GREECE

Economic Snapshot

First Quarter | 2016

Overview

The economy remains in recession and prospects of a swift recovery appear elusive. Since the agreement of the third adjustment programme in August 2015, the government has enjoyed cross-party support and has successfully pushed two sets of reforms through parliament. The next set of planned reforms have faced more sustained opposition, however, and many challenges remain to get the economy back on a more sustainable footing.

Domestic demand expected to weaken further

The IMF is maintaining the pressure on the government to accelerate fiscal consolidation in order to achieve the programme target of a primary budget surplus equal to 3.5% of GDP in 2018. This means €5.7bn of additional tax increases and spending cuts, pension reforms and mortgage resolutions will hit consumers hard in 2016, with spending expected to fall by 1.2%, before gradually stabilising in 2017. The business environment remains very weak, with the continued imposition of capital controls and other restrictive measures undermining confidence. Both the import and export sectors have been hit hard by these capital controls, with imports falling by 6.9% in 2015, while exports fell 3.7%. Both sectors are expected to shrink even further in 2016. Fixed investment is forecast to contract by 8.9% in 2016 and is not expected to pick up until 2019 at the earliest.

Difficult reforms still ahead

While the government has made some progress on the reforms as stipulated in the August adjustment programme, it is facing strong opposition on other reforms that have the potential to heavily impact on households. These include further cuts in pension entitlements, higher social security contributions, tax increases for farmers and the resolution of non-performing loans for SMEs and primary home mortgages. Greece has previously benefited from disagreements between its creditors on how it could best satisfy the terms of the bailout, but all of Greece's creditors came to a compromise in March. What this means is that Greece is going to face intense pressure for additional fiscal tightening, but also that debt restructuring will be considered in order to reduce Greece's debt service costs. In summary, the medium term outlook for Greece remain highly uncertain and the prospects of a sustained recovery appear some way off.

MARKET INDICATORS

Market Outlook

GDP:	Weakening further in 2016 as the pace of fiscal tightening is increased.
Inflation:	Expected to remain negative in 2016, but prices may start to gradually rise in mid-2017.
Interest rate:	The ECB continues to pursue ultra-loose monetary policy and may cut interest rates further.
Employment:	Weak job creation, with the unemployment rate expected to rise further.

Economic Summary

ECONOMIC INDICATORS	2013	2014	2015E	2016F	2017F
GDP Growth	-3.1	0.7	-0.3	-1.2	0.0
Consumer Spending	-2.5	0.7	0.3	-1.2	0.1
Industrial Production	-3.2	-2.0	0.7	1.2	1.0
Investment	-9.3	-2.6	0.9	-8.9	-4.7
Unemployment rate (ILO%)	27.5	26.5	25.0	24.6	24.4
Inflation	-0.9	-1.3	-1.7	-0.1	0.8
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 (%)	0.3	0.1	-0.1	-0.3	-0.2
Interest Rates: 10-year (%)	8.6	9.6	8.1	8.4	8.3

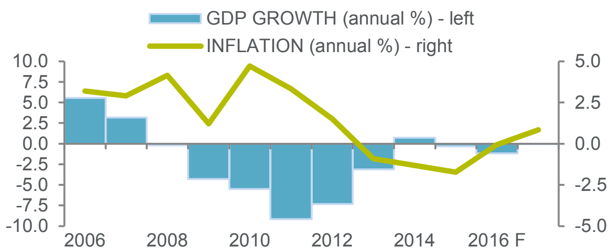
NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast

Source: Oxford Economics Ltd. and Consensus Economics Inc

Economic & Political Breakdown

Population	10.8 million (2015)
GDP	US$ 194.8 billion (2015)
Public Sector Balance	-7.2% of GDP (2015)
Public Sector Debt	176.9% of GDP (2015)
Current Account Balance	-0.1% of GDP (2015)
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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