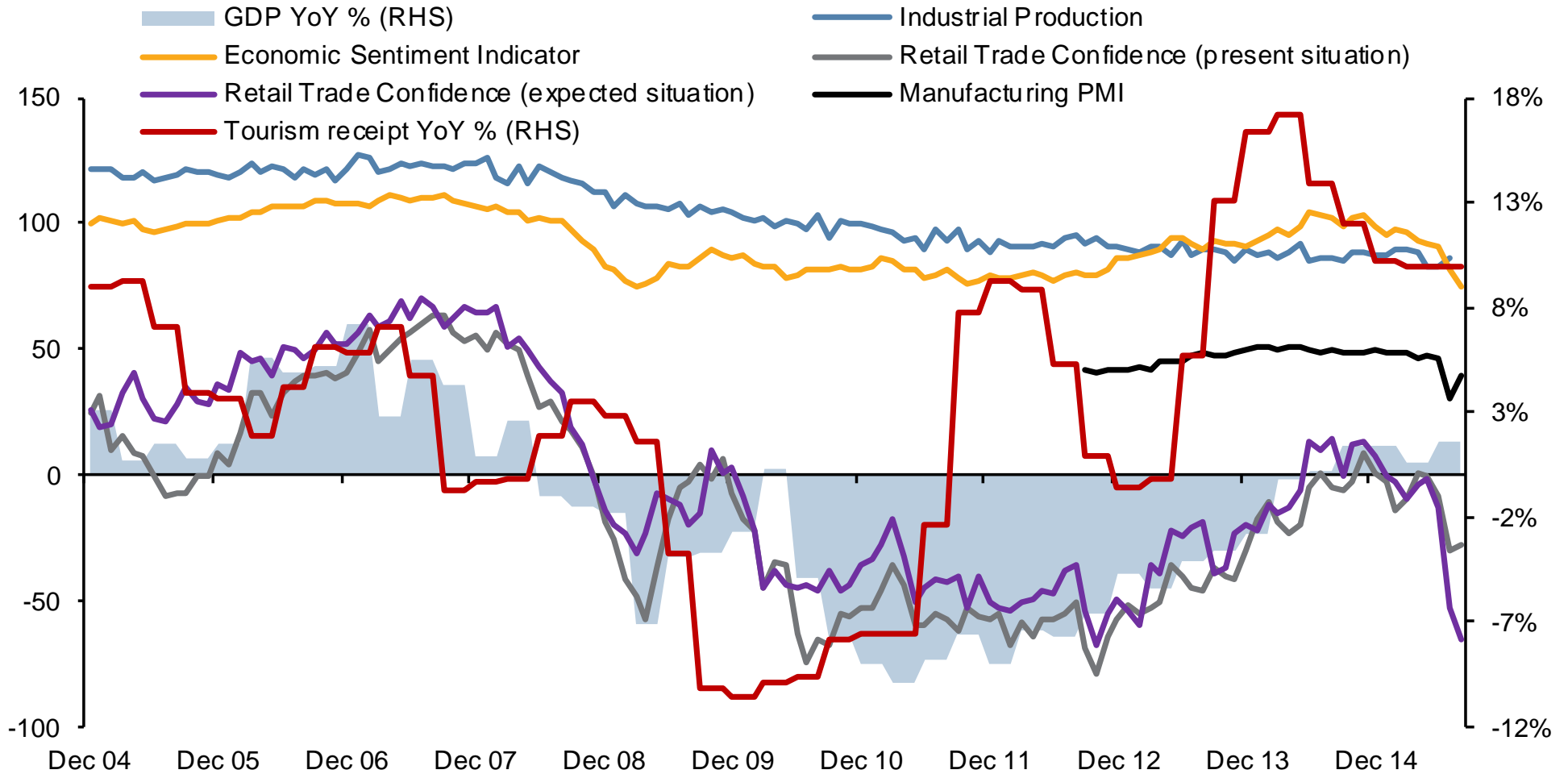


64,440	Population	11,128.4
229.3	GDP change since 2008 (€bn)	-63.4
88.5%	Government debt (% GDP)	168.8%
182.62%	Private debt (% GDP)	115.9%
16.1%	Youth Unemployment	48.3%%
18.8%	Public sector workers (% workforce)	13.4%
\$41,659	Average annual earnings	\$26,436
9.4%	Gender pay gap	22%
2.7%	Bank NPLs	34.3%
86 days	Length of average trial	7.5 years
1,573	Average annual hours of sunshine	2,773

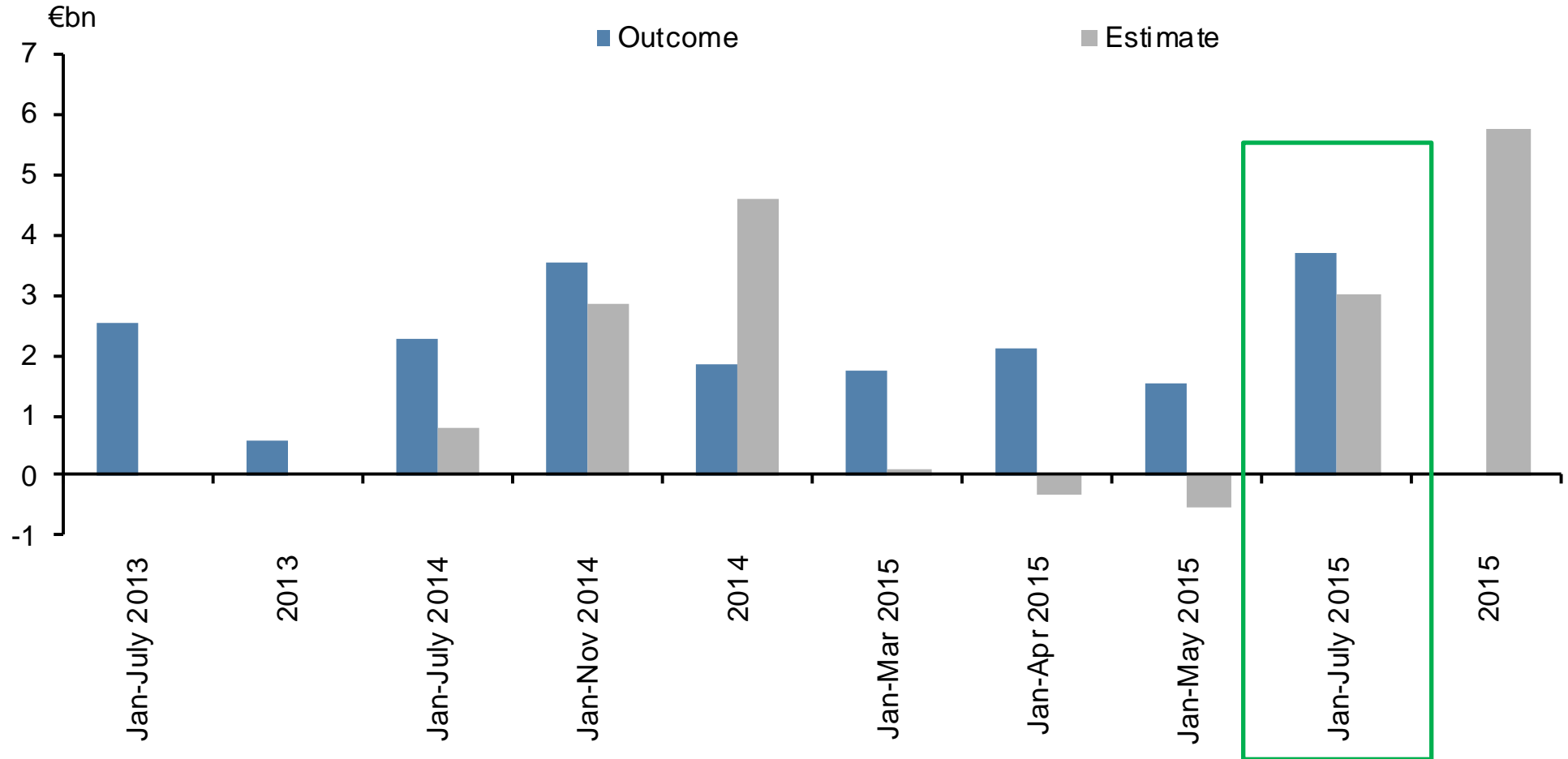
Key economic indicators



Source: RBS Macro Credit Research, Bloomberg, Bank of Greece

Still a primary surplus, but...

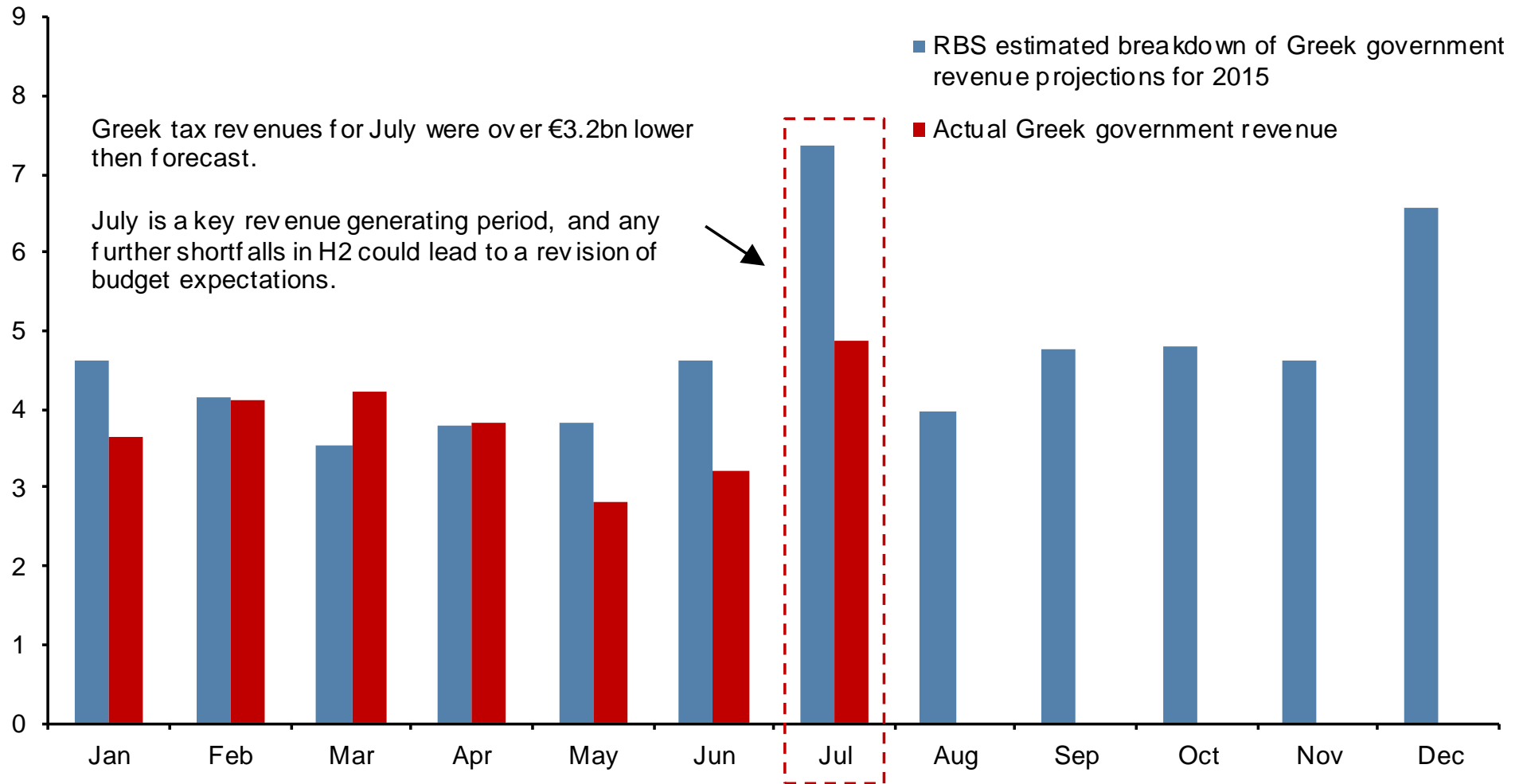
State budget primary surplus, €bn



Source: RBS Macro Credit Research, Hellenic Ministry of Finance

Tax collections are falling: a bad omen for H2 2015 growth

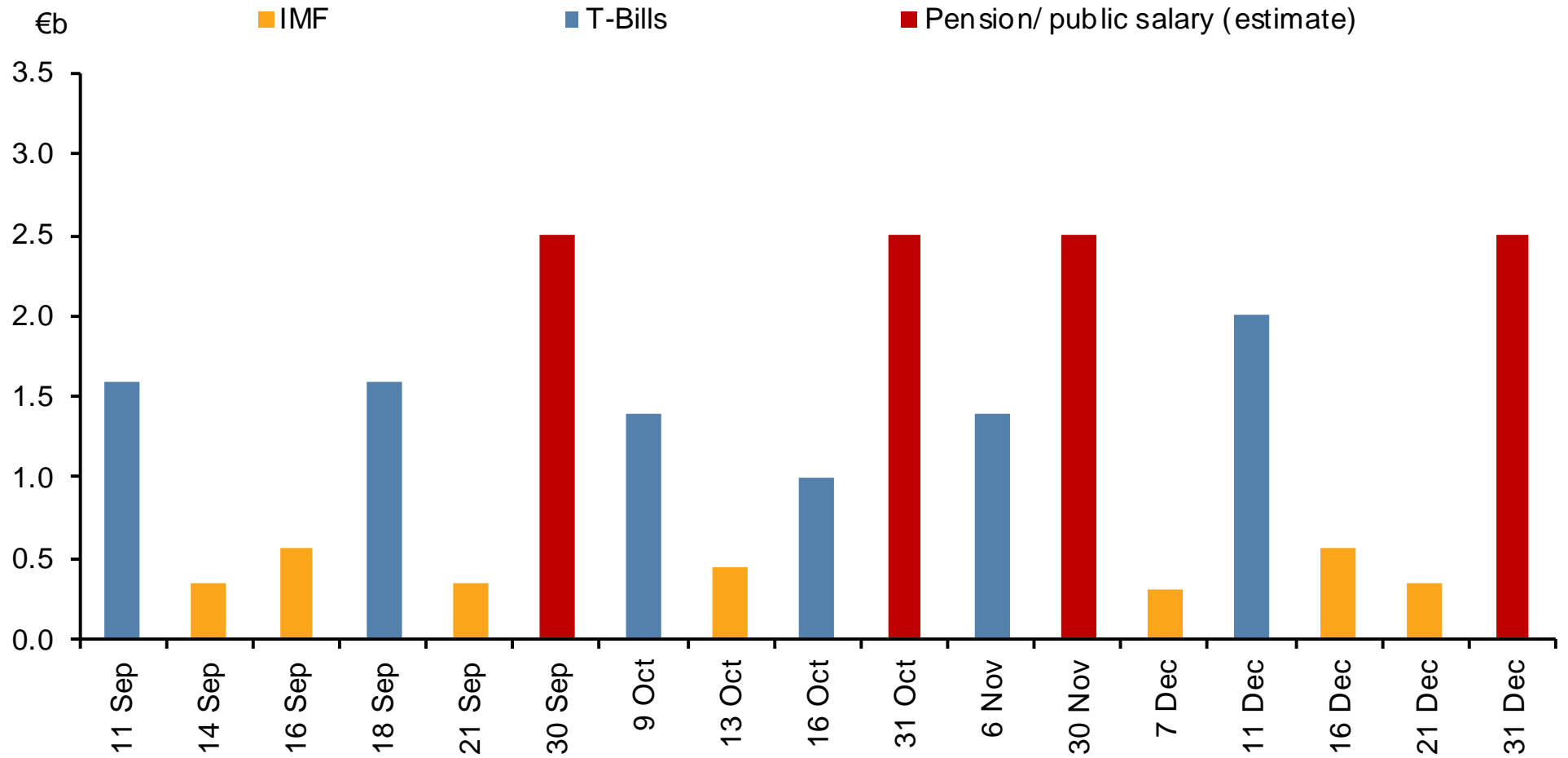
Estimated breakdown of Greek government revenue in 2015, €bn



Source: RBS Macro Credit Research, Hellenic Ministry of Finance

Debt repayment schedule

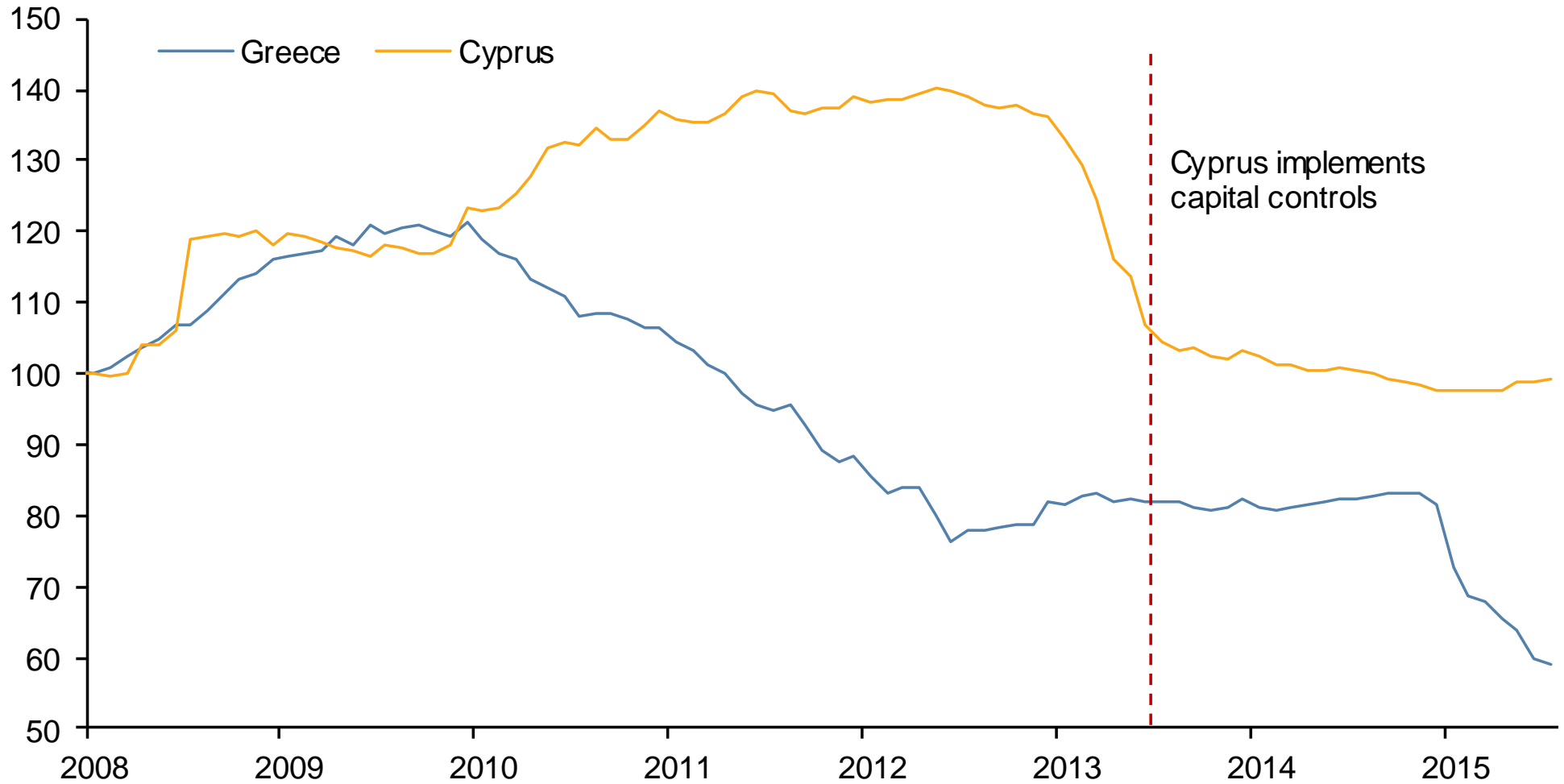
Size and date of upcoming repayments (€bn)



Source: RBS Macro Credit Research, IMF, Bloomberg, FT

Capital controls may stabilise deposit outflows

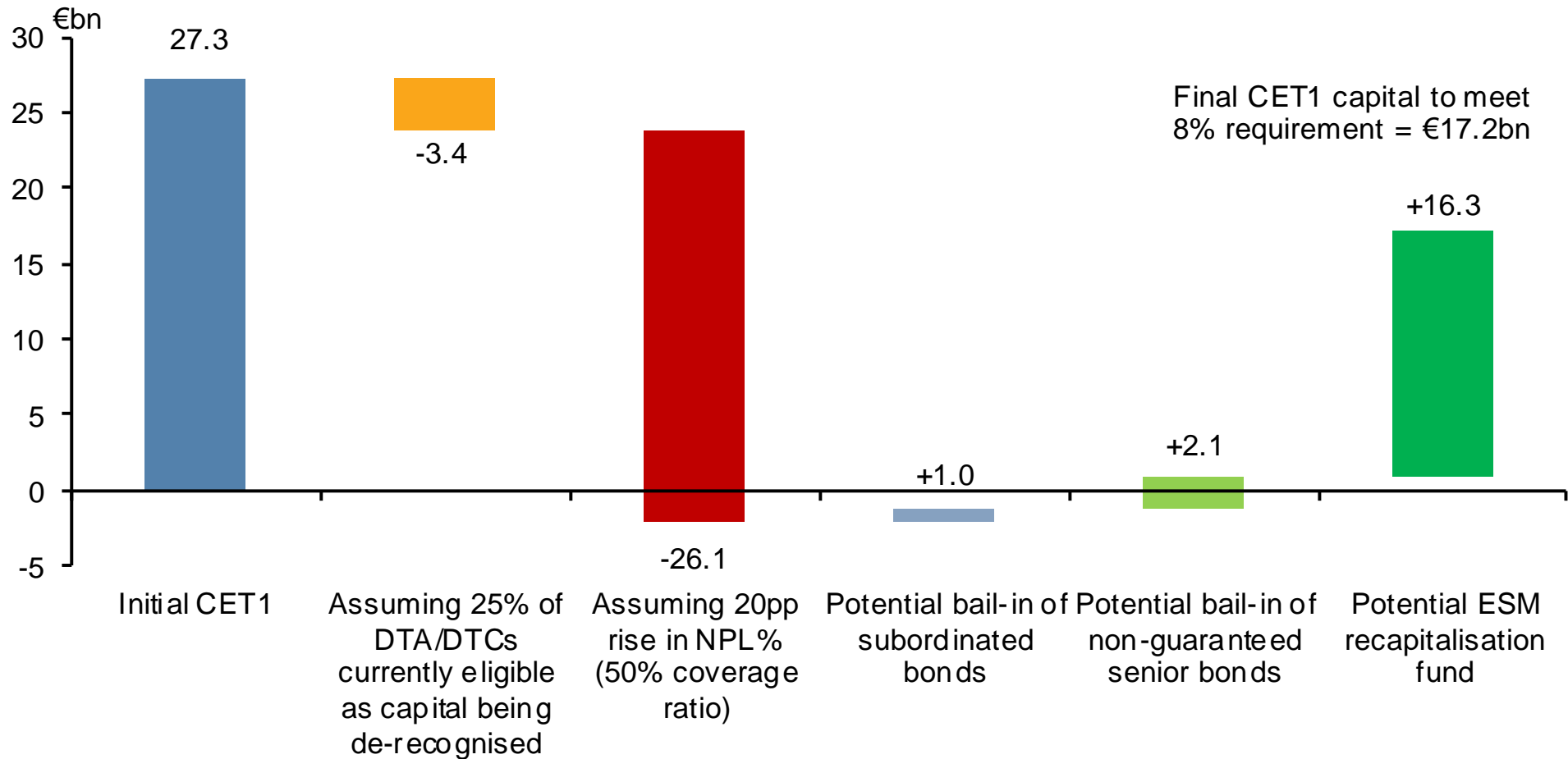
Household and non-financial corporate deposits at MFIs, 100 = January 2008



Source: RBS Macro Credit Research, ECB

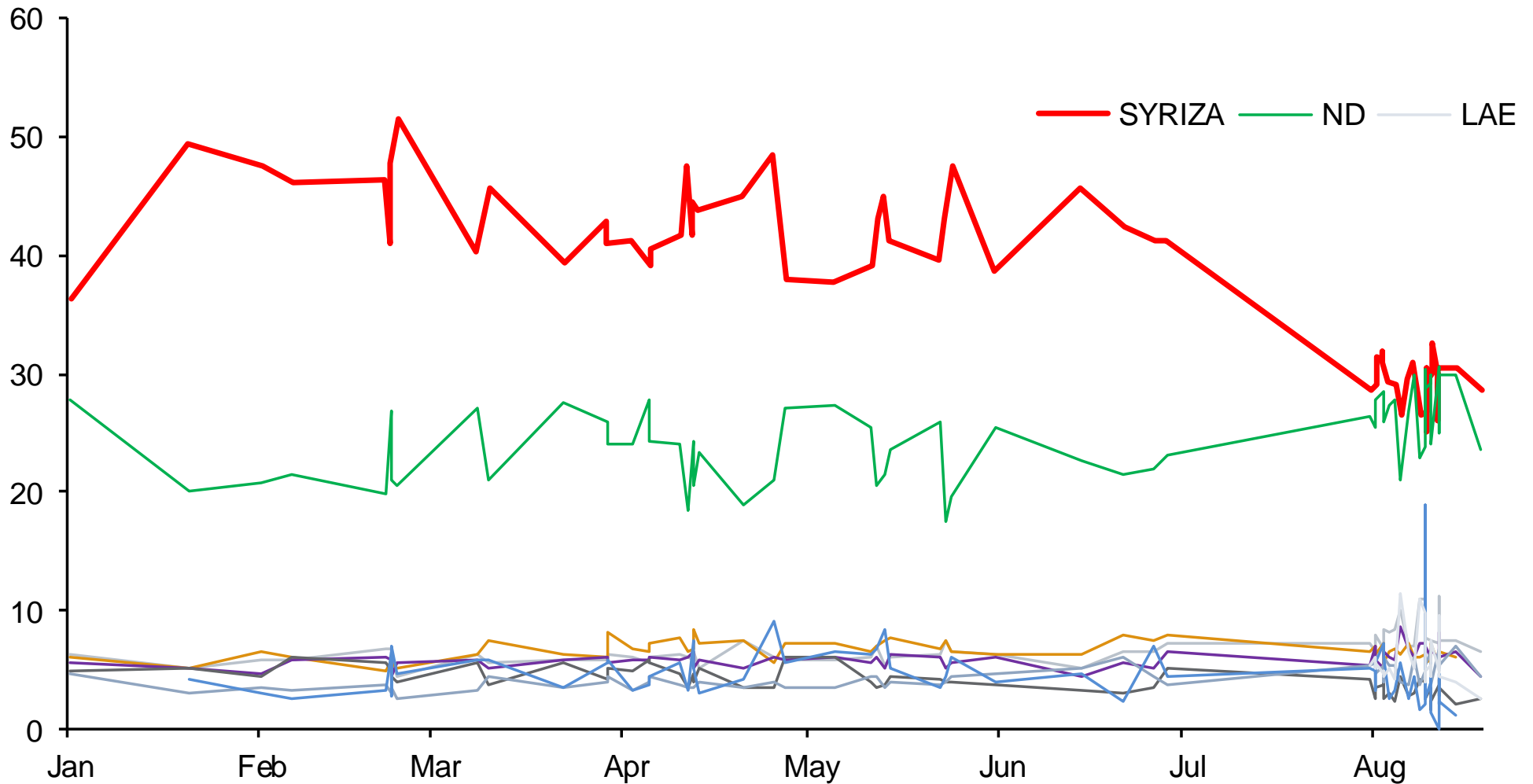
Greek banks need recapitalisation and potential bail-in

Based on our scenario analysis



Election risk and reform implementation

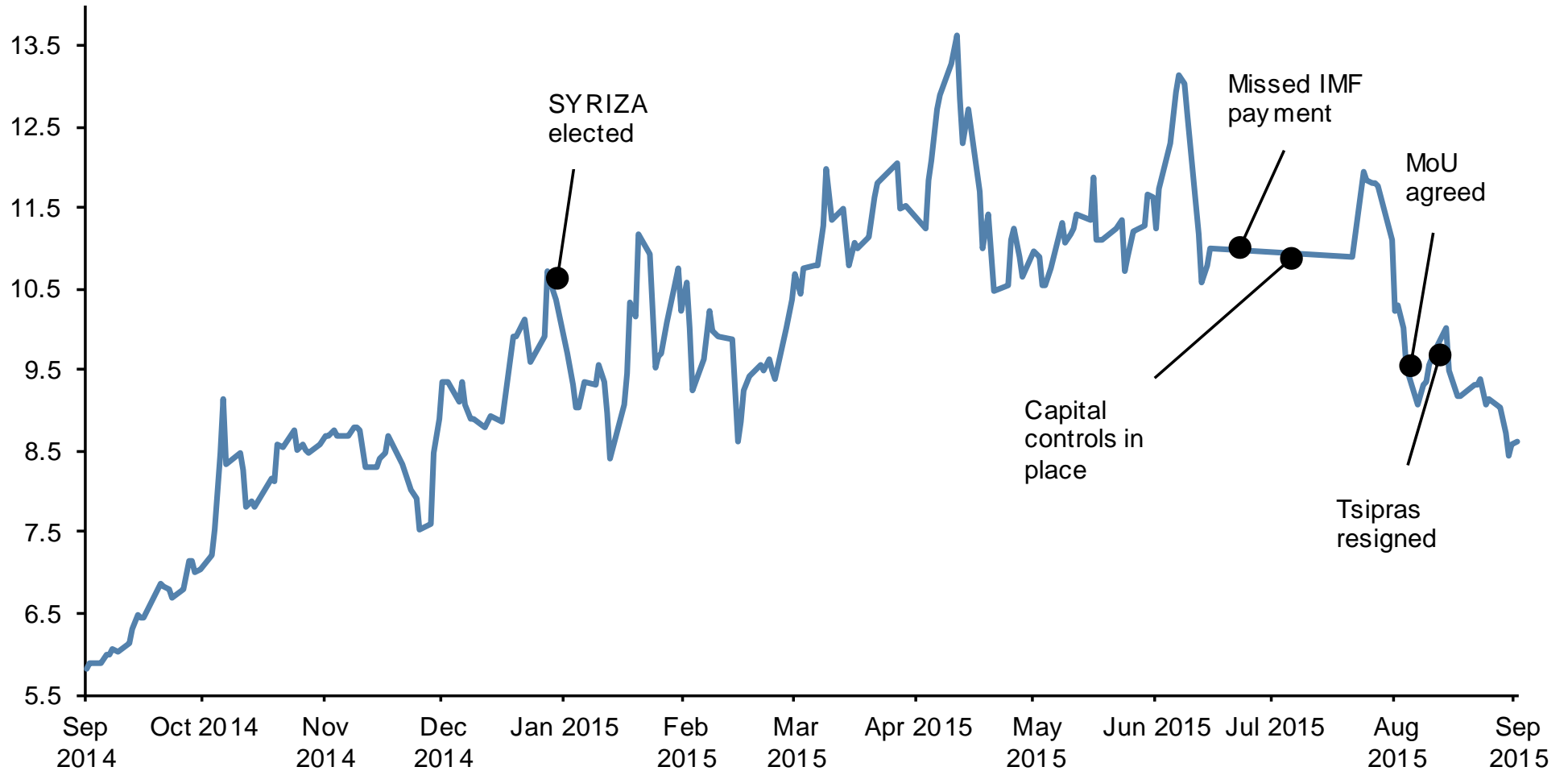
Opinion polls for Greek parties, % of the vote



Source: RBS Macro Credit Research, Wikipedia

GGB yields: temporary relief

GGB 10y yield



Source: RBS Macro Credit Research, Bloomberg

ECB could buy Greek bonds

Conditions to be included in PSPP:

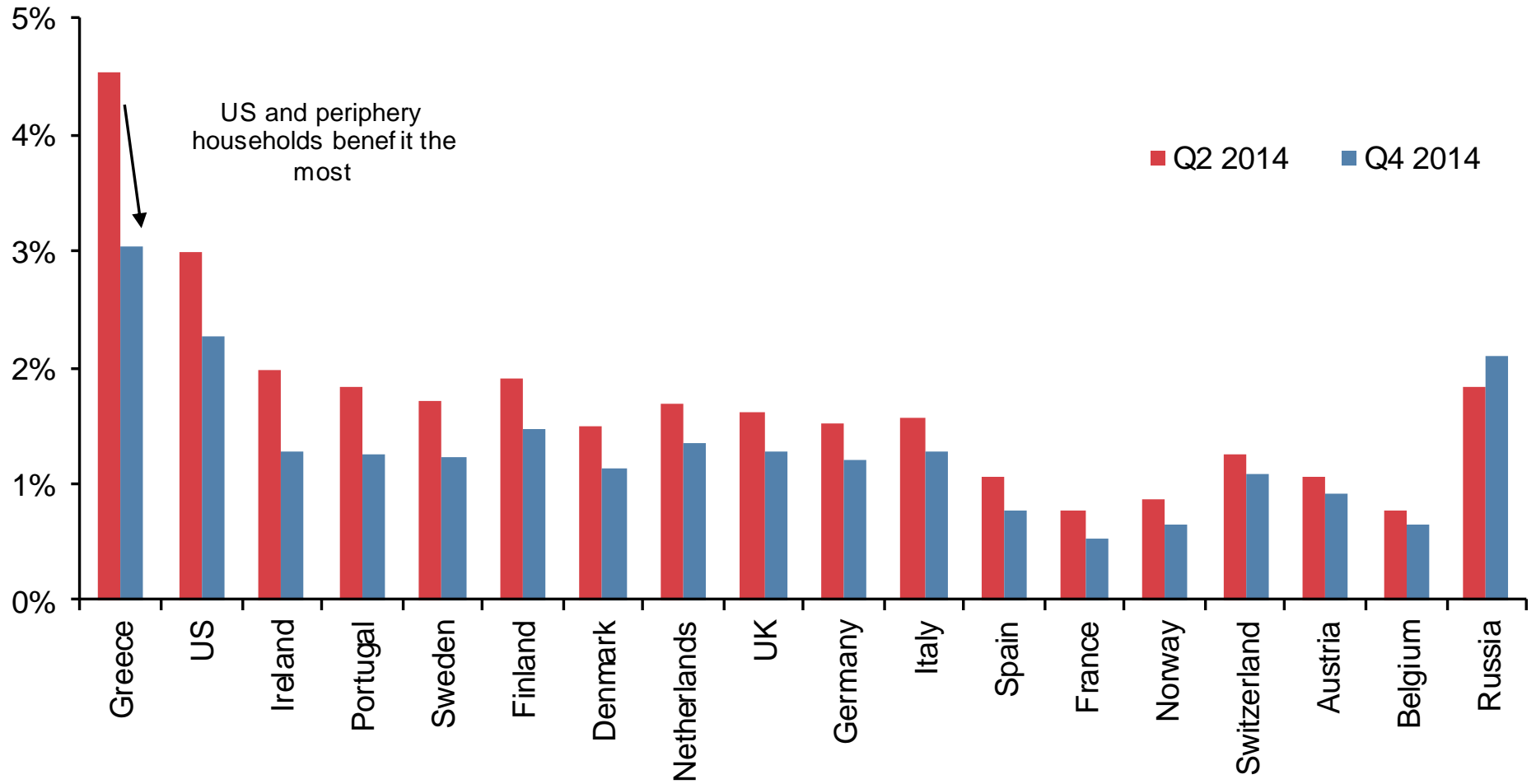
1. Be in a programme with European institutions and the IMF
2. Governing Council satisfied that conditions of the programme are being implemented
3. Waiver to be reinstated

The Eurosystem can buy another €2.4bn before hitting the 33%

	€bn
Total Debt	301.5
-securities	70.2
-in 2-30y bucket	46.1
(a) -33% of which is	15.2
(b) ECB already owns	12.8
(a-b) ECB can still buy	2.4

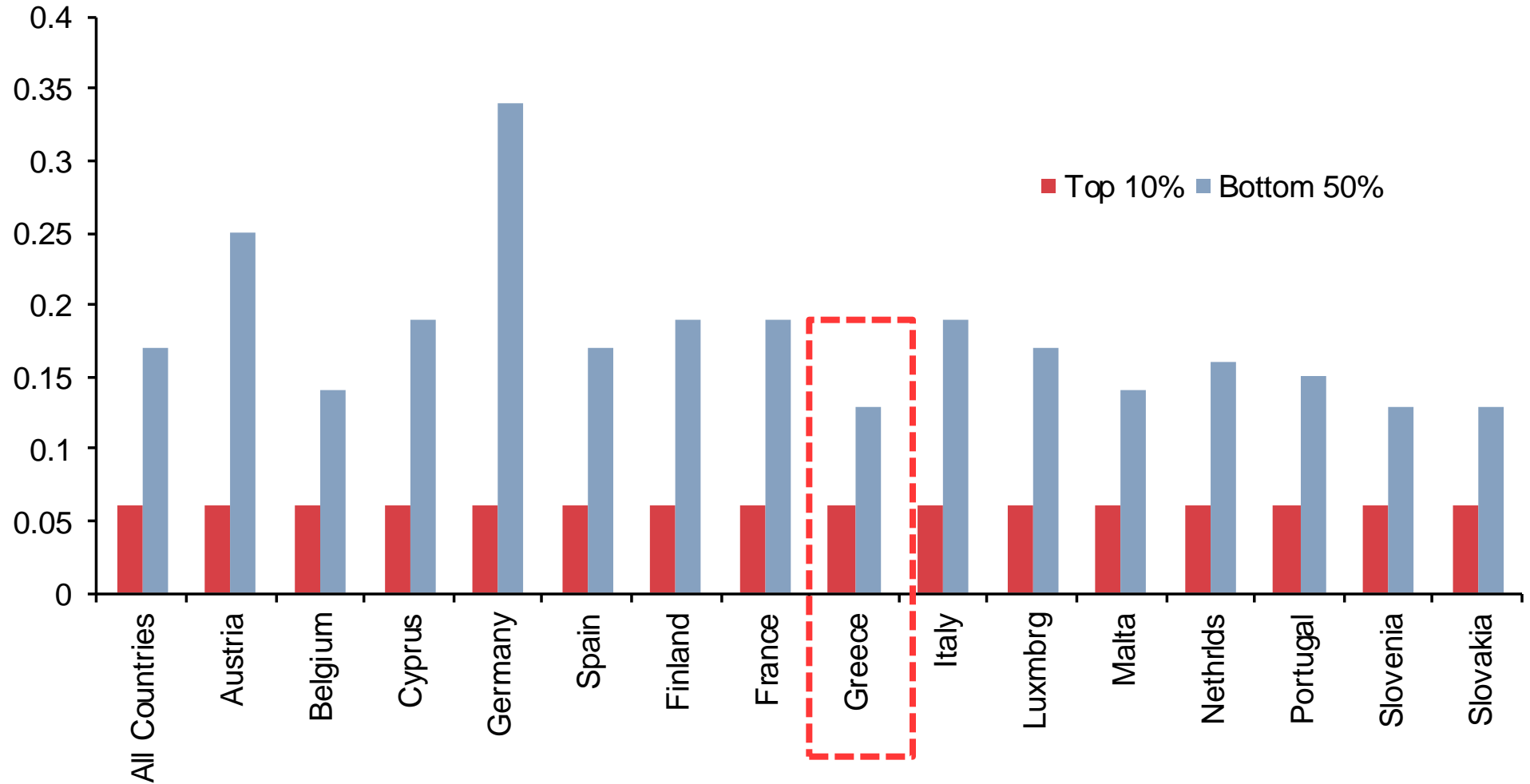
Oil dividends: Not for Greece

Proportion of annual income spent on petrol, %



QE: Limited benefits

Marginal propensity to consume, wealth-to-permanent income ratio



Source: RBS Macro Credit Research, ECB, Bloomberg, PDMA

Reform implementation – the MoU



Category	Rank (out of 189)
Trading across borders	48
Starting a business	52
Resolving insolvency	52
Paying taxes	59
Protecting investors	62
Getting credit	71
Getting electricity	80
Construction permits	88
Registering property	116
Enforcing contracts	155
Overall	61

Source: RBS Macro Credit Research, World Bank

Prior Action

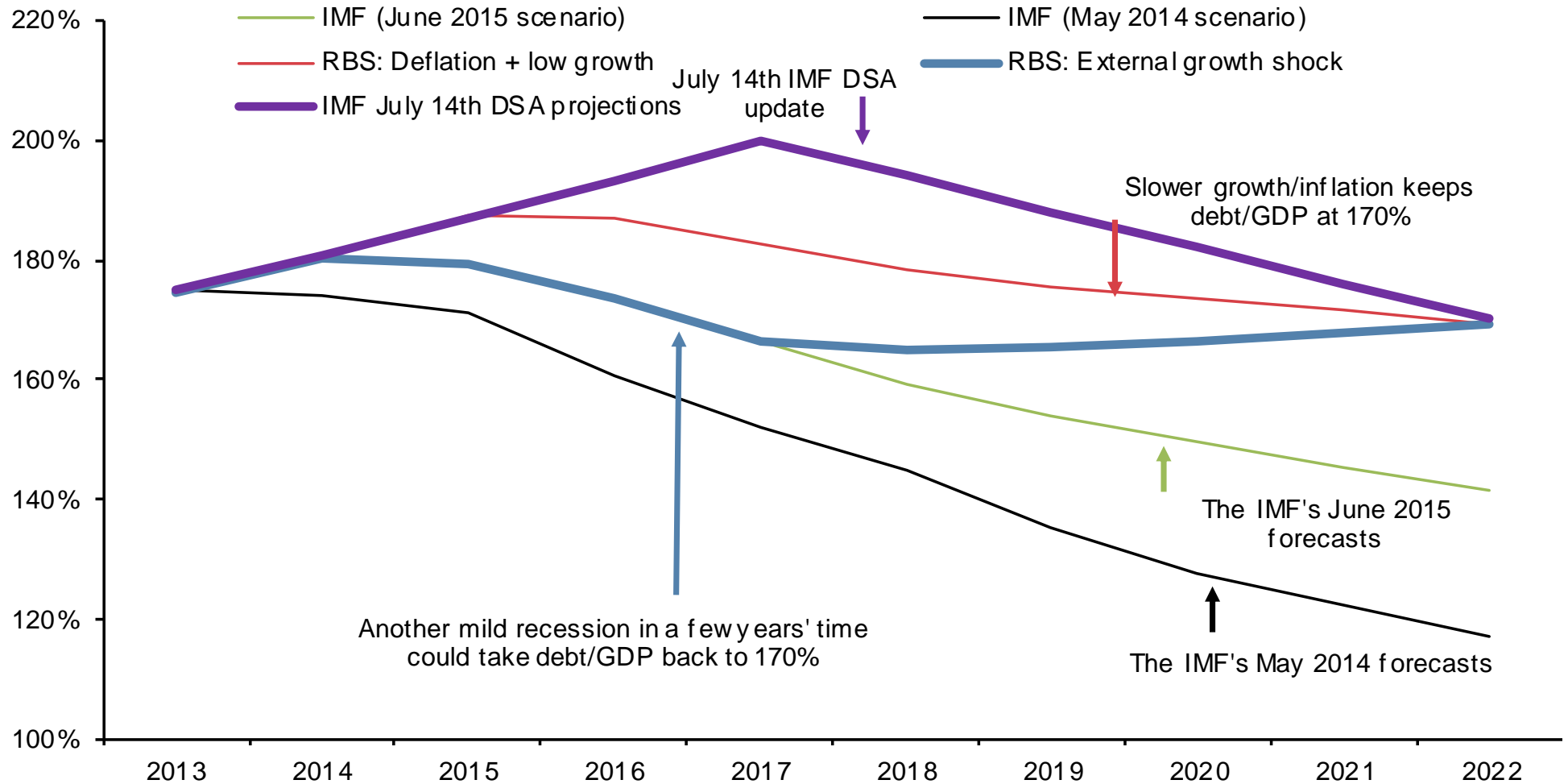
- **Fiscal Policy-** Primary surplus target by 2016, at 3.5% by 2018
- **Tax Policy-** Eliminate cross-border withholding tax; Reverse recent amendments to Income Tax Code
- **Revenue Administration-** Eliminate ceiling on wages and pension, amend debt instalment schemes, transfer all tax and custom related activities to a revenue administration agency
- **Pensions-** Clarify the rules for pensions after 67 years, correct law to freeze monthly guaranteed benefits
- **Resolution of NPLs-** Strategy for solving NPLs, amend corporate & house insolvency laws
- **Product Market-** Open restricted professions, eliminate non-reciprocal nuisance charges, implement recommendations to improve competition
- **Privatisation-** privatisation programme - irreversible steps for sale of regional airport
- **Public Admin-** Align non-wage benefits with best practice in EU
- **Anti-Corruption-** Update plan against corruption

Key Deliverables

- **Fiscal Policy-** Adopt 2015 budget as needed, draft 2016 budget and 2016-19 Fiscal Strategy
- **Tax Policy-** Introduce new criminal law on tax evasion and fraud, simplify VAT legislation, Issue circular on fines to ensure application of the TPC
- **Revenue Administration-** Improve rules on uncollectible tax write-off, propose and implement a national tax collection strategy in 2016
- **Pensions-** establish a closer link between contributions and benefits, gradual phasing out of the solidarity grant by end of 2019
- **Resolution of NPLs-** BoG to deliver a report on NPLs for each bank, agree targets for NPL resolution
- **Product Market-** adopt roadmap for investment licensing reform, submit Presidential decree to remove unjustified restrictions on regulated professions
- **Privatisation-** Independent identification of the task of the independent "fund" responsible for valuable Greek assets.
- **Public Admin-** reform the unified wage grid
- **Anti-Corruption-** insulated financial crime and corruption from political interventions

Greek debt is unsustainable under most growth scenarios

Greece public debt sustainability analysis: general government debt, % GDP



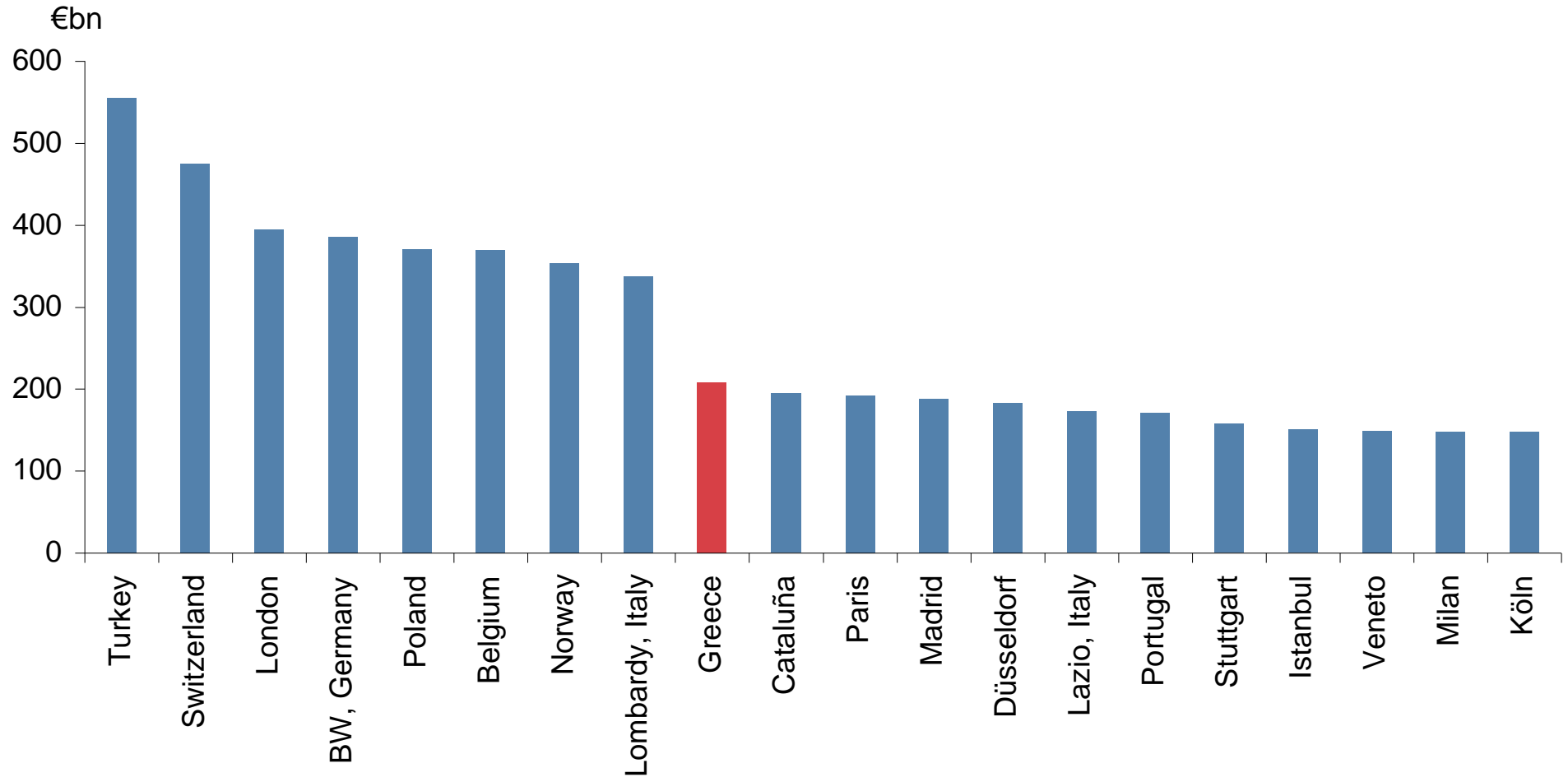
Source: RBS Macro Credit Research estimates, IMF. "July 14th IMF DSA Update" was linearly interpolated from published projections.

Long-term solutions



The problem in perspective: Greek GDP is comparable to a large city

Size of GDP across European regions



Source: RBS Macro Credit Research, Eurostat

Only a long-term extension can restore sustainability

Net Present Value (NPV) as % of GDP of Greek debt decreases 42ppt with a +60 year loan extension and no haircut

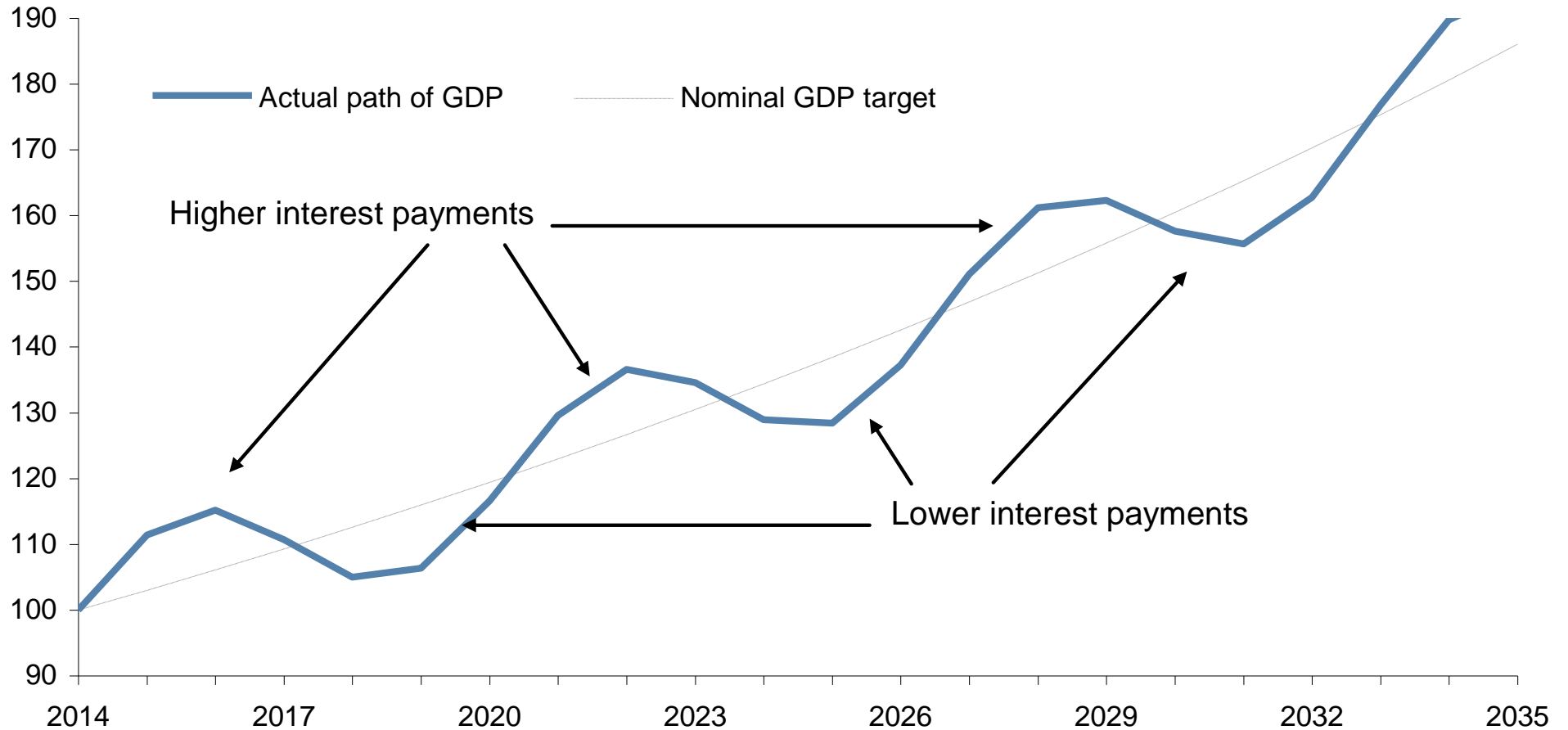
Change in NPV as % of GDP of Greek debt, with debt haircuts and maturity extensions

Change in NPV as % of GDP (points)		Maturity extensions to bilateral loans, EFSF and IMF (years)						
		+0 years	+10 years	+20 years	+30 years	+40 years	+50 years	+60 years
Haircut to IMF, EFSF and bilateral loans (%)	0%	0	-12	-21	-28	-34	-38	-36
	10%	-6	-16	-24	-31	-36	-40	-43
	20%	-12	-21	-28	-34	-38	-42	-45
	30%	-17	-25	-32	-37	-41	-44	-46
	40%	-23	-30	-36	-40	-43	-46	-48

Source: RBS Macro Credit Research, Bloomberg, IMF. Greek GDP EUR179.08bn (IMF 2014). EFSF and bilateral loan NPV calculated based on principal repayment only. For the NPV calculations, bonds and bills were discounted at their historical average rate of 5% and 3% respectively, and IMF and EFSF loans were discounted at average long term rates of 2.5%.

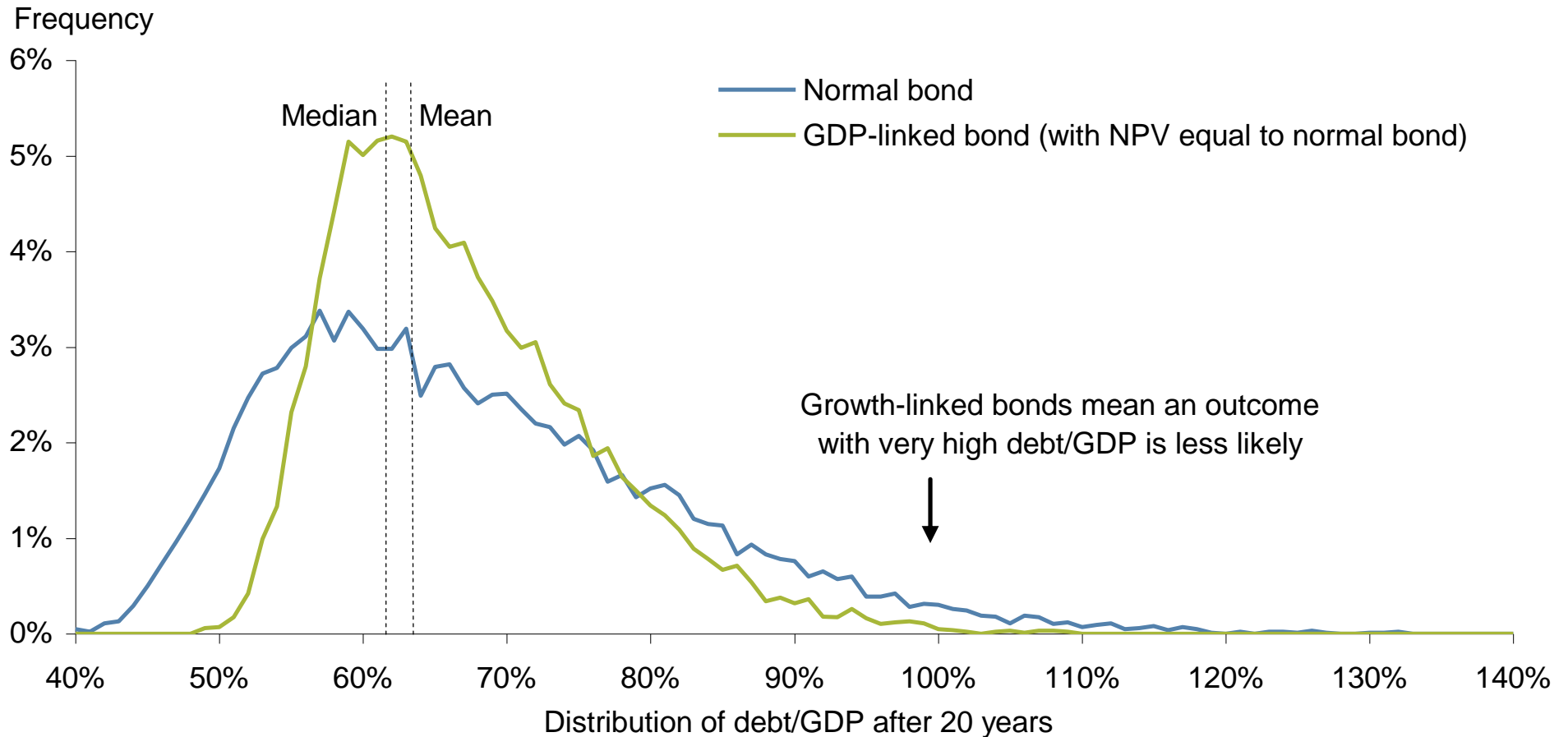
Growth-Linked Anti-cyclical Debt bonds can work

GLAD bonds pay out more or less if the economy does better or worse



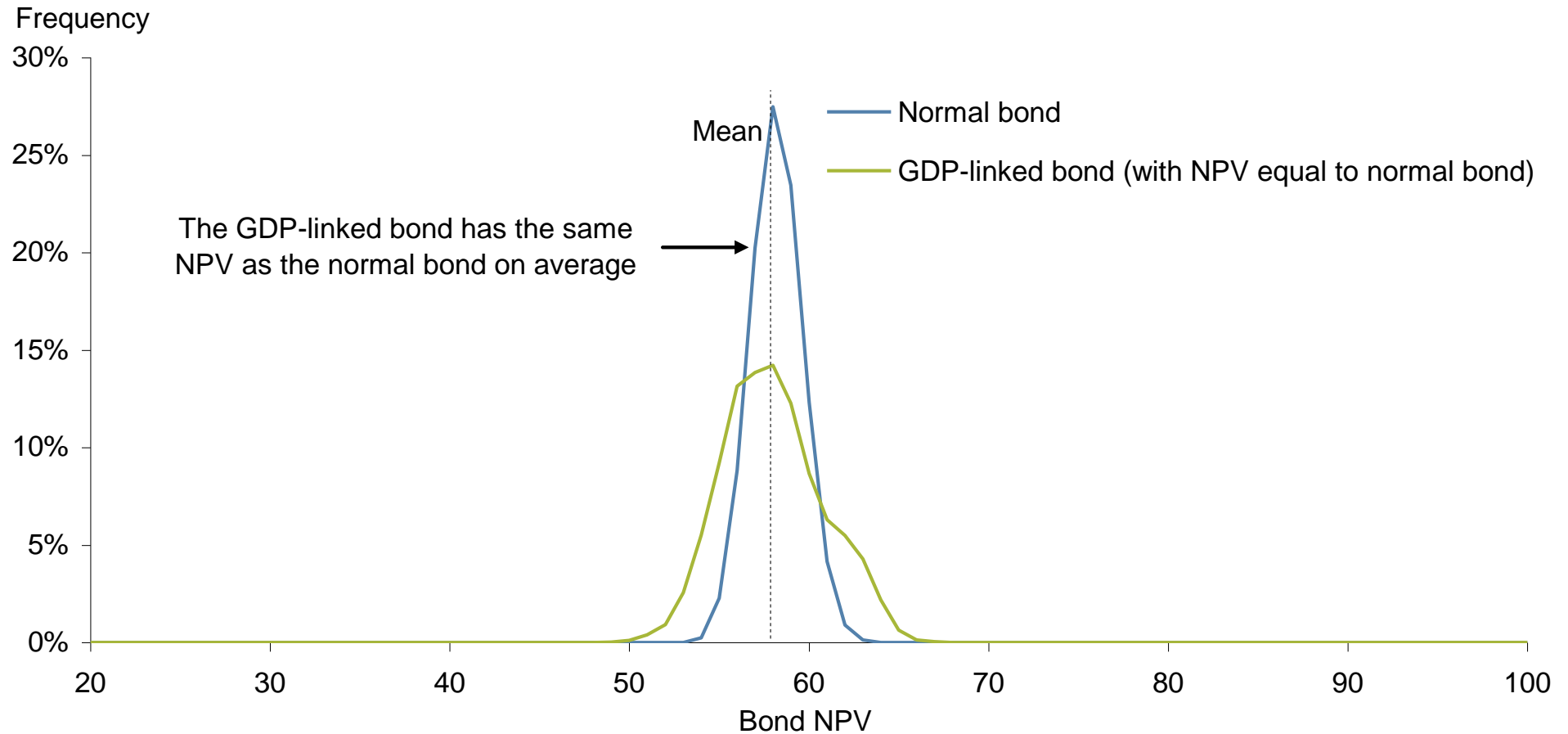
GLAD bonds help absorb shocks, smooth cycles

Distribution of debt/GDP, normal bond vs GLAD bond



The volatility of growth cycles is passed onto bondholders

Distribution of bond NPV, normal bond vs GLAD bond





Source: Frankfurt Airport

“There’s an 85 percent probability that Greece will be forced to leave the euro zone”

Mohamed El-Erian, 29 June 2015

“It is just a matter of time before everyone recognizes that parting is the best strategy”

Alan Greenspan, 9 February 2015

“We cannot rule it [a Greek exit from the euro] out”

Wolfgang Schaeuble, 13 March 2015

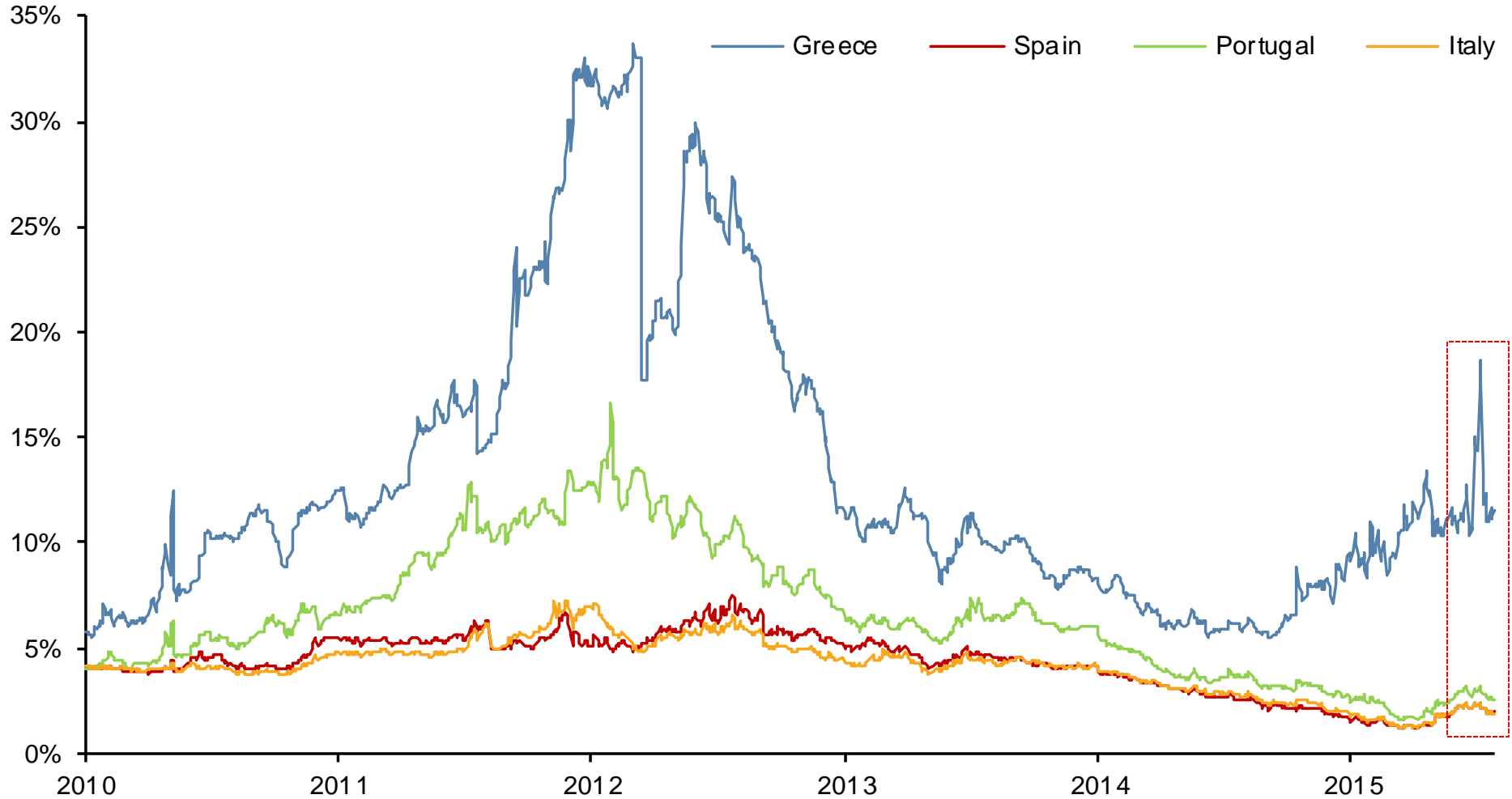
“Greece-in-Europe remains our base case scenario”

RBS Macro Credit Research

Appendix

The market risk has remained isolated this time....

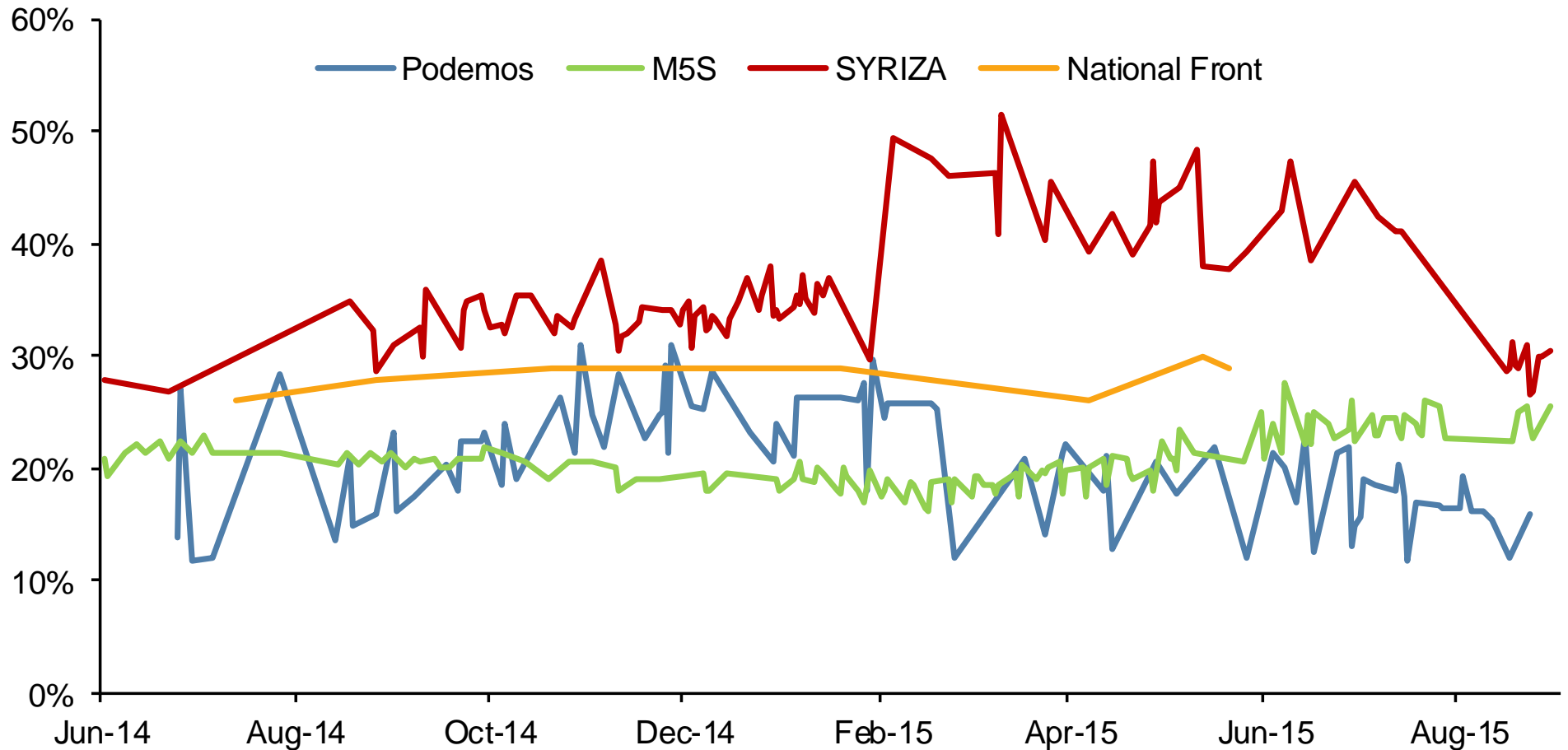
10 year sovereign yields



Source: RBS Macro Credit Research, Bloomberg

...But political contagion risk is there elsewhere in Europe

Opinion polls for anti-austerity parties in the periphery, % of the vote



Source: RBS Macro Credit Research, Wikipedia

Bibliography

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[Bloomberg TV: The need for a bad bank in Greece](#)

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