



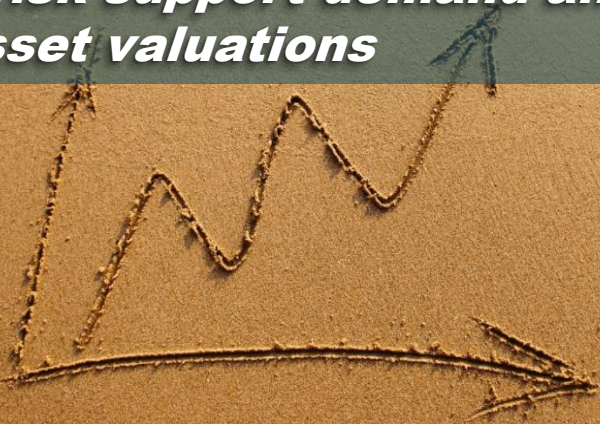
NATIONAL BANK
OF GREECE

GREECE

Macro Outlook

July 2019

***Increasing confidence and declining
country risk support demand and
Greek asset valuations***



NBG Economic Analysis Division

Greece Macroeconomics

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<https://www.nbg.gr/en/the-group/press-office/e-spot/reports>

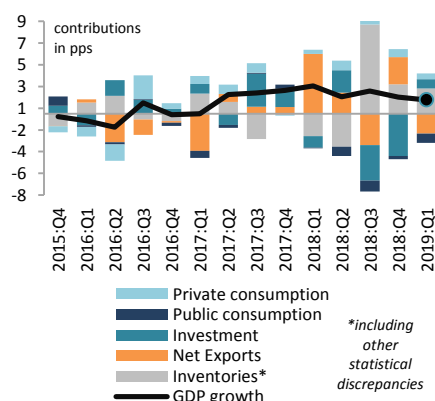


- **Greece's recovery continues**, with GDP rising by 1.3% y-o-y in Q1:2019 (0.2% s.a. q-o-q), for an 8th consecutive quarter, albeit continuing to decelerate from 1.5% y-o-y in Q4:2018 and 2.1% y-o-y in Q3:2018 on the back of annual increases in gross fixed capital formation and private consumption of 7.9% and 0.8% y-o-y, respectively.
- **Employment expanded at a broadly stable pace** (2.2% y-o-y in Q1:2019 from 2.0% y-o-y in FY:2018), **with the unemployment rate declining to a 7½-year low** of 18.1% in March 2019, while average hourly compensation increased by 1.8% y-o-y in Q1:2019 (4.4% y-o-y in FY:2018).
- **Consumer spending** continued to respond positively to the supportive labor market conditions and increased consumer confidence and **is estimated to strengthen further during 2019** (an expected increase in private consumption of 1.5% y-o-y in FY:2019).
- **Despite the positive performance in Q1:2019, gross fixed capital formation remains less buoyant** than would be otherwise expected at this point of the economic cycle, since the improving performance and investments of larger, more competitive, corporates continued to be counteracted by an ongoing divestment from a large mass of weaker firms, while the economic slowdown internationally weighs on investment decisions of exporting firms.
- **Total exports grew at their weakest pace in 2½ years in Q1:2019**, since a healthy expansion in exports of services of 8.7% y-o-y (driven by tourism and shipping) in this period was counteracted by a contraction in exports of goods by 0.7% y-o-y – the first since Q4:2016 – **in the face of slowing demand in major exporting markets** (mostly in the euro area).
- **Tourism activity is not expected to provide material support to GDP growth in FY:2019**, with tourism revenue stabilizing at the 2018 levels, on an annual basis, despite the strong start to the year (23.3% y-o-y in 4M:2019).
- **GDP growth is estimated to reach 1.8% y-o-y in FY:2019, with upside risks to this scenario relating to a further improvement in business and consumer sentiment** in the coming months, compounded by an additional sustainable **compression in country risk** and a significant increase in **tourism revenue** (> 2.0% y-o-y).
- **House prices increased by 4.0% y-o-y (1.7% q-o-q) in Q1:2019 – the strongest annual pace in 11½ years** – from 2.6% y-o-y in Q4:2018 and 1.6% y-o-y in FY:2018, while prime commercial real estate valuations (average of retail and office prices) increased by a solid 5.9% y-o-y, on average, in H2:2018 (5.7% y-o-y, on average, in FY:2018).
- **Greece's commitment to fiscal soundness has been re-affirmed in 2018**, with the primary surplus in General Government increasing to a historical high of 4.3% of GDP in 2018 (from 4.1% in 2017), surpassing for a 3rd consecutive year the Enhanced Surveillance Framework's maximum target for a surplus of 3.5% of GDP.
- **Expansionary fiscal measures amounting to at least 1.0% of GDP are taking effect in 2019** corresponding to the first loosening in fiscal policy since 2009 and are expected to provide a broadly analogous impulse to domestic demand. The risk to the 2019 Budget is unclear, but the Bank of Greece and the EC have raised warning flags. This will be a priority of the new Government.
- **A new pro-market Government** with a stable parliamentary majority supports confidence, but will be judged by how fast it moves to increase the attractiveness of the business environment, improve fiscal fairness and promote social cohesion.
- **Greek Government bond yields declined to historical lows in June 2019**, buoyed by declining country risk and **supportive monetary conditions in the euro area**.
- In the same vein, **Greece's financial assets rallied in H1:2019**, capitalizing on improving investor sentiment and attractive valuations.

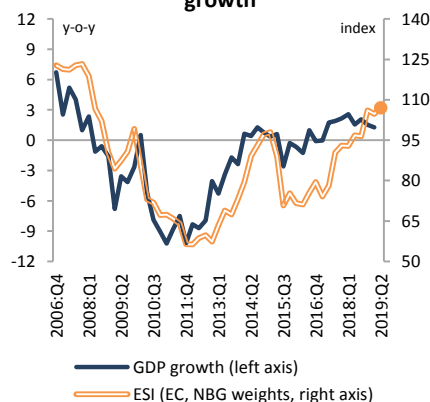


Increasing domestic demand supports the economic recovery, despite a significant drag from net exports

Composition of GDP growth by expenditure component



Economic sentiment & real GDP growth



- **Greece's recovery continues**, with GDP rising by 1.3% y-o-y in Q1:2019 (0.2% s.a. q-o-q), for an 8th consecutive quarter, albeit continuing to decelerate from 1.5% y-o-y in Q4:2018 and 2.1% y-o-y in Q3:2018.
- **Domestic demand contributed more than 3.0 pps to GDP growth in Q1:2019**, on the back of annual increases in gross fixed capital formation and private consumption of 7.9% and 0.8% y-o-y, respectively, offsetting a sizeable 1.8 pp drag from net exports (as imports grew at a rate more than double that of exports). The net contribution of inventory stockpiling to GDP growth is considered negligible – instead of a 2.3 pp contribution when measured in gross terms – when adjusting for the high import content of this category.
- **Exports of goods and services grew at their weakest pace in 2½ years**, since a healthy expansion in exports of services of 8.7% y-o-y (driven by tourism and shipping) in Q1:2019 was counteracted by a contraction in exports of goods of 0.7% y-o-y – the first since Q4:2016 – in the face of slowing demand in major exporting markets (mostly in the euro area).
- **Economic sentiment** (derived by applying sectoral weights estimated by the NBG to the EC's business and consumer survey components) **points to an acceleration in GDP growth in Q2:2019**, with the contribution of private consumption to GDP growth increasing further during the course of the year (estimated increase in private consumption of 1.5% y-o-y in FY:2019), on the back of improving confidence and a higher-than-initially-anticipated fiscal stimulus (see page 10).
- **NBG Economic Analysis estimates that GDP growth will reach 1.8% y-o-y in FY:2019**, with upside risks to this scenario relating to a further improvement in business and consumer sentiment in the coming months, compounded by an additional sustainable compression in country risk and a significant increase in tourism revenue (>2.0% y-o-y).

Greece: Growth Outlook

	2017	2018	2019f	2017				2018				2019f			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f
GDP (real, % y-o-y, s.a.)	1,4	1,9	1,8	0,0	1,8	1,9	2,1	2,6	1,6	2,1	1,5	1,3	1,7	1,8	2,4
GDP (real, % q-o-q, s.a.)	...	...	...	0,1	1,2	0,4	0,4	0,5	0,2	0,9	-0,1	0,2	0,7	1,0	0,4
Domestic Demand (y-o-y)	1,8	0,2	2,4	3,3	1,0	1,3	1,5	-2,8	-0,4	4,9	-1,0	3,1	1,9	1,8	2,8
Final Consumption (y-o-y)	0,6	0,3	1,1	0,8	1,1	0,6	0,0	0,2	0,7	0,0	0,2	-0,1	0,9	1,8	1,8
Private Consumption (y-o-y)	0,9	1,0	1,5	1,1	1,3	1,3	0,0	0,5	1,3	1,1	1,1	0,8	1,7	1,9	1,8
Gross Fixed Cap. Formation (y-o-y)	9,4	-12,0	11,2	7,7	-8,7	26,2	12,6	-9,0	19,1	-22,8	-26,5	7,9	4,5	18,9	14,5
Residential construction	-5,5	17,3	22,3	-8,4	-1,3	-3,5	-8,6	11,3	5,7	21,2	32,1	6,4	...	...	...
Total GFCF excluding residential	10,3	-13,5	10,4	8,8	-9,1	27,9	13,7	-10,1	20,0	-24,8	-29,1	8,0	...	...	...
Inventories* (contribution to GDP)	0,1	1,5	0,2	1,9	1,1	-2,3	-0,1	-2,1	-3,1	8,2	2,7	2,3	0,6	-1,8	-0,3
Net exports (contribution to GDP)	-0,4	1,7	-0,6	-3,4	0,7	0,6	0,6	5,5	1,9	-2,9	2,5	-1,8	-0,2	0,0	-0,4
Exports (y-o-y)	6,9	8,7	3,2	6,0	9,1	7,0	5,5	8,6	9,2	6,9	10,1	4,0	3,2	2,4	3,1
Imports (y-o-y)	7,4	3,0	4,8	16,1	5,8	4,8	3,2	-7,5	2,8	15,6	2,1	9,5	3,7	2,3	4,3

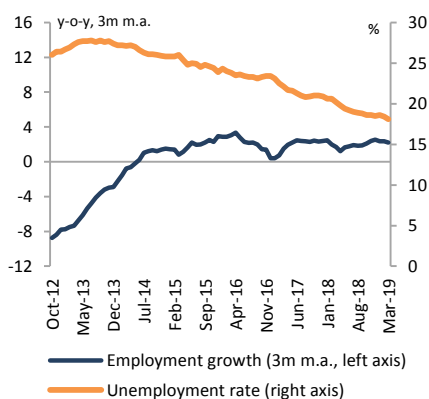
*also including other statistical discrepancies / Sources: EL.STAT. & NBG estimates

Sources: ELSTAT, EU Commission, NBG Economic Analysis estimates

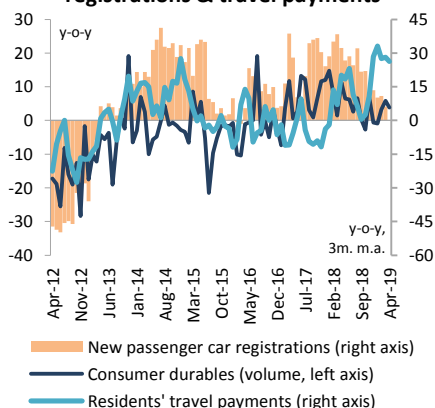


Private consumption remains a credible driver of output growth, supported by positive labor market trends and fiscal stimulus

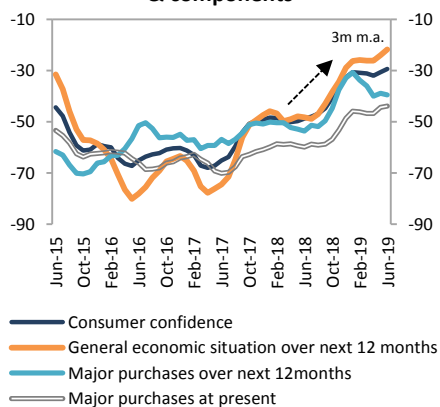
Employment growth & unemployment rate



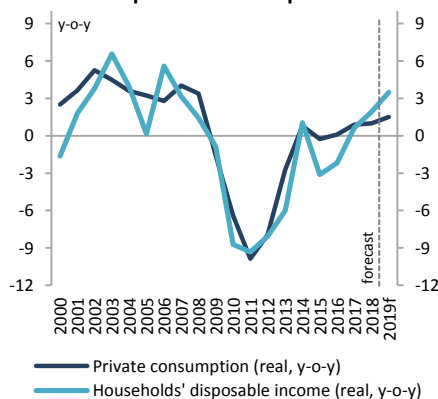
Sales of consumer durables, new car registrations & travel payments



Consumer confidence & components



Households' disposable income & private consumption



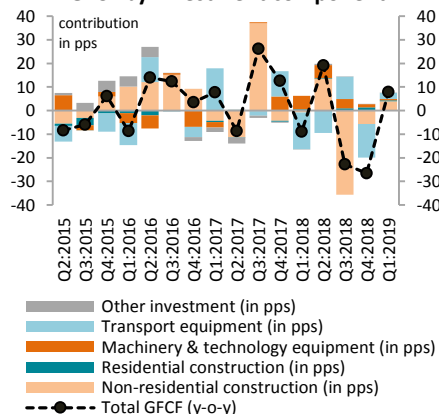
- **Private consumption remained a credible driver of output growth**, increasing by 0.8% y-o-y (0.2% s.a. q-o-q) and contributing almost two-thirds of GDP growth in Q1:2019.
- **Consumer spending continued to respond positively to the supportive labor market conditions and increased consumer confidence.** In fact, employment expanded at a broadly stable pace (2.2% y-o-y in Q1:2019 from 2.0% y-o-y in FY:2018), with the **unemployment rate declining to a 7½-year low of 18.1%** in March 2019, while **average compensation of employees increased by 1.8% y-o-y** in Q1:2019, supported by: i) the extension of new sectoral wage agreements in more competitive sectors; and ii) the 11% increase in the economy-wide minimum wage, along with the abolition of the “sub-minimum” wage for individuals aged under 25, legislated in February 2019.
- Notably, **retail sales remained weak in 4M:2019 with retail trade volume (excluding fuels) declining by 1.7% y-o-y in this period (-2.7% y-o-y in April) following a temporary rebound in March (+3.6% y-o-y).** However, sales volume of cars and consumer durables posted healthy annual increases in early-2019 (the former by 4.9% in Q1:2019 and the latter by 3.0% in 4M:2019). Moreover, spending by residents for tourism services abroad rose by 22.8% y-o-y in 4M:2019 and 15.0% in FY:2018, the strongest increases since the beginning of the crisis.
- **Consumer confidence improved further in Q2:2019**, capitalizing on the supportive labor market trends, lower uncertainty and the legislation of a new fiscal expansion package in May 2019. Notably, the subcomponents of the consumer survey reflecting consumers' assessment of the economic situation over the next 12 months and their willingness to proceed with “major purchases at present” showed a further improvement in Q2:2019, with the former increasing in June 2019 to its highest level since October 2009.
- In this respect, **the contribution of private consumption to GDP growth is estimated to increase further** during 2019 (an increase in private consumption of 1.5% y-o-y), buoyed by a solid increase in households' real disposable income estimated at 3.5% y-o-y.

Sources: ELSTAT, Bank of Greece, EU Commission & NBG Economic Analysis estimates

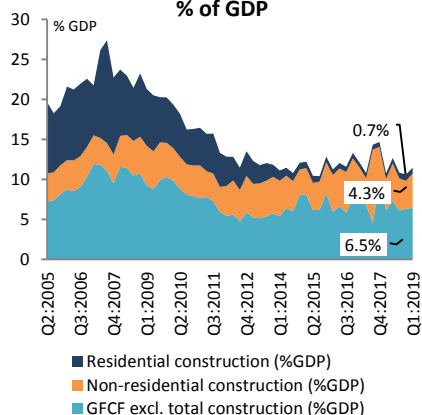


Investment spending picked up in Q1:2019, but a dualism in the business sector continues to weigh on business performance

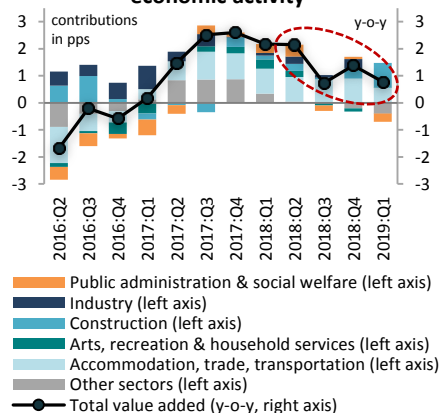
Contribution in annual change in GFCF by investment component



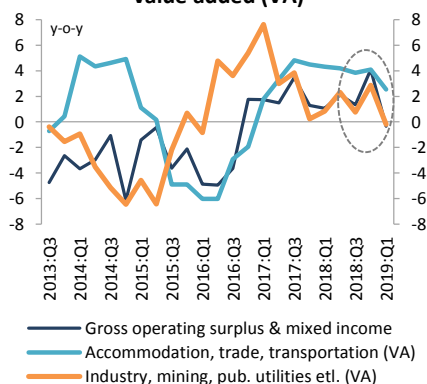
Gross fixed capital formation as % of GDP



Gross value added by sector of economic activity



Gross operating surplus and mixed income & sectoral value added (VA)

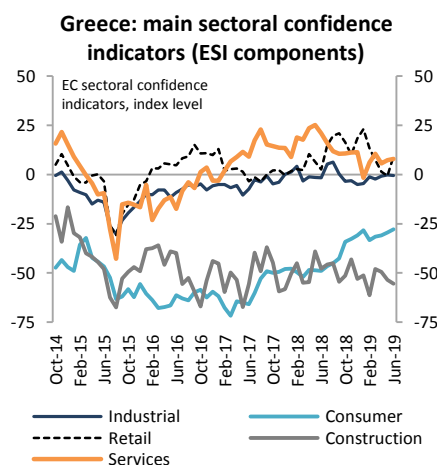
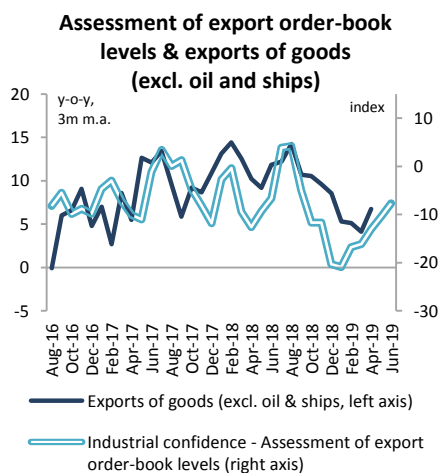
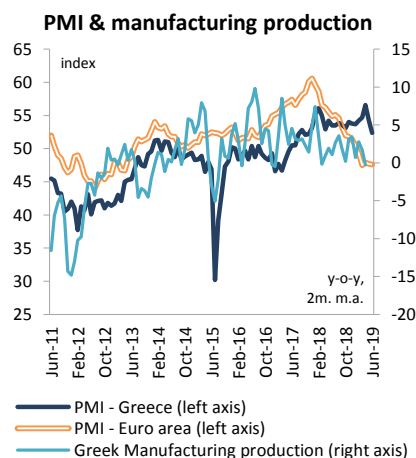
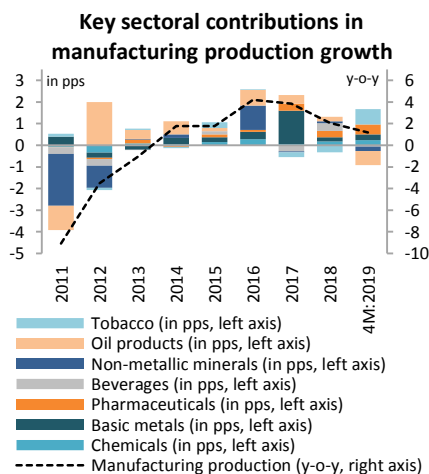


- **Gross fixed capital formation (“GFCF”) rebounded in Q1:2019** (7.9% y-o-y), contributing 0.9 pps to annual GDP growth in this quarter, following a very poor performance in FY:2018 (a contraction of 12.0% y-o-y amplified by sizeable statistical reclassifications affecting H2:2017 and H2:2018).
- **An annual increase of 10.9% y-o-y in non-residential construction in Q1:2019, following a disappointing outcome in 2018 (-22.0% y-o-y), was the main driver of investment growth**, contributing 4.0 pps to annual GFCF growth in this quarter. This improvement mainly reflected: i) accelerating disbursements from the public investment budget in Q1:2019 (56.6% y-o-y); and ii) activity related to the construction of tourism and transportation-related projects in the same period. Moreover, higher spending on transport equipment (mostly merchant ships) contributed another 2.6 pps to GFCF growth in Q1:2019.
- **GFCF remains less buoyant than would be otherwise expected at this point of the economic cycle**, despite a continuing improvement in key indicators of business activity (see page 6), since the improving performance and investments of larger, more competitive, corporates continued to be counteracted by an ongoing divestment from weaker firms.
- **Accordingly, gross value added by the Greek business sector increased by a modest 0.3% y-o-y in Q1:2019** from 1.8% y-o-y in FY:2018. Gross operating surplus and mixed income generation in the economy – approximating **business sector gross profits** – **declined by 0.3% y-o-y in Q1:2019**, for the first time since Q3:2016, showing an increasing correlation with the value added generated by export-oriented segments – especially industry – which slowed during the same period.
- **Overall, strengthened domestic demand and supportive base effects on GFCF are expected to offset the negative impact on business activity from deteriorating global conditions**, resulting in average growth in GFCF of 11.2% y-o-y in FY:2019.

Source: ELSTAT



High-frequency indicators provide an encouraging picture of business activity in a more challenging international environment



- **Manufacturing production increased by 1.2% y-o-y in 4M:2019**, with activity in the export-oriented sectors of tobacco, pharmaceuticals, chemicals and basic metals recording average increases of 52.8%, 26.4%, 6.4% and 2.6%, y-o-y, respectively, offsetting declining production in the oil refining and non-metallic minerals sectors.
- Clearly, **weakening demand in major exporting markets** for Greek goods, such as Turkey and Italy, contributed to the above outcomes.
- Notably, **manufacturing PMI increased further to 54.4 in Q2:2019, reaching a 19-year high of 56.6 in April**, from an average of 54.2 in Q1:2019 on the basis of a broad-based improvement in all survey components. However, it **weakened to 52.4 in June** mainly due to a slower rise in new orders and expectations of a renewed drop in output prices. Nonetheless, the average PMI value in Q2:2019 bodes well for a modest acceleration in manufacturing production in this period.
- In this vein, **industrial confidence (EC Survey) improved in Q2:2019**, supported by stronger domestic demand, along with a prospective pick-up in demand from abroad, reflected in the continuing increase in industrial export orders for a 5th consecutive month, after a sharp weakening in Q4:2018 and early 2019.
- **Business activity is expected to gain additional traction over the course of 2019 on the back of increasing domestic demand assuming a mild improvement in external conditions.** A stabilization in GDP growth in the euro area – following two consecutive weak quarters (increase in GDP of 1.2% y-o-y in both Q4:2018 and Q1:2019) – could be translated to a better-than currently-envisaged scenario for Greece's goods exports and tourism activity in FY:2019, with positive direct and second-round effects for the Greek business sector.

Sources: ELSTAT, Bank of Greece, EU Commission, Markit Economics

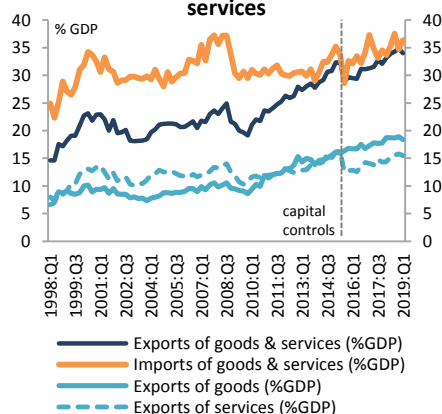


The slowdown in euro area growth weighed on the export performance, with Greece's import dependency remaining high

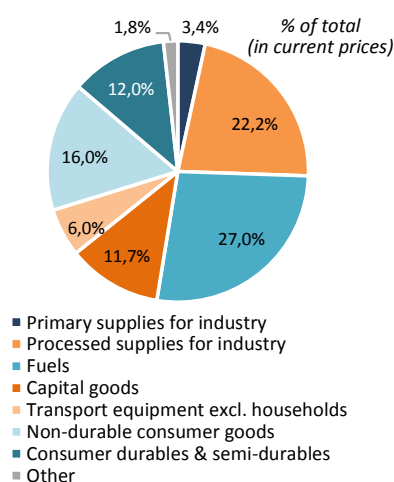
Greek exports and Euro area GDP growth



Imports & exports of goods and services



Greek imports of goods - Q1:2019



- **Greek export growth slowed to 4.0% y-o-y in Q1:2019 from 8.7% in 2018** (in constant price terms), with exports of goods recording a decline of 0.7% y-o-y, the first since Q4:2016.
- **Clearly, the slowdown in euro area GDP growth in Q4:2018 and Q1:2019 weighed on Greece's export performance**, along with an even more significant deterioration in economic conditions in highly important exporting markets for Greek goods and services (e.g. Turkey and the UK).
- **On a positive note, the share of Greece's exports volume in GDP in Q1:2019 remained close to the historically high of Q4:2018**, following a broadly steady upward trend since 2009. Notably, the value of goods exports (in constant price terms) steadily exceeds – by about 21%, on average, since 2015 – that of services exports, despite the buoyant performance of the tourism sector in this period, exemplifying the increased competitiveness of exporting firms.
- **The positive contribution of total exports to GDP growth in Q1:2019 was offset by a sharp increase in imports** (by 9.5% y-o-y, in constant price terms), which subtracted 3.2 pps from annual GDP growth in this period and 1.0 pp in FY:2018, reflecting a rebound in import demand for production inputs, capital goods and fuels.
- **Provided that the negative impact of imports on economic activity in Q1:2019 is amplified by an exceptionally negative base effect** (related to the squeeze in imports of transport equipment in Q1:2017), **whereas export orders picked up in Q2:2019 (survey data), the effective drag from net exports on GDP growth is expected to ease significantly to -0.6 pps, on average, in FY:2019 from -1.8 pps in Q1:2019.**

Top 5 destinations of Greek goods exports

2017		2018		Q1:2019	
Country	€ bn	Country	€ bn	Country	€ bn
Italy	3.1	Italy	3.5	Italy	0.8
Germany	2.1	Germany	2.2	Germany	0.5
Turkey	2.0	Turkey	2.0	Cyprus	0.5
Cyprus	1.9	Cyprus	1.9	Turkey	0.4
Bulgaria	1.4	Lebanon	1.5	Bulgaria	0.4

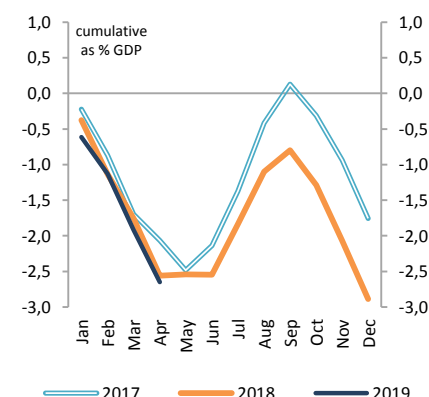
Sources: Eurostat, Panhellenic Exporters Association

Sources: ELSTAT, Panhellenic Exporters Association, Bank of Greece, Eurostat, NBG Economic Analysis calculations

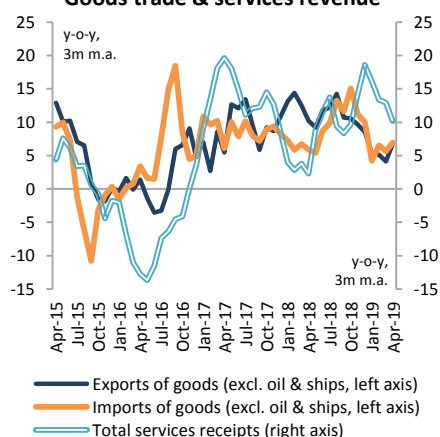


Current account position broadly stable in 4M:2019, due to the simultaneous increase in the trade deficit and services surplus

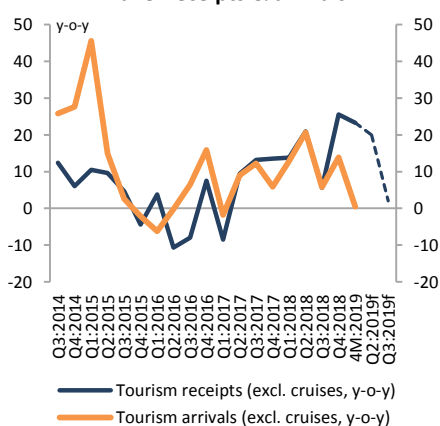
Greece - Current account balance



Goods trade & services revenue



Travel receipts & arrivals



- The current account balance recorded a deficit of 2.6% of GDP in 4M:2019, broadly unchanged compared with 4M:2018, since the widening of the trade deficit (by 0.2% of GDP at an annual basis) was largely offset by the improvement in the services balance surplus (by 0.2% of GDP), compared with 4M:2018.
- The widening of the trade deficit in 4M:2019, reflects an increase in non-oil imports of 6.7% y-o-y (0.2% of GDP) and a widening of the oil deficit of 0.1% of GDP, compared with 4M:2018, in a period when total goods exports increased modestly by 3.6% y-o-y.
- The surplus of the services balance increased by 0.2% of GDP compared with 4M:2018, with gross travel receipts and transportation revenue rising by 22.8% y-o-y and 9.8% y-o-y, respectively, in 4M:2019. This improvement reflects an increase in services revenue of 0.3% of GDP (4.2% y-o-y) along with a stable share of spending on imported services in GDP (3.1% y-o-y), compared with the same period of 2018. Our baseline scenario envisages a stabilization in tourism revenue in FY:2019, following annual increases of 11.4% y-o-y in 2017 and 10.5% y-o-y in 2018, since there are signs of slowing demand in major markets (a decline in revenue from Germany of 13.3% y-o-y in 4M:2019).
- Secondary income balance recorded a deficit of 0.1% of GDP in 4M:2019 against a surplus of 0.1% of GDP in 4M:2018, mainly reflecting a decline in net EU transfers received by the Greek Government.
- Overall, the current account deficit is estimated to reach 3.1% of GDP in FY:2019 from 2.9% of GDP in 2018, mainly due to the high responsiveness of imports to increasing domestic demand, in a period of slowing external demand for Greece's exports.

Balance of Payments (as % GDP)

	2017	2018	2019f	2018				2019
				Q1	Q2	Q3	Q4	Q1
Current Account	-1,8	-2,9	-3,1	-1,8	-0,8	1,7	-2,1	-1,9
Non-oil Trade Balance	-8,9	-9,4	-9,8	-2,3	-2,3	-2,4	-2,5	-2,4
Non-oil Exports	11,2	12,1	12,0	2,9	3,1	2,9	3,1	2,9
Non-oil Imports	20,1	21,5	21,8	5,2	5,4	5,3	5,6	5,3
Oil Balance	-2,1	-2,8	-2,5	-0,6	-0,7	-0,8	-0,7	-0,7
Services Balance	10,0	10,5	10,4	0,6	2,6	5,7	1,6	0,8
Primary Income Balance	-0,4	-0,9	-0,9	0,4	-0,4	-0,6	-0,3	0,4
Secondary Income Balance	-0,3	-0,3	-0,2	0,1	-0,1	-0,2	-0,2	0,0
Capital account	0,5	0,2	0,2	0,1	0,0	0,0	0,1	0,1

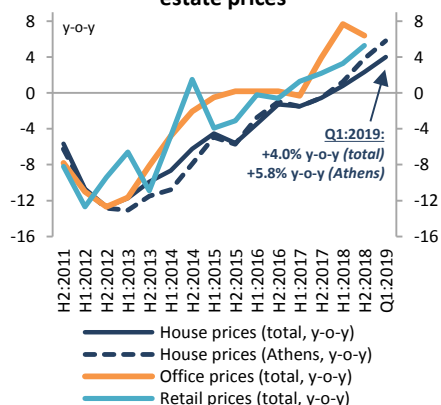
Source: Bank of Greece & NBG estimates

Sources: Bank of Greece, NBG Economic Analysis estimates

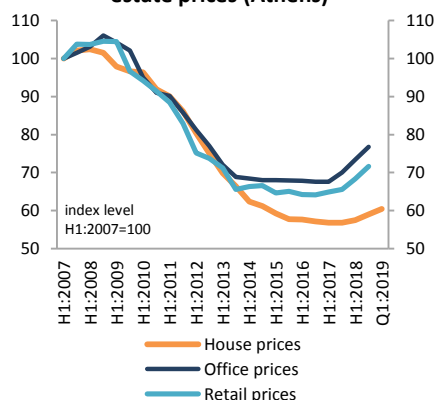


Greece's real estate market recovery gains traction

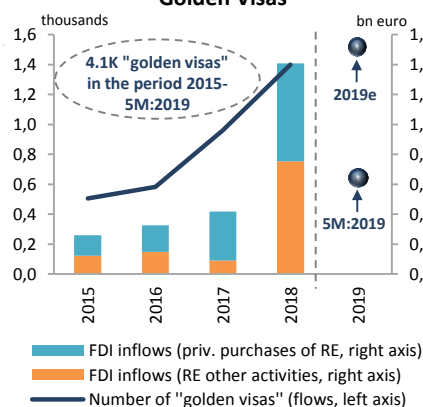
Residential & commercial real estate prices



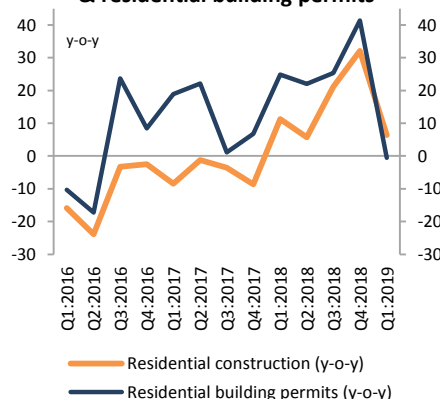
Residential & commercial real estate prices (Athens)



Real estate-related FDI & "Golden Visas"



Residential construction & residential building permits



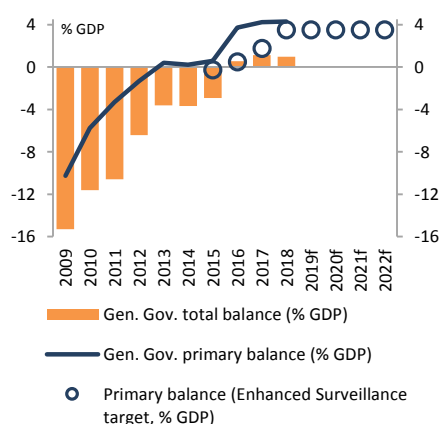
- **House prices increased by 4.0% y-o-y (1.7% q-o-q) in Q1:2019** – the strongest annual pace in 11½ years – from 2.6% y-o-y in Q4:2018 and 1.6% y-o-y in FY:2018.
- **Positive annual growth is recorded in all market segments** (new and old apartments) **and regions, with the Athens area outperforming the market average** (5.8% y-o-y in Q1:2019 and 4.3% y-o-y in Q4:2018), supported by a pick-up in demand for premium properties (which suffered a sharper price adjustment during the crisis) and tourism-related demand (mainly for renting).
- The **cumulative appreciation of house prices** (economy-wide average) **reached 4.7%** from their lowest level in Q3:2017, while the respective appreciation in Athens increased to 6.6% (from a trough in Q1:2017), albeit the annual number of transactions remains more than 80% lower than in the previous decade.
- **Prices of prime commercial spaces (average of retail and office prices) increased by a solid 5.9% y-o-y**, on average, in H2:2018 (5.7% y-o-y, on average, in FY:2018). As in the case of the residential market, **the Athens area outperformed the commercial real estate market average** in H2:2018 (increase in office and retail prices of 9.5% and 9.4% y-o-y, respectively).
- **Non-resident demand acted as a catalyst, supporting valuations** as reflected by: i) the rising trend in inward FDI (by private and institutional investors); ii) the increasing use of the short-term rental market for tourists (the apartments rented in Greece through on-line platforms are estimated to have exceeded 126K in mid-2018, having increased by 377.2% compared with 2015); and iii) the strong upward trend in the issuance of "golden visas". The above factors contributed to a revival in market activity and reduced the stock of available for sale properties.
- **Construction activity has also shown signs of recovery, with residential construction up by 6.4% y-o-y**, in Q1:2019, following a buoyant increase of 17.3% y-o-y in 2018, the strongest in 12 years. **Residential building permits increased by 29.0% y-o-y in FY:2018**, but remained broadly flat in Q1:2019 (-0.6% y-o-y) mainly due to adverse seasonal factors.

Sources: ELSTAT, Bank of Greece, Centre of Planning & Economic Research (KEPE), AirDNA, Ministry of Migration Policy



Increased fiscal credibility provides some space for a mild fiscal expansion in 2019, the first in 10 years

General Government balance



▪ The primary surplus in General Government increased to a historical high of 4.3% of GDP in 2018 (from 4.1% in 2017), surpassing for a 3rd consecutive year the Enhanced Surveillance Framework's maximum target for a surplus of 3.5% of GDP.

▪ Further restraint in primary expenditure (a decline of 0.8% of GDP, on an annual basis in FY:2018, due to lower public consumption and reduced transfers to social security funds) offset a small contraction in revenue (0.25% of GDP lower than in 2017).

▪ The Greek Government legislated an additional set of expansionary measures in May 2019, amounting to c. €1.4bn (or 0.7% of GDP) which take effect immediately, supplementing the expansionary measures of 0.5% of GDP included in the Budget for 2019.

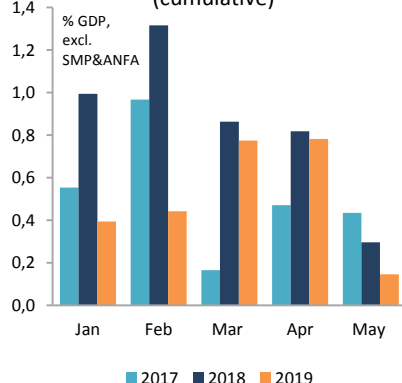
▪ The new measures for 2019 comprise: i) a reduction in VAT rates from 24% to 13% for a part of processed food & non-alcoholic beverages, as well as for the most part of restaurant & catering services (excluding service of alcoholic and non-alcoholic beverages) and from 13% to 6% for electricity and natural gas for both households and enterprises; and ii) a permanent reinstatement of the "13th pension", which corresponds to 100% of the average monthly gross pension for pensioners earning up to €500 and is reduced to 70%, 50% and to a minimum of 30%, respectively, for pensions higher than €500, €600 and €1000. The related €1.0bn payment (0.5% of GDP) has been disbursed in May.

▪ State budget implementation trends in 5M:2019 suggest performance is on track. Though there is an overperformance of €2.4bn (1.2% of GDP) compared with the respective Budget 2019 target, it corresponds to higher-than-budgeted revenue, which for the most part is once-off and is not counted in the budget definition with creditors. Specifically, €1.1bn has been received by the State for the extension of the concession rights of Athens International Airport (AIA), €0.6bn relates to non-budgeted ANFA & SMP revenue and €0.4bn (0.2% of GDP) of this overperformance reflects higher-than-expected VAT revenue (excluding €0.3bn of VAT related to the AIA concession agreement). Excluding the above described extraordinary sources of additional revenue, the overperformance reduces to €0.3bn, corresponding to a primary deficit of 0.6% of GDP in 5M:2019 compared with the respective Budget 2019 target for a deficit of 0.8% of GDP in this period, with tax receipts back loaded into H2:2019 and the level of pre-election spending still to be determined.

▪ At a General Government level, the surplus of non-State entities in 5M:2019 reached 0.5% of GDP (broadly unchanged compared with 5M:2018).

▪ The first order of business of the new Government will be to ascertain if the 2019 Budget is on track, and if not, what action to take.

State budget - Primary surplus (cumulative)



Main fiscal stimulus measures 2019 (net basis)		
	€bn	% GDP
A. Budget 2019	1,0	0,5%
10% weighted average reduction in property tax (ENFIA)	0,26	0,1%
1/3 reduction in social security contributions of the independent professionals, self-employed and farmers and implementation of the lowest entry-level salary for supplementary pension contributions	0,18	0,1%
Housing allowance	0,50	0,3%
B. May 2019	1,4	0,7%
Reduction in VAT rate: (i) for the most part of restaurant & catering services and for a part of processed food & non-alcoholic beverages from 24% --> 13% (ii) for energy consumption (electricity, natural gas) from 13% --> 6%	0,47	0,2%
Permanent reinstatement of the "13th pension" for retirees	0,97	0,5%
New fiscal interventions (A+B)	2,4	1,2%

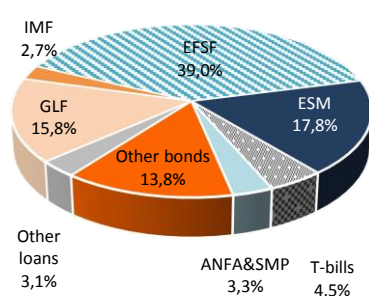
Sources: Ministry of Finance, EL.STAT., EU Commission, General Accounting Office, NBG Economic Analysis Division estimates



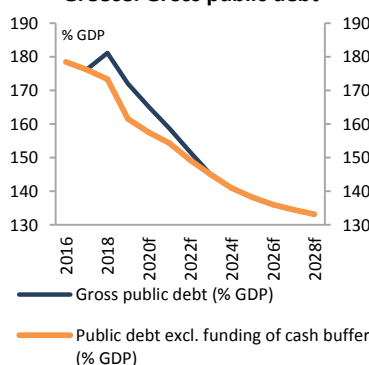
The phasing-in of medium-term measures improves further Greece's sovereign debt sustainability

- **Greece's gross public debt increased to 181.1% of GDP in 2018 from 176.2% in 2017.** However, excluding €14.4bn of external funding for building part of the State's "cash reserves" in 2018, debt would have declined by 2.9 pps compared with 2017.
- **The cash reserves of the Greek State exceeded €24bn at the end of Q1:2019, or €34bn including the reserves of General Government entities** deposited in the Treasury Single Account. In view of the limited debt servicing needs in 2020-21 (estimated at c. €11bn per annum, on average, or 5.5% of GDP), the current level of cash reserves could cover the state debt financing needs until, at least, 2022.
- **Greece's Government debt servicing terms improved further, following the implementation of the 1st round of the medium-term measures agreed in May 2018** – involving, *inter alia*, a further deferral of interest and amortization payments applied to €96.9bn of EFSF loans by 10 years (until 2033) and an extension of their maximum weighted average maturity (WAM) by 10 years.
- Accordingly, **the weighted average residual maturity of Greece's public debt was extended to 21.1 years on April 30 2019** (Source: PDMA, Hellenic Republic Public Debt Bulletin, March 2019) from 18.2 years in December 2018, while the "average re-pricing time" of public debt reached 13 years. **The effective interest rate stabilized at c. 2.0%, and 91% of debt has been denominated at a fixed rate** in Q1:2019 (from 89% in December 2018). **The official sector (including SMP/ANFA holdings) held 79% of Greek debt or €264bn in June 2019, while marketable debt (excluding T-bills) amounted to €42.8bn (13.4% of total).**
- Under the baseline scenario presented in the latest Enhanced Surveillance Report (June 2019), **Greece's gross financing needs (GFNs) are set to hover around 10% of GDP until 2032.** Thereafter, the GFNs start to increase slowly, but are **"projected to remain below 20% of GDP at the end of the forecast horizon"**.
- In fact, **Greece's public debt servicing costs are expected to be even lower-than-initially-estimated** in the latest DSA analyses conducted by the IMF and the EU Commission (in Q1:2019), due to: i) a significant compression of GGB yields in Q2:2019, which will support future issuance at a lower cost; and ii) the presence of accommodative monetary policy for a more-protracted-than-initially-expected period, which lowers the refinancing costs of the official loans by the ESM/EFSF, also creating positive indirect effects.

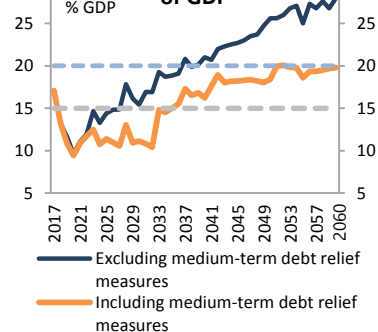
Structure of Greek debt holders as of June 2019



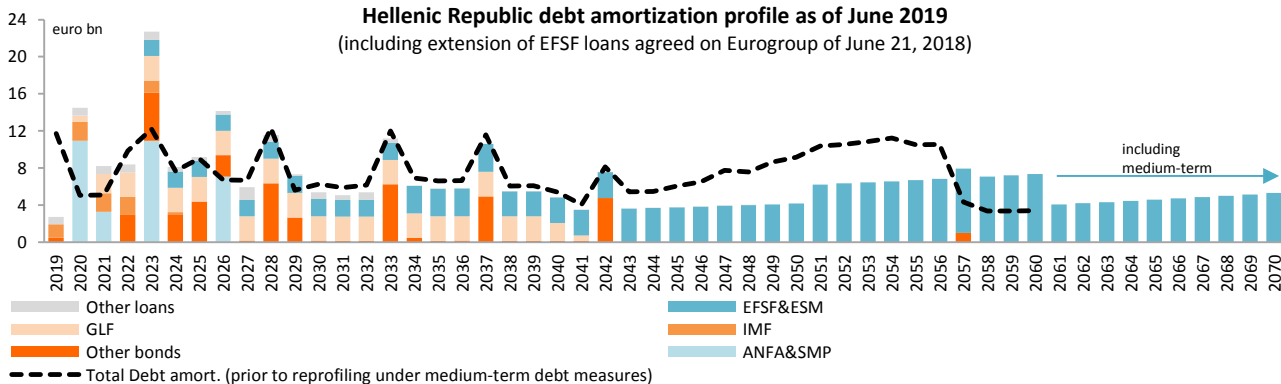
Greece: Gross public debt



Gross financing needs as % of GDP



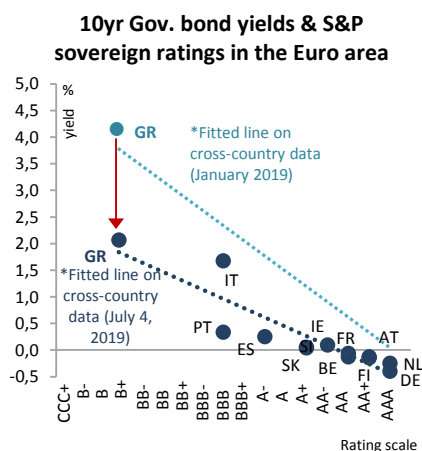
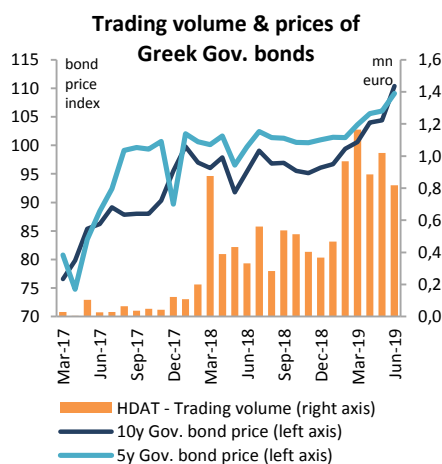
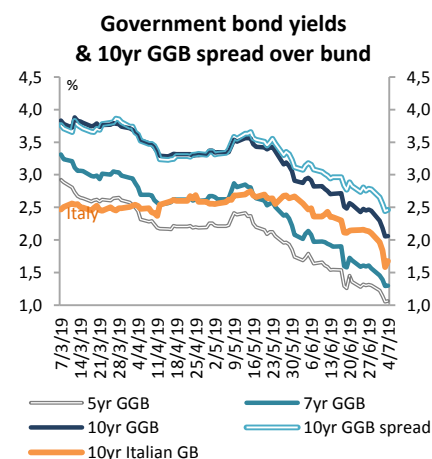
Hellenic Republic debt amortization profile as of June 2019
(including extension of EFSF loans agreed on Eurogroup of June 21, 2018)



Sources: EU Commission, PDMA, ESM, IMF, Bloomberg, Ministry of Finance, NBG Economic Analysis Division estimates



Greek Government bond yields declined to historical lows, buoyed by declining country risk and supportive monetary conditions



- The decline in Greek Government bond (GGB) yields accelerated sharply in May-June 2019, with yields of the 10-year and 5-year GGBs declining to all-time lows of 2.06% and 1.05%, on July 3 2019, respectively. The y-t-d appreciation of the 10-year and 5-year GGB prices reached 21.5% and 10.3%, respectively.
- GGB valuations have been pricing in gradually the significant macroeconomic improvements and the increased fiscal credibility, which are compounded by expectations for a more accommodative-than-initially-envisaged ECB monetary policy. In fact, rising expectations of a further easing by the ECB led to a coordinated compression of sovereign bond yields, with most euro area bond yields falling to historical lows in early-July 2019. This trend reflects rising concerns about the long-term GDP growth and lower-than-targeted inflation in the euro area that increase the probability of additional monetary policy easing by the ECB.
- The monthly trading volume in the Greek Electronic Secondary Securities Market (HDAT) increased to a 4½-year high of €0.9bn, on average, in H1:2019 (2 times higher than the monthly average in 2018), highlighting an ongoing improvement in investor sentiment and liquidity conditions.
- Similarly, Hellenic Republic CDS pricing improved steadily, with the respective spread over mid-swaps (for the 5-year CDS) shrinking by 224 bps between early-January and early-July 2019.
- Following the latest 2-notch upgrade by Moody's on March 1 2019, Greece's sovereign rating remains 3 to 4 notches below investment grade, with upcoming rating reviews planned by Fitch and Moody's in August 2019 and by S&P in October 2019.

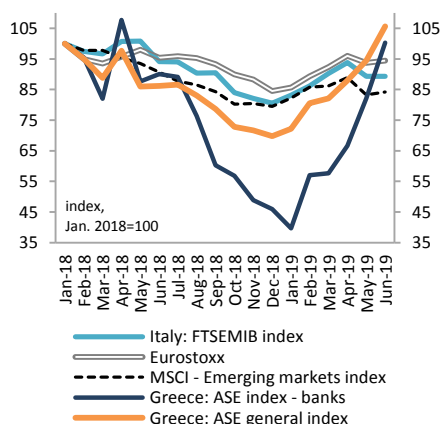


Sources: Bloomberg Bank of Greece, NBG Economic Analysis estimates

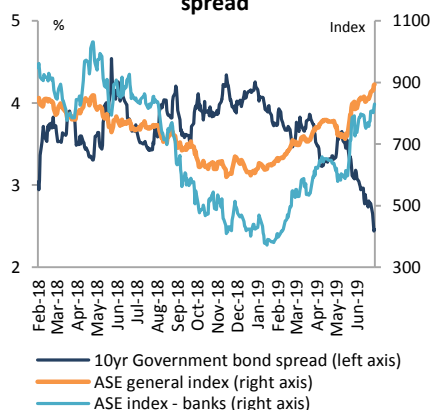


Greece's financial assets rallied in H1:2019, capitalizing on falling risk premia and attractive valuations

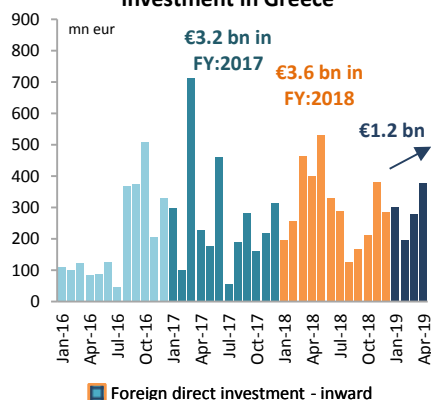
Stock market indices



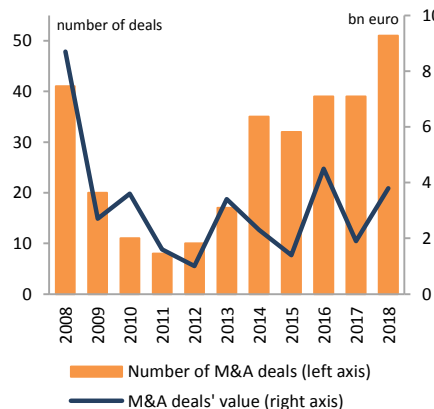
ASE general index & 10yr GGB spread



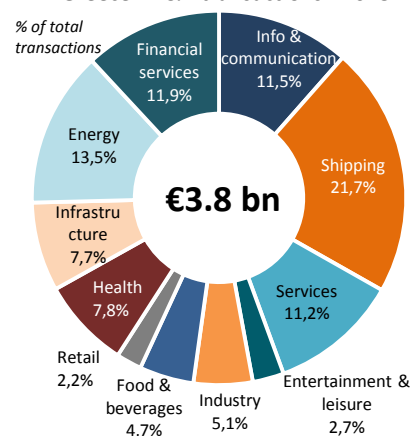
Inflows of foreign direct investment in Greece



M&A transaction activity in Greece



Greece: M&A transactions - 2018



- **The Greek stock market rallied in H1:2019**, against a backdrop of improving macroeconomic conditions and declining country risk. The ASE general index increased by 47.5% y-t-d and by 9.3% between early-June and early-July 2019, **with the banking sector strongly overperforming the market average** (94.2% y-t-d).
- **Foreign capital inflows supported this momentum**, with portfolio investment inflows amounting to €4.1bn in 4M:2019 (latest available data, including government bonds) and **non-resident participation in ASE capitalization rising to €29.0bn or 65.2% in May 2019** from €23.4bn or 63.8% in January 2019 (€22.3bn or 63.3% in December 2018).
- On the same note, **FDI inflows reached €1.2bn in 4M:2019 and €10.4bn, cumulatively, between 2015-2018**, with financial and insurance, transportation & storage, and real estate activities attracting more than 75% of FDI inflows.
- **Rising FDI is closely related to accelerating M&A activity in Greece** (increase in the number of deals by 30.8% y-o-y and in the average deal value by 56.3% y-o-y, in 2018), with major deals recorded in shipping, energy and financial services sectors.

Financial markets

Data as of July 4, 2019	level	y-t-d	annual	monthly
		change in percent		
ASE General Index	893	47,5	19,3	9,3
FTSE - ASE Index	2252	41,1	14,5	7,5
FTSE - ASE Banks index	830	94,2	-2,3	12,5
Eurostoxx	3544	18,4	3,0	6,2
S&P 500	2996	19,4	9,5	5,4
10yr GGB (price)	116	21,5	18,3	7,2
		change in pps		
10yr GGB (yield)	2,06	-2,3	-2,0	-0,9
10yr GGB (spread over Bund)	2,46	-1,8	-1,3	-0,7
3m T-bill (rate)	0,34	-0,4	-0,4	0,0

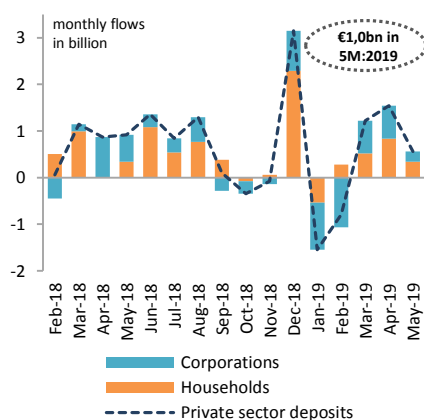
Source: Bloomberg

Sources: Bank of Greece, Bloomberg, PwC Greece, NBG Economic Analysis estimates



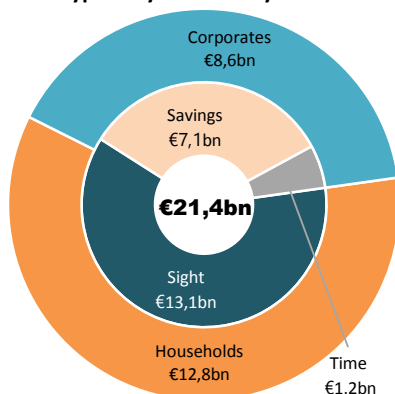
Greek banks: Liquidity conditions are improving gradually, while demand for corporate credit is picking up

Private sector deposits

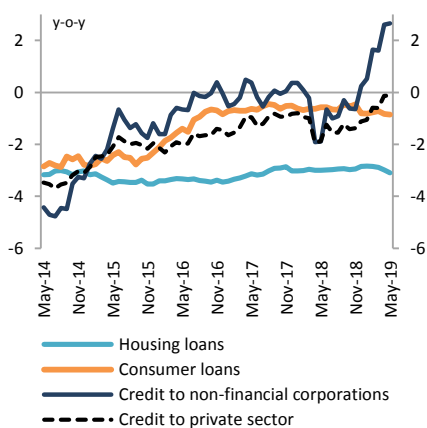


- Private sector deposits **increased by €3.3bn in March-May 2019**, reversing a largely seasonal decline of €2.3bn in 2M:2019 – that followed a €3.2bn increase in December 2018, led by extraordinary factors. Households and corporations had a broadly balanced contribution to this improvement.
- The **cumulative increase in private sector deposits from their lowest point in July 2015 reached €21.4bn in May 2019** (or +18.0%), with sight and savings deposits increasing by €13.1bn and €7.1bn, respectively.
- In **May 2019, credit to corporations increased by 2.7% y-o-y – the highest pace in 9 years** – mainly to the sectors of transportation & storage, tourism and real estate activities (50.8%, 6.1% and 2.4% y-o-y, respectively). This was the 6th consecutive month of accelerating loan expansion to the corporate sector.
- Total credit to the private sector stabilized in April-May** (-0.1% y-o-y), since credit to households continued to contract (-2.5% y-o-y from -2.3% y-o-y in April 2019 and -2.2% y-o-y in December 2018).
- Positive trends in consumer sentiment** and especially increased intentions for spending on acquisition of consumer durables, real estate renovation and/or home purchases, **are expected to gradually support retail credit demand over the course of the year.**
- The **Greek banking system's financing from the Eurosystem decreased further to a pre-crisis level of €8.1bn in May 2019**, from €11.1bn in December 2018, **with ELA dependence effectively eliminated since March 2019**, mainly due to improving market access, further deleveraging and a pick-up in deposits.
- The **access of Greek banks to interbank lending increased marginally to €18.8bn in April 2019** from €17.4bn in January 2019 (using sovereign bonds and securitized loans as collateral).

Change in private deposits by sector & type: July 2015 - May 2019

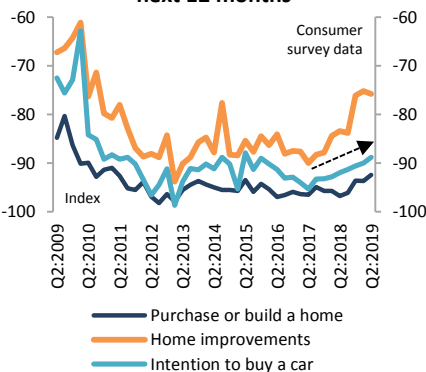


Bank credit to the private sector

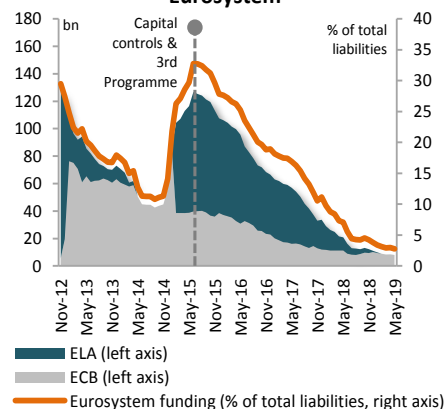


Source: Bank of Greece

Households' intentions for major investment/purchases within the next 12 months



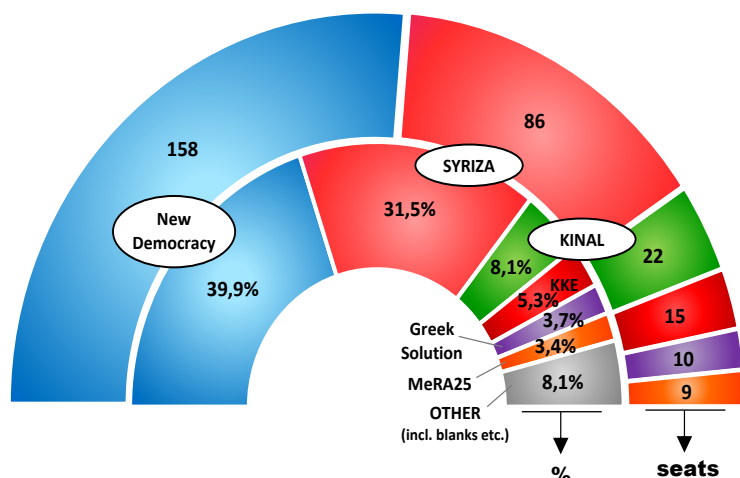
Greek banks' borrowing from the Eurosystem





The Conservative Party wins a clear majority in the parliamentary elections on July 7 2019

Greece: Parliamentary elections' results (2019)

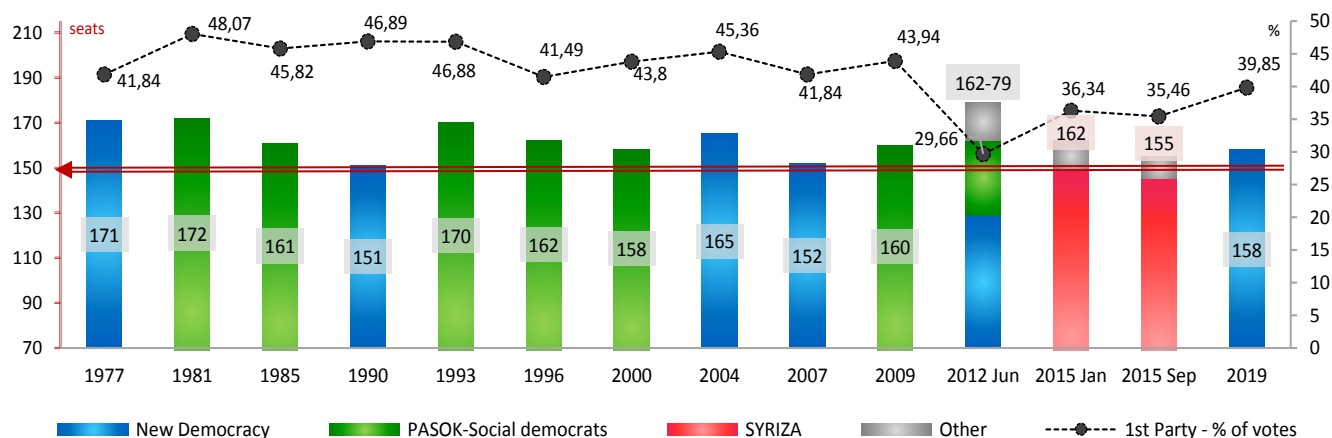


- The conservative party New Democracy won Greece's parliamentary elections on July 7, securing 39.85% of the vote (11.8 pps higher than in the elections of September 2015) that corresponds to an absolute majority of 158 MPs in the 300-member parliament.
- This is the first single-party government since the eruption of the Greek crisis in 2009.
- The formation of a new pro-market Government with a stable parliamentary majority supports confidence. However, its ultimate success will depend on its ability to increase the attractiveness of the business environment, improve fiscal fairness and promote social cohesion.

	July 2019			September 2015		
	Percent	Votes (number)	Seats	Percent	Votes (number)	Seats
New Democracy	39,85%	2.251.411	158	28,09%	1.526.400	75
SYRIZA (Coalition of the Radical Left)	31,53%	1.781.174	86	35,46%	1.926.526	145
Kinima Allagis	8,10%	457.519	22	6,29%	341.732	17
Communist Party of Greece	5,30%	299.592	15	5,55%	301.684	15
Elliniki Lysi	3,70%	208.805	10	...	...	...
MERA25	3,44%	194.232	9	...	...	...
Golden Dawn	2,93%	165.709	0	6,99%	379.722	18
Other	5,15%	290.890	0	17,62%	1.854.254	30
	100,00%	5.649.332	300	100,00%	6.330.318	300

Source: Ministry of Interior

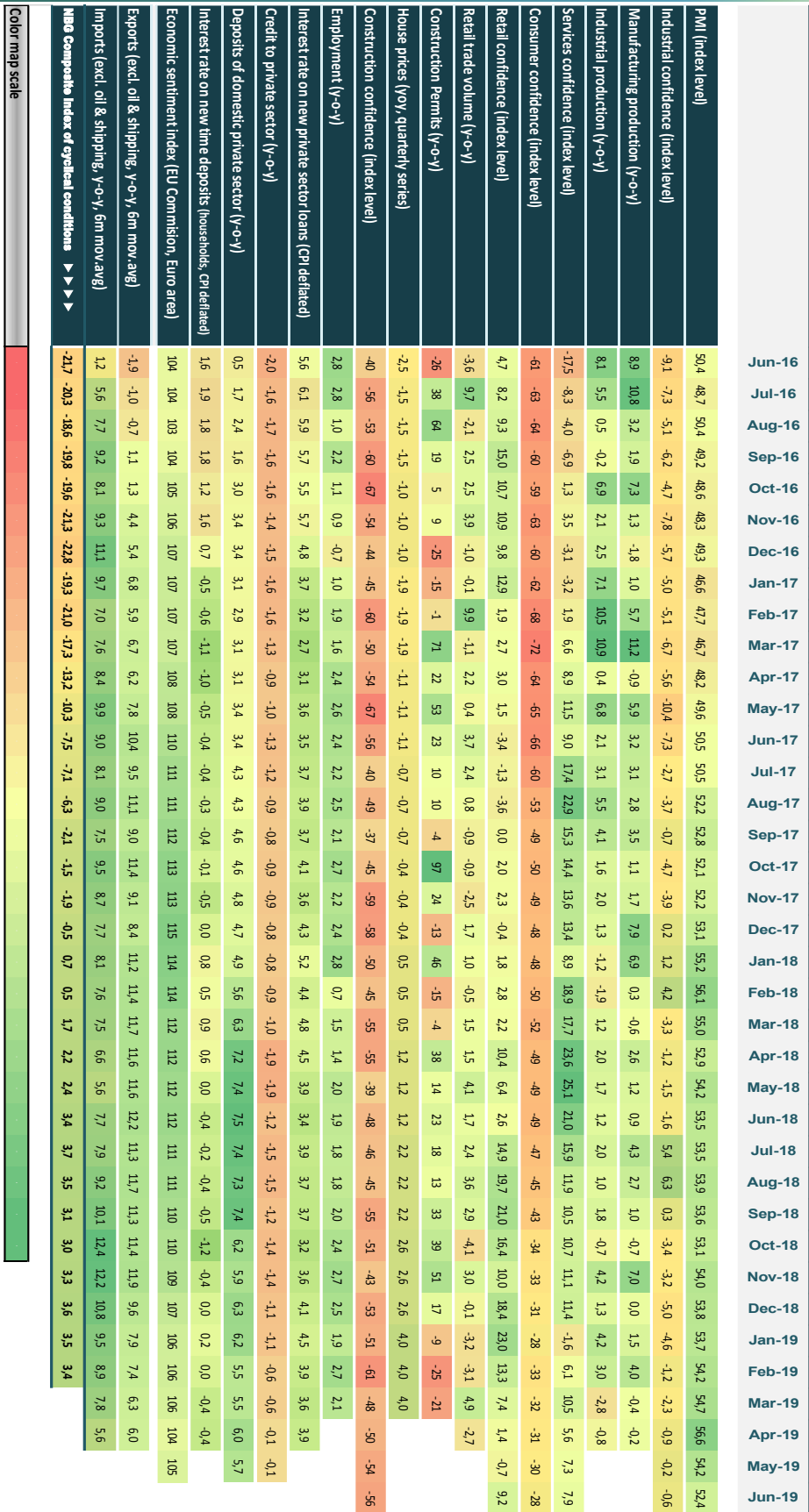
Parliamentary majority of the Government & per cent of votes won by the 1st party



Sources: Ministry of Interior & Greek Parliament



Greece: Macro indicators heatmap



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



July					
7	8	9	10	24	25
National elections	Eurogroup meeting	ECOFIN meeting	ECB Governing Council: non-monetary policy meeting	ECOFIN meeting	ECB Governing Council: monetary policy meeting

August		
2	23	end
Fitch's credit rating review for Greece	Moody's credit rating review for Greece	IMF 2 nd post-program monitoring report for Greece

September					
4	5	12	13	25	end
EL.STAT. release: Quarterly National Accounts (Q2:2019)	EuroWorking Group meeting	ECB Governing Council: monetary policy meeting	Eurogroup meeting	ECB Governing Council: non-monetary policy meeting	EU Commission: 4th Enhanced Surveillance Report on Greece & new DSA analysis

October								
2	8	9	10	16	17-18	18-20	24	25
Draft Government Budget 2020	ECB Governing Council: non-monetary policy meeting	Euro group meeting	ECOFIN meeting	EL.STAT. release: Annual National Accounts (2018)	European Council meeting	IMF/ World Bank annual meetings	ECB Gov. Council: monetary policy meeting	S&P credit rating review for Greece

November				
7	8	13	15	21
Eurogroup meeting	ECOFIN meeting	ECB Governing Council: non-monetary policy meeting	ECOFIN meeting	Government Budget 2020



Greek Economy: Selected Indicators

Greek Economy: Selected Indicators															
	2017					2018					2019			2019f	
	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Most recent		
Real economy (y-o-y period average, constant prices)															
GDP	0,0	1,8	1,9	2,1	1,4	2,6	1,6	2,1	1,5	1,9	1,3	...	Q1:19	1,3	1,8
Domestic demand	3,3	1,0	1,3	1,5	1,8	-2,8	-0,4	4,9	-1,0	0,2	3,1	...	Q1:19	3,1	2,4
Final Consumption	0,8	1,1	0,6	0,0	0,6	0,2	0,7	0,0	0,2	0,3	-0,1	...	Q1:19	-0,1	1,1
Gross fixed capital formation	7,7	-8,7	26,2	12,6	9,4	-9,0	19,1	-22,8	-26,5	-12,0	7,9	...	Q1:19	7,9	11,2
Exports of goods and services	6,0	9,1	7,0	5,5	6,9	8,6	9,2	6,9	10,1	8,7	4,0	...	Q1:19	4,0	3,2
Imports of goods and services	16,1	5,8	4,8	3,2	7,4	-7,5	2,8	15,6	2,1	3,0	9,5	...	Q1:19	9,5	4,8
Coincident and leading indicators (period average)															
Retail sales volume (y-o-y)	2,8	2,1	0,8	-0,5	1,2	0,6	2,4	3,0	-0,4	1,4	-0,6	...	Jun	-2,7	...
Retail confidence (15-yr. average: -2,9)	5,8	0,4	-1,6	1,3	1,5	2,3	6,5	18,5	14,9	10,6	14,6	3,3	Jun	9,2	...
Car registrations (y-o-y)	37,8	3,4	35,8	24,5	22,2	37,6	28,3	20,8	14,5	25,8	4,9	...	Mar	-9,1	...
Consumer confidence (15-yr. average: -47,6)	-67,1	-65,1	-54,1	-49,1	-58,9	-49,8	-48,7	-44,7	-32,6	-44,0	-31,1	-29,4	Jun	-27,8	...
Industrial production (y-o-y)	9,5	3,0	4,2	1,6	4,5	-0,6	1,6	1,6	1,5	1,1	1,3	...	Apr	-0,8	...
Manufacturing production (y-o-y)	6,2	2,7	3,1	3,5	3,8	1,9	1,6	2,7	2,1	2,1	1,6	...	Apr	-0,2	...
Capacity Utilization (15-yr. average: 70,3)	68,2	68,7	71,1	70,1	69,5	71,4	70,9	70,2	71,0	70,9	...	...	Feb	70,3	...
Industrial confidence (15-yr. average: -9,1)	-5,6	-7,8	-2,4	-2,8	-4,6	0,7	-1,4	4,0	-3,9	-0,2	-2,7	-0,6	Jun	-0,6	...
PMI Manufacturing (base=50)	47,0	49,4	51,8	52,5	50,2	55,4	53,5	53,7	53,6	54,1	54,2	54,4	Jun	52,4	...
Construction permits (y-o-y)	16,2	31,2	5,9	26,8	19,2	1,0	24,2	20,3	36,3	21,5	-18,8	...	Mar	-20,6	...
Construction confidence (15-yr. average: -38,0)	-51,6	-58,8	-41,9	-54,1	-51,6	-50,2	-47,2	-48,5	-49,2	-48,8	-53,5	-52,9	Jun	-55,5	...
PIB Disbursements (y-o-y)	-36,9	-24,9	-37,0	15,7	-5,4	-4,9	12,2	-17,6	9,4	4,8	56,6	...	May	-3,8	...
Stock of finished goods (15-yr. average: 12,4)	10,7	11,8	12,7	10,3	11,4	6,1	3,8	6,4	9,8	6,5	8,6	13,5	Jun	13,8	...
External sector (period average)															
Current account balance (% of GDP)	-1,7	-0,4	2,3	-1,9	-1,8	-1,8	-0,8	1,7	-2,1	-2,9	-1,9	...	Apr	-0,7	-3,1
Current account balance (EUR mn)	-3059	-790	4077	-3387	-3159	-3245	-1457	3228	-3857	-5330	-3676	...	Apr	-1400	...
Services balance, net (EUR mn)	1340	4425	9974	2305	18044	1083	4842	10472	2907	19304	1543	...	Apr	643	...
Primary Income Balance, net (EUR mn)	718	-469	-672	-388	-810	739	-756	-1134	-531	-1682	802	...	Apr	-216	...
Merchandise exports – non-oil (y-o-y cum.)	9,1	10,1	8,7	9,2	9,2	12,2	12,6	11,9	10,9	10,9	4,3	...	Apr	6,1	...
Merchandise imports – non-oil (y-o-y cum.)	10,2	9,0	8,5	8,5	8,5	7,1	8,2	9,3	9,4	9,4	6,2	...	Apr	6,7	...
Gross tourism revenue (y-o-y)	-8,4	9,4	13,2	12,1	11,1	14,3	20,7	5,6	25,5	10,5	37,7	...	Apr	6,7	...
International tourist arrivals (y-o-y)	-1,8	9,0	12,2	5,9	9,7	12,8	20,7	5,8	13,8	10,8	7,8	...	Apr	-11,3	...
Employment															
Unemployment rate	22,6	21,5	20,9	21,0	21,5	20,5	19,4	18,9	18,6	19,3	18,3	...	Mar	18,1	17,5
Employment growth (y-o-y)	1,5	2,5	2,3	2,4	2,2	1,7	1,8	1,9	2,5	2,0	2,2	...	Mar	2,1	1,6
Prices (y-o-y period average)															
Headline inflation	1,4	1,3	1,0	0,8	1,1	-0,1	0,5	1,0	1,1	0,6	0,7	...	May	0,2	0,2
Core inflation	-0,4	0,2	0,4	0,4	0,2	0,2	0,1	-0,1	0,2	0,1	0,2	...	May	-0,2	-0,1
Producer prices excl.energy	0,4	0,3	0,6	0,5	0,5	0,2	0,1	-0,1	0,3	0,3	0,3	...	Mar	0,4	...
Real estate prices															
Residential house prices (y-o-y)	-1,9	-1,1	-0,7	-0,4	-1,0	0,5	1,2	2,2	2,6	1,6	4,0	...	Q1:19	4,0	2,9
Office prices (y-o-y, bi-annual data)	...	-0,3	...	3,9	1,8	...	7,7	...	6,4	7,0	...	...	H2:18	6,4	...
Retail prices (y-o-y, bi-annual data)	...	1,3	...	2,2	1,7	...	3,3	...	5,3	4,3	...	...	H2:18	5,3	...
Fiscal policy															
Gov. balance (% of GDP, Enhanced Surveillance Fram.)	...	...	...	...	1,1	...	...	...	...	1,0	...	...	...	...	0,3*
Government debt (% of GDP)	...	...	...	...	176,2	...	...	...	...	181,1	...	...	...	...	168,7*
Monetary sector (y-o-y, end of period)															
Deposits of domestic private sector	3,1	3,4	4,6	4,7	4,7	6,3	7,5	7,4	6,3	6,3	5,5	...	May	5,7	...
Loans to private sector (incl. sec. & bond loans)	-1,3	-1,3	-0,8	-0,8	-0,8	-1,0	-1,2	-1,2	-1,1	-1,1	-0,6	...	May	-0,1	...
Mortgage loans (including securitized loans)	-3,3	-3,2	-2,9	-3,0	-3,0	-3,0	-3,0	-2,9	-2,8	-2,8	-2,9	...	May	-3,1	...
Consumer credit (including securitized loans)	-0,7	-0,7	-0,5	-0,5	-0,5	-0,6	-0,6	-0,4	-0,8	-0,8	-0,7	...	May	-0,9	...
Interest rates (period average)															
10-year government bond yield	7,2	6,1	5,5	5,1	6,0	4,1	4,2	4,1	4,4	4,2	4,0	3,2	Jun	2,7	...
Spread between 10 year and bunds (bps)	689	577	502	469	559	346	376	370	400	373	382	327	Jun	294	...
Exchange rates (period average)															
USD/euro	1,07	1,1	1,18	1,18	1,13	1,23	1,19	1,16	1,14	1,18	1,14	1,12	Jun	1,13	...
Stock market															
ASE General index (aop)	644	755	818	750	742	833	796	729	631	746	667	784	Jun	842	...
ASE Banks (aop)	780	947	1018	760	876	902	900	744	477	754	466	676	Jun	772	...
* according to Budget for 2019															
Sources: BoG, NSSG, MoF, ASE, Bloomberg and NBG estimates unless otherwise indicated															



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Note: The analysis is based on data up to July 4, 2019, unless otherwise indicated