sharp deterioration in forward-looking indicators in Q3:2015 mainly reflected a pessimistic assessment of near-term economic prospects rather than a coincident decline in activity

In contrast to the relatively mild adjustment in coincident indicators, forward-looking indicators, based on survey data, deteriorated sharply in July-August but recovered well in September. In particular, business sentiment indicators declined sharply in July-August in almost all sub-sectors, with industrial, retail and construction confidence declining to near historical lows. Sub-components of these indicators, referring to activity and production prospects in the following months, suffered the most sizeable losses since the period 2010-2011, whereas the deterioration in indicators' components referring to current activity trends was far more muted. The recovery in these "expectational" components in September -- following the

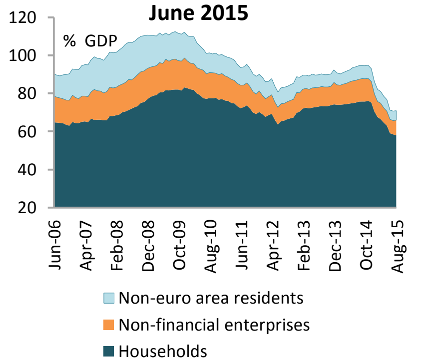
Tourism provided a significant boost in activity which is going to dissipate in following months



Tourism contribution to real GDP growth



The Greek private sector withdrew €41 bn of deposits between November 2014 and June 2015

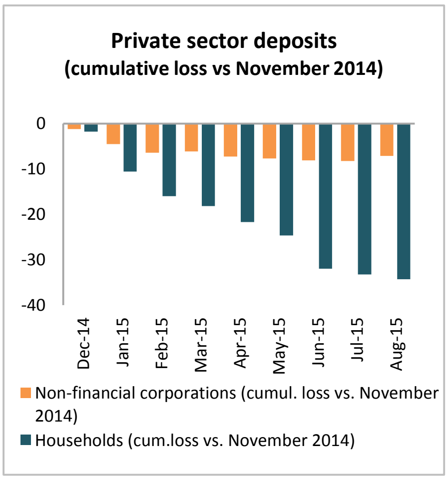


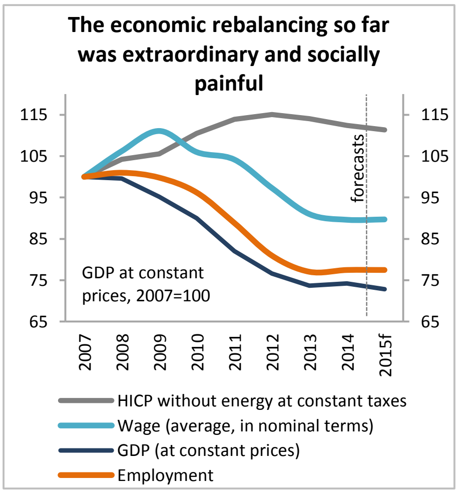
Data Sources: BoG, Eurostat, NBG estimates

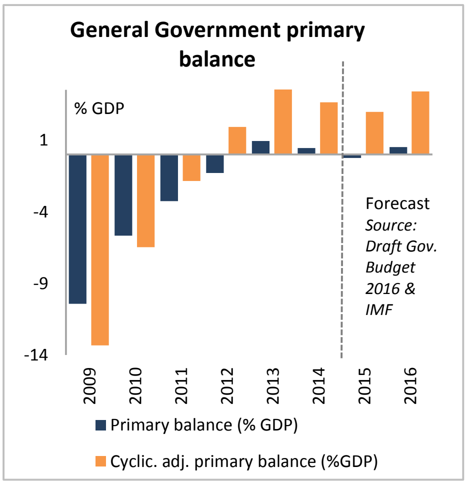
agreement on a new financing programme for Greece and optimism regarding a rapid formation of a new government with a clear mandate – underlies the significant improvement of overall business indicators, which however remain in recessionary territory. Similarly, consumer sentiment, which has been more resilient, remained significantly above the historical low of H1:2012 despite the considerable adjustment in July-August, and has now stabilized at this relatively low level in September, about 15% lower than its 7-year average, but still significantly higher than the lows of the period 2011-2012. The above trends suggest that Greek businesses and households remain very cautious in their assessment of economic prospects in the forthcoming months, but the initial "panic" has given way to a more pragmatic assessment of risks. In this regard, to avoid the bias from the extreme uncertainty in July-August in our empirical estimates, in the set of variables used to gauge near-term GDP trends, we include only the September reading of business survey indicators and not the Q3 average (see next section).

Against this backdrop, the support from tourism that provided a considerable boost to economic activity in H1:2015 (adding about 0.7% in GDP growth in this period) is expected to remain significant in Q3 (contributing about 0.9% in annual GDP growth in Q3), but to decline to below 0.2% y-o-y in Q4:2015. Similarly, the continuing disinflation, which primarily reflects declining energy prices, is estimated to add about 0.7% to real disposable income and through this channel about 0.5% to annual growth in H2:2015 compared with 1.2% and 0.9%, respectively, in H1:2015 (see NBG, Greece Macro View, April 2015).

Fiscal factors are expected to weigh on economic activity in H2:2015, in contrast to H1:2015 when the fiscal drag was very limited (about 0.3% y-o-y). Indeed, the fiscal drag in H2:2015, mainly arising from new fiscal measures applied in this period, is expected to reach 2.5% of H2:2015 GDP (assuming a unitary fiscal multiplier). Under the new agreement, new fiscal measures of about €2.0bn must be implemented by end-2015 (transfer to the high VAT rate of ⅓ of goods and services, changes in PIT for specific categories of taxpayers applying on 2014 incomes, as well as oil tax reform for farming activity, increase in luxury taxes and interventions in the health and pension system). Moreover, another €2.1bn increase in revenue, compared with the same period in 2014, reflect a back-loading of the original fiscal planning (mainly PIT and real estate taxes). Only a part – around €2.0bn -- of this drag will be offset by the prospective normalization of government spending (mainly though accelerating







Data Sources: BoG, Minfin, Eurostat, NBG estimates

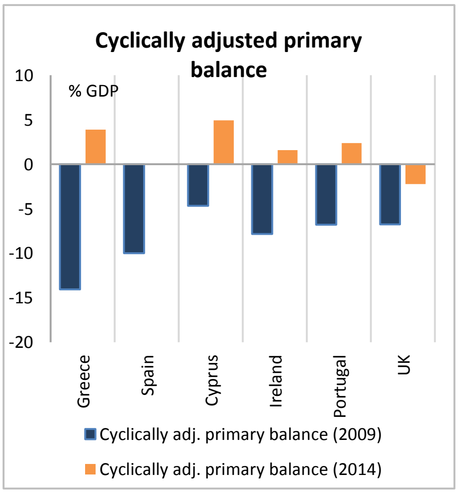
payments from the public investment budget and a first round of new arrears clearance financed by the new programme. Overall, it appears that the estimated fiscal drag in H2:2015 (2.5% of H2:2015 GDP) tends to explain almost 70% of the prospective contraction in real GDP in this period (-3.7% y-o-y). The effective impact of fiscal policy in 2016 is expected to be less negative (-1.0% of GDP in FY:2016 from -1.4% in FY:2015) as the drag of -2.2% of GDP from new fiscal measures in 2016 (assuming unitary fiscal multiplier) will be partially offset (by about 50%) by the clearance of government arrears of 2.4% of GDP, which correspond to an effective boost in activity of 1.2% of GDP in 2016 (the fiscal multiplier applying in this latter spending category is conservatively estimated by NBG research at 0.5).

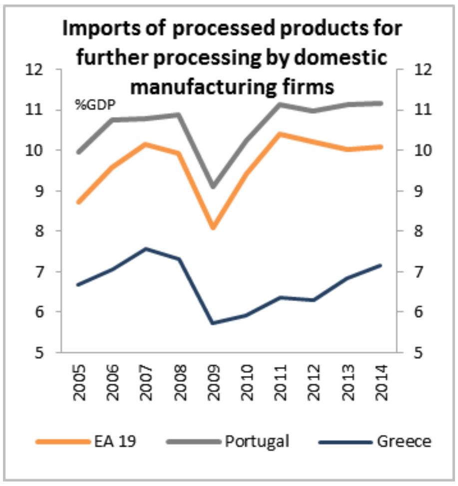
The private sector's pre-emptive adjustment in anticipation of capital controls and intensive economic balancing in previous years limit recessionary risks

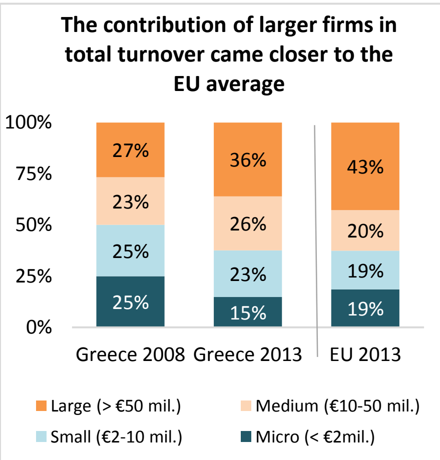
In the highly turbulent environment during the period December 2014-June 2015, the private sector – especially businesses – adopted a defensive stance, drawing up contingency plans to cope with intensifying financial tensions. Such preventive actions were based on the experience of the previous six years, as well as recent developments in Cyprus. In fact, capital controls (or even worse) were broadly expected by the Greek private sector.

As a result, households and firms built up large liquidity buffers and hoarded supplies (as described above). In fact, about €41bn of private sector deposits (excluding MFIs and non-residents) exited the banking sector during the period end-November 2014 to end-June 2015. Greek firms pre-emptively withdrew about €8bn of their deposits between November 2014 and April 2015 (-€9.3bn in total until June 2015, or 39% of their deposit stock of non-financial enterprises in November 2014). Similarly, households withdrew more than €32bn of deposits in the seven months to June 2015, of which about 50% is estimated to correspond to cash withdrawals.

NBG research estimates that about half of deposit withdrawals in this period (more than €20bn) were transferred abroad or used to purchase financial instruments or goods (especially cars). Indeed, from the firm-related deposit flight, most of the €9.3bn correspond to capital transfers and purchases from abroad. In contrast, households are estimated to have increased their cash holdings by about €16bn and transferred abroad a further €11bn (mainly for financial investments or deposits at foreign banks). About €5bn







Source: NBG - Entrepreneurship and Business Analysis Division

correspond to purchases of imported goods and servicing fiscal obligations.

The advanced stage of economic rebalancing of the Greek economy increases its resilience

The international experience suggests that most of the recessionary impact of capital controls on activity comes from shortfalls in external financing and the implementation of austerity measures for correcting fiscal and external imbalances that typically accompany the imposition of capital controls. In this regard, the size of the recessionary impact tends to be positively related to the cyclical position of the economy – i.e. financing and imported input shortages tend to take a heavier toll on economies operating close to or beyond their productive capacity and are highly dependent on private capital inflows – as well as on the size of domestic and external imbalances.

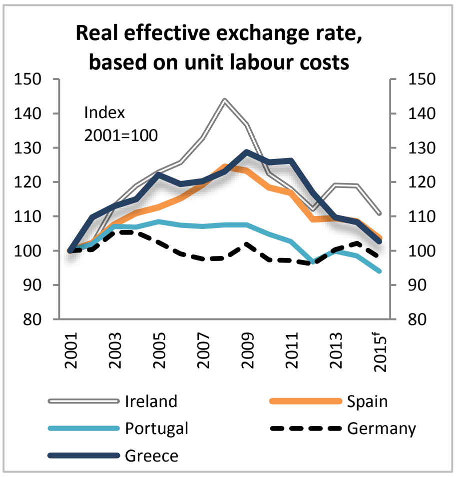
Compared with such a situation, the economic stabilization and rebalancing process in Greece is already at an advanced stage, following a painful economic adjustment under two consecutive stabilization programmes that began six years ago.

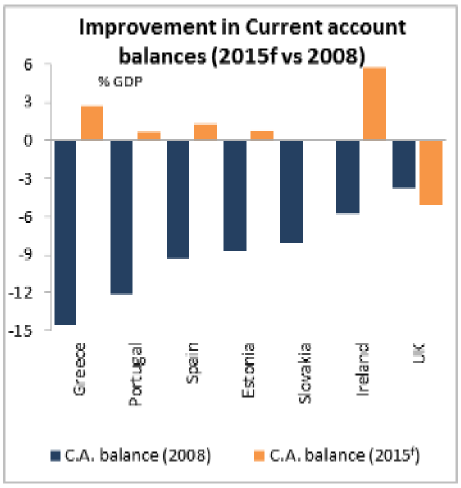
- Greece's fiscal position became broadly balanced (in primary terms) and the current account is heading for its first surplus in decades (revised Bank of Greece BoP data embedding ELSTAT trade data). Specifically, following a fiscal adjustment of unprecedented intensity and speed, the primary fiscal position registered a cumulative improvement of almost 11% of GDP in the five years to 2014 (17.5% in cyclically-adjusted terms) and remained broadly balanced in H1:2015, despite the increasingly turbulent economic environment (albeit mainly through unsustainable spending cuts). Similarly, the cumulative improvement in the current account between 2008 and 2014 exceeds 15% of GDP. Moreover, capital inflows have reversed course in H1:2015.

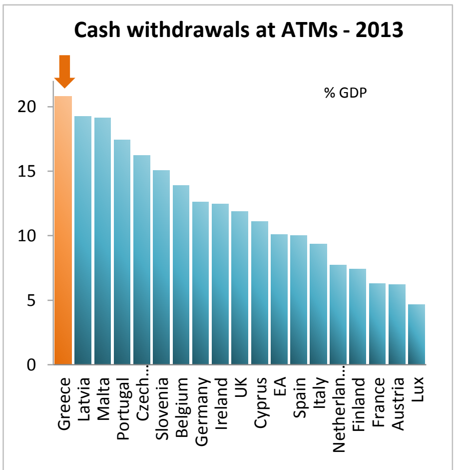
- Firms have covered a substantial distance towards the formation of a new business model, comprising larger and more export-oriented firms. The adjustment is broad based, comprising the manufacturing, construction and retail sales sub-sectors (the larger sectors in terms of employment). Indeed, these sectors cut personnel expenses by about 50% through wage and FTE reductions. As a result, activity and value added showed the first signs of recovery in these sectors during 2014 and in early-2015.

- The population of Greek firms declined by almost 30% between 2008 and 2014, with cumulative closures of micro and small firms exceeding 200,000 business entities (in net terms), leading to a

Data Sources: BoG, Minfin, Eurostat, NBG Entrepreneurship and Business Analysis







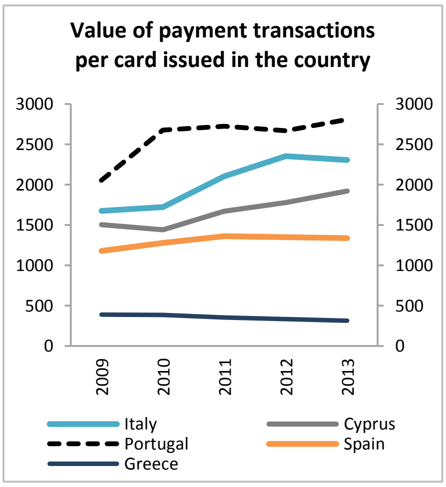
Data Sources: BoG, ECB, Eurostat, NBG estimates

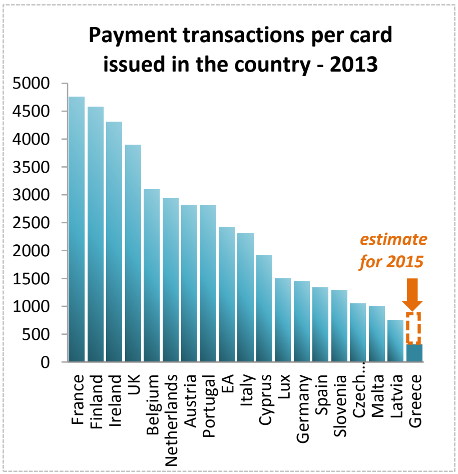
business environment where the surviving, more-efficient and export-oriented, firms reflect the "survival of the fittest".

- Idiosyncratic characteristics of the economy also tend to reduce the impact of restrictions on external transactions. In particular, limited interlinkages of Greek industry with international production chains reduce risks from capital controls. This is in contrast to other euro area economies with more developed manufacturing sectors, where trade in inputs with an intermediate-to-high degree of processing -- used in the production of composite-higher value added products (such as cars, machinery or other equipment) – accounts for the largest part of their external trade (35% of total imports or about 11% of GDP, on average, in the euro area compared with about 6.5% of GDP in Greece). This type of inter-industry cross border trade plays a key role in shaping their export potential, and would be highly sensitive to disruptions related to capital controls, in contrast to the situation in Greece. Moreover, imports of energy, food and pharmaceutical products and non-energy primary inputs, which are of particular importance for leading Greek industries, correspond to high priority areas in the administrative approvals framework introduced following the capital controls. In this regard, there is no material risk of supply shortages in key sectors.

A surge in cashless transactions ameliorated the impact of the bank holiday and paves the way for a modernization of financial transaction patterns

Capital controls have also led to a significant increase in remote payments and debit/credit card use, which up to this point was not as common in Greece as in other European countries and permitted retail consumers to face their immediate needs through non-cash transactions. Cashless payments as a per cent of total retail transactions in Greece were about 75% lower than the euro area average in the period 2008-2013. In particular, payments through credit cards account for less than 5% of retail transactions compared with an estimated average of 25% in the euro area. Though Greece is only slightly below the euro area average as regards the number of cards issued per capita (1.2 compared with 1.4 for the euro area in 2013), the utilization rate is extremely low, as measured by the value of average annual payments per card (€312 in Greece versus a euro area average of €3,800). Capital controls led to a rapid change in habits. Greek banks are estimated to have issued more than 1 million debit cards in July and early-August (corresponding to an increase in the outstanding amount of cards of almost 10%). In a similar vein,





Greece: Growth Outlook	2014	2015f	2016f
GDP (% yoy, s.a.)	0,8	-1,3	-1,2
GDP (% q-o-q, s.a.)	...	...	...
Domestic Demand (y-o-y)	0,5	-2,4	-1,8
Final Consumption (y-o-y)	0,9	-1,3	-1,7
Private Consumption (y-o-y)	1,4	-1,0	-1,8
Fixed Capital Formation (y-o-y)	2,9	-10,5	-3,5
Residential construction	*-51,4*	*-15,5*	*-8,0*
Total GFCF excluding residential	*18,4*	*-9,9*	*-3,1*
Inventories* (contribution to GDP)	-0,7	-0,1	0,2
Net exports (contribution to GDP)	0,2	1,2	0,6
Exports (y-o-y)	8,7	-2,1	1,7
Imports (y-o-y)	7,4	-5,6	-0,2

*also including other statistical discrepancies

Data Sources: BoG, ECB, Eurostat, NBG estimates

new POS terminal installations exceeded 40,000 in July-August and more than 150,000 new e-banking passwords were issued.

Indeed, the value of cashless transactions soared in July-August by an estimated 140% as regards the number of transactions, and by about 200% in value, with the food sector recording a notable rise of almost 280%, health sector (+206%) and petrol stations (+190%). According to market sources, the number of debit/credit card transactions as a per cent of total transactions in retail trade increased to above 40% in July-August from about 15% in H1:2015. This trend is also reflected in POS turnover data for debit cards, which is reported to have almost doubled compared with the past year.

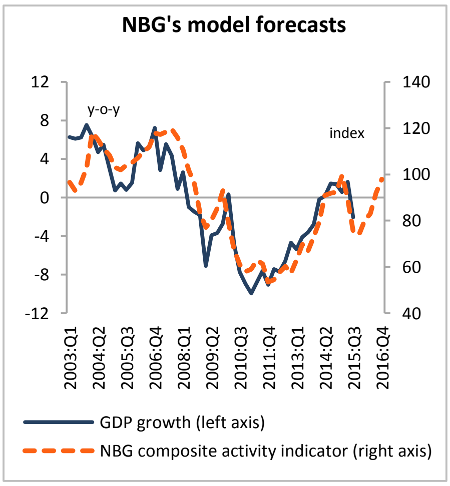
NBG's composite leading indicator, that encompasses information from coincident and forward-looking indicators, predicts that the decline in activity in H2:2015 will be significantly lower than initially expected

NBG's composite activity indicator is based on a principal component analysis that combines information from a set of available "soft/survey data" based on coincident indicators and "hard" data. Note that survey data of business confidence indicators for September have been used for constructing the empirical estimates, instead of the Q3:2015 average, in order to avoid a potential bias from the sharp uncertainty-driven deterioration in the "expectational" sub-components of these surveys in July-August. The projections also incorporate the impact of the estimated fiscal drag, as well as the effect of tourism and the terms of trade for the remainder of the year.

NBG projections are based on the assumption of a gradual recovery in economic confidence (as measured by the NBG sentiment indicator), with its convergence to the average 2014 level in H2:2016.

Based on data through September, it suggests that GDP is heading for a quarterly contraction of about 2.9% in Q3:2015 (seasonally-adjusted), that translates into an annual contraction of GDP of -2.1% in Q3:2015 and -5.3% in Q4:2015 (see Table on page 16).

Thus, NBG estimates point to an annual contraction of GDP of 1.3% in FY:2015, a significantly better outcome than initially expected (EU Commission projected a decline in GDP in the range of 2%-4% for 2015). The Government Budget agreed with the institutions contains a decline in GDP of 2.3% in FY:2015. In 2016, GDP is estimated to be affected by an annualized fiscal drag of about -1.0% of GDP and a negative carry of -2.5% y-o-y. These two factors should be contrasted



Data Sources: BoG, ECB, Eurostat, NBG estimates

to FY:2015, when the annualized carry on GDP growth was positive of the order of +0.2% and the fiscal drag was an estimated -1.4%.

Overall, activity in 2016 is expected to decline at the approximately same pace as in 2015 (-1.2% y-o-y in FY:2016), but the dynamics will be reversed. Indeed, NBG forecasts reveal a sizeable boost to growth in H2:2016 of +1.7% y-o-y on GDP. The quarterly trajectory of GDP is also expected to trend rapidly upward and the first quarterly expansion of GDP is expected to be registered in Q1:2016 or Q2:2016, as the economy is unleashed from the current liquidity squeeze.

Upside risks to this forecast relate to a faster improvement in economic sentiment following the rapid formation of a new government with a stable majority and a timely completion of the 1st review of the new programme in Q4:2015. This will permit the disbursement, in early Q4:2015, of funding to the Greek State, together with accelerating inflows of EU structural funds, which will start to support economic activity. These factors are expected to lead to a rapid withdrawal of capital controls in H1:2016 (following the successful completion of the bank recapitalization). Another upside risk is an agreement on official debt relief, which would provide another large boost to confidence, and indirectly to activity.

Appendix

Capital Controls in Greece *(compiled by National Bank of Greece - Economic Analysis Division)*

Source: MinFin, BoG and NBG		2015													
		28 Jun	30 Jun	14 Jul	18 Jul	24 Jul	31 Jul	3 Aug	14 Aug	17 Aug	27 Aug	10 Sep	11 Sep	25 Sep	30 Sep
Cash Withdrawals															
Individual	[per day, per individual]	€ 60	€ 60	€ 60	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]
Legal entity	[per day, per account]	€ 60	€ 60	€ 60	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]	€60 [1]
Legal entity	[per month, per account]	€ 1.680	€ 1.680	€ 1.680	€ 1.680	€ 1.680	€ 1.680	€ 1.680	€ 1.680	€ 1.680	€ 1.680	€ 5.000	€ 5.000	€ 5.000	€ 5.000
No-cash payments / transfers without documentation															
To other institutions in Greece:															
Individual	[per day, per account]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]
Legal entity	[per month]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]
Regular business (w/o approval)	[per transaction]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]	No limit [2]
To institutions abroad:															
Regular business	[per day]	No	No	No	No	No	No	No	No	No	No	No	No	No	No
Cash withdrawals by debit card	[per day, per individual]	No	No	No	No	No	€ 60	€ 60	€ 60	€ 60	€ 60	€ 60	€ 60	€ 60	€ 60
Transfer of funds abroad via credit institutions	[per month, per depositor]	No	No	No	No	No	No	No	No	No	No	No	No	€ 500	€ 500
Transfer of funds abroad via Hellenic Post, payment institutions and money transfer services (money remittance)	[per month, per individual]	No	No	No	No	No	No	No	No	No	No	No	No	€ 500	€ 500
No-cash payments / transfers with minimum documentation															
To institutions abroad:															
Banks' approval allowance for payment transactions	[per day]	-	-	-	-	€15 mn [3]	€15 mn [3]	€22 mn	€22 mn	€22 mn	€30,8 mn	€30,8 mn	€30,8 mn	€30,8 mn	€30,8 mn
Banks' approval allowance for payment transactions	[per week]	-	-	-	-	-	-	-	-	-	-	€ 154 mn	€ 308 mn	€ 308 mn	€ 308 mn
Payment institutions' total approval allowance (for money transfers)	[per month]	-	-	-	-	-	-	-	-	-	-	-	-	-	€ 40 mn
Banking institutions' total approval allowance (for money transfers)	[per month]	-	-	-	-	-	-	-	-	-	-	-	-	-	€ 40 mn
Cash or credit card payments	[per individual]	No	No	No	€ 2.000 [4]	€ 2.000 [4]	€ 2.000 [4]	€ 2.000 [4]	€ 2.000 [4]	€ 2.000 [4]	€ 2.000 [4]	€ 2.000 [4]	€ 2.000 [4]	€ 2.000 [4]	€ 2.000 [4]
Export of currency	[per individual, per trip]	€ 2.000 [3]	€ 2.000 [3]	€ 2.000 [3]	€ 2.000 [3]	€ 2.000 [5]	€ 2.000 [5]	€ 2.000 [5]	€ 2.000 [5]	€ 2.000 [5]	€ 2.000 [5]	€ 2.000 [5]	€ 2.000 [5]	€ 2.000 [5]	€ 2.000 [5]
Transfer of deposits and funds (only) for studying abroad expenses	[per quarter]	No	No	No	€ 5.000	€ 5.000	€ 5.000	€ 5.000	€ 5.000	€ 8.000	€ 8.000	€ 8.000	€ 8.000	€ 8.000	€ 8.000
Transfer of funds abroad	[per month, per individual]	No	No	No	No	No	No	No	No	€ 500	€ 500	€ 500	€ 500	€ 500	€ 500
Transfer of funds abroad for trade purposes	[per day, per costumer]	No	No	No [6]	No [6]	No [6]	No [6]	No [6]	No [6]	No [6]	No [6]	No [6]	No [6]	€ 5.000	€ 5.000
No-cash payments / transfers with documentation															
To institutions abroad:															
Payments and cash withdrawals are allowed for individuals that suffer from severe health conditions and for exceptional social reasons	[per month, per individual]	No	No	No	No	€ 2.000	€ 2.000	€ 2.000	€ 2.000	€ 2.000	€ 2.000	€ 2.000	€ 2.000	€ 2.000	€ 2.000
Transfer of funds abroad for trade purposes	[per day, per customer]	No	No	No	No	€ 100.000	€ 100.000	€ 150.000	€ 150.000	€ 150.000	€ 150.000	€ 150.000	€ 150.000	€ 150.000	€ 150.000

Notes: (1) Cash not withdrawn on any day(s) may be cumulatively withdrawn up to the maximum amount of €420 per week; (2) Up to the specified amount approved by each financial institution before the introduction of the bank holiday; (3) No information available from official sources for this time period; (4) Only for health expenses abroad; (5) Non-residents are excluded from this restriction; (6) Except for transactions that may be considered necessary by the Banking Transactions Approval Committee

***Source**: Ministry of Finance, Hellenic Bank Association, Bloomberg News, National Bank of Greece Econ. Analysis Division, compilation*

GREECE

Macro View - Economic Outlook | October 2015

Recessionary headwinds strengthen in Q3:2015

Greece: Tracking the economy's cyclical position

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
PMI (index level)	45	45,3	45,4	47	48,7	47,5	47,3	49,2	49,6	51,2	51,3	49,7	51,1	51	49,4	48,7	50,1	48,4	48,8	49,1	49,4	48,3	48,4	48,9	46,5	48	46,9	30,2	39,1	
Industrial confidence (index level)	-11,1	-6,7	-8,8	-10,6	-10,7	-5,3	-9,9	-11	-10,6	-11,2	-7,1	-4,1	-8,9	-4,9	1,3	1,5	0,3	-5,4	-0,6	1,3	-3	-7,9	-9,2	-10,2	-15	-13	-14,1	-26,4	-30,2	-23,3
Manufacturing production (yoy)	2,9	-2,1	5,7	-4,7	-4,3	-2,6	-4,9	-4,2	0,2	-0,5	3,1	-0,8	-1,5	2,4	-2,0	5,5	0,5	-0,8	4,7	7,0	4,1	2,4	4,8	8,0	3,7	-2,9	-3,7	-5,7		
Industrial production (yoy)	1,0	-4,4	2,3	-7,2	-5,5	-3,2	-6,1	-6,6	-1,4	-2,8	0,5	-3,9	-3,2	0,3	-5,2	0,1	-4,7	-4,3	0,0	3,3	-2,7	-0,7	1,6	4,7	0,6	-4,2	-4,7	-1,6		
Services confidence (index level)	-22,7	-13,1	-2,5	-4,6	-7	-9,7	-7,1	-8,1	-4,9	2,5	4,5	4,9	6	6,5	18,4	19,7	22,3	14,8	15,8	21,6	15,3	9	4,4	-0,3	-4,4	-10,1	-9,4	-27,6	-42,8	-15,1
Consumer confidence (index level)	-71,8	-63,4	-66,5	-70,9	-76,6	-72,2	-66,2	-66,7	-63,3	-62,7	-63,1	-58	-52,6	-50,5	-47,7	-48	-54	-56	-50,9	-49,9	-53,9	-49,3	-30,6	-31	-40,5	-43,6	-46,8	-52,9	-64,8	-64,2
Retail confidence (index level)	-26,7	-15,2	-19,1	-21	-21,3	-22,5	-22,8	-18,1	-15	-11,6	-8,4	-10	-9,7	-7,4	2,5	4,8	6,6	-2,5	5,0	10,3	4,7	-1,0	-3,9	-4,1	-0,6	0,2	-3,5	-25,9	-31,0	-20,0
Retail trade volume (yoy)	-14	-2	-8	-14	-8	-5	-1	3	-6	-3,0	-2,9	-3,4	5,0	-6,1	1,7	1,5	3,2	0,0	2,1	-1,3	-1,4	0,6	-1,7	1,0	-1,8	4,1	-0,4	-7,3		
Construction Permits (yoy)	-16	-51	-15	-4	-30	-37	9	89	-44	-41	-5	4	-8	10	53	-24	-5,3	7,2	-2,8	-36,4	13,1	12,2	36,6	35,6	-3,5	6,1	-15,1			
House prices (yoy, quarterly series)	-12	-12	-12	-10	-10	-10	-10	-10	-10	-9	-9	-9	-8	-8	-8	-7	-7	-7	-5	-5	-5	-4	-4	-4	-6	-6	-6			
Construction confidence (index level)	-39	-35	-34	-32	-30	-18	-37	-33	-39	-23	-23	-14	-20	-20	-19	-20	-21	-33	-21,2	-34,2	-16,6	-29,8	-31,9	-40,0	-41,9	-44,5	-48,0	-62,5	-67,5	-52,8
Employment (y-o-y)	-6,0	-5,5	-4,6	-4,3	-3,5	-2,9	-3,1	-2,8	-2,7	-1,2	-0,8	-0,3	-0,6	0,4	1,0	1,7	1,1	1,3	1,3	1,6	1,5	1,1	1,5	-0,3	1,8	3,0	1,1			
Interest rate on new private sector loans (CPI deflated)	6,3	6,0	5,9	6,2	6,8	6,7	7,6	8,4	6,8	7,1	6,5	6,8	7,2	7,4	6,3	6,1	5,6	6,0	7,0	6,4	7,6	7,9	7,1	7,1	7,0	7,1	6,9	7,0	6,3	
Credit to private sector (y-o-y)	-6,8	-7,4	-6,8	-5,1	-4,8	-4,7	-4,8	-4,7	-4,3	-3,5	-3,7	-5,5	-4,9	-4,4	-4,0	-3,9	-3,7	-3,7	-3,2	-3,0	-2,7	-1,6	-1,5	-1,2	-1,6	-2,8	-2,9	-3,3	-3,7	
Private sector deposits (y-o-y)	-3,9	1,6	4,9	2,4	2,5	1,7	0,5	0,4	-1,5	-2,4	-3,9	-3,0	-1,5	-2,1	0,3	0,7	1,4	2,2	2,6	2,1	-1,7	-7,2	-11,2	-12,9	-16,3	-18,6	-25,4	-26,3	-26,6	
Interest rate on new time deposits (households, CPI deflated)	4,8	4,5	4,3	4,2	4,6	4,2	5,0	5,7	4,5	4,3	3,9	4,2	4,1	4,5	3,5	3,0	2,4	2,9	3,6	3,1	4,4	4,6	4,0	4,0	3,9	4,0	4,0	3,5	2,7	
Economic sentiment index (EU Commision, NBG weights, Greece)	63	73	73	69	64	67	72	72	75	78	78	83	87	89	96	96	92	88	92	95	90	91	105	103	93	89	87	76	62	
Economic sentiment index (EU Commision, Euro area)	89	90	92	93	96	97	98	99	100,3	100,9	101,1	102,5	102,4	103	102,4	103	101	100	100,9	100,8	100,9	101,5	102,3	103,9	103,8	103,8	103,5	104	104,2	
Exports (other (excl.oil&shipping) y-o-y 6m mov.avg	26,2	29,0	30,4	33,3	29,3	30,5	25,2	25,5	20,4	13,4	10,9	5,9	0,4	-1,6	-2,2	-0,6	-0,7	0,1	2,6	1,9	3,9	3,9	5,5	7,9	9,6	9,7	10,2	9,4		
Imports (other (excl.oil&shipping) y-o-y 6m mov.avg	17	22	31	36	32	35	33	37	37	27	24	16	10	6	2	4	3	5	6	7	8	8	9	10	10	9	8	2		
NBG Composite Index of cyclical conditions ► ► ► ►	-17,8	-17,1	-9,31	-16,9	-13,7	-7,01	-12,1	-9	-3,97	-0,8	-1,2	-0,2	0,5	1,3	2,2	2,4	3,5	3,9	4,5	0,2	-2,8	-6,5	-1,5	-2,5	-4,8	-9,5	-14,8	-18,9	-25,3	

Color map scale: *Rapid contraction* — *Moderate contraction* — *Slow contraction* — *Stabilization* — *Slow expansion* — *Moderate expansion* — *Rapid expansion*

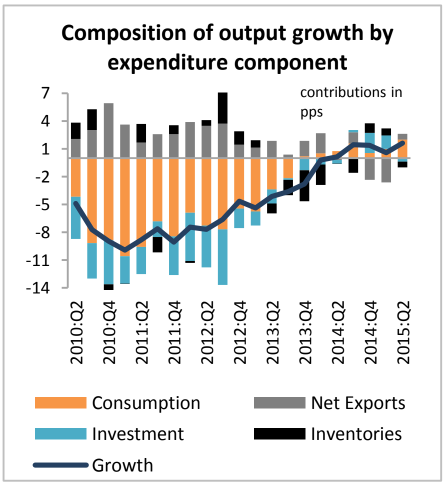
Sources: NBG, BoG, ELSTAT, EU Commission, IOBE

Greece: Growth Outlook

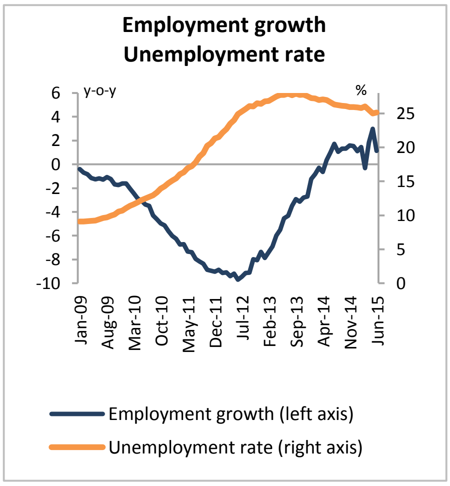
	2014	2015f	2016f	2014				2015f				2016f			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GDP (% yoy, s.a.)	**0,8**	**-1,3**	**-1,2**	**-0,2**	**0,2**	**1,4**	**1,4**	**0,6**	**1,6**	**-2,1**	**-5,3**	**-5,2**	**-2,8**	**0,9**	**2,5**
GDP (% q-o-q, s.a.)	…	…	…	0,9	-0,1	0,9	-0,2	0,1	0,9	*-2,8*	*-3,5*	*0,1*	*3,5*	*0,9*	*-1,5*
Domestic Demand (y-o-y)	**0,5**	**-2,4**	**-1,8**	**-2,3**	**0,4**	**0,2**	**3,7**	**3,2**	**1,0**	**-5,6**	**-8,1**	**-7,1**	**-5,7**	**2,1**	**4,3**
Final Consumption (y-o-y)	**0,9**	**-1,3**	**-1,7**	**0,6**	**0,8**	**1,7**	**0,6**	**1,1**	**2,2**	**-4,0**	**-4,4**	**-4,2**	**-4,5**	**0,6**	**1,4**
Private Consumption (y-o-y)	1,4	-1,0	-1,8	0,6	0,8	2,9	1,3	1,7	2,5	-3,8	-4,5	-5,2	-3,2	0,5	1,0
Fixed Capital Formation (y-o-y)	**2,9**	**-10,5**	**-3,5**	**-6,1**	**-3,3**	**2,3**	**19,3**	**13,9**	**-3,3**	**-15,7**	**-31,6**	**-28,5**	**-15,6**	**10,5**	**29,4**
Residential construction	*-51,4*	*-15,5*	*-8,0*	*-49,9*	*-58,0*	*-44,4*	*-52,4*	*-29,7*	*-8,1*	*-14,0*	*-5,0*	*-13,1*	*-9,8*	*-5,9*	*-3,1*
Total GFCF excluding residential	*18,4*	*-9,9*	*-3,1*	*9,2*	*13,3*	*13,7*	*36,5*	*20,9*	*-2,8*	*-15,9*	*-33,8*	*-29,9*	*-16,2*	*12,5*	*33,3*
Inventories* (contribution to GDP)	**-0,7**	**-0,1**	**0,2**	-2,2	0,0	-1,6	1,0	0,7	-0,6	-0,2	-0,2	0,0	0,0	0,5	0,3
Net exports (contribution to GDP)	**0,2**	**1,2**	**0,6**	2,2	-0,2	1,2	-2,4	-2,6	0,6	3,6	3,1	2,1	3,0	-1,2	-1,9
Exports (y-o-y)	8,7	-2,1	1,7	7,7	9,2	8,2	9,9	1,1	-1,8	-0,4	-7,2	-6,8	0,8	4,8	8,3
Imports (y-o-y)	7,4	-5,6	-0,2	-0,2	9,2	3,7	17,5	9,7	-3,5	-11,6	-15,6	-12,3	-8,9	9,2	14,3

*also including other statistical discrepancies

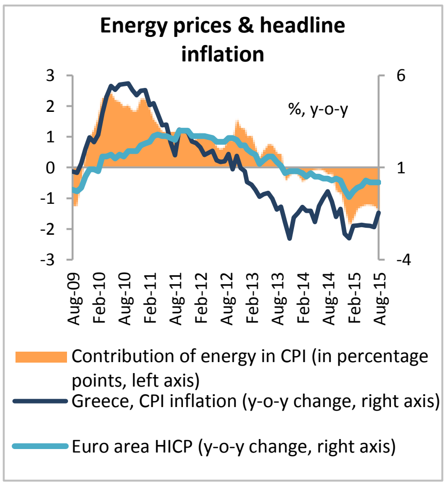
The economy showed remarkable resilience in H1:2015 (real GDP growth of +1.1% y-o-y), supported by private consumption (+2.1% y-o-y) and tourism activity (increase in revenue of +8.2% y-o-y)



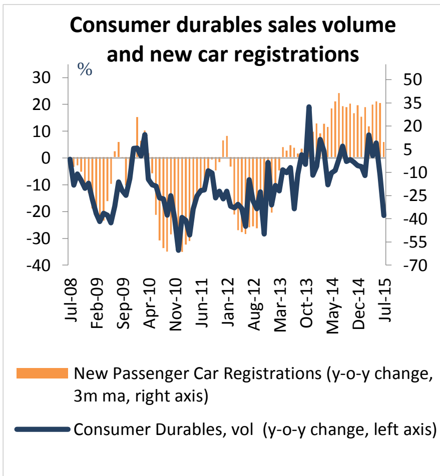
Consumer spending has been boosted by the continuing improvement in labor market conditions (employment growth of +1.4% y-o-y in H1:2015) in conjunction with...



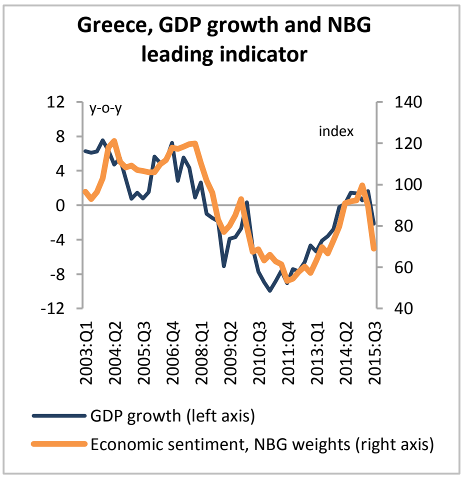
... the positive impact on disposable income from energy-driven deflation, and...



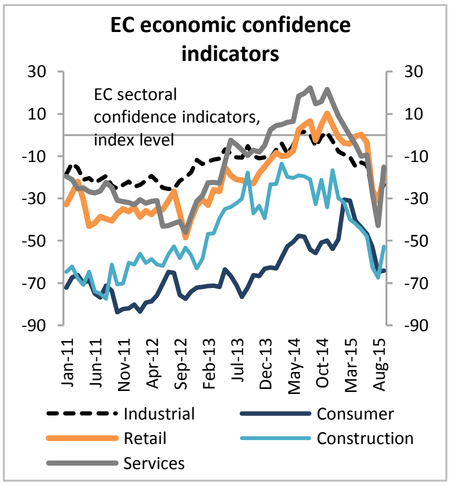
...the "precautionary" purchases of durables in a period of increasing uncertainty



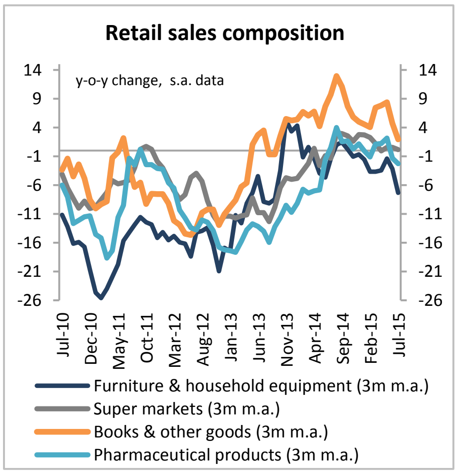
However, uncertainty peaked in June-July 2015 and took a considerable toll on economic sentiment, further heightened by the imposition of capital controls



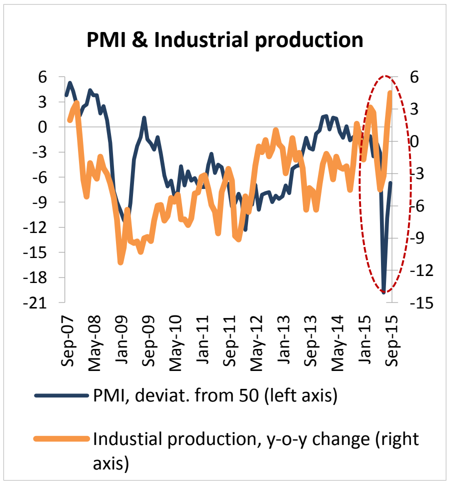
Survey data in July-August reflected a very pessimistic assessment of economic prospects, which became more rational in September



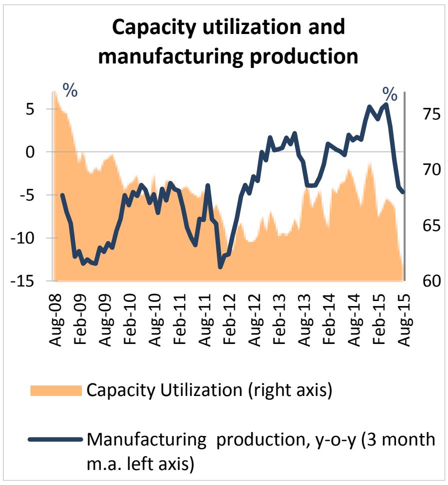
Retail sales weakened in June-July (-2.9% y-o-y, s.a. excl. fuels), with consumer durables (excl. cars) experiencing the most significant decline (-14.4% y-o-y)



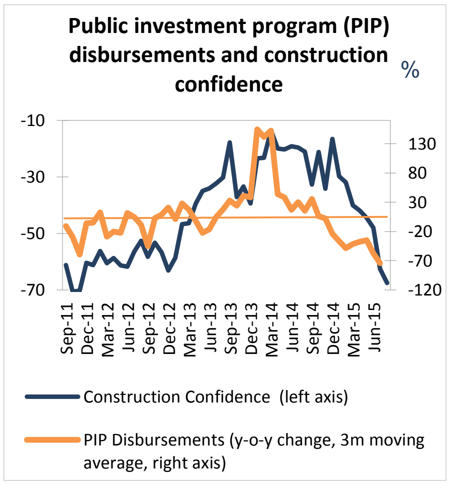
Manufacturing output rebounded in August (+4.2% y-o-y), supported by export-oriented sectors, following a temporary, and largely expected, decline of 5.9% y-o-y in July



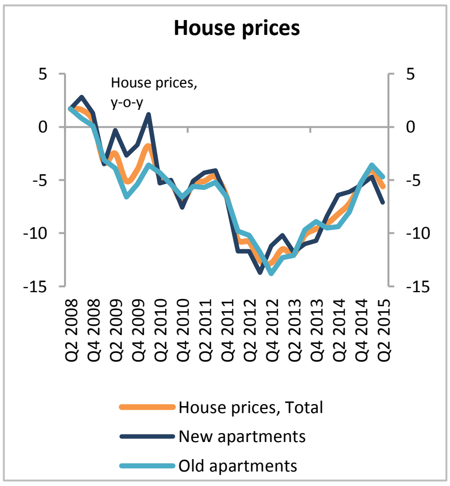
However, the notable shrinkage in capacity utilization and tight liquidity conditions presage a significant drop in business investment in H2:2015



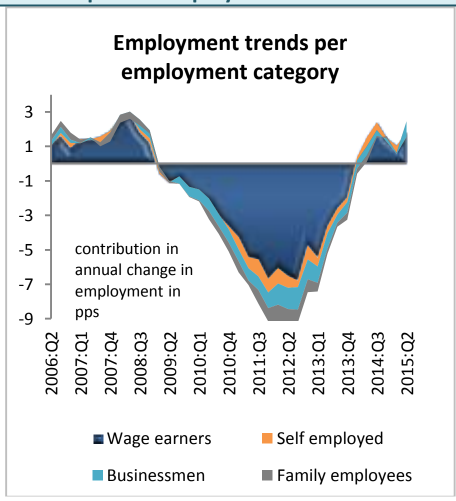
Extraordinary cuts in government spending and high uncertainty weigh on construction activity



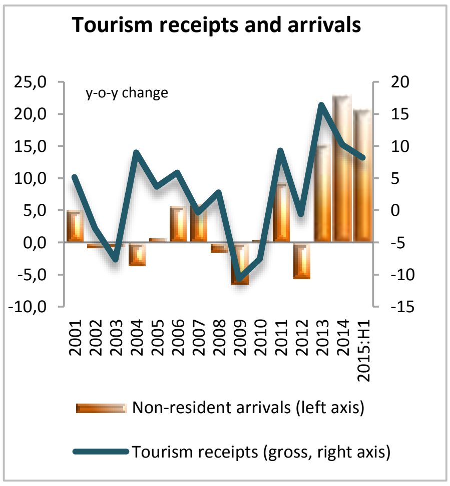
Downside pressures on house prices accelerated in Q2:2015 due to high uncertainty and tight liquidity conditions



Employment expanded by a healthy +1.3% y-o-y in H1:2015, with new wage-earners' positions accounting for the most part of employment creation



Strong tourism activity – increase in revenue of 6.2% y-o-y – in 7M:2015, low oil prices and …



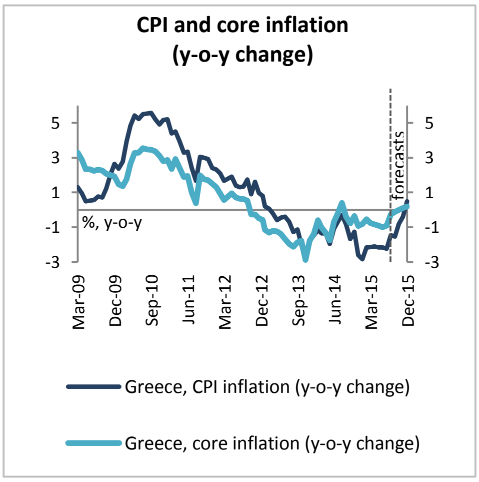
… a considerable decline in imports due to the capital controls, pave the way for the first surplus in the current account in decades (revised series by the BoG)

Balance of Payments (as % GDP)

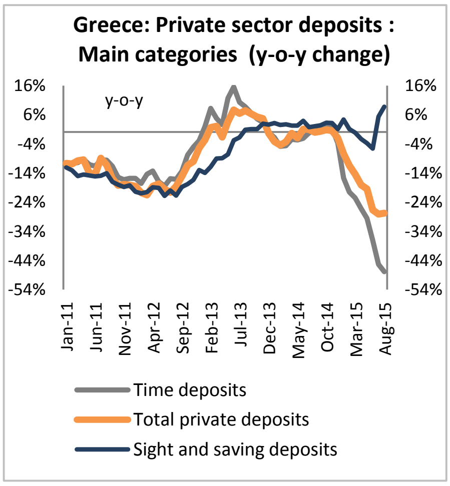
	2014	2015	2014 Q1	2014 Q2	2015 Q1	2015 Q2
Current Account	-2,3	2,0	-1,2	-1,0	-1,9	-0,3
Non-oil Trade Balance	-8,9	-6,5	-2,1	-2,5	-2,2	-2,1
Non-oil Exports	9,9	10,5	2,2	2,5	2,5	2,7
Non-oil Imports	18,8	16,9	4,4	5,1	4,7	4,8
Oil Balance	-3,5	-3,0	-0,8	-0,7	-0,7	-0,6
Services Balance	10,2	10,4	0,9	2,5	0,7	2,7
Primary Income Balance	0,1	-0,11	0,7	-0,3	0,3	-0,3
Secondary Incom. Balance	-0,2	1,14	0,1	0,0	0,0	0,0
Capital account	1,4	0,9	0,8	0,2	0,3	0,1

Source: Bank of Greece, revised BoP data

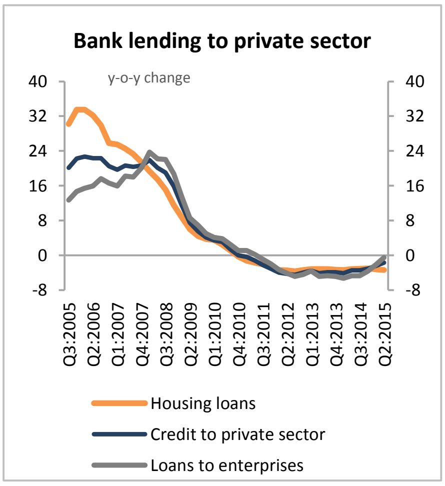
Consumer prices declined by -1.7% y-o-y in Q3 from -2.3% in H1:2015, however, the increase in the effective VAT rate since July 20th is expected to slow deflation to -0.8% y-o-y in the coming months



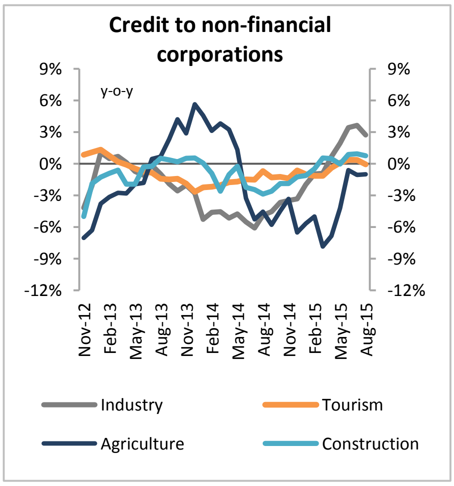
Bank deposits increased by €0.4bn in August, for the first time in 8 months, when cumulative withdrawals exceeded €50bn (including government and non-resident deposits)



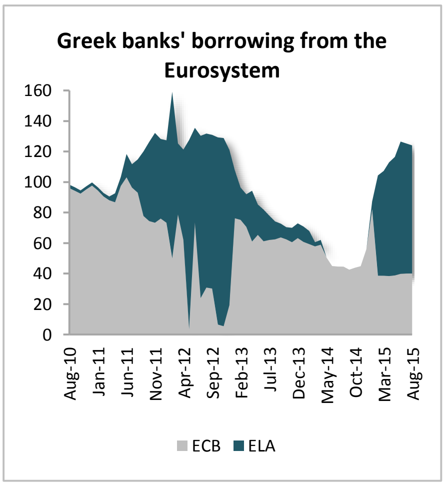
The pace of decline in credit to the private sector remained broadly stable at -1.6% y-o-y in 8M:2015 compared with -1.7% in 6M:2015, a notable achievement in a very challenging environment



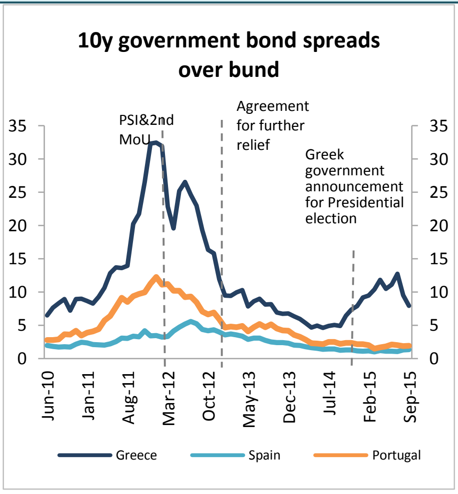
Credit to non-financial enterprises declined by -1.4% y-o-y in 8M:2015 from only -0.7% y-o-y in 6M:2015, albeit loans to the industrial sector posted the strongest increase in 4 years (+2.7% y-o-y in 8M:2015)



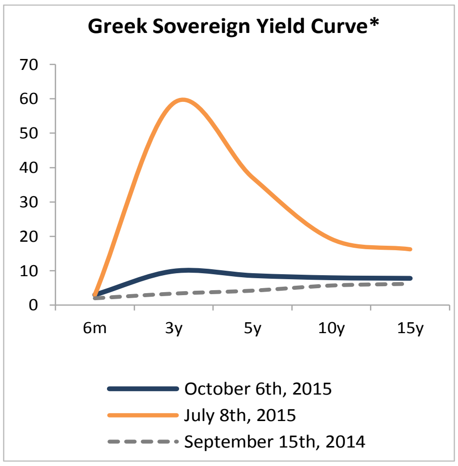
Greek banks' financing from the Eurosystem decreased to €124.1bn in August from €125.3bn in July, reflecting a €1.3bn decline in ELA dependence (€84bn in August)



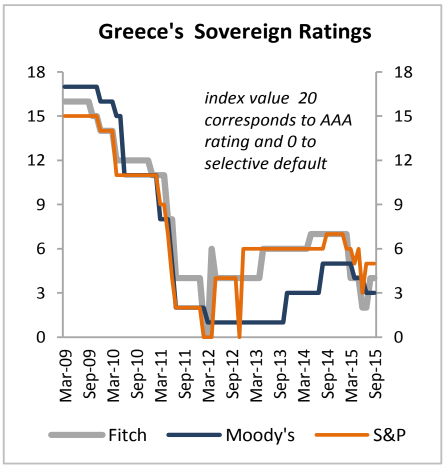
Sovereign bond markets reacted positively to the agreement on a new financial support programme for Greece



The notable adjustment of the yield curve indicates that the significant uncertainty-driven hit on economic conditions has reversed



In this vein, S&P and Fitch upgraded Greece, by two and one notches respectively, in August (to CCC+ and CCC)



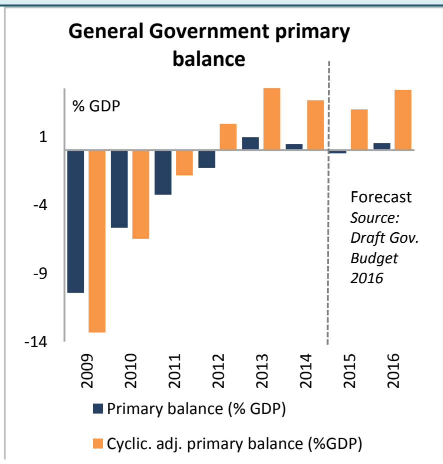
Sizeable spending cuts at the State Budget level (-8.4% y-o-y or 1.3% of GDP in 8M:2015) broadly offset the continuing slippage in tax revenue (-5.8% y-o-y or 0.8% of GDP) and the deterioration in the financial position of other General government entities…

Government Budget Implementation (January-August 2015)

	8m.2014	8m.2015	8m.2015/14	2015:FY
	Outcome		Outcome	Estimates
	as % of GDP		*y-o-y*	*as % GDP*
I. State Budget Net Revenue (1+2)	18,4	17,6	-6,5	30,6
1. Ordinary Budget Net Revenue (a+b)	16,5	16,4	-2,9	28,1
a. Revenue before Tax Refunds	17,7	17,3	-4,7	29,8
b. Tax refunds	1,2	1,0	-18,6	1,9
2. Publ. Investment Budget Rev.	1,9	1,2	-38,3	2,5
II. State Budget Expenditure (3+4)	20,0	18,2	-10,9	31,9
3. Ordinary Budget Expenditure	18,1	17,3	-6,6	28,2
of which 3.1 **Primary expenditure**	15,1	14,1	-8,4	24,0
3.2 **Net interest payments**	2,7	2,8	2,2	3,3
4. Publ. Investment Budget Exp.	1,8	0,9	-52,8	3,7
State Budget Primary Balance (I-II+3.2)	1,1	2,2	…	2,1
State Budget Balance (I-II)	-1,6	-0,6	-61,2	-1,3

Source: MoF monthly release on Budget implementation and Government Draft Budget 2016

…bringing the implementation of General Government budget to a primary deficit of 0.25% of GDP in FY:2015 from a primary surplus of 0.35% of GDP in 2014



Greece: Dates to Watch – 2015

October						
5	7	9-11	13	15-16	17	22
Eurogroup meeting	ECB Governing Council: non-monetary policy meeting	IMF/World Bank annual meetings	EL.STAT. release: General government deficit and debt 2014	European Council	Expiration of three-month bridge loan to Greece from the EFSM	ECB Governing Council meeting

November				
4	9	13	18	20
ECB Governing Council: non-monetary policy meeting	Eurogroup meeting	Fitch's credit rating review for Greece / EL.STAT. release: Quarterly National Accounts (Q3:2015)	ECB Governing Council: non-monetary policy meeting	Moody's credit rating review for Greece

December				
-	3	7	16	17-18
First quarterly review of the new Programme of Greece's financial support	ECB Governing Council meeting	Eurogroup meeting	ECB Governing Council: non-monetary policy meeting	European Council

Greek Economy: Selected Indicators

	2013			2014					2015					2015f
	Q3	Q4	year aver.	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Most recent		
Real sector (y-o-y period average, constant prices)														
GDP	-3,6	-2,8	-4,0	-0,2	0,2	1,4	1,4	0,8	0,6	1,6	…	Q2:15	1,6	-1,3
Domestic demand	-3,9	-4,3	-5,0	-2,3	0,4	0,2	3,7	0,5	3,2	1,0	…	Q2:15	1,0	-2,4
Final Consumption	-2,4	0,2	-3,1	0,6	0,8	1,7	0,6	0,9	1,1	2,2	…	Q2:15	2,2	-1,3
Gross fixed capital formation	-1,8	-10,8	-9,3	-6,1	-3,3	2,3	19,3	2,9	13,9	-3,3	…	Q2:15	-3,3	-10,5
Exports of goods and services	3,7	-2,5	1,5	7,7	9,2	8,2	9,9	8,7	1,1	-1,8	…	Q2:15	-1,8	-2,1
Imports of goods and services	2,0	-7,7	-2,8	-0,2	9,2	3,7	17,5	7,4	9,7	-3,5	…	Q2:15	-3,5	-5,6
Coincident and leading indicators (period average)														
Retail sales volume (y-o-y)	-9,1	-1,8	-8,1	-3,1	0,1	1,6	-0,3	-0,4	0,0	0,6	…	Jul	-7,3	…
Retail confidence (15-yr. average: -1,5)	-21,6	-18,6	-22,6	-10,0	-4,9	3,0	6,7	-1,3	-3,0	-1,3	-25,6	Sep	-20,0	…
Car registrations (y-o-y)	6,4	15,2	3,1	21,3	36,0	31,5	30,9	30,1	19,2	33,2	…	Jul	-23,5	…
Consumer confidence (15-yr. average: -43,4)	-73,3	-65,4	-69,4	-61,3	-50,3	-52,7	-51,6	-54,0	-37,0	-43,6	-60,6	Sep	-64,2	…
Industrial production (y-o-y)	-5,4	-4,7	-3,2	-2,1	-2,8	-2,9	0,1	-1,9	1,9	-2,9	…	Aug	4,5	…
Manufacturing production (y-o-y)	-3,9	-3,0	-1,1	0,6	-0,4	1,8	5,3	1,8	5,2	-1,0	…	Aug	4,2	…
Capacity Utilization (15-yr. average: 72,8)	66,9	67,3	65,9	66,3	68,5	69,0	68,8	68,2	67,1	67,0	…	Aug	61,3	…
Industrial confidence (15-yr. average: -6,1)	-8,9	-10,5	-10,2	-7,5	-4,2	-1,2	-0,8	-3,4	-9,1	-14,0	-26,6	Sep	-23,3	…
PMI Manufacturing (base=50)	47,7	48,7	46,0	50,7	50,5	49,1	49,1	49,9	48,5	47,1	37,5	Sep	43,3	…
Construction permits (y-o-y)	-21,9	2,2	-25,6	-17,0	17,4	-11,4	-15,6	-6,7	29,2	-5,6	…	Jul	-25,2	…
Construction confidence (15-yr. average: -21,9)	-26,7	-36,6	-37,5	-20,0	-19,8	-24,5	-24,0	-22,1	-33,9	-44,8	-60,9	Sep	-52,8	…
PIP Disbursements (y-o-y)	32,5	28,5	14,5	91,7	11,7	29,3	-24,2	-0,9	-40,9	-57,6	…	Jul	-92,7	…
Stock of finished goods (15-yr. average: 12,2)	3,4	7,0	3,7	6,7	3,2	4,4	6,4	5,2	13,0	15,0	17,4	Sep	17,0	…
External sector (period average)														
Current account balance (% of GDP)	2,3	-1,5	-2,0	-1,2	-1,0	2,1	-2,2	-2,3	-1,9	-0,3	…	Q2:15	-0,3	2,0
Current account balance (EUR mn)	4230	-2785	-3692	-2088	-1843	3673	-3924	-4182	-3318	-577	…	Q2:15	-577	3570
Services balance, net (EUR mn)	8415	2324	15749	1625	4462	9628	2558	18273	1297	4664	…	Q2:15	4664	…
Primary Income Balance, net (EUR mn)	-335	-96	-457	1313	-578	-290	-285	159,3	454	-597,8	…	Q2:15	-598	…
Merchandise exports-- non-oil (y-o-y cum.)	-4,1	-4,0	-4,0	-3,0	-1,3	0,2	1,9	1,9	10,0	5,2	…	Q2:15	5,2	…
Merchandise imports-- non-oil (y-o-y cum.)	-6,9	-6,2	-6,2	2,7	8,9	7,5	7,7	7,7	4,6	-7,1	…	Q2:15	-7,1	…
Employment														
Unemployment rate	27,8	27,7	27,5	27,1	26,9	26,2	26,0	26,6	25,9	25,0	…	Jul	25,0	25,7
Employment growth (y-o-y)	-3,6	-2,9	-4,8	-0,8	0,2	1,4	1,5	0,6	0,8	2,2	…	Jul	0,9	1,2
Prices (y-o-y period average)														
Headline inflation	-1,0	-2,2	-0,9	-1,3	-1,5	-0,6	-1,8	-1,3	-2,4	-2,1	-1,8	Sep	-1,7	-1,6
Core inflation	-2,0	-2,1	-1,7	-1,0	-1,2	-0,1	-0,7	-0,8	-0,7	-0,9	-0,5	Sep	-0,4	-0,5
Producer prices excl.energy	0,0	-0,5	0,0	-0,7	-0,7	-0,6	-0,1	-0,5	-0,1	0,2	…	Jul	0,1	…
Fiscal policy														
Government deficit/GDP (ESA2010 excl banking system sup	…	…	-3,1	…	…	…	…	-3,5	…	…	…	…	…	-3,7
Government debt/GDP	…	…	175,0	…	…	…	…	177,1	…	…	…	…	…	180,0
Revenues--Ordinary budget (cum. % change)	-1,5	-0,1	-0,1	4,7	3,9	1,0	-3,5	-3,5	-1,8	-5,7	…	Aug	-4,7	…
Expenditure--Ordinary budget (cum. % change)	-17,2	-15,8	-15,8	-7,3	-8,2	-7,0	-6,4	-6,4	-2,2	-6,7	…	Aug	-6,6	…
Monetary sector (y-o-y, end of period)														
Total deposits	6,3	-0,4	-0,4	-3,4	1,0	0,3	-2,0	-2,0	-14,4	-26,8	…	Aug	-27,8	…
Loans to private sector (incl. sec. & bond loans)	-3,9	-3,9	-3,9	-4,1	-3,5	-3,5	-3,1	-3,1	-2,5	-1,7	…	Aug	-1,6	…
Mortgage loans (including securitized loans)	-3,2	-3,3	-3,3	-3,4	-3,2	-3,1	-3,0	-3,0	-3,3	-3,4	…	Aug	-3,5	…
Consumer credit (including securitized loans)	-4,8	-3,9	-3,9	-3,4	-2,7	-2,5	-2,8	-2,8	-2,5	-2,3	…	Aug	-2,5	…
Interest rates (period average)														
10-year government bond yield	10,2	8,6	10,1	7,5	6,2	6,0	8,0	6,9	10,0	11,6	10,8	Sep	8,6	…
Spread between 10 year and bunds (bps)	845	682	843	586	473	493	719	568	967	1112	1011	Sep	792	…
Exchange rates (period average)														
USD/euro	1,33	1,36	1,33	1,37	1,37	1,33	1,25	1,33	1,13	1,11	1,11	Sep	1,12	…

Sources: BoG, NSSG, MoF, ASE,NBG,Bloomberg

GREECE

Macro View

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***Editor: P. Mylonas**, Deputy CEO, Head of Research, e-mail: pmylonas@nbg.gr Tel: (+30210) 3341521, FAX: (+30210) 3341702.*
***Main contributors to this issue** (in alphabetical order): E. Alevizopoulou, A. Gouveli, N. Magginas, G. Murphy, P. Nikolitsa, G. Theodoropoulou.* *This analysis is provided solely for the information of professional investors who are expected to make their own investment decisions without undue reliance on its contents. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. Any data provided in this bulletin has been obtained from sources believed to be reliable. Because of the possibility of error on the part of such sources, National Bank of Greece does not guarantee the accuracy, timeliness or usefulness of any information. The National Bank of Greece and its affiliate companies accept no liability for any direct or consequential loss arising from any use of this report.*

Note: The Bulletin analysis is based on data up to October 9, 2015, unless otherwise indicated