GREECE Macro Flash

GDP Q4:2017

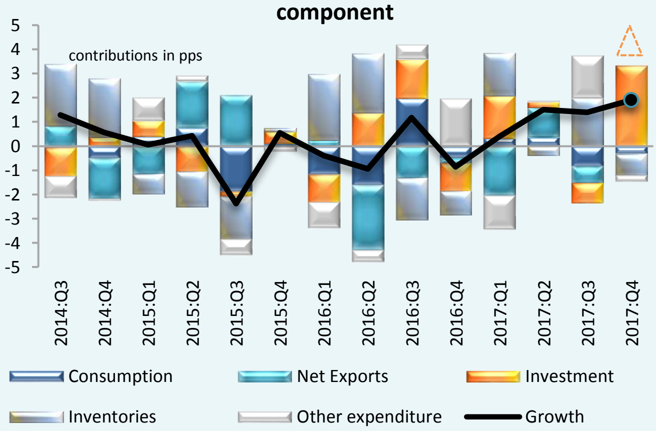
NATIONAL BANK OF GREECE

Greece's recovery gains momentum, buoyed by increased business activity

Overview of latest macroeconomic trends in pages 5-13

- GDP increased by 1.9% y-o-y in Q4:2017 and by 1.3% y-o-y in FY:2017, the strongest performance in 10 years, despite tighter-than-initially-expected fiscal conditions.
- Gross fixed capital formation rebounded impressively in Q4:2017 (+28.9% y-o-y), contributing 3.3 pps to annual GDP growth in this quarter on the back of buoyant non-residential investment (+31.4% y-o-y, the strongest rise in 11 years), which increased its share in GDP to an 8-year high of 14.0%.
- The net contribution of investment in GDP growth in Q4:2017 is still sizeable (1.7 pps), even after subtracting the impact from higher imports of capital goods (mainly transportation equipment) and other inputs related to investment. On an annual basis, investment, along with inventory accumulation, contributed 0.7 pps to FY:2017 growth (c. 50% of total output growth adjusted for their corresponding import content).
- Increasing business profitability, higher levels of capacity utilization and an effective acceleration in public investment activity – mainly due to a shift of funding from 2017 – are expected to support average annual growth in total investment of 10.8% y-o-y in FY:2018.
- On the other hand, consumer spending decelerated over the course of 2017, declining by 1.0% y-o-y in Q4:2017 and remained flat in FY:2017, for a second consecutive year, reflecting still significant fiscal pressure and a negative impact on disposable income from positive CPI inflation, which offset positive labor market trends.
- According to NBG estimates, average GDP growth in FY:2018 is estimated in the vicinity of 2.0% y-o-y, of which 0.5 pps corresponds to a positive carry from FY:2017.

GDP growth decomposition by expenditure component



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

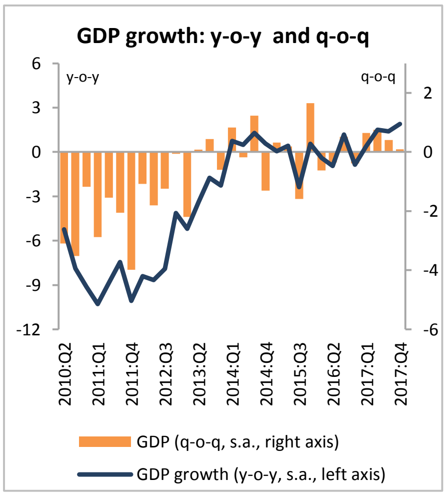
Effrosyni Alevizopoulou PhD
(+30210) 334 1620
e-mail: alevizopoulou.e@nbg.gr

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

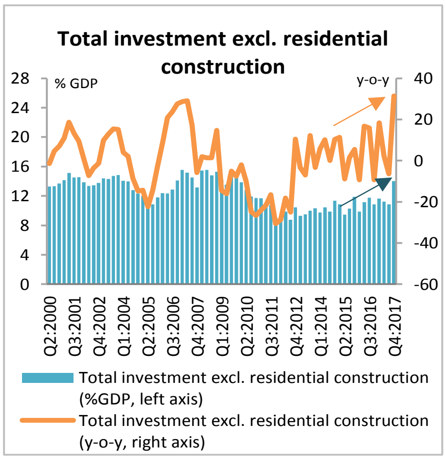
Eleni Balikou MSc
(+30210) 334 1198
e-mail: balikou.eleni@nbg.gr

NBG | Economic Analysis Department
Greece Macro Analysis Team
86 Eolou Str., 102 32 Athens, Greece

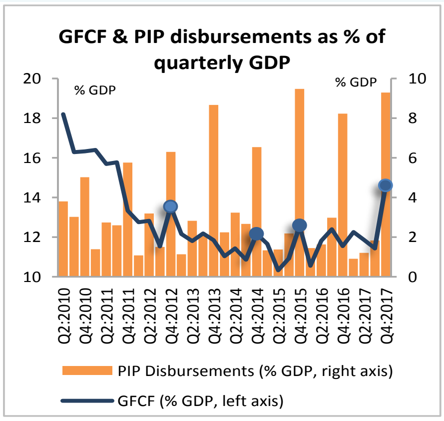
Greece's recovery is continuing, with GDP increasing by 1.9% y-o-y in Q4:2017



Greece's gross fixed capital formation rebounded impressively in Q4:2017, bringing the share of non-residential investment to GDP to an 8-year high of 14.0%



The acceleration in public investment activity in Q4:2017 is estimated to have added about 0.3 pps in GDP growth on an annualized basis



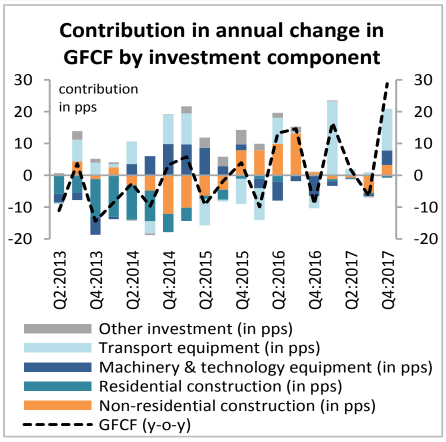
Greece's economy continues to gain momentum, buoyed by increased business activity that compensates for subdued private consumption

Greece's recovery is continuing, with GDP increasing by 1.9% y-o-y in Q4:2017. Output expanded for a fourth consecutive quarter (+0.1% on a seasonally-adjusted quarterly basis). In FY:2017, GDP increased by 1.3% y-o-y, the strongest performance in 10 years, despite tighter-than-initially-expected fiscal conditions reflected in the estimated fiscal tightening of 0.3% of GDP in FY:2017 (an estimated improvement in the General government primary surplus, adjusted for one-offs, from 2.3% of GDP in 2016 to 2.6% of GDP in 2017). The analysis that follows indicates that a key growth driver is business activity, combined with higher investment spending, while consumer spending remains relatively weak.

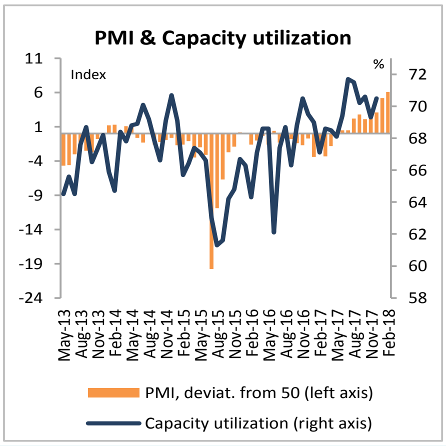
Indeed, gross fixed capital formation rebounded impressively in Q4:2017 (+28.9% y-o-y), contributing 3.3 pps to annual GDP growth in this quarter, following a temporary slowing in Q2 and Q3:2017. Importantly, non-residential investment was the main source of investment (+31.4% y-o-y, the strongest rise in 11 years), bringing the share of non-residential investment to GDP to an 8-year high of 14.0%. The net contribution of investment in Q4 GDP growth is still sizeable (1.7 pps), even after subtracting the impact from higher imports of capital goods and other inputs related to investment. On an annual basis, investment, along with inventory accumulation, contributed 0.7 pps to FY:2017 growth (c. 50% of total output growth adjusted for their corresponding import content). Indeed, it appears that spending on new transportation equipment has been the dominant driver of investment growth in both Q4:2017 and FY:2017. The acceleration in public investment activity in Q4:2017 is estimated to have added about 0.3 pps in GDP growth on an annualized basis.

In this vein, it is encouraging that business activity showed further signs of sustainable improvement in Q4:2017. Indeed, gross

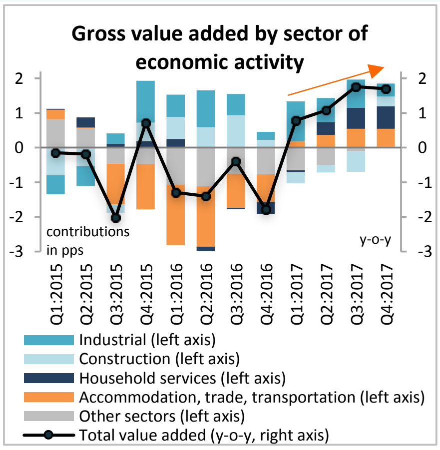
Spending on new transportation equipment has been the dominant driver of investment growth in both Q4:2017 and FY:2017



Capacity utilization in the Greek industry in H2:2017 exceeded its long-term average and, in conjunction with a new improvement in business conditions in Q1:2018, presages a further increase in investment in 2018



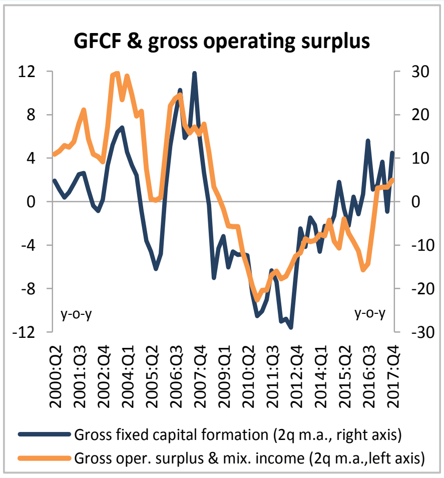
Business activity showed further signs of sustainable improvement in Q4:2017



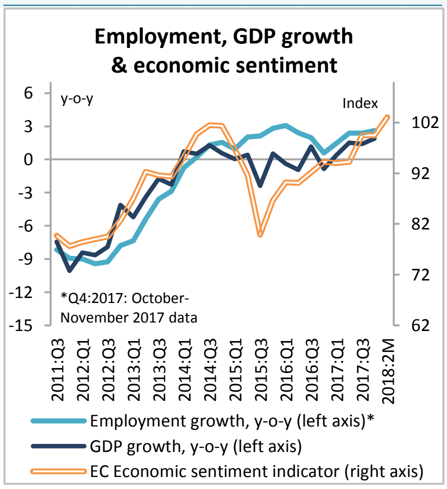
operating surplus and mixed income created by the corporate sector – a good proxy for their profitability and thus, of their willingness and capacity to invest – increased by 2.0% y-o-y in Q4:2017 and by 1.6% y-o-y, on average, in FY:2017, recording the first annual expansion since 2008. Moreover, the level of capacity utilization has increased to levels which in Q4:2017 exceeded the long-term average in specific, more competitive, industrial subsectors, while residential construction is also expected to bottom, as indicated by an average increase in residential building permits issuance (17.7% y-o-y in 11M:2017). Finally, public investment spending is also expected to increase by 26.9% y-o-y in FY:2018 on a cash basis (mainly due to a shift of EU funding and related payments from 2017). In line with these positive trends, total gross fixed capital formation is expected to grow by a healthy 10.8% y-o-y in 2018, according to NBG estimates.

On the other hand, consumer spending remains weak, decelerating over the course of 2017, declining by 1.0% y-o-y in Q4:2017 and by -0.4% s.a. q-o-q -- following declines of -0.5% q-o-q and -0.2% q-o-q, respectively, in Q3 and Q2:2017. In FY:2017, private consumption remained flat, for a second consecutive year, reflecting still significant fiscal pressure (personal taxes and social security contributions increased by an estimated 0.2% of GDP in FY:2017 compared with 2016). Moreover, the return of consumer price inflation to positive territory (1.1% y-o-y in 2017), following 4 years of deflation, took an additional toll on household disposable income. This offset the supportive impact of higher employment (2.2% y-o-y on average in 11M:2017). This trend suggests that the financial position of Greek households is still fragile. Sluggish private consumption is expected to continue in 2018, in view of the continuing fiscal effort needed to achieve the 3.5% primary surplus target, combined with subdued wage trends in the face of still high unemployment. In fact, the effective increase in fiscal pressure is relatively higher for medium-income earners, who typically play a central role in the consumption recovery process.

Increasing business profitability will support investment decisions in 2018



A further strengthening in economic sentiment and sustainable employment growth point to an acceleration in GDP growth in 2018



Net exports subtracted 0.4 pps from GDP growth in FY:2017 (and 0.0 pps in Q4:2017), despite the solid performance of the tourism sector and healthy growth in goods exports, as the annual growth in imports of goods and services outpaced that of exports (7.5% y-o-y and 6.9% y-o-y, respectively, in constant price terms).

NBG Economic Analysis' "high frequency indicator" of economic activity, incorporating the latest information from monthly macroeconomic data releases for early 2018, points to an acceleration in GDP growth to c. 2.0% y-o-y in Q1:2018. This projection mainly reflects the increase in economic sentiment and manufacturing PMI indices, to 3½ and 17½ year highs, respectively, in February 2018. In addition, favorable prospects for tourism activity, reflected by a double-digit increase in early bookings for 2018, along with favorable growth trends in the euro area, are expected to offset the drag on growth from the additional fiscal effort and higher import spending that typically accompanies the recovery process. Employment growth should continue at the current pace of c. 2.0% y-o-y, reducing unemployment to below 20%, on average, in 2018. The above factors are estimated to bring GDP growth in FY:2018 in the vicinity of 2.0 % y-o-y, of which 0.5 pps corresponds to a positive carry from FY:2017.

GREECE

Macro View - Economic Outlook | March 2018

Greece's recovery on track, supported by investment activity, policy credibility improves and financial markets assign an increasing probability of a successful completion of the 3rd economic adjustment programme

Greece: Tracking the economy's cyclical position

	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
PMI (index level)	39,1	43,3	47,3	48,1	50,2	50,0	48,4	49,0	49,7	48,4	50,4	48,7	50,4	49,2	48,6	48,3	49,3	46,6	47,7	46,7	48,2	49,6	50,5	50,5	52,2	52,8	52,1	52,2	53,1	55,2	56,1
Industrial confidence (index level)	-30,2	-23,3	-19,6	-16,6	-13,6	-10,1	-10,2	-7,8	-7,8	-11,6	-9,1	-7,3	-5,1	-6,2	-4,7	-7,8	-5,7	-5,0	-5,1	-6,7	-5,6	-10,4	-7,3	-2,7	-3,7	-0,7	-4,7	-3,9	0,2	1,2	4,2
Manufacturing production (yoy)	3,7	2,7	-1,0	2,2	5,3	5,0	1,1	-1,7	7,2	7,2	8,9	10,8	3,2	1,9	7,3	1,3	-1,8	0,9	6,4	10,2	-0,3	5,3	3,0	1,8	2,9	2,3	-0,1	1,8	6,3		
Industrial production (yoy)	4,2	3,0	-1,7	2,6	6,9	4,1	-2,9	-3,6	3,7	3,5	8,1	5,5	0,5	-0,2	6,9	2,1	2,5	7,1	11,0	10,1	0,8	6,3	1,8	2,1	5,5	3,2	0,7	2,0	0,2		
Services confidence (index level)	-42,8	-15,1	-14,3	-15,4	-16,6	-5,3	-23,1	-17,3	-13,0	-11,4	-17,5	-8,3	-4,0	-6,9	1,3	3,5	-3,1	-3,2	1,9	6,6	8,9	11,5	9,0	17,4	22,9	15,3	14,4	13,6	13,4	8,9	18,9
Consumer confidence (index level)	-64,8	-64,2	-59,6	-64,1	-61,1	-63,9	-66,8	-71,9	-73,7	-71,9	-68,0	-69,2	-70,1	-65,9	-63,6	-66,9	-64,4	-67,8	-73,3	-74,4	-72,2	-69,7	-68,8	-61,5	-57,0	-53,7	-54,0	-53,8	-50,3	-51,0	-53,0
Retail confidence (index level)	-31,0	-20,0	-15,3	-12,8	-5,3	-3,4	3,2	3,0	5,6	5,1	4,7	8,2	9,3	15,0	10,7	10,9	9,8	12,9	1,9	2,7	3,0	1,5	-3,4	-1,3	-3,6	0,0	2,0	2,3	-0,4	1,8	2,8
Retail trade volume (yoy)	-2,1	-3,3	-2,4	-4,4	0,2	-1,7	-6,8	-1,2	-2,0	-6,3	-3,6	9,5	-2,1	2,4	2,6	4,0	-1,0	-0,1	9,9	-1,2	2,1	0,3	3,7	2,5	0,8	-0,8	-1,0	-2,6	1,8		
Construction Permits (yoy)	-28,5	-13,1	-38,2	-4,5	67,3	-5,2	8,3	-34,7	-27,3	-39,8	-26,1	38,3	64,4	18,7	5,7	9,4	-25,9	-14,1	-0,1	71,0	22,1	52,7	25,1	10,0	9,5	-4,1	96,7	24,4			
House prices (yoy, quarterly series)	-6,0	-6,0	-5,1	-5,1	-5,1	-4,4	-4,4	-4,4	-2,5	-2,5	-2,5	-1,5	-1,5	-1,5	-1,0	-1,0	-1,0	-1,9	-1,9	-1,9	-1,2	-1,2	-1,2	-0,6	-0,6	-0,6	-0,3	-0,3	-0,3		
Construction confidence (index level)	-67,5	-52,8	-49,4	-47,0	-49,1	-37,9	-37,5	-35,9	-45,9	-39,0	-39,8	-55,6	-52,5	-59,5	-67,1	-53,8	-44,0	-45,3	-59,7	-49,8	-53,5	-67,4	-55,6	-39,7	-49,2	-36,9	-44,7	-59,3	-58,3	-50,4	-45,1
Employment (y-o-y)	2,3	2,2	2,7	2,7	3,1	2,7	3,1	3,3	3,0	2,2	2,1	2,3	1,8	1,8	1,0	0,8	0,0	0,6	1,7	2,0	2,1	2,6	2,4	2,0	2,7	2,4	2,6	2,6			
Interest rate on new private sector loans (CPI deflated)	6,3	6,5	6,0	5,7	5,3	5,7	5,4	6,2	6,1	5,7	5,6	6,1	5,9	5,7	5,5	5,7	4,8	3,7	3,2	2,7	3,1	3,6	3,5	3,7	3,9	3,7	4,1	3,6	4,3	5,2	
Credit to private sector (y-o-y)	-3,7	-3,6	-3,6	-3,7	-3,6	-5,0	-4,8	-5,1	-4,6	-3,2	-3,1	-2,6	-2,7	-2,7	-2,8	-2,5	-4,5	-4,7	-4,5	-4,7	-4,4	-4,7	-5,6	-6,1	-6,4	-6,3	-6,4	-7,3	-5,7	-5,8	
Deposits of domestic private sector (y-o-y)	-27,0	-26,6	-26,9	-27,1	-23,5	-17,5	-13,4	-12,0	-9,0	-6,1	0,5	1,7	2,4	1,6	3,0	3,4	3,4	3,1	2,9	3,1	3,1	3,4	3,4	4,3	4,3	4,6	4,6	4,8	4,7	4,9	
Interest rate on new time deposits (households, CPI deflated)	2,7	2,9	2,0	1,7	1,2	1,7	1,4	2,4	2,1	1,7	1,6	1,9	1,8	1,8	1,2	1,6	0,7	-0,5	-0,6	-1,1	-1,0	-0,5	-0,4	-0,4	-0,3	-0,4	-0,1	-0,5	0,0	0,8	
Economic sentiment index (EU Commision, Euro area)	104	105	106	105	106	105	103	102	103	104	104	104	103	104	106	106	107	108	108	108	109	109	111	111	111	113	114	114	115	115	114
Exports (other (excl.oil&shipping) y-o-y 6m mov.avg	7,8	5,0	2,2	1,3	-0,6	-1,9	-1,0	-0,6	-0,1	-0,3	-2,0	-1,4	-1,2	0,5	0,9	4,1	5,2	6,5	5,8	6,4	6,1	7,5	10,0	9,6	11,3	9,4	11,8	9,6	9,0		
Imports (other (excl.oil&shipping) y-o-y 6m mov.avg	-0,9	-5,2	-6,5	-8,1	-10,0	-6,7	-4,1	-2,8	-1,9	-1,5	-0,9	4,1	6,8	8,8	7,9	8,8	10,0	7,6	3,8	4,4	4,6	6,3	6,4	6,1	7,6	6,3	9,2	9,0	9,3		
NBG Composite Index of cyclical conditions ▶ ▶ ▶ ▶	-49,0	-29,0	-27,0	-31,0	-24,7	-24,9	-25,2	-23,5	-22,6	-22,0	-21,7	-20,3	-18,6	-19,8	-19,6	-21,3	-22,8	-19,3	-21,0	-17,3	-13,2	-10,3	-6,7	-5,0	-1,4	2,5	2,7	2,9	3,2	3,3	

Color map scale

Rapid contraction | *Moderate contraction* | *Slow contraction* | *Stabilization* | *Slow expansion* | *Moderate expansion* | *Rapid expansion*

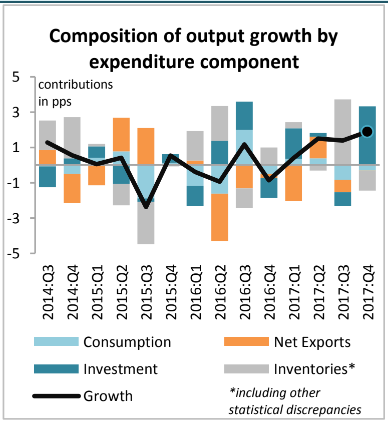
Sources: NBG, BoG, ELSTAT, EU Commission, IOBE

Greece: Growth Outlook

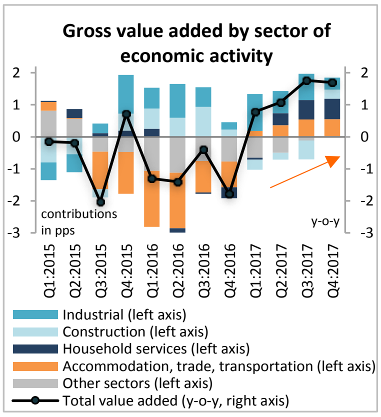
	2015	2016	2017	2018f	2016				2017				2018f			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f
GDP (real, % y-o-y, s.a.)	**-0,3**	**-0,3**	**1,3**	**2,0**	**-0,4**	**-0,9**	**1,2**	**-0,9**	**0,4**	**1,5**	**1,4**	**1,9**	**1,9**	**2,0**	**2,2**	**1,8**
GDP (real, % q-o-q, s.a.)	...	...	...	...	-0,6	-0,4	0,5	-0,4	0,6	0,7	0,4	0,1	*0,6*	*0,9*	*0,6*	*-0,3*
Domestic Demand (y-o-y)	**-1,0**	**0,7**	**1,6**	**2,0**	**-0,6**	**1,7**	**2,5**	**-0,6**	**2,4**	**0,3**	**2,1**	**1,9**	**1,5**	**2,4**	**2,8**	**1,4**
Final Consumption (y-o-y)	**-0,2**	**-0,4**	**-0,1**	**0,7**	**-1,3**	**-1,8**	**2,2**	**-0,5**	**0,4**	**0,4**	**-0,9**	**-0,3**	**0,1**	**0,3**	**0,8**	**1,5**
Private Consumption (y-o-y)	*-0,5*	*0,1*	*0,1*	*0,7*	*-1,4*	*-2,1*	*3,7*	*0,3*	*0,9*	*0,8*	*-0,2*	*-1,0*	*-0,1*	*0,3*	*0,9*	*1,6*
Fixed Capital Formation (y-o-y)	**-0,3**	**1,5**	**9,7**	**10,8**	**-9,9**	**13,3**	**14,7**	**-9,0**	**16,5**	**1,8**	**-6,5**	**28,9**	**12,3**	**16,2**	**18,5**	**-0,9**
Residential construction	*-25,7*	*-12,4*	*-8,7*	*1,8*	*-16,1*	*-23,4*	*-2,9*	*-3,1*	*-10,8*	*-5,1*	*-7,4*	*-11,6*	...	...	...	...
Total GFCF excluding residential	*2,3*	*2,5*	*10,8*	*10,9*	*-9,4*	*16,7*	*15,8*	*-9,4*	*18,4*	*2,2*	*-6,4*	*31,4*	...	...	...	...
Inventories* (contribution to GDP)	-0,9	0,9	0,7	0,1	1,7	2,0	-1,1	1,0	0,3	-0,3	3,7	-1,1	0,0	0,3	0,0	0,2
Net exports (contribution to GDP)	0,7	-1,0	-0,4	-0,1	0,3	-2,7	-1,3	-0,2	-2,0	1,2	-0,7	0,0	0,3	-0,5	-0,6	0,3
Exports (y-o-y)	2,9	-1,9	6,9	6,3	-9,5	-10,3	9,2	4,9	5,2	9,7	7,6	5,3	7,2	6,5	5,5	6,2
Imports (y-o-y)	0,4	1,2	7,5	6,1	-9,5	-1,9	14,0	5,2	11,1	4,8	9,5	4,9	5,5	7,3	7,0	4,7

*also including other statistical discrepancies / Source: ELSTAT, NBG estimates

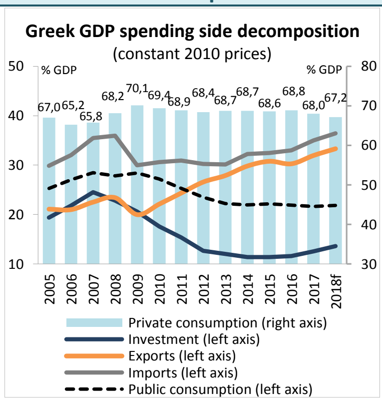
Greece's GDP increased by 1.3% y-o-y in 2017, the strongest pace in 10 years, buoyed by higher investment spending and inventory accumulation, which added 1.1 pps and 0.7 pps, respectively, to annual production growth. In Q4:2017, GDP growth accelerated to 1.9% y-o-y, with investment contributing 3.3 pps, offsetting the drag from lower private consumption (-0.7 pps or -1.0% y-o-y)



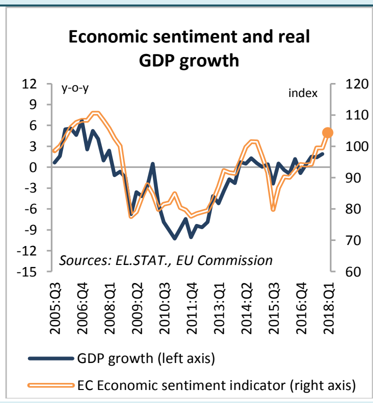
GDP figures from the production side point to a sustainable rebound in business activity, which brought annual value added growth to a 10-year high of 1.3% y-o-y in FY:2017 (from -1.2% y-o-y in FY:2016), on the back of strong expansion in the manufacturing, accommodation, transportation, retail trade and household services sectors



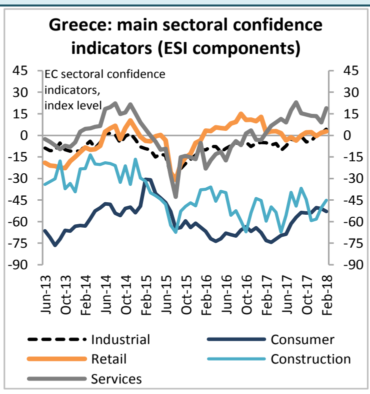
External imbalances have been corrected, fixed capital formation has picked up in 2017, and private consumption recorded a small decline as a percentage of GDP. A recovery in business investment is estimated to be the key determinant of the economic performance in 2018-2020



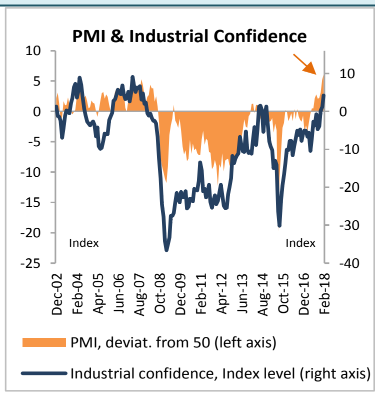
Economic sentiment increased to a 3½-year high, with all major sectoral components of activity showing a coordinated expansion, which adds to the evidence that the recovery process is gaining pace in early 2018



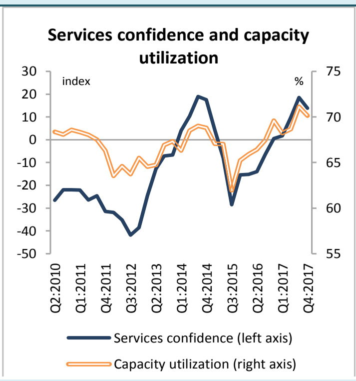
Industrial confidence increased to its highest level since Q4:2007 and services confidence returned to near its Q3:2017 high, on the back of favorable tourism prospects and improving demand conditions in domestic services. Consumer sentiment has picked up since Q4:2017, but continues to reflect a still vulnerable position of Greek households in early 2018



PMI reached a 17½ year high of 56.1 in February 2018, recording the strongest improvement since June 2000, supported by a broad-based improvement in new orders in both domestic and foreign markets. This significant improvement indicates that business activity remains on a steadily upward trend, and is likely to gain further traction in the following months, supported by favorable demand conditions in the euro area

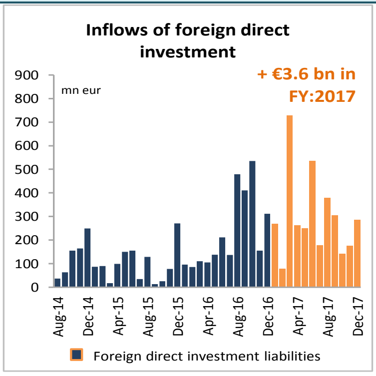


In the second half of 2017, capacity utilization in manufacturing exceeded its 15-year average, with the indicators of activity in the services sector remaining on a steadily upward trend, supported by favorable tourism prospects, boding well for an expansion in business investment in 2018



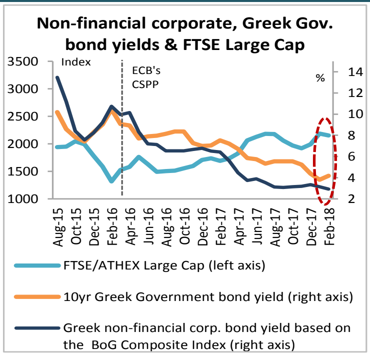
Services confidence and capacity utilization

New capital formation will also be supported by a pick-up in public investment activity, following a weaker-than-expected contribution in FY:2017, when PIP payments were 0.5% of GDP lower than the respective Budget 2018 target, mainly due to the delayed disbursement of EU funding. Accelerating inflows of FDI recorded during 2017 are expected to remain supportive of domestic investment spending during 2018



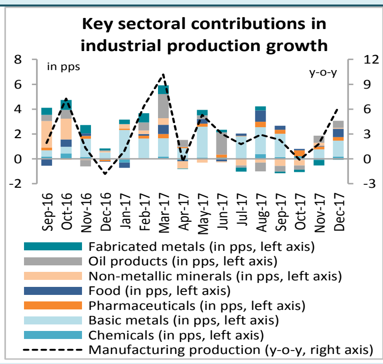
Inflows of foreign direct investment

Country risk is on a downward trend, benefitting from financial asset valuations and liquidity conditions. This improvement is expected to support investment decisions, offsetting the continuing pressure from the fiscal side. However, the economy remains very sensitive to external shocks, such as the increase in financial market volatility since early-February 2018. Significant progress in cost containment, intensive business restructuring and consolidation have increased the competiveness of a growing number of larger firms



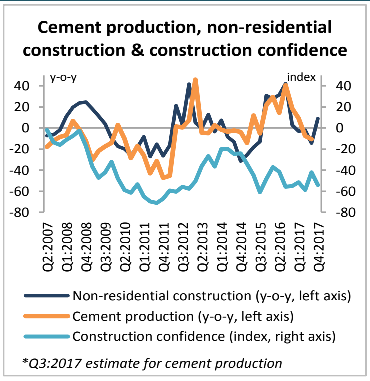
Non-financial corporate, Greek Gov. bond yields & FTSE Large Cap

Manufacturing production increased by 3.3% in FY:2017 for a fourth consecutive year, with activity in the sub-sectors of basic metals, pharmaceuticals, oil and food products recording the strongest increases of 24.6%, 14.9%, 5.0% and 1.8%, y-o-y, respectively, in the same period. This performance largely reflects increasing export activity, as suggested by external trade statistics and survey data for manufacturing export orders, which strengthened further in late-2017 and in the first months of 2018



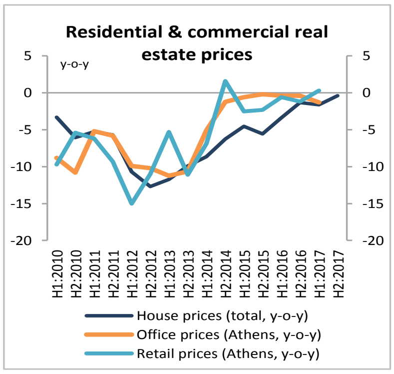
Key sectoral contributions in industrial production growth

Private construction activity shows signs of bottoming out, despite still weak sentiment. In this regard, private building permits issuance accelerated (23.6% y-o-y, in volume terms, in 11M:2017 and 5.7% y-o-y in Q3:2017, with the residential sub-component recording an increase of 17.7% y-o-y in 11M:2017), presaging the first positive contribution of construction in GDP in 2018, for the first time in ten years



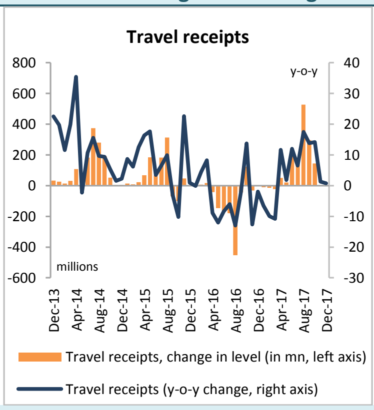
Cement production, non-residential construction & construction confidence

Pressures on house prices eased further in Q4:2017 (-0.3% y-o-y and -1.0% y-o-y in FY:2017), office prices declined by 0.7% y-o-y in H1:2017 (latest available data), and retail space prices showed a small increase (+0.7% y-o-y). However, a slow improvement in households' financial positions, the still high supply overhang, along with uncertainty related to the market impact of e-auctions and forthcoming adjustment in imputed real estate prices for tax purposes, continue to weigh on the recovery process

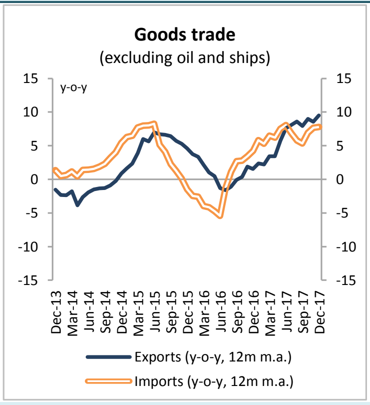


Residential & commercial real estate prices

The tourism sector overperformed optimistic estimates, with revenue increasing by +11.1% y-o-y in FY:2017 (0.8% of GDP or €1.4bn higher than in 2016), exceeding arrivals growth (+9.7% y-o-y in 2017) for the first time since 2013, while available data for early bookings for 2018 show that the favorable momentum is maintained, with demand from major markets showing a double digit increase



Non-oil exports and imports (nominal terms, balance of payments data) increased by 9.6% y-o-y and 8.1% y-o-y, respectively, in FY:2017, reconfirming the high elasticity of import demand to GDP trends and a high import content of Greece's goods exports and industrial supplies, along with a resilient export recovery



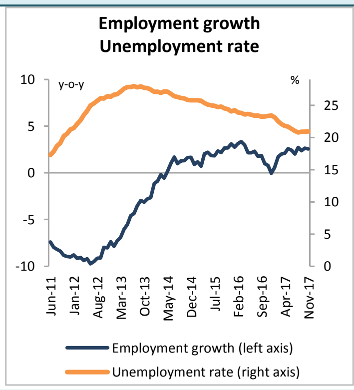
The current account balance recorded a deficit of 0.8% of GDP in FY:2017, slightly less than FY:2016 (-1.1% of GDP). The significant expansion of the surplus in the services balance (1.0% of GDP higher than in FY:2016), which was supported by the increase in tourism revenue (0.6% of GDP higher than in FY:2016) and in the transportation surplus (0.4% of GDP higher than in FY:2016) offset a larger deficit in the non-oil trade balance (0.3% of GDP higher than in FY:2016) and in the oil balance (0.5% of GDP higher than in FY:2016)

Balance of Payments (as % GDP)

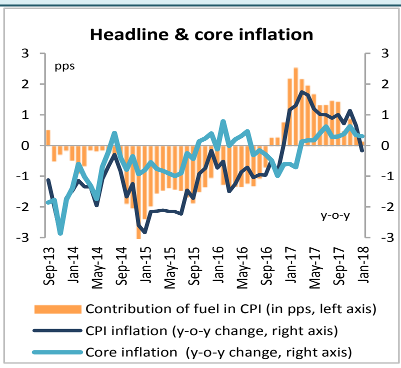
	2016	2017	2018f
Current Account	-1,1	-0,8	-1,2
Non-oil Trade Balance	-7,9	-8,2	-8,7
Non-oil Exports	10,5	11,3	11,7
Non-oil Imports	18,4	19,5	20,4
Oil Balance	-1,6	-2,1	-2,4
Services Balance	8,8	9,8	10,2
Primary Income Balance	0,0	0,1	0,1
Secondary Income Balance	-0,3	-0,3	-0,3
Capital account	0,6	0,5	0,5

Source: Bank of Greece & NBG estimates

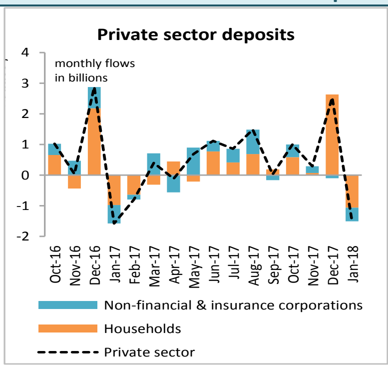
The improvement in the Greek labor market continues unabated, gathering pace in July-November 2017 (increase in employment of 2.5% y-o-y during this period from 1.9% y-o-y in H1:2017) and the unemployment rate declined further to 20.9% in July-November 2017 – its lowest level since 2011. A stabilization in wages and a pick-up in working hours provide some nascent signs of improvement in job quality



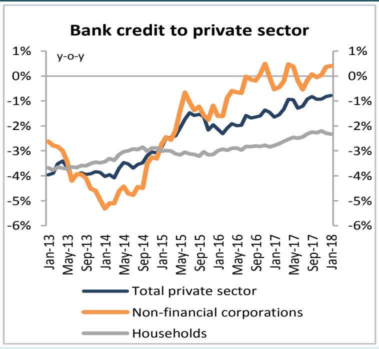
Inflation returned to negative territory in January 2018 (-0.2% y-o-y) – following an increase of 1.1% y-o-y in 2017 – mainly due to a stabilization in oil prices and a subdued increase in core inflation (0.3% y-o-y in January 2018) that reflects sustainable cost containment by Greek firms, along with the deflationary impact of the euro appreciation on import costs



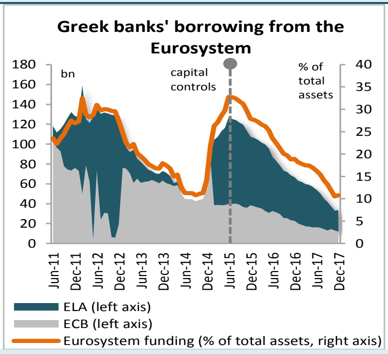
Following a cumulative increase of €5.9bn in 2017 – with household deposits increasing by €3.7bn and corporate deposits by €2.2bn – private sector deposits decreased by €1.5bn in January 2018, reflecting an expected partial reversal of a seasonal boost to household deposits from payments related to social transfers by the Greek State (namely the social dividend and refund of the higher-than-justified healthcare contributions on pensions)



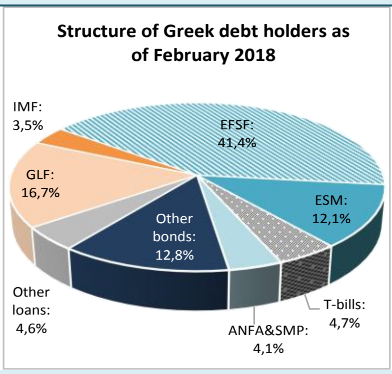
In January 2018, the annual pace of decline in credit to the private sector remained the same as in December 2017 (-0.8% y-o-y), however, significantly slower compared with -1.3% y-o-y in June 2017 and -1.5% y-o-y in December 2016, on the back of an increase in corporate lending (0.6% y-o-y in January 2018 vs. 0.4% y-o-y in December 2017), while credit to households continues to contract (-2.3% y-o-y in January 2018)



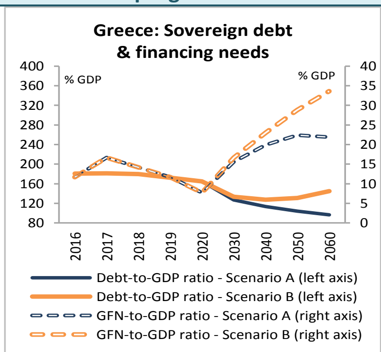
The Greek banking system's financing from the Eurosystem decreased further to €33.7bn in December 2017, from €66.6bn in December 2016, with ELA declining by €22.1bn since December 2016 (-€65.2bn since June 2015) to €21.6bn, partly reflecting improving market access, and a pick-up in deposits



The official sector (including SMP/ANFA holdings) holds about 80% of Greek debt or €246bn in February 2018. A pre-emptive build-up of a cash buffer of, at least, €12bn before the 3rd programme completion in August 2018 appears attainable, following the issuance of a 7-year benchmark bond, of €3bn on 8 February 2018 and the continuing fiscal overperformance that led to a cash surplus in the primary budget of General Government of €5.9bn in FY:2017. Moreover, Greece is expected to receive €1.9bn for this purpose, following the successful completion of the 3rd review of the programme, while a further €8.3bn is expected to be made available upon the completion of the last review in April-August 2018

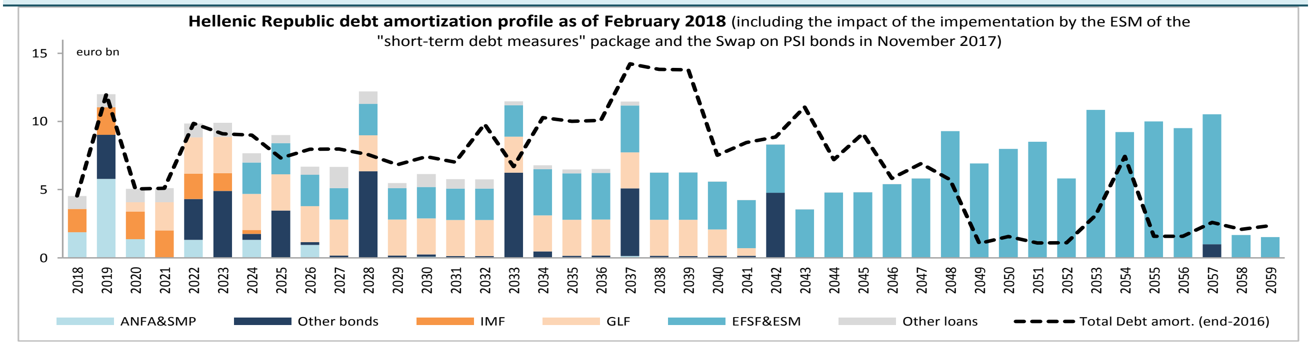


The General Government debt-to-GDP ratio is estimated to peak at 181.1% at end-2017 and follow a downward trend from 2018 onwards, declining to 165% by 2020, to 113.5% by 2040 and to 96.4% of GDP in 2060, according to the baseline scenario A of the latest DSA analysis by the ESM. Gross financing needs are projected to reach levels slightly above the sustainability thresholds of 15% and 20% of GDP, respectively, in the medium and longer term. The Eurogroup meeting of 22 January 2018 confirmed the beginning of technical work on the creation of a contingent growth-adjustment mechanism, which will relate to the provision of future debt relief on Greece's future economic performance, and could be put in place following the successful completion of the 3rd programme



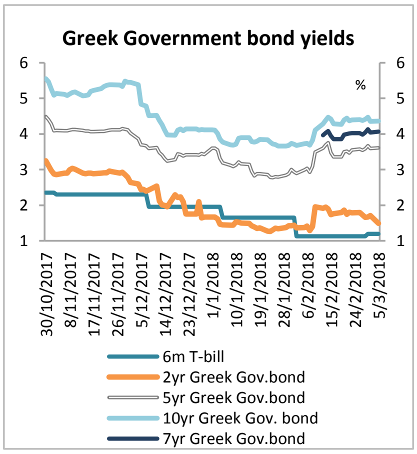
Source: ESM, DSA Analysis, January 2018

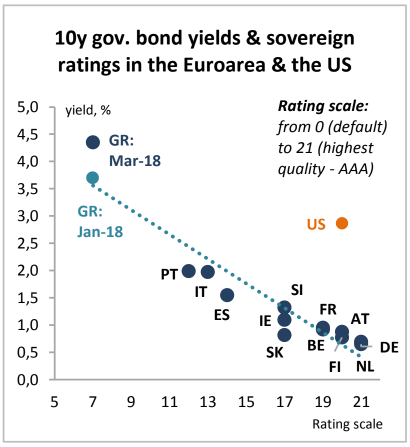
The successful implementation by the ESM of the "short-term" package of measures to reduce Greece's public debt servicing costs contributed to a further smoothening of the long-term debt redemption profile and a sustainable lowering of interest costs. The prospective benefit from the full implementation of the above short-term debt relief measures on Greece's gross public debt is estimated at 25 pps of GDP by 2060. In this context, the implementation of the short-term measures also contributed to an increase in the share of Greek debt at a fixed rate of 48.1% of total debt in December 2017 from 30% in December 2016



Greek Government bond yields declined in January 2018 to the lowest level since 2006, reflecting a boost in confidence from the successful swap of the Greek PSI bonds and a timely completion of the 3rd review of the economic adjustment programme. However, the assessment of Greek risk remains very sensitive to the increase in volatility in international financial markets since mid-February 2018

The credible improvement in Greece's fiscal position, in conjunction with the still supportive financial and monetary environment in the euro area, suggest that there is further scope for improvement in the relative valuation of Greek sovereign debt. A sustainable recovery of economic activity and a credible operational specification of the "growth-adjustment" mechanism for debt-servicing would be the catalysts for a further improvement in Greece's access to market financing





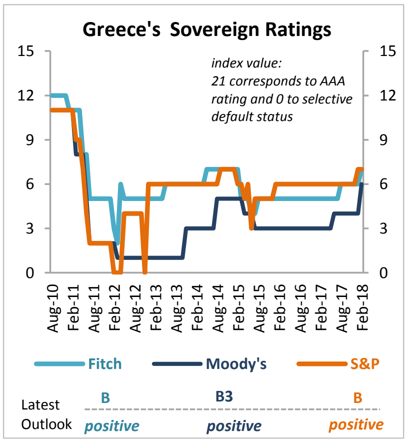
Moody's upgraded Greece's sovereign bond rating by two notches, to "B3" on February 21, 2018, while S&P and Fitch upgraded Greece by one notch to "B" on January 19 and February 16, respectively.

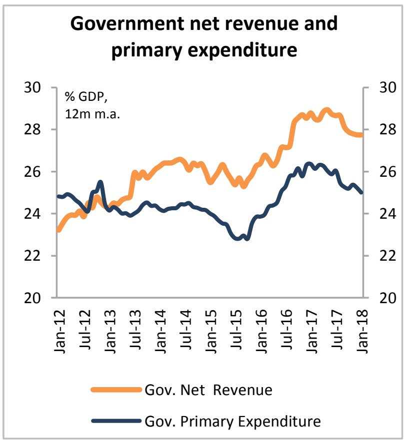
These ratings are now 5 notches below investment grade for S&P and Fitch, and 6 notches below for Moody's. All three agencies maintained a positive outlook. The key drivers for the rating decisions were economic and fiscal improvements, alongside improving prospects of further official debt relief.

In January 2018, the Greek State budget recorded a primary surplus of €1.9bn or 1.0% of GDP, 0.6% of GDP higher than the respective target of the 2018 Budget. Total tax revenue exceeded the respective target by €0.2bn (0.1% of GDP), mainly due to higher-than-budgeted revenue from the settlement of tax arrears from previous years, while lower primary expenditure contributed another 0.1% of GDP to the primary surplus.

Moreover, the surplus in the PIP balance was 0.3% of GDP above target, due to accelerating revenue from the EU that exceeded the respective payments by €0.5bn.

Government arrears, including tax refund arrears, decreased by €1.6bn in 2017 (to €3.3bn, the lowest level since the statistical recording of this data), which is €0.6bn greater than the funds disbursed by the ESM for this purpose.





Greece: Dates to Watch

2018

March							
1-2	5	8	12	13	19	21	22-23
Euro Working Group meeting	EL.STAT. release: Quarterly National Accounts (Q4:2017)	ECB Governing Council: monetary policy meeting	Eurogroup meeting	ECOFIN meeting	€137mn IMF repayment due	ECB Governing Council: non-monetary policy meeting	European Council meeting

April			
11	20-22	23	26
ECB Governing Council: non-monetary policy meeting	IMF Spring Meeting & World Bank meetings	EL.STAT. release: General government deficit and debt 2017 – 1st notification	ECB Governing Council: monetary policy meeting

May				
2	4	16	24	25
ECB Governing Council: non-monetary policy meeting	Completion of GR-stress tests	ECB Governing Council: non-monetary policy meeting	Eurogroup meeting	ECOFIN meeting

June							
early	4	14	21	22	27	28-29	late
First submission of the 2018 EU-wide stress test's results to EBA by EU banks	EL.STAT. release: Quarterly National Accounts (Q1:2018) / €148mn IMF repayment due	ECB Governing Council: monetary policy meeting	Eurogroup meeting	ECOFIN meeting	ECB Governing Council: non-monetary policy meeting	European Council meeting	Completion of 4th Review

Greek Economy: Selected Indicators

	2015					2016					2017							2018f
	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Q4	year aver.	Most recent		
Real economy (y-o-y period average, constant prices)																		
GDP	0,0	0,4	-2,4	0,5	-0,3	-0,4	-0,9	1,2	-0,9	-0,3	0,4	1,5	1,4	1,9	1,3	Q4:17	1,9	2,0
Domestic demand	1,2	-1,4	-4,4	0,5	-1,1	-0,6	1,7	2,5	-0,6	0,7	2,4	0,3	2,1	1,9	1,6	Q4:17	1,9	2,0
Final Consumption	0,5	0,9	-2,1	0,1	-0,2	-1,3	-1,8	2,2	-0,5	-0,4	0,4	0,4	-0,9	-0,3	-0,1	Q4:17	-0,3	0,7
Gross fixed capital formation	5,8	-9,2	-1,8	4,0	-0,3	-9,9	13,3	14,7	-9,0	1,5	16,5	1,8	-6,5	28,9	9,7	Q4:17	28,9	10,8
Exports of goods and services	12,8	11,7	-8,1	-3,6	2,9	-9,5	-10,3	9,2	4,9	-1,9	5,2	9,7	7,6	5,3	6,9	Q4:17	5,3	6,3
Imports of goods and services	15,8	4,6	-14,2	-3,4	0,4	-9,5	-1,9	14,0	5,2	1,3	11,1	4,8	9,5	4,9	7,5	Q4:17	4,9	6,1
Coincident and leading indicators (period average)																		
Retail sales volume (y-o-y)	0,0	0,6	-4,2	-2,1	-1,5	-3,3	-4,0	3,1	1,7	-0,6	2,8	2,1	0,9	-0,4	1,3	Dec	1,8	…
Retail confidence (15-yr. average: -2,8)	-3,0	-1,3	-25,6	-11,1	-10,3	0,9	5,1	10,8	10,5	6,8	5,8	0,4	-1,6	1,3	1,5	Feb	2,8	…
Car registrations (y-o-y)	19,2	33,2	-2,2	2,1	13,8	-0,3	19,5	16,8	4,0	10,7	37,8	3,4	35,8	…	…	Nov	18,9	…
Consumer confidence (15-yr. average: -51,3)	-37,0	-43,6	-60,6	-61,6	-50,7	-67,5	-71,2	-68,4	-65,0	-68,0	-71,8	-70,2	-57,4	-52,7	-63,0	Feb	-53,0	…
Industrial production (y-o-y)	3,0	-2,5	1,4	2,5	1,0	-1,0	5,1	2,0	3,8	2,5	9,4	2,9	3,5	1,0	4,1	Dec	0,2	…
Manufacturing production (y-o-y)	6,7	-0,6	-0,5	2,1	1,8	1,2	7,8	5,3	2,2	4,2	6,0	2,7	2,3	2,6	3,3	Dec	6,3	…
Capacity Utilization (15-yr. average: 70,7)	67,1	67,0	62,0	65,2	65,3	65,9	66,4	67,5	69,6	67,4	68,2	68,7	71,1	70,1	69,5	Dec	70,5	…
Industrial confidence (15-yr. average: -9,2)	-9,1	-14,0	-26,6	-16,6	-16,6	-9,4	-9,5	-6,2	-6,1	-7,8	-5,6	-7,8	-2,4	-2,8	-4,6	Feb	4,2	…
PMI Manufacturing (base=50)	48,5	47,1	37,5	48,5	45,4	49,1	49,5	49,4	48,7	49,2	47,0	49,4	51,8	52,5	50,2	Feb	56,1	…
Construction permits (y-o-y)	29,2	-5,6	-22,4	5,9	-0,3	-11,9	-30,9	38,1	-9,5	-7,0	16,7	32,0	5,7	…	…	Nov	24,4	…
Construction confidence (15-yr. average: -34,1)	-33,9	-44,8	-60,9	-48,5	-47,0	-37,1	-41,6	-55,9	-55,0	-47,4	-51,6	-58,8	-41,9	-54,1	-51,6	Feb	-45,1	…
PIP Disbursements (y-o-y)	-40,9	-57,6	-21,0	43,9	-2,8	7,0	18,0	35,8	-14,9	-1,8	-36,9	-24,9	-37,0	15,7	-5,4	Jan	207,4	…
Stock of finished goods (15-yr. average: 12,6)	13,0	15,0	17,4	15,3	15,2	12,5	11,1	14,9	12,2	12,7	10,7	11,8	12,7	10,3	11,4	Feb	4,2	…
External sector (period average)																		
Current account balance (% of GDP)	-1,9	-0,4	3,1	-1,0	-0,2	-1,5	-0,3	2,2	-1,4	-1,1	-1,6	-0,2	2,6	-1,6	-0,8	Dec	-0,8	-1,2
Current account balance (EUR mn)	-3295	-750	5482	-1841	-404	-2560	-608	3822	-2526	-1872	-2783	-427	4575	-2820	-1454	Dec	-1241	…
Services balance, net (EUR mn)	1297	4757	9062	1816	16932	716	3776	8641	2179	15311	1006	4212	9864	2306	17388	Dec	449	…
Primary Income Balance, net (EUR mn)	477	-575	-185	699	416	759	-184	-636	57	-3	951	-233	-450	-177	91	Dec	-111	…
Merchandise exports-- non-oil (y-o-y cum.)	10,0	7,5	4,2	1,9	1,9	-1,1	-2,5	0,1	1,4	1,4	8,5	9,5	8,7	9,6	9,6	Dec	9,6	…
Merchandise imports-- non-oil (y-o-y cum.)	4,6	-1,6	-7,4	-7,8	-7,8	-3,3	-2,8	3,8	3,2	3,2	7,2	6,4	6,6	8,1	8,1	Dec	8,1	…
Gross tourism revenue (y-o-y)	10,5	9,6	4,7	-4,4	5,2	3,8	-10,7	-7,9	7,5	-6,8	-4,9	10,1	12,6	11,1	11,1	Dec	0,8	…
International tourist arrivals (y-o-y)	45,6	15,0	2,6	-2,1	7,1	-6,2	-0,2	6,5	15,9	5,1	-1,8	9,0	12,2	5,9	9,7	Dec	-0,3	…
Employment																		
Unemployment rate	25,7	25,1	24,8	24,3	25,0	24,0	23,6	23,3	23,3	23,6	22,6	21,6	20,9	…	…	Nov	20,9	19,8
Employment growth (y-o-y)	0,9	2,0	2,1	2,8	2,0	3,1	2,4	2,0	0,6	2,0	1,4	2,4	2,4	…	…	Nov	2,6	1,8
Prices (y-o-y period average)																		
Headline inflation	-2,4	-2,1	-1,8	-0,6	-1,7	-0,9	-0,9	-1,0	-0,4	-0,8	1,4	1,3	1,0	0,8	1,1	Jan	-0,2	0,6
Core inflation	-0,7	-0,9	-0,5	0,3	-0,5	0,2	0,3	-0,3	-0,7	-0,1	-0,4	0,2	0,4	0,4	0,2	Jan	0,3	0,9
Producer prices excl.energy	-0,1	0,2	0,2	-0,2	0,0	-0,6	-0,8	-0,9	-0,6	-0,7	0,4	0,3	0,6	…	…	Nov	0,4	…
Fiscal policy																		
Gov. balance as % of GDP (Programme definition, according to Budget 2018)	…	…	…	…	-3,0	…	…	…	…	0,5	…	…	…	…	-0,8	…	…	0,2
Government debt as % of GDP (Programme definition, according to EU Commission, Compliance Report, January 2018)	…	…	…	…	176,8	…	…	…	…	180,8	…	…	…	…	181,1	…	…	179,9
Revenues--Ordinary budget (cum. % change)	-1,8	-5,7	-6,7	-0,8	-0,8	4,3	6,9	9,7	7,6	7,6	0,4	-1,1	0,4	-0,2	-0,2	Jan	3,3	…
Expenditure--Ordinary budget (cum. % change)	-2,2	-6,7	-5,3	0,2	0,2	-2,3	2,7	1,5	0,7	0,7	-0,8	-3,2	-4,7	-1,9	-1,9	Jan	-6,3	…
Monetary sector (y-o-y, end of period)																		
Deposits of domestic private sector	-15,1	-26,0	-26,6	-23,5	-23,5	-12,0	0,5	1,6	3,4	3,4	3,1	3,4	4,6	4,7	4,7	Jan	4,9	…
Loans to private sector (incl. sec. & bond loans)	-2,5	-1,7	-1,5	-2,0	-2,0	-2,1	-2,0	-1,6	-1,5	-1,5	-1,3	-1,3	-0,8	-0,8	-0,8	Jan	-0,8	…
Mortgage loans (including securitized loans)	-3,3	-3,4	-3,5	-3,5	-3,5	-3,4	-3,4	-3,4	-3,5	-3,5	-3,3	-3,2	-2,9	-3,0	-3,0	Jan	-3,0	…
Consumer credit (including securitized loans)	-2,5	-2,3	-2,8	-2,3	-2,3	-1,7	-1,5	-0,7	-0,8	-0,8	-0,7	-0,7	-0,5	-0,5	-0,5	Jan	-0,6	…
Interest rates (period average)																		
10-year government bond yield	10,0	11,6	10,8	7,9	10,1	9,5	8,2	8,2	7,5	8,3	7,2	6,1	5,5	5,1	6,0	Feb	4,2	…
Spread between 10 year and bunds (bps)	967	1112	1011	730	955	919	805	823	733	820	689	577	502	469	559	Feb	345	…
Exchange rates (period average)																		
USD/euro	1,13	1,11	1,11	1,10	1,11	1,1	1,13	1,12	1,08	1,11	1,07	1,1	1,18	1,18	1,13	Feb	1,23	…

Sources: BoG, NSSG, MoF, ASE, Bloomberg and NBG estimates unless otherwise indicated

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Macro View

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NATIONAL BANK
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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, E. Balikou, A. Gouveli, N. Magginas, G. Murphy, P. Nikolitsa.*

Note: The analysis is based on data up to March 6, 2018, unless otherwise indicated