

GREECE

# Economic Snapshot

Third Quarter | 2015



## No Grexit – for now

Greece and the eurozone stepped back from the brink as a result of a momentous political and diplomatic effort. A new three-year adjustment programme offering €86bn of financing in return for a number of prior actions by the Greek government was agreed in August. This was followed by a snap election in which Alexis Tsipras's Syriza party won the most seats, allowing it to form a coalition with Independent Greeks. The events of Q3, positive as they are for the future of the country, are likely to have weighed heavily on economic growth. While confidence has been restored to an extent and the €25bn of bank recapitalization funds to be reimbursed in Q4 will provide a further boost, economic activity is likely to be affected in the short term by ongoing capital controls and additional austerity.. After a surprisingly strong increase in GDP in Q2 (driven by households running down their US\$ savings in anticipation of a possible Greek euro exit), GDP is anticipated to decline in H2.

## Implications of the new deal

Capital and import controls are expected to continue to reduce liquidity in the economy, which will affect the ability of companies to expand. This will have knock-on effects on consumption, with improvements in the labour markets seen in 2014 now likely to go into reverse. Restrictions on deposit withdrawals will also have a direct impact on consumer spending, as will additional austerity, including pension reforms and VAT tax hikes. Consumer spending is forecast to decline by 3.2% in 2016 following a 1% rise this year. The contraction in the corporate sector will be more acute, with -9.2% projected for this year and -16.4% for 2016

## Market Overview

The recently agreed bailout deal assumes an introduction of structural reforms and a reduction in the size of Greece's crippling debt, both of which are crucial to ensuring a return to healthy economic growth. The bailout is intended to cover Greece's borrowing needs for the next 3 years and so allows time for confidence to be restored and reforms to start working. A risk of a default cannot be ruled out as the country may still fail the new bailout conditions given that GDP is falling again. The risk from social unrest has decreased meanwhile following the re-election of the Syriza government, which seems increasingly committed to debt restructuring. Short term economic prospects are downbeat due to capital controls and fresh austerity as well as the ripple effect of recent deep political uncertainty on the entire economy.

## MARKET INDICATORS

### Market Outlook

GDP:	A sharp deterioration in economic activity expected.	▼
Inflation:	Likely to stay negative in the coming quarters.	▲
Interest rate:	On hold.	▶
Employment:	Declines likely.	▲

### Economic Summary

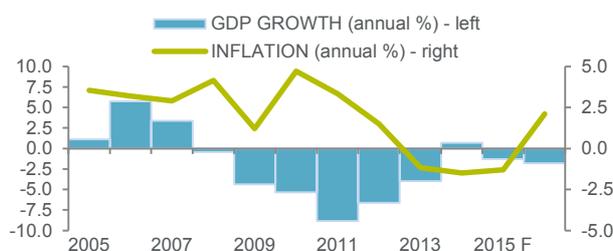
ECONOMIC INDICATORS	2012	2013	2014	2015 <sup>F</sup>	2016 <sup>F</sup>
GDP Growth	-6.6	-4.0	0.7	-1.3	-1.8
Consumer Spending	-7.9	-2.2	1.4	1.0	-3.2
Industrial Production	-2.0	-3.2	-2.2	-1.9	-0.3
Investment	-28.5	-9.5	2.9	-9.2	-16.4
Unemployment rate (ILO%)	24.6	27.5	26.6	25.6	26.5
Inflation	1.5	-1.2	-1.5	-1.3	2.1
USD/EUR (average)	1.28	1.33	1.33	1.11	1.07
USD/EUR (end-period)	1.32	1.38	1.21	1.09	1.05
Interest Rates: 3-month (%)	0.2	0.3	0.1	-0.1	-0.1
Interest Rates: 10-year (%)	11.8	8.6	9.6	8.2	8.2

NOTE: \*annual % growth rate unless otherwise indicated. E estimate F forecast  
Source: Oxford Economics Ltd. and Consensus Economics Inc

### Economic & Political Breakdown

Population	11.0 million (2014)
GDP	US\$ 237.5 billion (2014)
Public Sector Balance	-3.5% of GDP (2014)
Public Sector Debt	177.1% of GDP (2014)
Current Account Balance	0.5% of GDP (2014)
Parliament	Syriza and Independent Greeks
President	Prokopis Pavlopoulos
Prime Minister	Alexis Tsipras
Election Dates	February 2019 (Parliamentary) March 2019 (Presidential)

### Economic Activity



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