NATIONAL BANK
OF GREECE

GREECE

Macro Outlook

June 2017

Greece: With the 2nd review concluded, improved confidence and a lower fiscal drag should support activity

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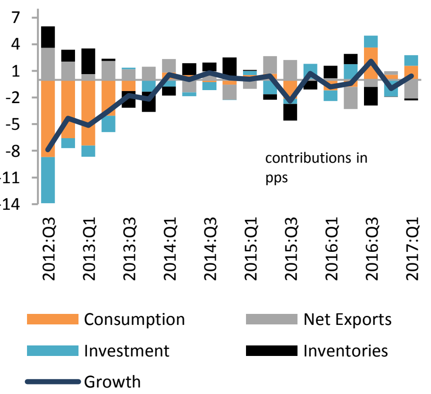
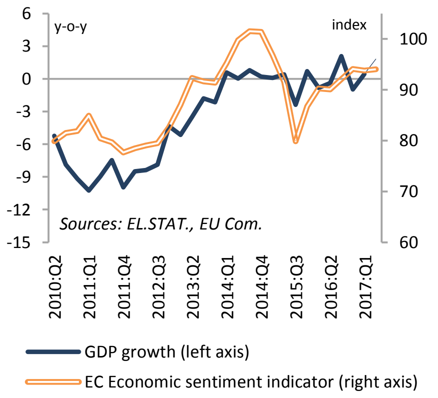
- The stage is set for a strong recovery in activity, following the completion of the 2nd review of the programme and the achievement of a large fiscal adjustment in 2016. The latter exceeded even the most optimistic estimates -- with the Greek primary surplus the highest in the EU. In addition to the direct economic effect, it also resulted in policy implementation credibility.
- The Greek economy is expected to exit recession in 2017, capitalizing on the ongoing business rebalancing, the reduced fiscal drag, resilient consumption and supportive external demand conditions.
- Indeed, the economy already returned to positive growth in Q1:2017 (+0.4% y-o-y), following a sharp weakening in Q4:2016, with domestic demand showing remarkable resilience to the relatively high uncertainty arising from the lengthy negotiations on the completion of the 2nd review.
- Healthy export-oriented corporate activity is gaining momentum, with the more competitive subsectors of manufacturing and services leading the way, supported by favorable tourism trends and increased efficiency following a multi-year restructuring.
- The fiscal overperformance continued in 4M:2017, mostly from the expenditure side, while revenue trends are in line with the targets of the Medium Term Fiscal Strategy (MTFS 2018-2021).
- Forward-looking indicators presage a further improvement in Q2:2017, when the direct and indirect support from tourism will come to the fore, boosting business activity and employment creation.
- The completion of the 2nd review of the economic support programme will provide positive confidence and liquidity effects related, *inter alia*, to a resumption in clearing government arrears through programme funding. The effective fiscal drag is also expected to be significantly lower than in 2016 (an estimated 0.2% of GDP in 2017 compared with 3.0% of GDP in 2016), which far exceeded initial estimates (c. 1.8% of GDP in 2016).
- Nonetheless, still tight liquidity conditions, partly due to a very gradual easing of capital controls, continue to weigh on business conditions, especially for less efficient, domestically-oriented business units, which struggle to service their fiscal obligations and bank debt.
- Despite positive growth in private consumption in 2016 and Q1:2017, a significant share of households continue to be negatively affected by fiscal conditions, cash shortages and a further toll on disposable income from an energy-driven increase in inflation during the first months of 2017 (to 1.4% y-o-y in 5M:2016 from -0.8% in FY:2016). Some of these pressures are expected to ease over the course of the year on the back of improving labor market conditions (estimated average employment growth of 1.2% y-o-y in FY:2017), which are expected to be accompanied by a pick-up in average working hours and hourly wages – the first in 7 years – and a stabilization in oil prices. Nonetheless, the financial position of the more stressed households and less efficient enterprises is unlikely to improve in the near term.
- The implementation of short-term debt relief measures in early 2017 have smoothed somewhat the long-term repayment profile and lowered future interest rates on Greek debt. A further specification of the medium-term measures so as to reduce longer-term debt servicing costs will support economic sentiment and contribute to a faster reduction of country risk premia, and thus an improvement in financial conditions.
- In the event, the Greek State's debt servicing needs are limited until July 2018 and programme conditionality has been frontloaded, with the most demanding policy measures already legislated and implemented under the 1st and 2nd reviews of the ESM programme. Thus, the completion of the 2nd review and the disbursement of related funding is expected to be followed by a period of stability, which will support economic recovery, translating into average GDP growth of 1.7% y-o-y in FY:2017 (an estimated +2.6% y-o-y in H2:2017).

The economy returned to positive growth in Q1:2017 and is expected to gain further strength in the following quarters

Composition of output growth by expenditure component



Economic sentiment and real GDP growth



Sources: ELSTAT, EU Commission, NBG estimates

- GDP increased by 0.4% y-o-y in Q1:2017 (+0.4%, q-o-q, s.a.), following stabilization in FY:2016 and a contraction of 1.0% y-o-y in Q4:2016, which primarily reflected high fiscal obligations during this period, combined with high uncertainty.
- Notably, domestic demand has proved very resilient to the relatively high uncertainty in Q1:2017 due to the protracted negotiations for finalizing the 2nd review. In Q1:2017 private consumption growth accelerated to 1.7% y-o-y, from an improved 1.4% y-o-y in FY:2016, and fixed capital formation increased by 11.2% y-o-y (0.0% y-o-y in FY:2016), indicating that the improvement in domestic spending that started in 2016 could gain further steam in 2017 as economic sentiment and liquidity conditions improve.
- Net exports were a drag on growth in Q1:2017 (-2.1 pps, y-o-y) -- the largest since Q2:2016 -- reflecting a sharp acceleration in import volumes, mainly of industrial inputs and transportation equipment (including ships), which was more than double export growth of 4.8% y-o-y during this period. The pick-up in import spending was expected, in view of the severe compression of related spending categories in previous years and the high dependence of Greece on imported industrial inputs, equipment and other investment goods, as well as on imports of discretionary consumer goods.
- GDP growth is expected to accelerate over the course of the year supported, *inter alia*, by a declining fiscal drag, stabilizing oil prices and a normalization in public spending (including the clearance of government arrears), financed by EU structural funds and Programme funding.

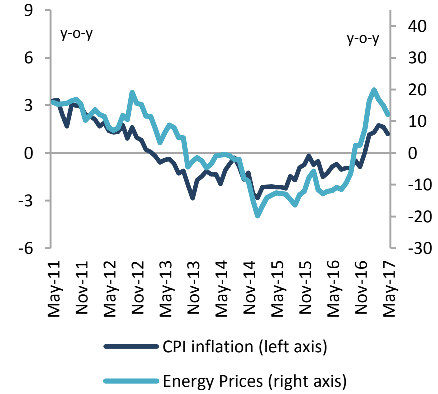
Greece: Growth Outlook

	2013	2014	2015	2016	2017f	2016				2017f			
						Q1	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f
GDP (real, % y-o-y, s.a.)	**-3,2**	**0,4**	**-0,3**	**0,0**	**1,7**	**-0,8**	**-0,4**	**2,1**	**-1,0**	**0,4**	**1,0**	**1,8**	**3,3**
GDP (real, % q-o-q, s.a.)	...	...	...	...	...	-1,0	0,4	0,7	-1,1	0,4	*1,0*	*1,5*	*0,4*
Domestic Demand (y-o-y)	**-4,4**	**0,5**	**-1,1**	**0,6**	**2,1**	**-1,0**	**2,1**	**2,9**	**-1,3**	**2,5**	**1,5**	**1,5**	**2,8**
Final Consumption (y-o-y)	**-3,5**	**0,1**	**-0,3**	**0,6**	**1,3**	**-1,3**	**-0,9**	**4,0**	**0,6**	**1,7**	**1,3**	**0,4**	**1,9**
Private Consumption (y-o-y)	*-2,7*	*0,6*	*-0,3*	*1,4*	*1,3*	*-0,7*	*-0,7*	*6,1*	*1,1*	*1,7*	*0,5*	*1,0*	*2,0*
Fixed Capital Formation (y-o-y)	**-8,3**	**-4,4**	**-0,2**	**0,0**	**9,1**	**-10,1**	**17,8**	**12,6**	**-13,8**	**11,2**	**4,5**	**10,5**	**10,2**
Residential construction	*-31,1*	*-53,1*	*-26,0*	*-12,6*	*-7,0*	*-17,1*	*-23,2*	*-3,3*	*-3,0*	*-11,2*	...	...	...
Total GFCF excluding residential	*-0,9*	*6,6*	*2,4*	*0,9*	*10,1*	*-9,6*	*21,8*	*13,7*	*-14,4*	*12,8*	...	...	...
Inventories* (contribution to GDP)	-0,2	1,0	-0,9	0,1	-0,1	1,4	1,2	-2,1	0,0	-0,2	-0,1	-0,1	-0,1
Net exports (contribution to GDP)	1,3	-0,2	0,8	-0,7	-0,4	0,2	-2,5	-0,8	0,4	-2,1	-0,5	0,3	0,5
Exports (y-o-y)	1,2	7,7	3,1	-1,7	6,6	-10,4	-9,9	10,8	4,9	4,8	7,1	6,6	7,9
Imports (y-o-y)	-3,4	7,6	0,3	0,6	7,5	-10,1	-2,1	13,8	3,3	10,9	7,9	5,5	5,8

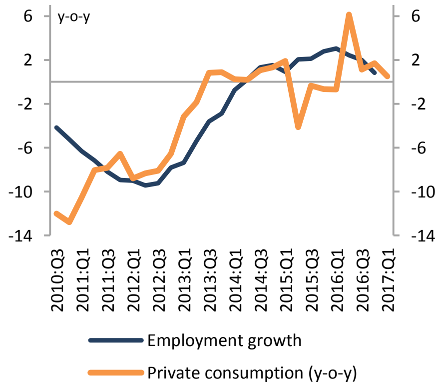
*also including other statistical discrepancies / Source: ELSTAT, NBG estimates

Private consumption showed remarkable resilience and is expected to benefit from improving labor market conditions

Energy prices & headline inflation

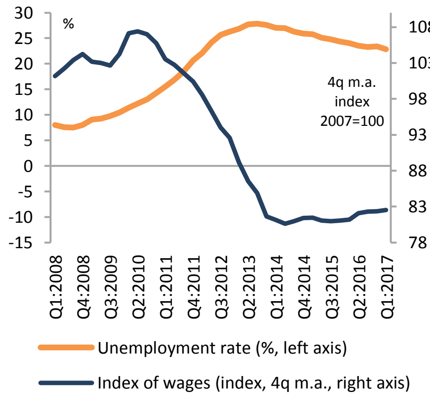


Employment growth & private consumption

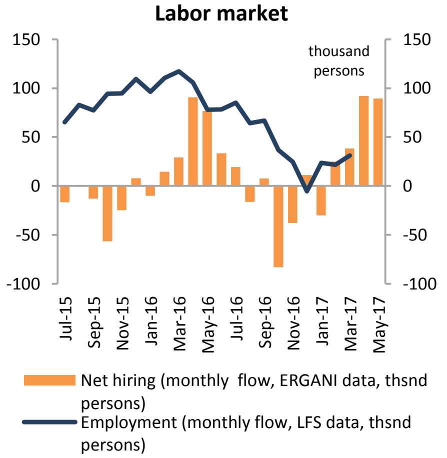


- Private consumption increased by 1.7% y-o-y in Q1:2017, following a healthy 1.4% in 2016, showing significant resilience to fiscal pressures and the increase in inflation due to higher energy prices during the first months of 2017. Notably, this improvement occurred in a period when consumer sentiment was low reflecting, *inter alia*, uncertainty related to the lengthy negotiations for the completion of the 2nd Programme Review, which included new fiscal measures.
- Household spending has been supported by a pick-up in employment growth in Q1:2017 (+0.7% y-o-y), following a decline to 0.5% y-o-y in Q4:2016 (from 2.5% y-o-y in 9M:2016), with the unemployment rate down to a 5-year low of 22.5% in March 2017. Nonetheless, a significant share of new jobs continue to reflect lower-paying flexible time contracts (½ of new job openings in Q1:2017, marginally lower than in 2016). This job creation is primarily driven by increasing employment of wage earners, especially in export-oriented sectors, with self-employment declining. Labor market conditions are expected to improve in the following months, as indicated by the dynamism of net job openings for wage earners recorded by the ERGANI system in April-May, which signal a strong rebound in seasonal hiring (about 8.6% higher than in the same period in 2016), especially in the tourism sector.
- As wage adjustment appears to be nearing an end (-21% cumulatively during 2009-2016, with hourly wages stabilizing in 2016 according to NBG estimates) and there are some first signs of a pick-up in average working hours, employment creation is expected to increasingly support disposable income.

Economy-wide nominal wage index & unemployment rate

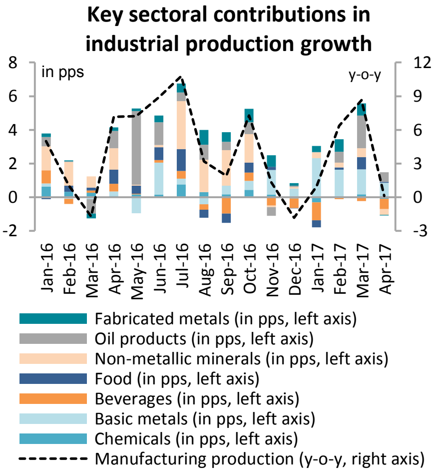


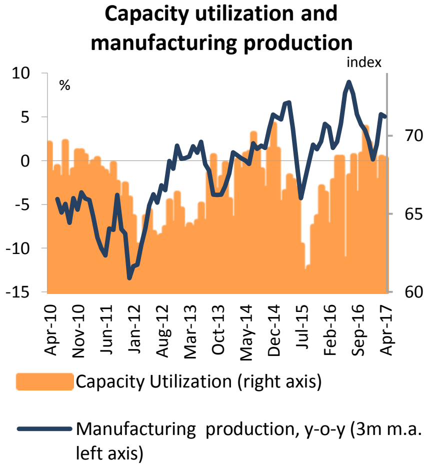
Labor market

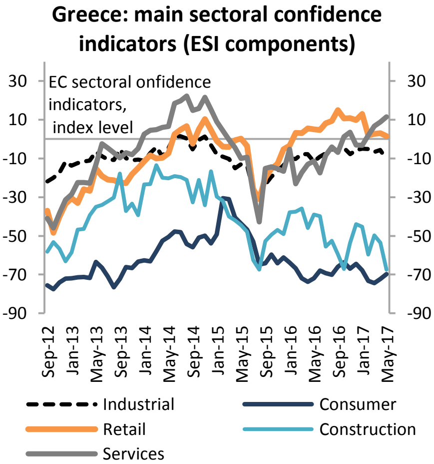


Sources: ELSTAT, Greek Ministry of Labor

Business activity recovers, driven by larger, more competitive firms, with manufacturing and export services leading the way





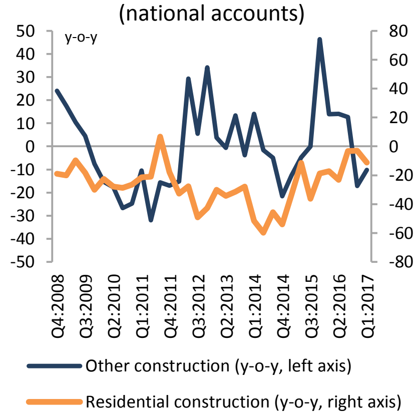


- Manufacturing production increased by +4.0% y-o-y, in 4M:2017, maintaining the strong momentum of 2016 when it posted the strongest increase in 9 years. This performance is mainly driven by the more competitive medium-to-large sized enterprises, which have succeeded in business restructuring and improving their competitive position in the domestic market and/or their export orientation. Indeed, export-oriented sub-sectors, along with industries supplying tourism (such as food, basic metals, chemicals, oil refining and non-metallic minerals), are the best performers. Similarly, survey data from the services sector indicate that the subsectors of food and beverage services and accommodation overperform in terms of current activity trends and business prospects.
- A strong rebound in fixed capital formation (+11.2% y-o-y in Q1:2017 from -13.8% y-o-y in Q4:2016) mainly reflected purchases of transportation equipment (mostly merchant ships) that led to a similar increase in imports. Capital accumulation in other productive categories, such as investment in equipment, machinery and business construction, remained subdued (a decline of 9.4% y-o-y in Q1:2017), suggesting that uncertainty and tight liquidity conditions weighed on investment decisions.
- Notably, survey data point to an acceleration in investment spending over the course of the year. This rebound is expected to primarily reflect a resumption of investment projects deferred during 2015-16 due to high uncertainty. A significant share of this investment reflects replacement of worn out capital, as well as investment in new capacity by firms which improved their competitive position and have reached relatively high levels of capacity utilization. Indeed, although industrial capacity utilization at an economy-wide level remains below its 15-year average, in specific sub-sectors such as in manufacturing of food, beverage and tobacco products, capacity usage is supportive of new investment decisions.
- Public investments of about €7.7bn (including those co-funded by the official institutions EIB, EBRD), as well as investments arising from privatizations, are estimated to amount to 5.1% of GDP in 2017-2018 (about 1.2% of GDP higher than in 2016).
- Financial conditions are improving for larger and more competitive firms as indicated by the decline in the weighted average yield of Greek corporate bonds by almost 200 bps between March and May 2017 to 3.7% (BoG composite index of Greek corporate bonds).

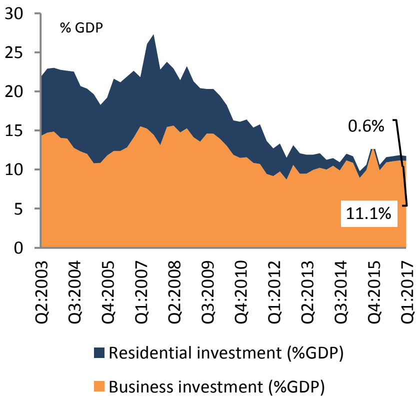
Sources: ELSTAT, Bank of Greece, EU Commission

Construction activity weakened further in Q1:2017, while the property price adjustment slowed

Construction activity (national accounts)

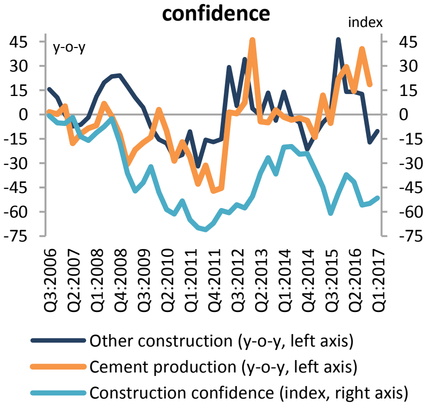


Gross fixed capital formation residential and total investment

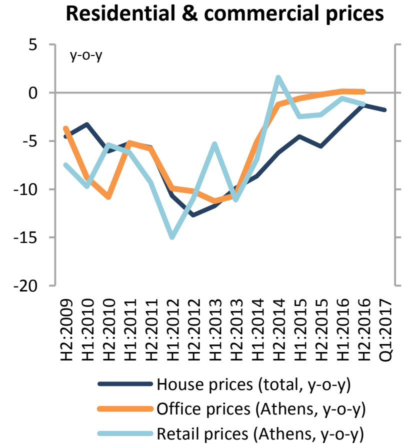


- Non-residential construction contracted by 10.2% y-o-y in Q1:2017, following an increase -- from a very low base -- of 4.6% y-o-y in FY:2016. Non-residential construction remains closely related to public investment activity, which weakened in Q1:2017 (a decline in PIP disbursements of 36.9% y-o-y), while private sector order books remain limited.
- The share of residential construction in GDP declined to a historical low (0.6% of GDP in Q1:2017), while the very low issuance of new residential permits (-6.9% y-o-y in FY:2016) indicates that residential construction activity is unlikely to bottom in 2017.
- The sharp decrease in the supply of newly-built houses has not compensated for the supply of existing non-primary residences and previously rented properties, due to the significantly increased property and income taxation. Demand is estimated to have bottomed in 2016, from a very low base, with banking system data possibly under-reporting the actual number of transactions, which continue to correspond to a very small fraction of average annual issuance during the period 1995-2008.
- The pace of adjustment in house prices slowed significantly during 2016, to -1.0% y-o-y in Q4:2016 from -5.2% y-o-y in Q4:2015, albeit recording a small acceleration to -1.8% in Q1:2017, showing high sensitivity to uncertainty and tight liquidity conditions. Prices of prime commercial spaces tend to stabilize (0.1% y-o-y, on average, in H2:2016, latest available data), with a marginal increase in rents in premium spaces recorded during this period.
- Near-term risks for the real estate market mainly relate to its high taxation, adding to the risk of new supply, and thus price declines, from accelerating foreclosures for tax arrears or for non-serviced private debt under the stricter legal framework. The prospective operation of a web-based auction platform by mid-2017 is expected to speed up foreclosures, possibly exerting additional pressures on prices, but could also mobilize new demand as it would make it easier for potential buyers (including foreigners) to bid on Greek properties.

Cement production, other construction & construction confidence



Residential & commercial prices

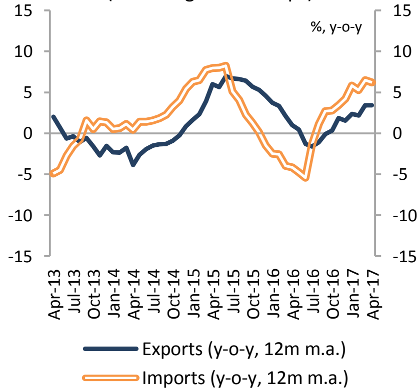


Sources: ELSTAT, Bank of Greece, EU Commission

The current account remains broadly balanced despite the widening in the fuel trade deficit and higher imports of productive inputs

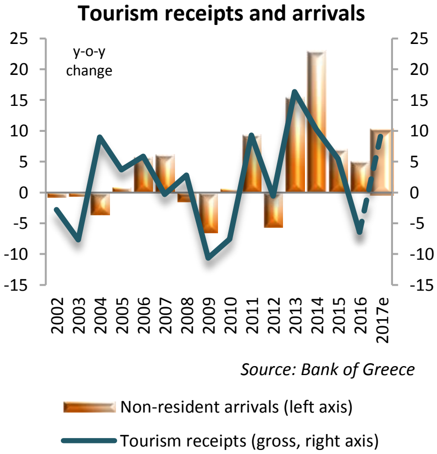
Goods trade

(excluding oil and ships)

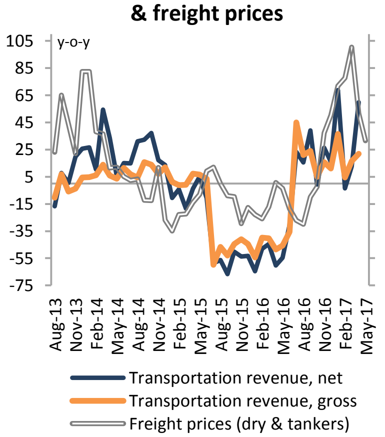


- Increasing non-oil goods exports (+6.1% y-o-y in 4M:2017, 0.2% of GDP higher than in 4M:2016), along with a 0.2% of GDP increase in the services surplus in the same period, driven by a sustained rebound in shipping revenue and other services exports, offset the increase in the oil deficit (up by 0.3% of GDP in this period). Thus, the current account deficit decreased marginally to 1.6% of GDP in 4M:2017 from 1.8% in 4M:2016.
- Greek goods exports (excl. oil) are exhibiting healthy growth of 6.1% y-o-y in 4M:2017 (1.4% y-o-y in FY:2016), but remain highly dependent on international commodity price fluctuations, demand conditions in the euro area and have a low differentiation/technology content that makes most Greek firms price takers. In contrast, Greece remains highly dependent on imports of capital goods, production inputs, energy and discretionary consumer goods, which tend to increase quite rapidly during the recovery phase following several years of extraordinary compression. This tendency is already evident in import growth in 2016 and early 2017, and creates some upside risks for Greece's external deficit in the near term.
- Moreover, there are some signs of weakening in tourism revenue trends, mainly due to changes in booking patterns (e.g. online booking and rental platforms, international operators, etc.), which gained ground since the imposition of the capital controls. In this respect, the indirect effect of tourism on the economy is likely to exceed the official data for tourism revenue.
- In FY:2017, the current account deficit is expected to remain close to its 2016 level of 0.6% of GDP, as the prospective improvement in tourism revenue in the core months of the season -- as indicated by the increase in international arrivals at major Greek airports of 14% y-o-y in 4M:2017 and buoyant bookings data for Q3:2017 -- along with supportive developments in shipping freight prices (+41.6% y-o-y in April-May 2017) and favorable demand conditions for Greek exports in the euro area, are expected to counteract the significant increase in imports.

Tourism receipts and arrivals



Transportation revenue & freight prices



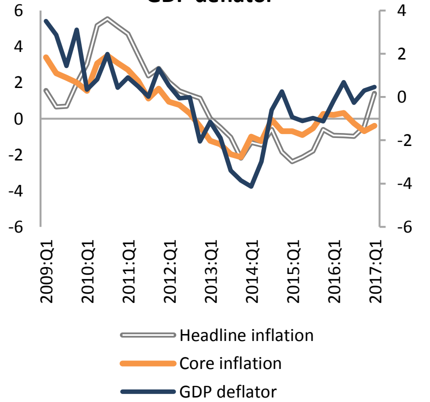
Balance of Payments (as % GDP)

	2015	2016	2017f	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1
Current Account	0,1	-0,6	-0,4	-1,3	-0,2	2,3	-1,3	-1,4
Non-oil Trade Balance	-7,4	-7,8	-7,9	-2,0	-2,1	-1,9	-1,9	-2,1
Non-oil Exports	10,3	10,4	10,6	2,5	2,6	2,6	2,7	2,6
Non-oil Imports	17,7	18,2	18,5	4,5	4,7	4,5	4,6	4,7
Oil Balance	-2,4	-1,6	-1,8	-0,3	-0,3	-0,3	-0,7	-0,7
Services Balance	9,6	8,7	9,1	0,4	2,1	4,9	1,2	0,6
Primary Income Balance	0,6	0,4	0,5	0,5	0,0	-0,3	0,1	0,6
Secondary Income Balance	-0,3	-0,3	-0,3	0,0	0,0	-0,2	-0,2	0,2
Capital account	1,1	0,6	0,6	0,4	0,0	0,0	0,2	0,1

Source: Bank of Greece

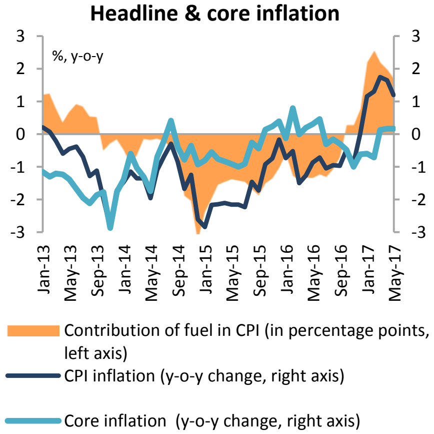
Sources: Bank of Greece, Bloomberg, NBG estimates

CPI inflation - Core inflation - GDP deflator

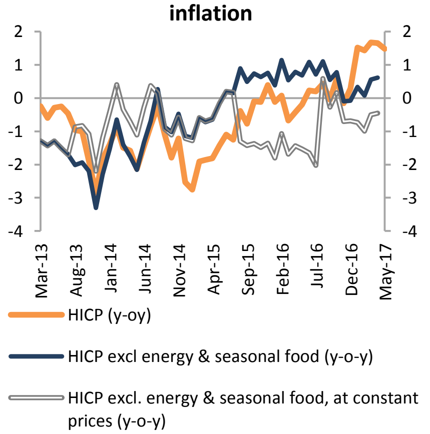


- CPI inflation increased to 1.4% y-o-y, on average, in 5M:2017, marking the end of a 4-year period of negative inflation. Fuel prices added almost 1.7 pps to inflation in 5M:2017, while the net contribution of the increase in indirect taxes in mid-2016 and early 2017 is estimated at +0.6 pps, on average, during this period. Core inflation entered positive territory in March, increasing by 0.2% y-o-y, on average, in March-May, from -0.7% y-o-y in January-February 2017 and Q4:2016, indicating that pricing power of firms in the domestic market remains relatively low. Similarly, the GDP deflator accelerated to 0.5% y-o-y in Q1:2017, compared with a marginal increase of 0.1% y-o-y in FY:2016.
- The pace of reflation is expected to slow in H2:2017, provided that a higher pass-through to final prices of higher input costs will be largely offset by the elimination of base effects from indirect tax increases in mid-2016 and the stabilization of international energy prices in euro terms. Importantly, high unemployment and flexible employment forms are constraining hourly compensation growth. Similarly, the increase in productive efficiency of more competitive Greek firms, following several years of restructuring, also limits inflation risks. A further decline in country risk premia will contribute further to a containment in financial costs, in conjunction with extensive loan restructurings.
- Accordingly, the significant gains in relative cost competitiveness in previous years -- a cumulative decline in average wages of 21% and in relative unit labor costs by almost 17% in 2010-16 -- are estimated to be sustainable in the following years.

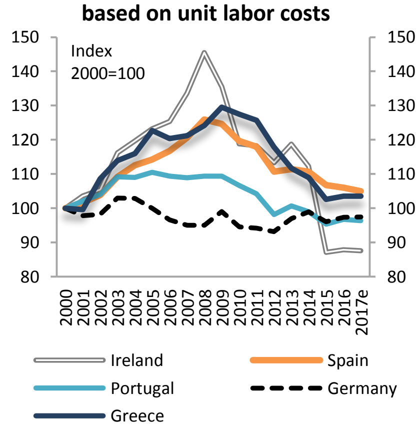
Headline & core inflation



Greece: HICP measures of inflation

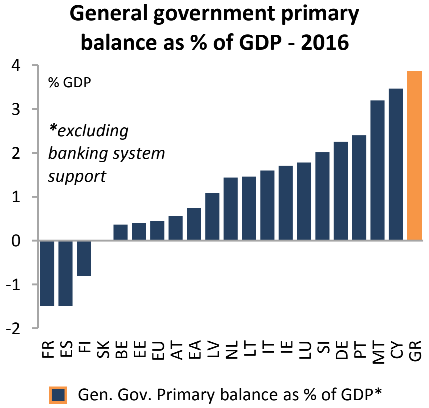


Real effective exchange rate, based on unit labor costs

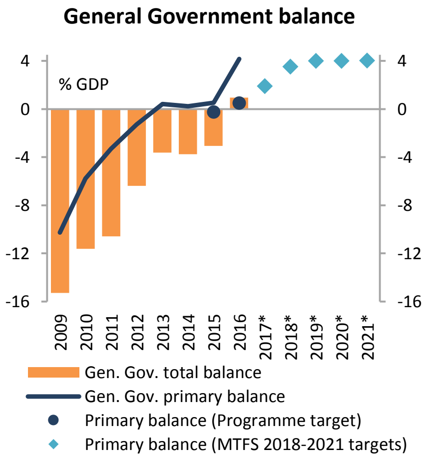


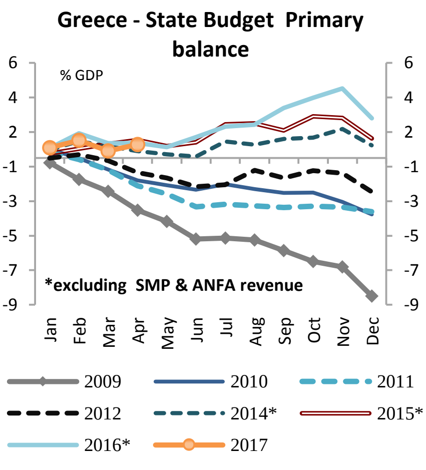
Sources: ELSTAT, OECD, NBG estimates

A strong fiscal overperformance in 2016 boosts the credibility of Greece's economic rebalancing



Source: *Eurostat*





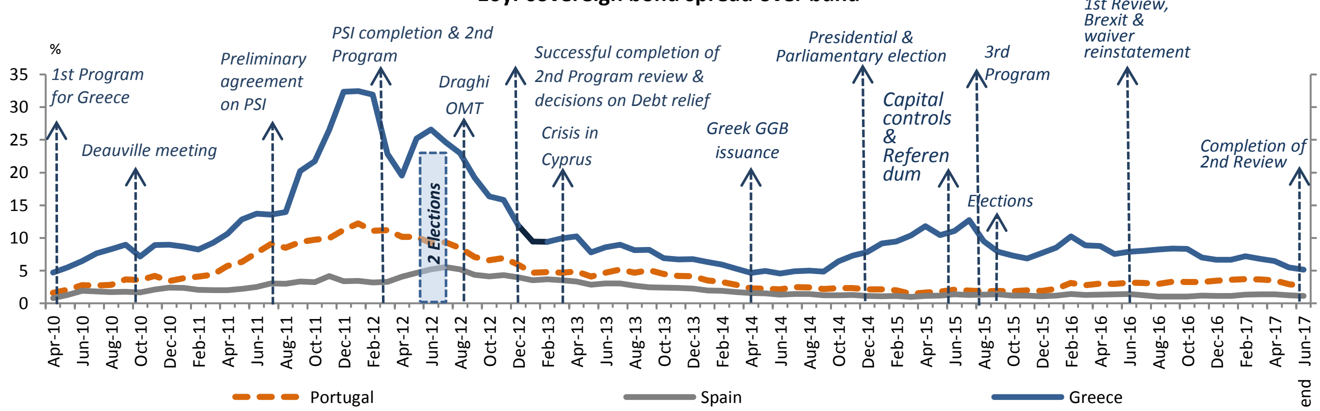
Sources: Ministry of Finance, Eurostat, MoU August 2015, MTFS 2018-2021

- Greece made much greater-than-expected progress in improving its fiscal position in 2016. The primary surplus of General Government recorded an annual improvement of 3.6% of GDP (+€6.4 bn), reaching 4.2% of GDP from 0.5% in 2015 – eight times the Programme target for 2016 – and the total fiscal balance recorded a surplus of 1.0% of GDP for the first time since the availability of harmonized fiscal data for Greece by Eurostat. A strong rebound in tax revenue of 9.2% y-o-y (+€4.0 bn) has been the key determinant of this improvement and, according to NBG estimates, corresponds to a sustainable aspect of the fiscal adjustment, looking forward. Efficiency gains reflect, *inter alia*, an increase in cashless payments and elevated pressure for compliance (e.g. a notable acceleration in inspections and confiscations for tax delinquencies), in conjunction with a bottoming-out in activity.
- State budget implementation in 4M:2017 bodes well for an achievement of the medium-term fiscal strategy target (MTFS 2018-2021) for an annual primary surplus in general government budget of 1.9% of GDP and a respective Programme target for a primary surplus of 1.75% of GDP. The primary surplus in the State budget in 4M:2017 reached 1.0% of GDP, mainly reflecting tighter-than-budgeted restraint in primary spending (-0.7% of GDP below the 4M target). Revenue trends are broadly in line with MTFS targets, recording a small decline of -1.1% y-o-y. The underlying formation of new government arrears in this period -- before the completion of planned payments through Programme funding following the completion of the second review -- is estimated at 0.4% of GDP.
- The acceleration in economic activity during the rest of the year is expected to provide a further impetus to the fiscal adjustment, which, together with the improving financial position of other government entities, is expected to support the achievement of fiscal targets for 2017 and further underpin the credibility of the fiscal strategy for 2018-2021.
- An ambitious post-programme fiscal package, comprising income tax reform and a new round of interventions in the pension system, was legislated in May 2017 in the context of prior actions for the 2nd review. This package delivers net savings of 2% of GDP, which are planned to underpin the credibility of fiscal targets post-2018. This package also contains a set of contingent expansionary measures aiming to support economic efficiency, tax competitiveness and an enhancement of the social safety net, provided that the agreed medium-term targets are met.

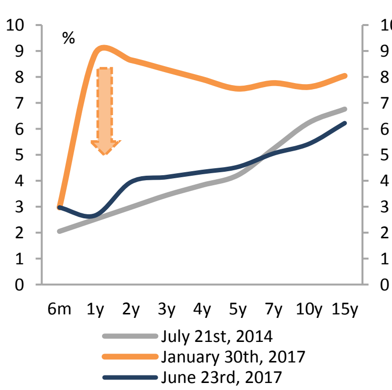
- Greek sovereign bond valuations showed a notable improvement in Q2:2017 (a decline of 200 bps in 10-year GGB yield between end-March and end-June 2017 to 5.4%), reflecting the fiscal overperformance and progress on the completion of the 2nd review. The completion of the review and the provision by Eurogroup on June 15, 2017 of further detail on the medium and longer-term strategy for ensuring sovereign debt-servicing sustainability led to a further improvement in sovereign debt valuations, especially at the short-end of the curve.
- In this regard, the Eurogroup of June 15, 2017, repeated the assessment of debt sustainability on the basis of gross financing needs ("GFN") -- which should remain below 15% of GDP in the medium term and below 20% of GDP thereafter – and stated that it stands ready to implement a second set of debt measures to the extent needed to meet the GFN objectives. These measures will be implemented at the end of the Programme in 2018, conditional upon its successful implementation and their "exact calibration will be confirmed at the end of the Programme by the Eurogroup on the basis of an updated DSA".
- These measures will permit, *inter alia*, the transfer of ANFA and SMP profits to Greece, liability management operations within the current ESM programme, extension of the weighted average maturities and a further deferral of EFSF interest and amortization by up to 15 years. In order to take into account possible differences between GDP growth assumptions and actual growth developments over the post-programme period, "the EFSF reprofiling could be recalibrated according to an operational growth-adjustment mechanism to be agreed". This mechanism will be fully specified as part of the medium-term debt relief measures, following the successful implementation of the ESM programme. According to the Eurogroup statement, these additional measures "shall not lead to additional costs for other beneficiary Member States", while future liability management operations within the current ESM Programme shall take "due account of the exceptionally high burden of some Member States".
- For the long term, the Eurogroup recalls the May 2016 agreement that "in the case of an unexpectedly more adverse scenario, a contingency mechanism on debt could be activated. The activation of this mechanism would be considered, subject to a decision by the Eurogroup, and could entail measures such as a further EFSF re-profiling and capping and deferral of interest payments".

Source: Eurogroup Statement, June 15, 2017

10yr sovereign bond spread over bund

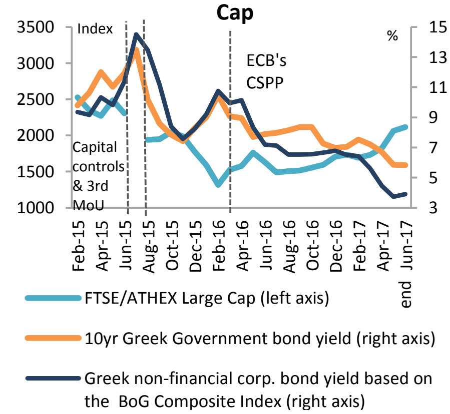


Greek Sovereign yield curve*



*Bloomberg & NBG Research Interpolation/curve fitting

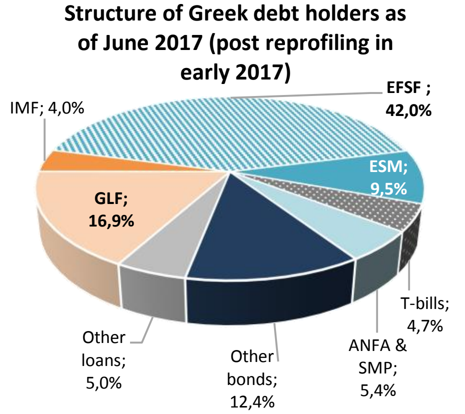
Non-financial corporate & Greek Gov. bond yields & FTSE Large Cap

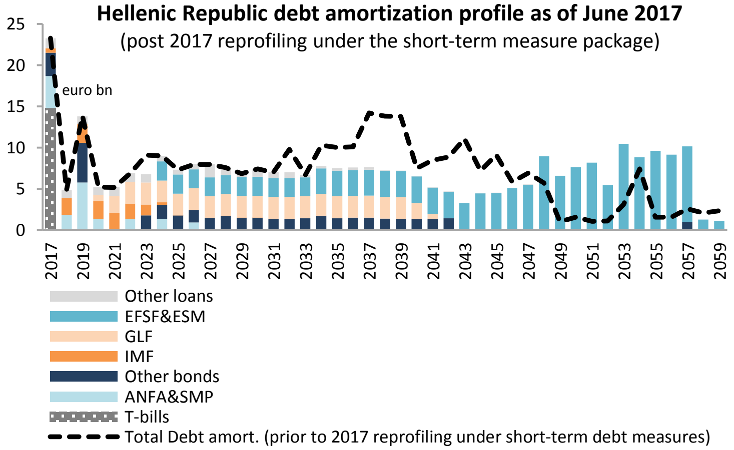


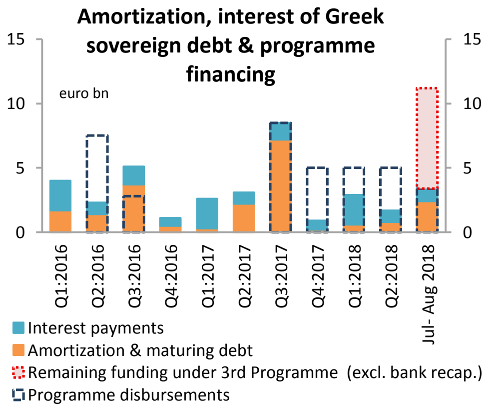
Sources: Bloomberg, NBG estimates

Greek public debt servicing has become more manageable, but a clarification of future interventions would boost market sentiment

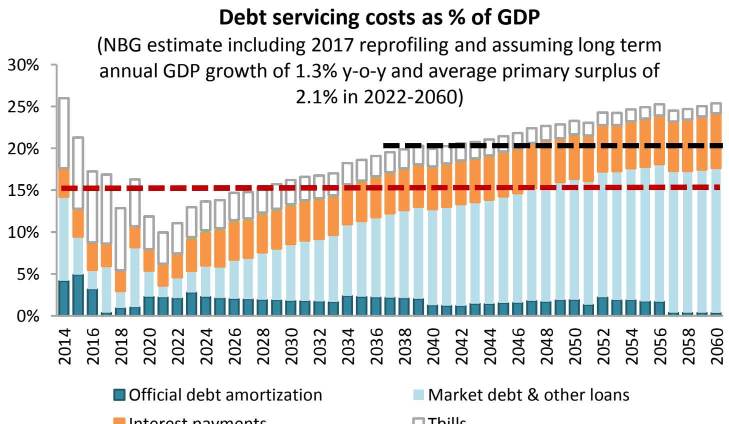
- Greek public debt servicing terms improved considerably following several rounds of intervention on debt stock, maturity and effective interest rate. These interventions were initially engineered through the PSI and complemented by the debt buyback in 2012 and the implementation of the short-term measures for reducing further official debt servicing costs in early 2017.
- As a result of these interventions, the average maturity of Greek debt has been extended to nearly 17 years in 2016 from 6.7 years in 2011, the effective interest rate has been lowered to 1.8% in 2016 (and to an estimated 1.7% in 2017) and the long-term debt redemption schedule has been smoothed substantially (especially through the latest round of ALM transactions conducted by the ESM). Following the prospective disbursement of about €7.7bn under the tranche related to the 2nd review of the ESM Programme, the official sector (including SPM/ANFA holdings) will hold about 80% of Greek debt or €250bn. Taking into account that Greece remains on track to meet its budget targets for a surplus of 1.9% of GDP in 2017, the Greek State's financing needs are estimated to be entirely covered for the rest of 2017 and for the first months of 2018 by the above tranche and domestic fiscal resources, while the remaining funding (excluding unused funds for bank recapitalization), until the Programme expiration in mid-2018, is estimated to exceed Greece's financing needs in this period by more than €10bn.
- Greek public debt is expected to peak in gross terms at c. 178% of GDP by mid-2017 and subsequently follow a declining trend. Assuming the application of a supplementary set of medium-term interventions in 2018-2020 by the ESM that: i) stabilize interest rate costs on official loans close to the current effective interest on Greek debt, through their deferral, as well as through interest rate swaps arrangements and funding at longer maturities and fixed rates by the ESM, and ii) extend EFSF loan maturities by up to 15 years, the speed of decline is highly dependent on: i) the average level of primary surplus; and ii) GDP growth. Assuming an average GDP growth of 1.3% and an average level of primary surplus of c. 2% of GDP in 2022-2060, the annual debt servicing costs are expected to remain below the 15% annual sustainability threshold (including T-bills) set by the EU Commission and the IMF, for most years until 2030 even without a further extension of official loan maturities. However, further improvements will be needed by 2035 to smooth out the debt serving profile and compensate for potential future setbacks related to macros, market conditions and/or slippages in privatizations.







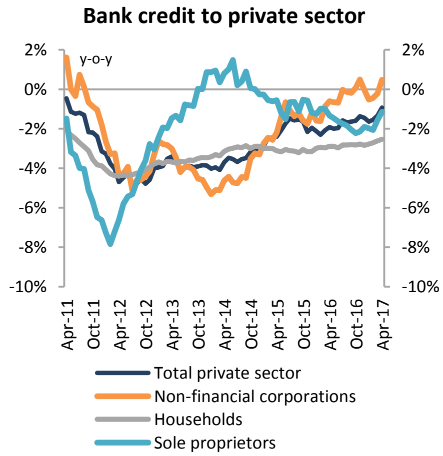
** EU 2nd Review Compliance &NBG estimates of remaining funding under the 3rd programme envelope (excl. bank recap*

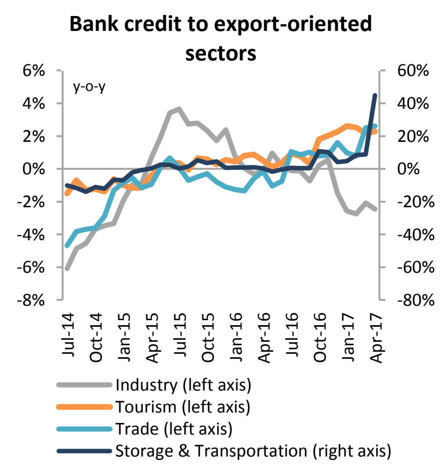


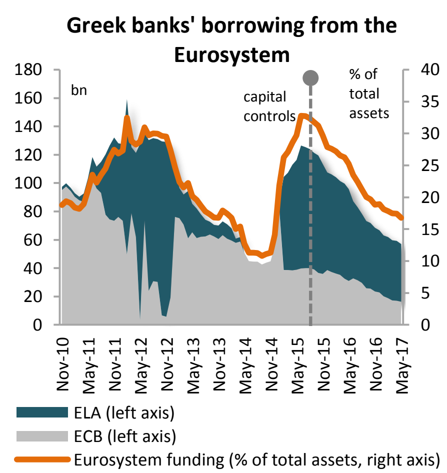
Sources: PDMA, ESM, EU Commission, Bloomberg, NBG Econ.Analysis estimates

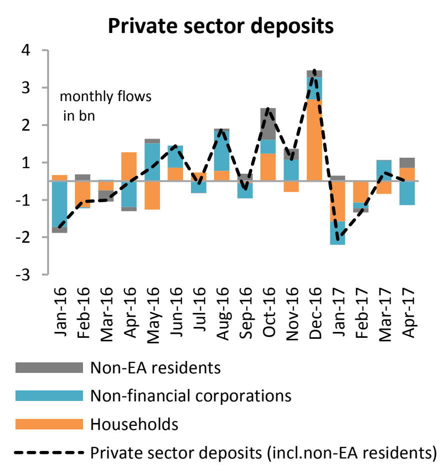
Greek banks reduce their Eurosystem dependence, despite sluggish deposit recovery, while the pace of deleveraging is slowing

- Deleveraging continues at a slower pace, with credit to the private sector declining by 0.9% y-o-y in April 2017, the lowest pace in 7 years, supported by an increase in lending to non-financial corporates of +0.5% y-o-y, which offset the decline in household lending by 2.5% y-o-y. Increasing loans to more export-oriented sectors, such as tourism, trade, storage and transportation services, has been the major driver of this improvement. The cumulative reduction in outstanding credit to the private sector between 2009 and April 2017 reached 22.7%.
- Private sector deposits increased by €4.2bn in 2016, supported by increasing business activity, a reduction in cash hoarding, clearance of government arrears and some loosening in capital controls. However, a substantial amount of revenue from exporting activity of Greek firms is not repatriated, due to the capital controls, and the outstanding balances of private deposits remain 22.6% below their level in December 2014 and 49.1% (or €113.8bn) lower than in December 2009.
- A decline in deposits has been recorded in 4M:2017, reflecting the drag from high fiscal obligations and limited seasonal support in liquidity created by tourism-related activities.
- The notable decline in the Greek banking system's total financing from the Eurosystem, of €69.6bn between June 2015 and May 2017 -- with ELA dependence declining to €40.7bn in May 2017 -- reflects the combined outcome of a re-opening of the interbank market (an increase of €18 bn in net financing) and deleveraging.









Source: Bank of Greece

Greek Economy: Selected Indicators

	2015					2016					2017			2017f
	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Q4	year aver.	Q1	Most recent		
Real sector (y-o-y period average, constant prices)														
GDP	0,1	0,4	-2,4	0,7	-0,3	-0,8	-0,4	2,1	-1,0	0,0	0,4	Q1:17	0,4	1,7
Domestic demand	1,1	-1,5	-4,5	0,6	-1,1	-1,0	2,1	2,9	-1,3	0,6	2,5	Q1:17	2,5	2,1
Final Consumption	0,6	0,7	-2,4	0,1	-0,3	-1,3	-0,9	4,0	0,6	0,6	1,7	Q1:17	1,7	1,3
Gross fixed capital formation	4,1	-14,2	-5,3	13,9	-0,2	-10,1	17,8	12,6	-13,8	0,0	11,2	Q1:17	11,2	9,1
Exports of goods and services	12,5	11,3	-7,7	-2,8	3,1	-10,4	-9,9	10,8	4,9	-1,7	4,8	Q1:17	4,8	6,5
Imports of goods and services	15,1	4,0	-14,1	-2,7	0,3	-10,1	-2,1	13,8	3,3	0,6	10,9	Q1:17	10,9	7,5
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	Mar	-1,0	…
Retail confidence (15-yr. average: -1,5)	-3,0	-1,3	-25,6	-11,1	-10,3	0,9	5,1	10,8	10,5	6,8	5,8	May	1,5	…
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	Mar	45,2	…
Consumer confidence (15-yr. average: -43,4)	-37,0	-43,6	-60,6	-61,6	-50,7	-67,5	-71,2	-68,4	-65,0	-68,0	-71,8	May	-69,7	…
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	Apr	1,0	…
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	5,5	Apr	0,1	…
Capacity Utilization (15-yr. average: 72,8)	67,1	67,0	62,0	65,2	65,3	65,9	66,4	67,5	69,6	67,4	68,2	Apr	68,5	…
Industrial confidence (15-yr. average: -6,1)	-9,1	-14,0	-26,6	-16,6	-16,6	-9,4	-9,5	-6,2	-6,1	-7,8	-5,6	May	-10,4	…
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	May	49,6	…
Construction permits (y-o-y)	29,2	-5,6	-22,4	5,9	-0,3	-11,9	-30,9	38,4	-9,5	-6,9	16,7	Mar	71,0	…
Construction confidence (15-yr. average: -21,9)	-33,9	-44,8	-60,9	-48,5	-47,0	-37,1	-41,6	-55,9	-55,0	-47,4	-51,6	May	-67,4	…
PIP Disbursements (y-o-y)	-40,9	-57,6	-21,0	43,9	-2,8	7,0	18,0	35,7	-14,8	-1,8	-36,9	Apr	-50,1	…
Stock of finished goods (15-yr. average: 12,2)	13,0	15,0	17,4	15,3	15,2	12,5	11,1	14,9	12,2	12,7	10,7	May	11,7	…
External sector (period average)														
Current account balance (% of GDP)	-1,8	-0,3	3,2	-1,0	0,1	-1,3	-0,2	2,3	-1,3	-0,6	-1,4	Apr	-0,3	-0,4
Current account balance (EUR mn)	-3143	-597	5635	-1689	206	-2372	-420	4010	-2337	-1119	-2532	Apr	-462	…
Services balance, net (EUR mn)	1297	4757	9062	1816	16932	716	3776	8641	2179	15311	1060	Apr	618	…
Primary Income Balance, net (EUR mn)	557	-494	-104	780	739	948	5	-448	246	750	1139	Apr	209	…
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	Apr	6,1	…
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	Apr	4,8	…
Gross tourism revenue (y-o-y)	9,4	9,5	5,2	-3,9	5,5	4,5	-9,7	-7,8	7,5	-6,5	-4,8	Apr	11,3	…
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	Apr	12,0	…
Employment														
Unemployment rate	25,8	25,1	24,8	24,3	25,0	24,0	23,5	23,3	23,4	23,6	22,8	Mar	22,5	22,1
Employment growth (y-o-y)	0,9	2,1	2,1	2,8	2,0	3,1	2,4	2,0	0,5	2,0	0,7	Mar	0,9	…
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	May	1,2	1,4
Core inflation	-0,7	-0,9	-0,5	0,3	-0,5	0,2	0,3	-0,3	-0,7	-0,1	-0,4	May	0,2	0,5
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	Mar	0,6	…
Fiscal policy														
Gov. balance/GDP (Programme definition, according to MTFS 2018/2021)	…	…	…	…	-3,1	…	…	…	…	1,0	…	…	…	-1,4
Government debt/GDP (according to State Budget 2017)	…	…	…	…	177,4	…	…	…	…	179,0	…	…	…	177,0
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	May	0,6	…
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	May	-3,0	…
Monetary sector (y-o-y, end of period)														
Total private deposits (adjusted for the reclassification of the Consignment Deposits and Loan Fund)	-13,1	-24,9	-25,9	-25,2	-25,2	-15,9	-4,4	-1,3	3,9	3,9	4,5	Apr	4,2	…
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	Apr	-0,9	…
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	Apr	-3,2	…
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	Apr	-0,7	…
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	May	5,9	…
Spread between 10 year and bunds (bps)	967	1112	1011	730	955	919	805	823	733	820	689	May	548	…
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	May	1,11	…

Sources: BoG, NSSG, MoF, ASE,NBG,Bloomberg

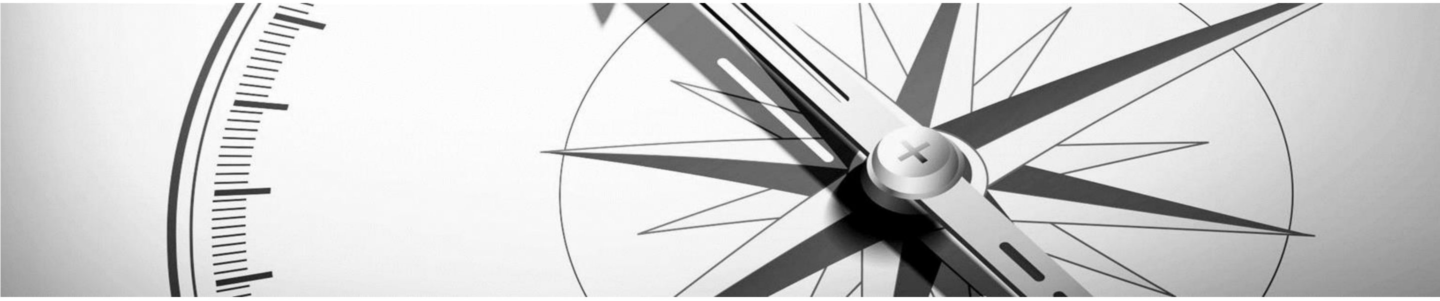
Greece: Macro indicators heatmap

Indicator	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
PMI (index level)	49,4	48,3	48,4	48,9	46,5	48	46,9	30,2	39,1	43,3	47,3	48,1	50,2	50	48,4
Industrial confidence (index level)	-3	-7,9	-9,2	-10,2	-15	-13	-14,1	-26,4	-30,2	-23,3	-19,6	-16,6	-13,6	-10,1	-10,2
Manufacturing production (yoy)	4,1	3,8	6,2	9,5	4,2	-2,8	-3,1	-7,0	3,7	2,7	-1,0	2,2	5,3	5,0	1,1
Industrial production (yoy)	-2,7	0,4	2,5	5,9	0,8	-4,1	-4,1	-2,5	4,2	3,0	-1,7	2,6	6,9	4,1	-2,9
Services confidence (index level)	15,3	9	4,4	-0,3	-4,4	-10,1	-9,4	-27,6	-42,8	-15,1	-14,3	-15,4	-16,6	-5,3	-23,1
Consumer confidence (index level)	-53,9	-49,3	-30,6	-31	-40,5	-43,6	-46,8	-52,9	-64,8	-64,2	-59,6	-64,1	-61,1	-63,9	-66,8
Retail confidence (index level)	4,7	-1,0	-3,9	-4,1	-0,6	0,2	-3,5	-25,9	-31,0	-20,0	-15,3	-12,8	-5,3	-3,4	3,2
Retail trade volume (yoy)	-1,4	0,6	-1,7	1,0	-1,8	4,1	-0,4	-7,2	-2,1	-3,3	-2,4	-4,4	0,2	-1,7	-6,8
Construction Permits (yoy)	13,1	12,2	36,6	35,6	-3,5	6,1	-15,1	-25,2	-28,5	-13,1	-38,2	-4,5	67,3	-5,2	8,3
House prices (yoy, quarterly series)	-6	-4	-4	-4	-5	-5	-5	-6	-6	-6	-5	-5	-5	-4	-4
Construction confidence (index level)	-16,6	-29,8	-31,9	-40,0	-41,9	-44,5	-48,0	-62,5	-67,5	-52,8	-49,4	-47,0	-49,1	-37,9	-37,5
Employment (y-o-y)	1,7	0,9	1,1	0,7	2,0	2,2	1,9	1,8	2,3	2,2	2,7	2,7	3,1	2,7	3,1
Interest rate on new private sector loans (CPI deflated)	7,6	7,9	7,1	7,1	7,0	7,1	6,9	7,0	6,3	6,5	6,0	5,7	5,3	5,7	5,4
Credit to private sector (y-o-y)	-2,7	-1,6	-1,5	-1,2	-1,6	-2,8	-2,9	-3,3	-3,7	-3,6	-3,6	-3,7	-3,6	-5,0	-4,8
Private sector deposits (y-o-y)	-2,1	-7,2	-11,6	-13,1	-16,2	-18,4	-24,9	-25,7	-26,0	-25,9	-26,0	-28,1	-25,2	-20,7	-16,7
Interest rate on new time deposits (households, CPI deflated)	4,4	4,6	4,0	4,0	3,9	4,0	4,0	3,5	2,7	2,9	2,0	1,7	1,2	1,7	1,4
Economic sentiment index (EU Commision, Euro area)	100,5	101,2	102	103,7	103,6	103,6	103,2	103,8	103,9	105,5	105,9	105,8	106,5	104,9	103,8
Exports (other (excl.oil&shipping) y-o-y 6m mov.avg	3,9	3,9	5,5	7,9	9,6	9,7	10,2	9,4	7,8	5,0	2,2	1,3	-0,6	-1,9	-1,0
Imports (other (excl.oil&shipping) y-o-y 6m mov.avg	9	9	9	10	10	9	8	2	-1	-5	-6	-8	-10	-7	-4
NBG Composite Index of cyclical conditions ▶▶▶▶	-3,5	-6,8	-4,5	-6,5	-9,5	-16,4	-25,6	-44,0	-49,0	-29,0	-27,0	-31,0	-24,7	-24,9	-25,2

Indicator	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
PMI (index level)	49	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
Industrial confidence (index level)	-7,8	-7,8	-11,6	-9,1	-7,3	-5,1	-6,2	-4,7	-7,8	-5,7	-5	-5,1	-6,7	-5,6	-10,4
Manufacturing production (yoy)	-1,7	7,2	7,2	8,9	10,8	3,2	1,9	7,3	1,3	-1,8	0,9	6,4	8,6	0,1	
Industrial production (yoy)	-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	1,0	
Services confidence (index level)	-17,3	-13	-11,4	-17,5	-8,3	-4	-6,9	1,3	3,5	-3,1	-3,2	1,9	6,6	8,9	11,5
Consumer confidence (index level)	-71,9	-73,7	-71,9	-68	-69,2	-70,1	-65,9	-63,6	-66,9	-64,4	-67,8	-73,3	-74,4	-72,2	-69,7
Retail confidence (index level)	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
Retail trade volume (yoy)	-1,2	-2,0	-6,3	-3,6	9,5	-2,1	2,4	2,6	4,0	-1,0	-0,1	9,9	-1,0		
Construction Permits (yoy)	-34,7	-27,3	-39,8	-26,1	38,3	65,5	18,3	5,7	9,4	-25,9	-14,1	-0,1	71,0		
House prices (yoy, quarterly series)	-4	-3	-3	-3	-2	-2	-2	-1	-1	-1	-2	-2	-2		
Construction confidence (index level)	-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
Employment (y-o-y)	3,3	3,0	2,2	2,2	2,4	1,8	1,8	1,0	0,7	-0,2	0,6	0,6	0,9		
Interest rate on new private sector loans (CPI deflated)	6,2	6,1	5,7	5,6	6,1	5,9	5,7	5,5	5,7	4,8	3,7	3,2	2,8	3,1	
Credit to private sector (y-o-y)	-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	
Private sector deposits (y-o-y)	-15,9	-13,1	-10,8	-4,4	-2,1	-0,8	-1,3	0,6	3,7	3,9	4,0	3,8	4,5	4,2	
Interest rate on new time deposits (households, CPI deflated)	2,4	2,1	1,7	1,6	1,9	1,8	1,8	1,2	1,6	0,7	-0,5	-0,6	-1,0	-0,9	
Economic sentiment index (EU Commision, Euro area)	102,8	103,8	104,4	104,2	104,3	103,4	104,7	106,3	106,5	107,8	107,9	108	108	109,7	109,2
Exports (other (excl.oil&shipping) y-o-y 6m mov.avg	-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	
Imports (other (excl.oil&shipping) y-o-y 6m mov.avg	-3	-2	-1	-1	4	7	9	8	9	10	8	4	4	5	
NBG Composite Index of cyclical conditions ▶▶▶▶	-23,5	-22,6	-22,0	-21,7	-20,3	-18,6	-19,8	-19,6	-21,3	-22,8	-19,6	-17,7	-15,5	-15,2	

Color map scale: Rapid contraction – Moderate contraction – Slow contraction – Stabilization – Slow expansion – Moderate expansion – Rapid expansion

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



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