

## Economic activity weakens further in H1 2016

The economy slipped further into recession in the first quarter of 2016, while recent data suggests that economic activity in Q2 wasn't much better. Domestic conditions remain very weak, while the external sector has deteriorated. GDP contracted by 0.5% in Q1, with initial forecasts pointing to a further contraction of 0.3% in Q2.

## Deeper fiscal cuts ahead

The first review of Greece's third bailout programme was concluded in June and it included further fiscal tightening of around 3.0% of GDP over the next three years. This is in addition to the original fiscal consolidation measures agreed in August 2015. It also included a commitment from the government that it will tighten fiscal policy by an additional 2.0% of GDP should Greece fail to meet the agreed programme targets. In return, Greece received €7.5 billion in funds from its creditors, the majority of which will be used to service its debt obligations.

## Consumers and businesses low on confidence

Consumers are facing several headwinds, with further tax increases and spending cuts on the horizon, as well as pension reforms and mortgage resolutions. Household consumption is now forecast to fall by 1.2% in 2016, which will be the worst annual performance since 2013. Businesses have also been hit hard, with investment falling by 6.8% quarter on quarter in Q1. The continued imposition of capital controls has hit both imports and exports, while other restrictive measures are undermining confidence. Several big companies have filed for bankruptcy or for protection from creditors, including Marinopoulos Group, Mamidoil Jetoil, Ilektroniki and Pysos. Fixed investment is forecast to contract by 0.8% in 2016 and is not expected to pick up until 2018 at the earliest.

## Uncertain times

Greece's recession is forecast to deepen in 2016 as fragile consumer and business confidence weigh on the domestic economy. Furthermore, the UK's vote to leave the EU has heightened uncertainty throughout the eurozone. There are deep concerns over the sustainability of Greece's debt load and further tough austerity measures, along with unpopular labour reforms, will be needed to unlock additional funds.

## MARKET INDICATORS

### Market Outlook

GDP:	Contracting further in 2016, with limited growth forecast over the medium term.	▼
Inflation:	Forecast to remain negative in 2016, with inflationary pressures gradually rising in H2 2017.	▲
Interest rate:	The ECB continues to pursue ultra-loose monetary policy and may cut interest rates further.	▲
Employment:	Limited job creation, with companies struggling with weak demand and restrictive capital controls.	▲

### Economic Summary

ECONOMIC INDICATORS	2013	2014	2015 <sup>E</sup>	2016 <sup>F</sup>	2017 <sup>F</sup>
GDP Growth	-3.1	0.7	-0.3	-1.3	0.3
Consumer Spending	-2.5	0.7	0.3	-1.2	0.1
Industrial Production	-3.2	-2.0	0.7	0.4	1.0
Investment	-9.3	-2.7	0.9	-0.8	-1.1
Unemployment rate (ILO%)	27.5	26.6	25.0	24.0	23.2
Inflation	-0.9	-1.3	-1.7	-0.3	0.8
USD/EUR (average)	1.33	1.33	1.11	1.10	1.06
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	8.3	8.0

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% of GDP (2015)
Public Sector Debt	177.4% of GDP (2015)
Current Account Balance	0.1% of GDP (2015)
Parliament	Syriza and Independent Greeks
President	Prokypis Pavlopoulos
Prime Minister	Alexis Tsipras
Election Dates	February 2019 (Parliamentary) March 2019 (Presidential)

### Economic Activity

