



NATIONAL BANK
OF GREECE

GREECE

Macro Outlook

September 2017

*Greece's economic recovery picks up,
supported by exporting activity*



NBG Economic Analysis Division

Greece Macroeconomic Analysis

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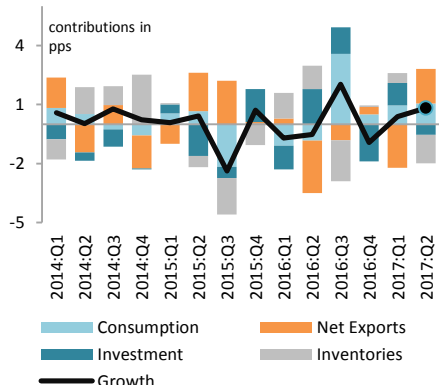


- The stage is set for a strong rebound in economic activity during H2:2017, following the completion of the 2nd review of the programme and increasing support to GDP growth from tourism and other exporting sectors. Greek GDP growth accelerated to +0.8% y-o-y in Q2:2017 from +0.4% y-o-y in Q1:2017, with solid growth in net exports of goods and services contributing +1.8 pps to annual GDP growth in this quarter -- the highest contribution in 2 years -- more than compensating for the decline in gross fixed capital formation, due to weak public investment and negative base effects in this period.
- Private consumption growth slowed to +0.7% y-o-y in Q2:2017 from 1.2% y-o-y in Q1:2017, affected, *inter alia*, by elevated fiscal pressures, persistent liquidity tensions and a drag on disposable income from the pick-up, albeit still modest, in inflation during H1:2017.
- Employment growth picked up in Q2:2017, reaching 2.3% y-o-y, up from 1.4% y-o-y in Q1:2017 and 0.5% y-o-y in Q4:2016 and the unemployment rate declined to a 5-year low of 21.2% in June 2017 from 23.4% in December 2016, 6.7 pps below its peak of 27.9% in September 2013. Qualitative aspects of job creation, such as the activity rate, average working hours and hourly compensation, are also showing signs of improvement. Survey data for employment prospects point to a further strengthening in labor market conditions in Q3:2017.
- The fiscal performance in 8M:2017 is in line with the upwardly revised targets of the Medium Term Fiscal Strategy (MTFS 2018-2021). A credible overperformance on the expenditure side offset weaker revenue in August. This slippage in revenue is mainly attributed to temporary factors (see below, p. 9), which negatively affected personal income and property tax revenue during this period.
- Forward-looking indicators presage a further improvement in activity in Q3:2017, when the direct and indirect support from tourism comes to the fore, boosting business spending and employment and supporting the fiscal adjustment. In this respect, tourism revenue rebounded strongly in Q2:2017 (+10.1% y-o-y) and is expected to maintain this momentum in Q3:2017.
- During the 2nd semester of 2017, the back-loading of the public investment programme, along with the planned clearance of government arrears, which jointly amount to 9.1% of H2:2017 GDP (0.6% of GDP higher than in H2:2016), should provide an additional boost to GDP growth.
- The above trends bode well for an acceleration in GDP growth to above 2% y-o-y in H2:2017, leading average annual growth for FY:2017 close to 1.6%, up from 0% in 2016, and entering 2018 with activity in high gear.
- Nonetheless, the extremely vulnerable position of a significant number of households and businesses is unlikely to be cured quickly, suggesting that these entities will continue to struggle to service their fiscal obligations and bank debt.
- A timely completion of the 3rd review of the programme -- which is necessary for maintaining favorable macroeconomic momentum -- in conjunction with a prospective specification of the medium-term measures for public debt, so as to sustainably reduce debt servicing costs, would boost economic sentiment and contribute to an improvement in financial conditions, and thus to stronger activity and employment creation in 2018.

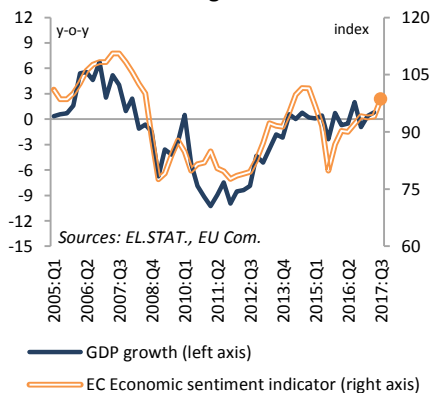


GDP growth accelerated to 0.8% y-o-y in Q2:2017, supported by exports, and is expected to gain further strength in H2:2017

Composition of output growth by expenditure component



Economic sentiment and real GDP growth



- Greek GDP growth accelerated to +0.8% y-o-y in Q2:2017 from +0.4% y-o-y in Q1:2017, maintaining its healthy momentum, on a quarterly basis, of +0.5% (s.a. q-o-q) in both Q1:2017 and Q2:2017.
- Solid development in net exports of goods and services was the main driver of GDP in Q2:2017, contributing +1.8 pps to annual GDP growth in this quarter -- the highest contribution in 2 years -- from -2.2 pps in Q1:2017 and -0.7 pps, on average, in FY:2016.
- Private consumption increased by +0.7% y-o-y (lower than the Q1:2017 growth of 1.2% y-o-y). However, public consumption was relatively strong (+3.3% y-o-y) in Q2:2017 -- partly related to the progress towards the completion of the 2nd review of the economic support programme in Q2:2017, following an over-restraint in spending in Q1:2017.
- Looking forward, the back-loading of the public investment programme, along with the planned clearance of government arrears, which jointly amount to 9.1% of H2:2017 GDP (0.6% of GDP higher than in H2:2016) are expected to support final demand and investment spending compared with the relatively subdued H1:2017 (expected increase in gross fixed capital formation of 11.3% y-o-y in H2:2017).
- The above estimates, along with the current level of NBG's activity indicator (in July-August), bode well for an acceleration in GDP growth to c. 1.7% y-o-y in Q3:2017 and to c. 3% y-o-y in Q4:2017, when supportive base effects come into play. As a result, annual growth could reach 1.6% in FY:2017, up from 0% in 2016, and entering 2018 with activity in high gear.

Sources: ELSTAT, EU Commission, NBG Economic Analysis estimates

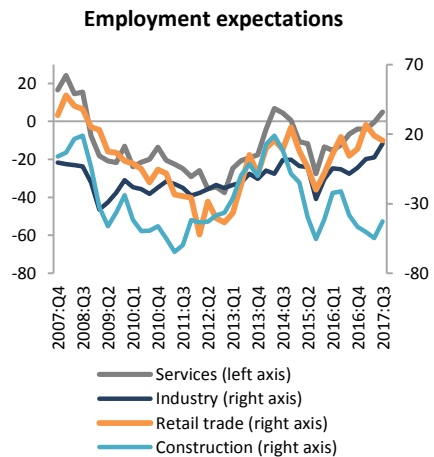
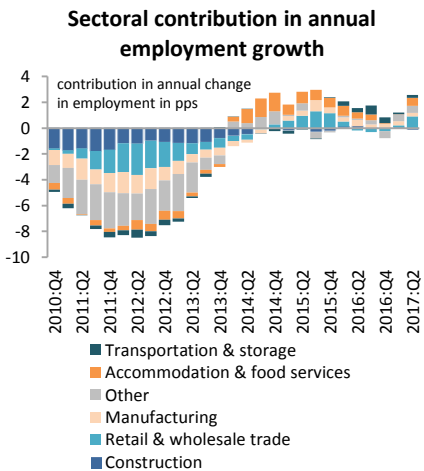
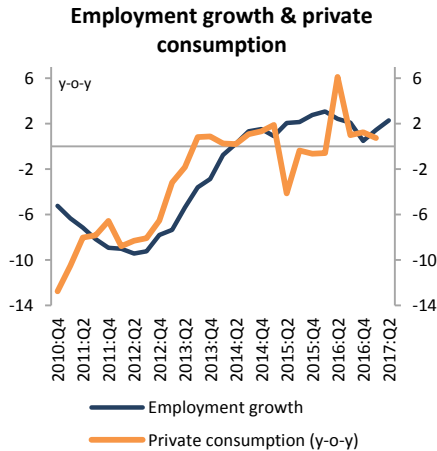
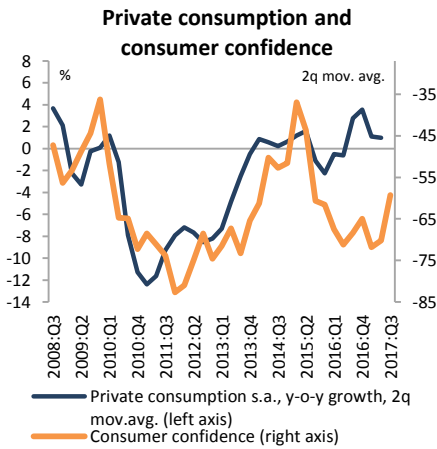
Greece: Growth Outlook

	2015	2016	2017f	2018f	2016				2017f			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f
GDP (real, % y-o-y, s.a.)	-0,3	0,0	1,6	2,6	-0,7	-0,5	2,0	-0,9	0,4	0,8	1,7	3,2
GDP (real, % q-o-q, s.a.)	...	...	...	...	-0,8	0,1	0,8	-1,0	0,5	0,5	1,7	0,5
Domestic Demand (y-o-y)	-1,1	0,6	1,3	2,2	-1,0	2,1	2,9	-1,3	2,5	-0,9	1,0	2,5
Final Consumption (y-o-y)	-0,3	0,6	0,9	1,3	-1,2	-0,9	4,0	0,6	1,0	1,2	0,1	1,2
Private Consumption (y-o-y)	-0,3	1,4	1,2	1,8	-0,7	-0,6	6,1	1,0	1,2	0,7	1,0	2,0
Fixed Capital Formation (y-o-y)	-0,2	0,0	7,1	9,3	-10,4	18,1	12,7	-14,0	10,8	-4,6	8,0	14,6
Residential construction	-26,0	-12,6	-7,0	-0,2	-17,0	-23,4	-3,3	-2,9	-11,0	-5,1	...	...
Total GFCF excluding residential	2,4	0,9	8,0	9,7	-9,8	22,1	13,8	-14,5	12,3	-4,6	...	...
Inventories* (contribution to GDP)	-0,9	0,1	-0,3	-0,1	1,3	1,2	-2,1	0,1	0,5	-1,5	0,0	-0,3
Net exports (contribution to GDP)	0,8	-0,7	0,2	0,3	0,3	-2,7	-0,8	0,4	-2,2	1,8	0,7	0,7
Exports (y-o-y)	3,1	-1,7	7,3	7,0	-10,2	-10,3	10,8	5,0	5,2	9,5	6,8	7,8
Imports (y-o-y)	0,3	0,6	6,1	5,7	-10,2	-2,0	13,9	3,5	11,7	3,1	4,5	5,2

*also including other statistical discrepancies / Sources: ELSTAT, NBG Economic Analysis estimates



Private consumption slowed in Q2, in the face of fiscal headwinds and higher inflation, but is increasingly supported by employment creation



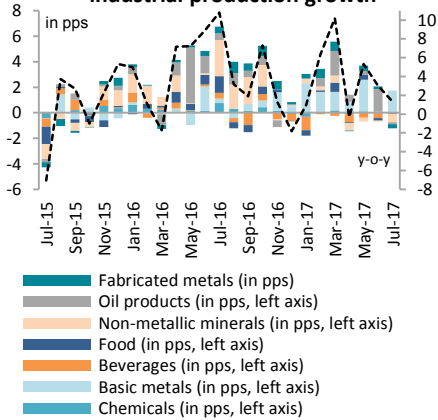
- Private consumption increased by 0.7% y-o-y in Q2:2017, slower than in Q1:2017 (1.2% y-o-y), but in a period where consumer sentiment remained weak in the face of uncertainty related to the lengthy negotiations for the completion of the 2nd Programme Review and higher tax obligations, due to changes in personal income tax applied in 2016. The full impact of these changes has been reflected in the clearance of tax statements for the FY:2016 in Q2:2017, which have mostly affected medium-to-high income tax payers and, particularly, the self-employed.
- The above negative trends have been offset by the supportive impact on disposable income from a pick-up in employment growth in Q2:2017, to 2.3% y-o-y, up from 1.4% y-o-y in Q1:2017 and 0.5% y-o-y in Q4:2016 (s.a. data), with the unemployment rate declining to a 5-year low of 21.2% in June 2017 from 23.4% in December 2016, 6.7 pps below its peak of 27.9% in September 2013. Employment creation in Q2:2017 has been the most broad-based since the eruption of the crisis, with the accommodation-food services, retail-wholesale trade, manufacturing and transportation services sectors contributing 45k jobs of a total of 48k jobs created in Q2:2017. Full-time jobs accounted for 75% of new job creation in Q2:2017, compared with 48% in Q1:2017 and 65%, on average, in FY:2016, indicating that businesses are becoming more confident about demand prospects.
- As wage adjustment appears to be nearing an end (-20.4% cumulatively during 2009-2016), with some signs of a pick-up in average working hours and hourly compensation emerging in H1:2017, employment creation is expected to increasingly support disposable income.

Sources: ELSTAT, EU Commission

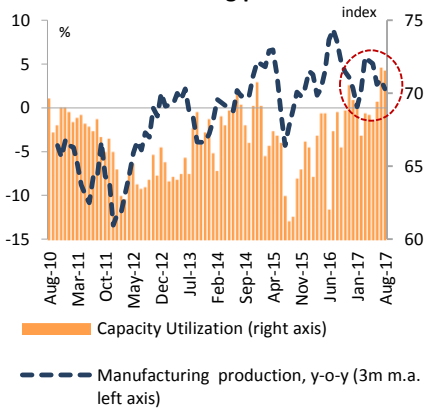


Business activity is firming, with larger export-oriented firms leading the way

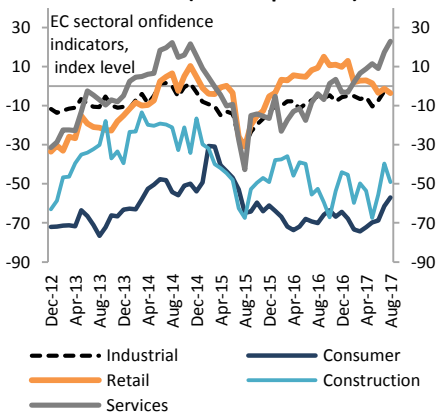
Key sectoral contributions in industrial production growth



Capacity utilization and manufacturing production



Greece: main sectoral confidence indicators (ESI components)

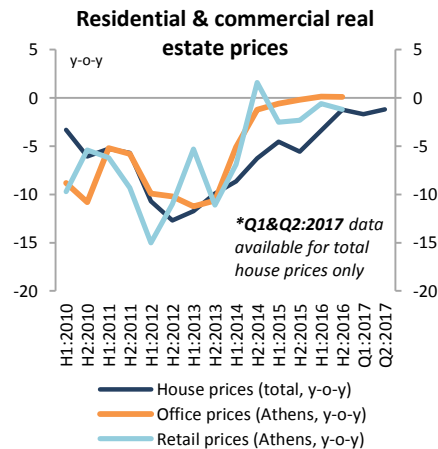
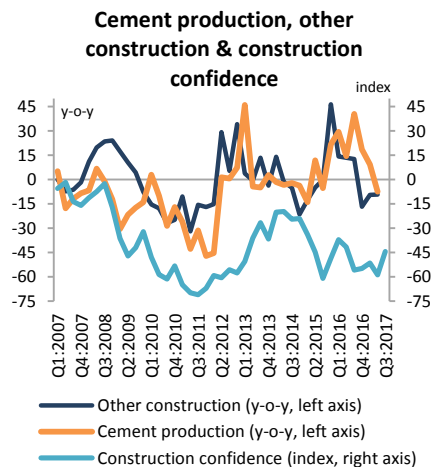
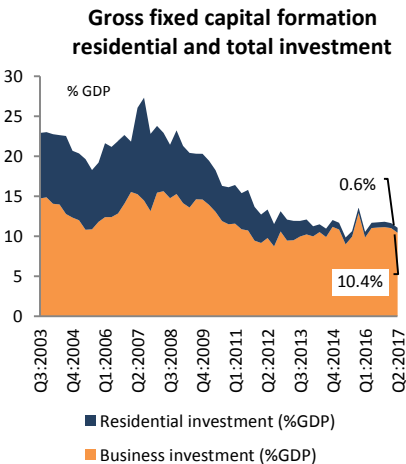
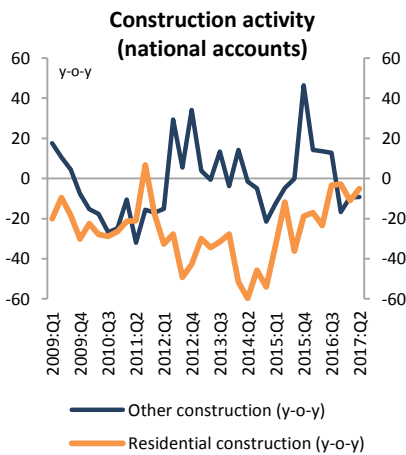


- Manufacturing production increased by +2.3% y-o-y in April-July 2017 and 3.8% y-o-y in 7M:2017, maintaining the strong momentum of 2016 (+4.2% y-o-y). This performance is mainly driven by the more competitive medium-to-large sized enterprises, which improved their competitive position in the domestic market and/or their exporting activity. Basic metals, pharmaceuticals, oil refining, chemical and food products are the best performers, posting annual increases in production of 19.5%, 10.5%, 7.3%, 0.6% and 0.1%, respectively, in April-July 2017. Similarly, survey data from the services sector indicate that the subsectors related to tourism and administrative activities overperformed in terms of current activity trends and business prospects, receiving substantial support from inbound tourism.
- The significant decline in gross fixed capital formation in Q2:2017 (-4.6% y-o-y) mainly reflected lower non-residential construction (-9.3% y-o-y, see next page) and negative base effects on investment in transportation equipment (-5.5% y-o-y) in comparison to a sharp upswing in spending in Q2:2016 (+122% y-o-y in Q2:2016 related to higher payments for merchant ships). Stripping out the effect of shipping, private sector non-residential investment fell by 3.5% y-o-y in Q2:2017. Clearly, uncertainty and still tight liquidity conditions for the most part of Q2:2017 weighed on firms' investment decisions.
- Business investment spending is expected to gain traction over the course of the year. This improvement is estimated to primarily reflect a resumption in investment projects, which had been deferred during 2015-H1:2017 due to high uncertainty, in conjunction with a notable increase in total capacity utilization in Greek industry to a 8½ year high in July-August. A significant share of new investment will be used for replacing exhausted 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, capacity usage in industrial sub-sectors, such as in manufacturing of food, beverage and tobacco products, exceeded its 10 year average in July-August 2017, boding well for an imminent increase in investment spending. Buoyant activity in the services sector – especially in tourism-related activities – is also supportive of a pick-up in investment, driven by capacity shortages in specific subsectors.

Sources: ELSTAT, Bank of Greece, EU Commission



A pick-up in permits issuance presages a bottoming-out in construction activity in the following quarters



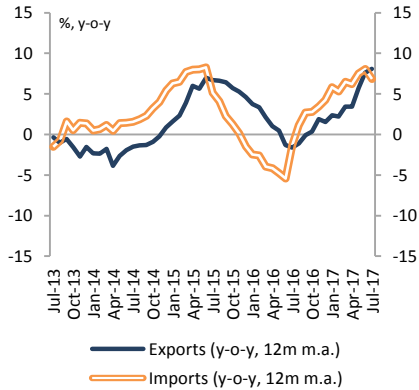
- Non-residential construction contracted by 9.3% y-o-y in Q2:2017, a similar pace to Q1:2017 (-9.4% y-o-y), remaining closely related to public investment activity, which contracted for a second consecutive quarter (a decline in public investment programme disbursements of 24.9% y-o-y or -0.4% of GDP lower than in Q2:2016). Public investment is expected to accelerate in H2:2017, with total investments of about €7.7bn (8.1% of GDP, including those co-funded by the official institutions EIB, EBRD).
- Private construction activity shows some signs of bottoming-out from a very low base, with private building permit volumes increasing by 32.0% y-o-y in Q2:2017, compared with 16.7% y-o-y in Q1:2017 and -6.9% y-o-y in FY:2016.
- The pace of adjustment in house prices slowed to -1.2% y-o-y in Q2:2017 from -1.7% y-o-y in Q1:2017 and -2.3% y-o-y, on average, in FY:2016. Prices of prime commercial spaces are also showing signs of stabilization (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 during H2:2017 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.

Sources: ELSTAT, Bank of Greece, EU Commission

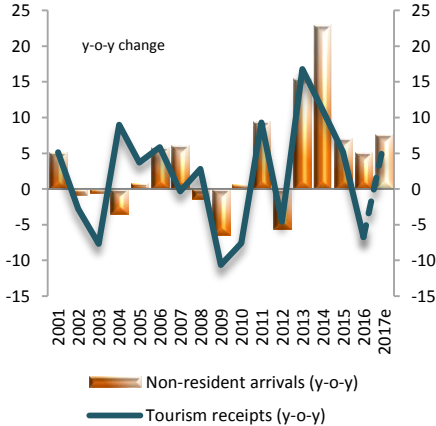


Goods and services exports accelerate, supported by tourism revenue, offsetting higher spending on imports

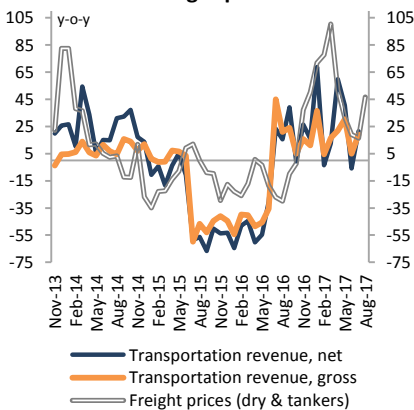
Goods trade
(excluding oil and ships)



Tourism receipts and arrivals



Transportation revenue & freight prices



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

- Greece's current account deficit recorded a small improvement in 7M:2017, declining to -0.7% of GDP compared with -0.8% of GDP in the same period in the previous year. Increasing non-oil goods exports (+8.6% y-o-y in 7M:2017, 0.5% of GDP higher than in 7M:2016), along with a 0.6% of GDP increase in the services surplus in 7M:2017, compared with the same period in 2016 – driven by higher shipping and other services export revenue and accelerating tourism revenue in April-July 2017 – offset the increase in non-oil goods' imports (up by 0.7% of GDP in this period).
- Tourism revenue rebounded strongly in April-July 2017, increasing by +7.9% y-o-y (0.3% of GDP higher than in the same period in 2016) from -4.9% y-o-y in Q1:2017 and -6.8% y-o-y in FY:2016. Notably, revenue growth kept up with arrivals growth (+9.5% y-o-y in April-July 2017), reflecting a new rise in occupancy rates and, therefore, an improvement in the pricing power of Greek tourism firms in the core months of the tourism season. This favorable trend is expected to be maintained in Q3:2017, a period where almost 60% of annual tourism revenue is generated, and to be supplemented by healthy growth in Greece's goods exports, supported by favorable demand conditions in key export markets, especially in the EU. In this regard, the impact from the appreciation of the euro against USD by almost 13%, between March and September 2017, and of NEER against Greece's main trading partners by 1.9% in the same period, is not expected to be significant in the near term.
- The above developments are projected to offset the negative impact of higher import spending (total imports increased by 14.9% y-o-y, in 7M:2017, 1.9% of GDP higher than in 7M:2016), which is expected to continue in H2:2017, when economic activity will strengthen, boosting further demand for imports of energy and productive inputs. Overall, the current account deficit is projected to show a small decline compared with 2016, returning to a broadly balanced position.

Balance of Payments (as % GDP)

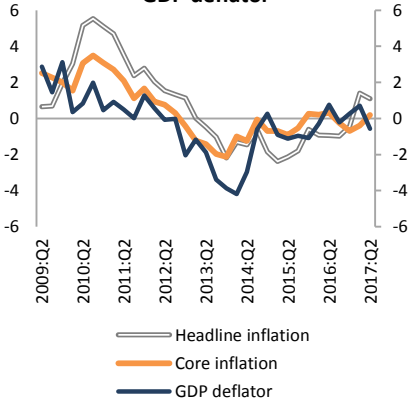
	2015	2016	2017f	2016				2017	
				Q1	Q2	Q3	Q4	Q1	Q2
Current Account	0,1	-0,6	-0,3	-1,3	-0,2	2,3	-1,3	-1,4	-0,1
Non-oil Trade Balance	-7,4	-7,8	-7,9	-2,0	-2,1	-1,9	-1,9	-2,1	-2,0
Non-oil Exports	10,3	10,4	11,0	2,5	2,6	2,6	2,7	2,6	2,8
Non-oil Imports	17,7	18,2	19,0	4,5	4,7	4,5	4,6	4,7	4,8
Oil Balance	-2,4	-1,6	-2,2	-0,3	-0,3	-0,3	-0,7	-0,7	-0,3
Services Balance	9,6	8,7	9,5	0,4	2,1	4,9	1,2	0,6	2,3
Primary Income Balance	0,6	0,4	0,6	0,5	0,0	-0,3	0,1	0,6	0,0
Secondary Income Balance	-0,3	-0,3	-0,2	0,0	0,0	-0,2	-0,2	0,2	-0,1
Capital account	1,1	0,6	0,6	0,4	0,0	0,0	0,2	0,1	0,1

Source: Bank of Greece & NBG estimates

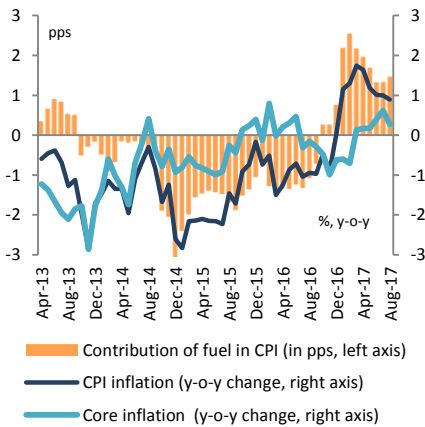


Gains in labor cost competitiveness are maintained, despite a modest increase in inflation driven by higher energy prices

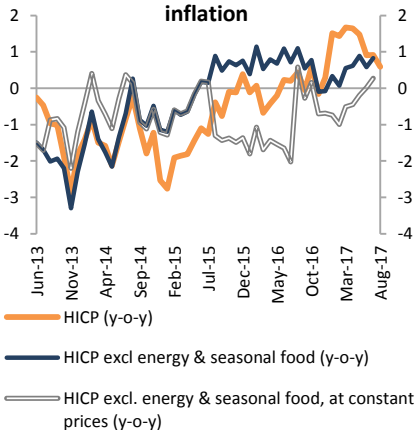
CPI inflation - Core inflation - GDP deflator



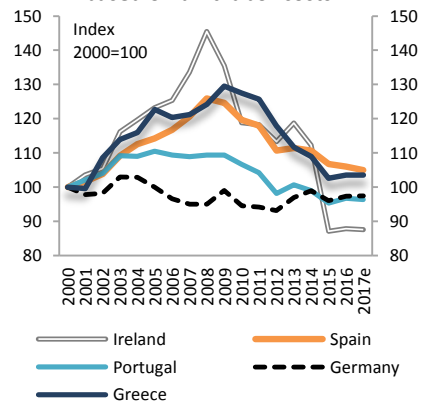
Headline & core inflation



Greece: HICP measures of inflation



Real effective exchange rate, based on unit labor costs



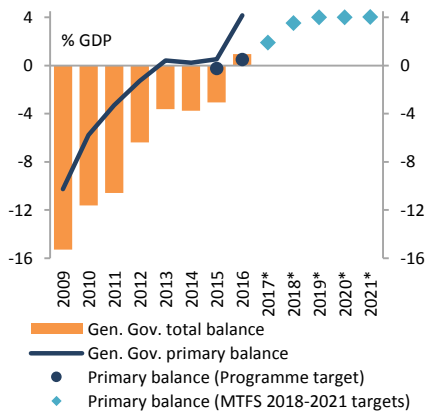
- CPI inflation increased to 1.2% y-o-y, on average, in 8M:2017, marking the end of a 4-year period of negative inflation. Fuel prices added almost 1.8 pps to inflation in 8M:2017, while the net contribution of the increase in indirect taxes in mid-2016 and early 2017 is estimated at 0.9 pps, on average, during this period. Core inflation entered positive territory in March, and increased by 0.3% y-o-y, on average, in March-August, from -0.7% y-o-y, in January-February 2017.
- The gradual reflation of the economy is expected to continue during the remainder of the year, at a relatively slow pace, as the pricing power of firms -- at an economy wide level -- in the domestic market remains low, despite a pick-up in price expectations in recent business survey data. In this vein, the annual growth in industrial producer prices (excluding energy) in the domestic market slowed to 0.2% y-o-y in June-July, from 0.4% y-o-y in 5M:2017. Services prices increased by 2.0% y-o-y in May-July, from 0.8% y-o-y in January-April, mainly reflecting the buoyancy of tourism demand. This effect is expected to ease in Q4:2017 when the impact of tourism dissipates.
- The elimination in H2:2017 of base effects from indirect tax increases in mid-2016 and early 2017 and the stabilization of international energy prices in euro terms will also slow the pace of inflation in the following months. Overall, the average CPI inflation is estimated at 1.3% y-o-y in FY:2017 and core inflation at 0.3% y-o-y. Accordingly, the significant gains in relative cost competitiveness in previous years -- a cumulative decline in average wages of about 20% and in relative unit labor costs by almost 17% in 2010-16 -- are estimated to be sustainable, if subdued wage increases in Greece and higher wage and price inflation in other euro area countries are taken into account (HICP inflation growth and labor cost increase of 1.5% and 1.7% y-o-y respectively, in FY:2017, according to the latest ECB estimates).

Sources: ELSTAT, OECD, Eurostat, NBG Economic Analysis estimates

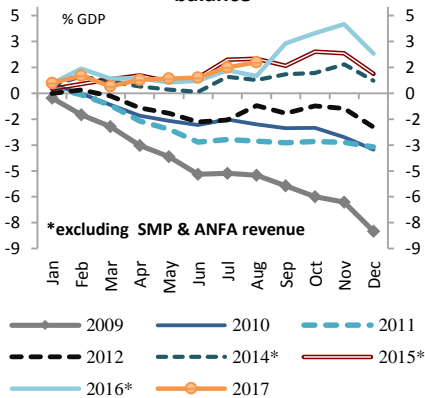


Fiscal performance remains solid in 8M:2017, supported by credible expenditure restraint

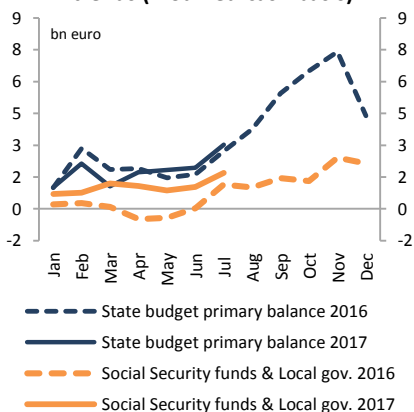
General Government balance



Greece - State Budget Primary balance



General government budget trends (modified-cash basis)



- State budget implementation in 8M: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 8M:2017 reached 2.0% of GDP, in line with the respective MTFS 2018-2021 target -- compared with 1.2% in the same period in 2016 -- mainly reflecting tighter-than-budgeted restraint in primary spending (0.7% of GDP below the 8M target). This restraint mainly reflects lower budget transfers to social security funds, hospitals and other social transfers of 0.5% of GDP cumulatively in 8M:2017 compared with the same period of the previous year.
- The overperformance on the spending side offset weaker revenue in August (gross revenue was 0.5% of GDP lower than the 8M target, while tax refunds exceeded the 8M target by 0.2% of GDP).
- This revenue slippage is mainly attributed to temporary factors, which negatively affected personal income and property tax revenue during this period. In fact, a smaller number of taxpayers appear to have paid their PIT obligations in a single installment, while the first installment of the unified real estate tax (estimated at about €0.9bn or 0.5% of GDP) has been delayed by one month. The above factors have overshadowed the positive developments in non-oil VAT revenue (6.4% y-o-y in 8M:2017, 0.2% of GDP higher than the respective target and 0.3% of GDP higher than the same period in 2016), which reflect, *inter alia*, supportive activity trends along with sustainable efficiency gains, due to higher cashless payments and elevated pressure for compliance (e.g. a notable acceleration in inspections and confiscations for tax delinquencies).
- The underlying formation of new government arrears in 7M:2017 is lower than in the same period of 2016 (€0.8bn in 7M:2017 vs €1.4bn in 7M:2016), with payments through Programme funding, following the completion of the second review, starting in July (an estimated €0.1bn in this month).
- 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 2018-21.

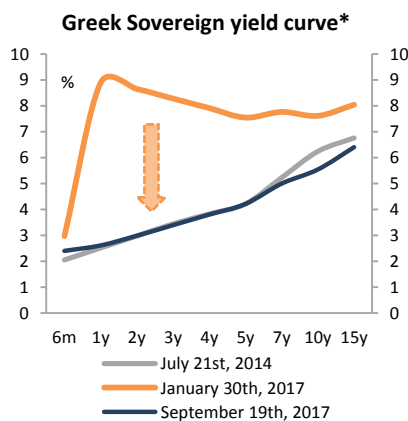
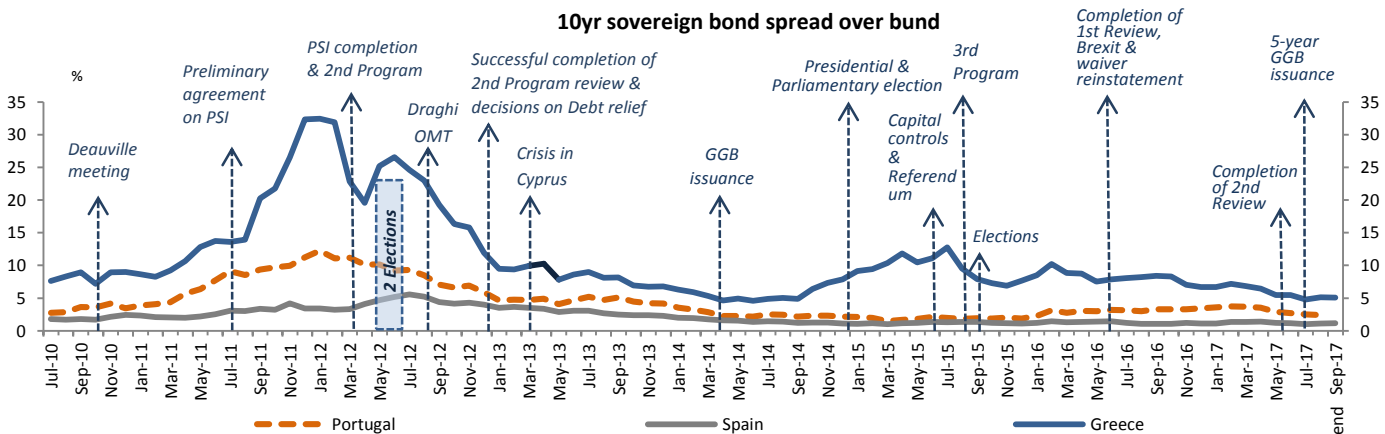
Sources: Ministry of Finance, Eurostat, MoU August 2015, MTFS 2018-2021



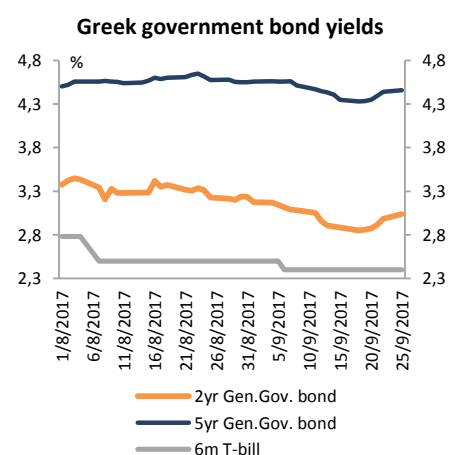
Country risk declines, permitting the Greek state to access the market for the first time since 2014

- Greek sovereign bond yields declined to a 3-year low in July, with the yield of the 10-year bond declining by 2.2 pps between March and July 2017, related to the completion, in June, of the 2nd review of the 3rd Programme and the provision by the Eurogroup on June 15 of further detail on the medium and longer-term strategy for ensuring sovereign debt-servicing sustainability. Most of this improvement was maintained in August-September, despite a slight increase in yields of GGBs (especially at medium-to-longer-term maturities).
- The Hellenic Republic successfully issued (through syndication) a new 5-year benchmark bond on July 25 2017, alongside a tender to buy back an outstanding 5-year bond issued in 2014. This was the first attempt in 3 years to tap markets, and the total amount raised was €3bn, with the coupon set at 4.375% and the implied yield at 4.625%. Against this backdrop, on June 23 2017, Moody's upgraded Greece's sovereign bond rating to 'Caa2' and changed the outlook to positive, commenting on the improving prospects for a successful conclusion of Greece's Third Programme and the increasing likelihood of provisions of additional debt relief by the official lenders. S&P also revised its outlook to positive on July 21 2017. Similarly, Fitch upgraded Greece's sovereign rating by one notch to 'B-' on August 28 2017, with a positive outlook.
- Regarding debt sustainability, 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.

Source: Eurogroup Statement, June 15, 2017



*Bloomberg & NBG Research Interpolation/curve fitting



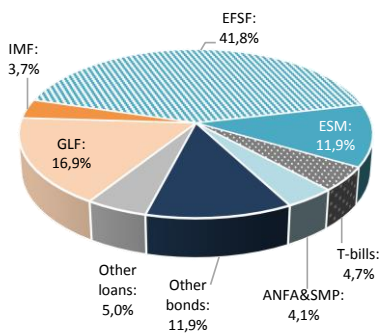
Sources: Bloomberg, NBG Economic Analysis estimates



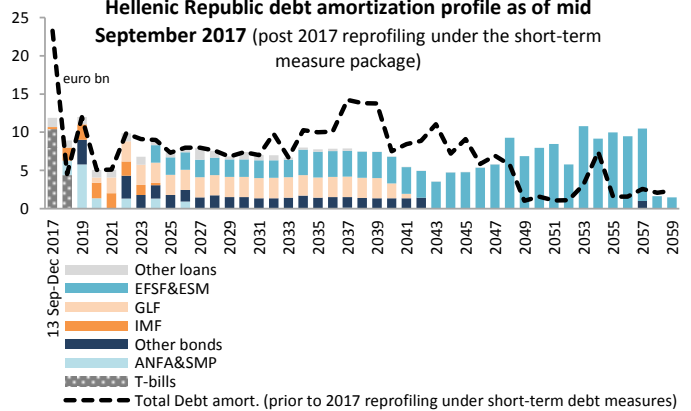
Greek public debt servicing has become more manageable, but a clarification of future interventions would boost market sentiment

- 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 (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 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 and have raised a net amount of €1.5 bn through the 5-year GGB issuance, 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 €11bn.
- Greek public debt is expected to peak in gross terms at c. 178% of GDP in Q3:2017 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 EFSF 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; 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 2022-60, 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.

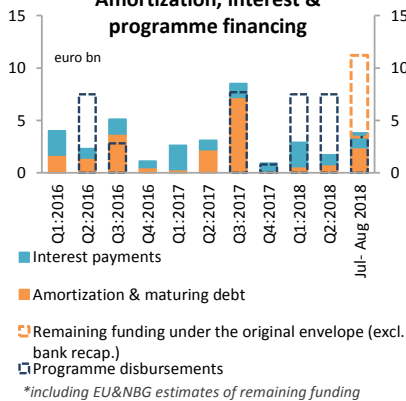
Structure of Greek debt holders as of September 2017



Hellenic Republic debt amortization profile as of mid September 2017 (post 2017 reprofiling under the short-term measure package)

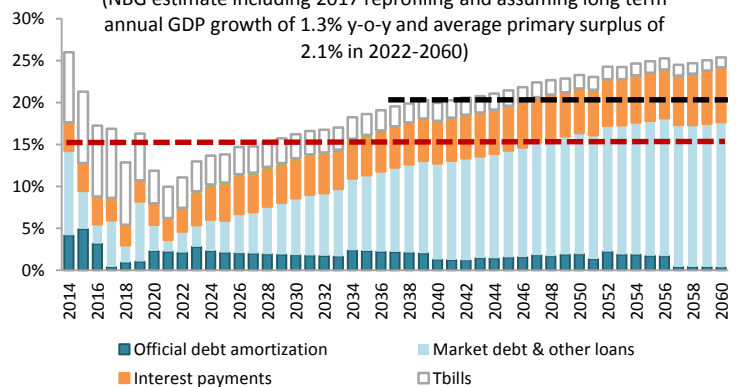


Amortization, interest & programme financing



Debt servicing costs as % of GDP

(NBG estimate including 2017 reprofiling and assuming long term annual GDP growth of 1.3% y-o-y and average primary surplus of 2.1% in 2022-2060)

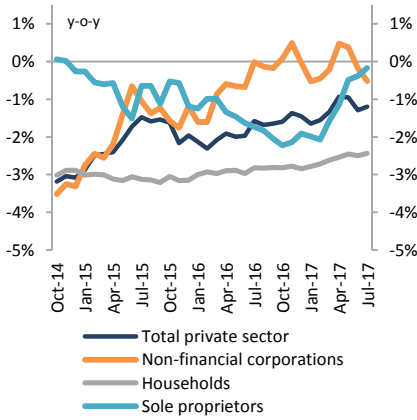


Sources: PDMA, ESM, EU Commission, Bloomberg, NBG Econ.Analysis estimates

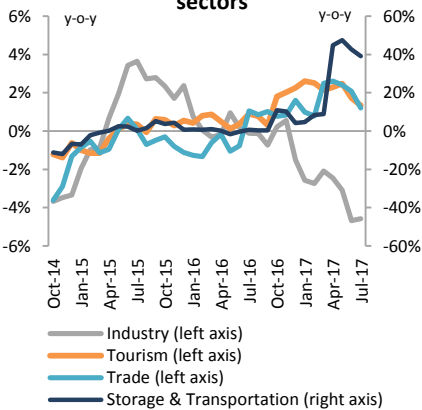


Greek banks reduce their Eurosystem dependence and bank deposits are picking up in Q3:2017

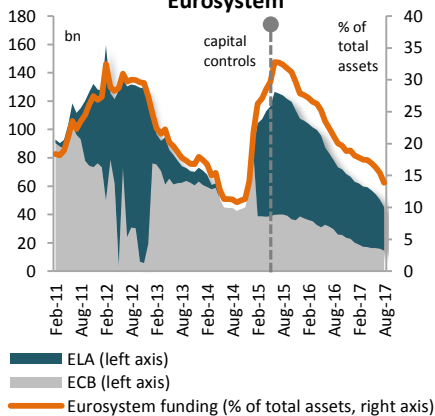
Bank credit to private sector



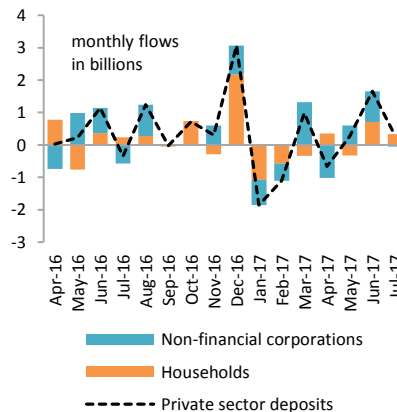
Bank credit to export-oriented sectors



Greek banks' borrowing from the Eurosystem



Private sector deposits

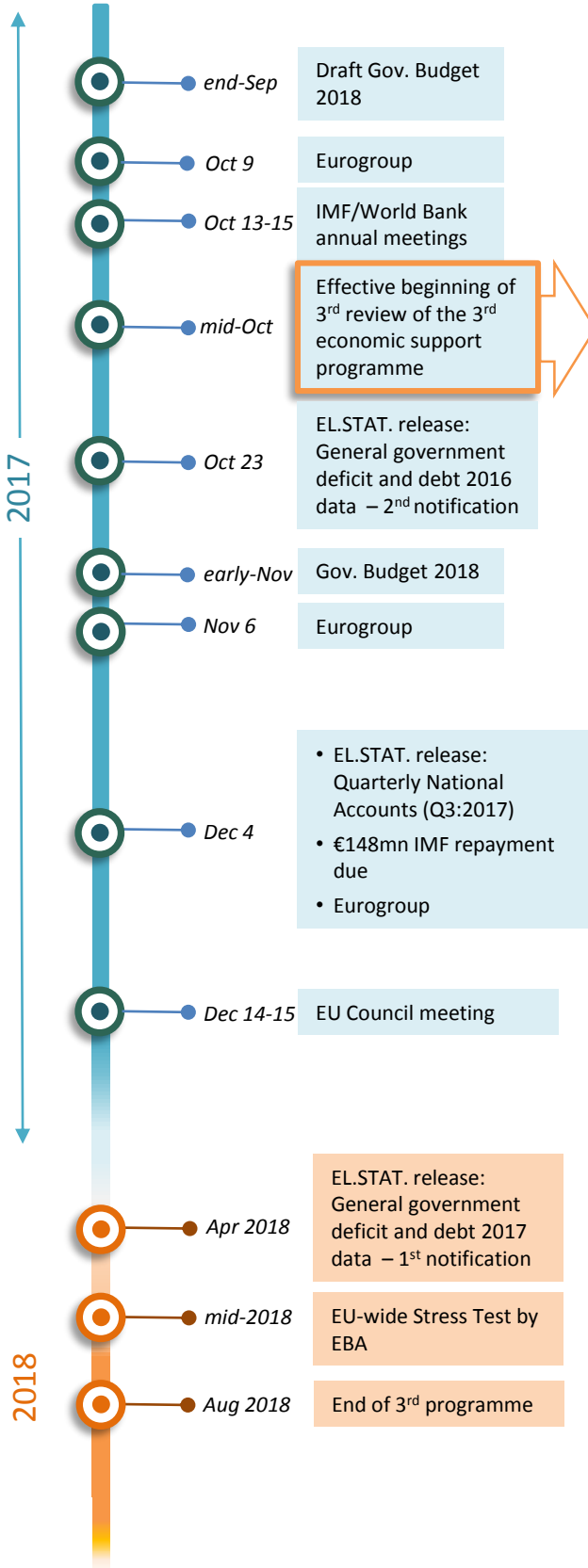


- The pace of deleveraging in July 2017 remained broadly unchanged compared with June, with credit to the private sector declining by 1.2% y-o-y. This development reflects a decline in household lending by 2.4% y-o-y, in conjunction with a decrease in lending to non-financial corporates of 0.5% y-o-y. The latter reflects a sharper contraction in loans to industry (-4.6% y-o-y in July 2017, compared with -2.1% y-o-y in March 2017), which counteracted positive loan growth in a number of export-oriented/tourism-related activities such as trade, tourism and transportation sectors (+1.2%, +1.3% and +39.1% y-o-y respectively, in July). The cumulative reduction in outstanding credit to the private sector between 2009 and July 2017 reached 24.3% and 39.6% on a net of provisions basis.
- Private deposits picked up by €2.2bn in May-July, broadly offsetting the decline of €2.6bn in 4M:2017. This improvement reflects an increase in household and non-financial corporate deposits of €0.7bn and €1.5bn, respectively, which is estimated to reflect, *inter alia*, seasonal support in liquidity created by tourism-related activities – along with positive labor market developments (increase in employment of 2.3% s.a. y-o-y and stabilization in hourly wages in Q2:2017).
- The notable decline in the Greek banking system's total financing from the Eurosystem, of €81.3bn between June 2015 and August 2017 -- with ELA dependence declining by €55.9bn to €30.9bn in August 2017 -- reflects the combined outcome of improving access in the interbank market (an increase of about €16bn in net financing) and deleveraging.

Source: Bank of Greece



Greece: Main events in Q4:2017 & key aspects of the 3rd Review of the 3rd economic support programme



Tax policy, administration & financial management in the public sector

- Alignment of property tax assessment on the basis of (imputed) zonal values with market prices
- Review of business income tax incentives, integration of remaining tax exemptions with elimination of those deemed inefficient or inequitable
- Update in codification and simplification of the VAT legislation
- Review of remaining preferential aspects in the tax treatment of the shipping industry
- Action plan to ensure a more efficient cooperation between justice and tax administration
- Action plan to improve the management of state guarantees based on preceding assessment

Social security, health and welfare benefits

- Complete recalculation and processing of pending pension applications according to the new rationalized benefit rules (Law 4387/2016)
- Finalizing individual recalculation of pension benefits for all pensioners under the new uniform rules
- Completion of government expenditure review with emphasis on streamlining-rationalizing social benefits structure
- Execution of clawback clauses with EOPYY offsetting outstanding clawback amounts for past periods (2013-2015) with accumulated arrears

Labor market and human capital

- Simplification of labor market legislation, finalizing codification of existing labor laws
- Finalizing and implementing the recently legislated framework for coping with undeclared work
- Adopt legislation to increase the quorum for first-degree unions to vote on a strike to 50% (from the current 1/3)

Product market, business/investment environment

- Further addressing OECD recommendations (Toolkits) for further increasing competition in product and services markets
- Adopt legislation to facilitate licensing in priority areas (starting from the mining sector)
- Adopt primary legislation in line with the agreed framework for the operation of nationwide cadastral offices

Public administration, Judicial system

- Public servants performance assessment on the basis of a new assessment scheme
- Assessment of operation and efficiency of the new e-auction platform for seized property
- Alignment of allowances schemes for dangerous and hazardous work will be aligned with the corresponding European legislation
- Finalization of the framework for implementation of a new mobility scheme in the public sector
- Amend existing legislation in line with the results of the review on independent agencies, relating, *inter alia*, to (i) the Hellenic Competition Commission; (ii) the energy regulator RAE and (iii) the Regulatory Authority for Passenger Transport (RAEM).



Greek Economy: Selected Indicators

	2015					2016					2017		Most recent	2017f	
	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Q4	year aver.	Q1	Q2			
Real sector (y-o-y period average, constant prices)															
GDP	0,1	0,4	-2,4	0,7	-0,3	-0,7	-0,5	2,0	-0,9	0,0	0,4	0,8	Q2:17	0,8	1,6
Domestic demand	1,1	-1,5	-4,5	0,6	-1,1	-1,0	2,1	2,9	-1,3	0,6	2,5	-0,9	Q2:17	-0,9	1,3
Final Consumption	0,6	0,7	-2,4	0,0	-0,3	-1,2	-0,9	4,0	0,6	0,6	1,0	1,2	Q2:17	1,2	0,9
Gross fixed capital formation	4,0	-14,0	-5,2	13,9	-0,2	-10,4	18,1	12,7	-14,0	0,0	10,8	-4,6	Q2:17	-4,6	7,1
Exports of goods and services	12,6	11,2	-7,7	-2,7	3,1	-10,2	-10,3	10,8	5,0	-1,7	5,2	9,5	Q2:17	9,5	7,3
Imports of goods and services	15,1	4,0	-14,1	-2,7	0,3	-10,2	-2,0	13,9	3,5	0,6	11,7	3,1	Q2:17	3,1	6,1
Coincident and leading indicators (period average)															
Retail sales volume (y-o-y)	0,0	0,6	-4,2	-2,1	-1,5	-3,3	-4,0	3,1	1,7	-0,6	2,8	2,1	Jun	3,9	...
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	0,4	Aug	-3,6	...
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	4,0	Jul	35,1	...
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	-70,2	Aug	-57,0	...
Industrial production (y-o-y)	3,0	-2,5	1,4	2,5	1,0	-1,0	5,1	2,0	3,8	2,5	9,4	2,9	Jul	1,7	...
Manufacturing production (y-o-y)	6,7	-0,6	-0,5	2,1	1,8	1,2	7,8	5,3	2,2	4,2	6,0	2,7	Jul	1,3	...
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	68,7	Aug	71,5	...
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	-7,8	Aug	-3,7	...
PMI Manufacturing (base=50)	48,5	47,1	37,5	48,5	45,4	49,1	49,5	49,4	48,7	49,2	47,0	49,4	Aug	52,2	...
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	32,0	Jun	25,1	...
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	-58,8	Jun	-55,6	...
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	-24,9	Jul	-48,9	...
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	11,8	Aug	13,5	...
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	-0,1	Jul	0,9	-0,3
Current account balance (EUR mn)	-3143	-597	5635	-1689	206	-2372	-420	4010	-2337	-1119	-2594	-201	Jul	1569	...
Services balance, net (EUR mn)	1297	4757	9062	1816	16932	716	3776	8641	2179	15311	1006	4239	Jul	3241	...
Primary Income Balance, net (EUR mn)	629	-423	-32	852	1026	948	5	-448	246	750	1139	-44	Jul	-98	...
Merchandise exports-- non-oil (y-o-y cum.)	10,0	7,5	4,2	1,9	1,9	-1,1	-2,5	0,1	1,4	1,4	8,5	9,5	Jul	8,7	...
Merchandise imports-- non-oil (y-o-y cum.)	4,6	-1,6	-7,4	-7,8	-7,8	-3,3	-2,8	3,8	3,2	3,2	7,2	6,4	Jul	6,8	...
Gross tourism revenue (y-o-y)	10,5	9,6	4,7	-4,4	5,2	3,8	-10,7	-4,7	8,0	-4,8	-4,9	10,1	Jul	5,3	...
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	9,0	Jul	10,2	...
Employment															
Unemployment rate	25,7	25,1	24,8	24,3	25,0	24,0	23,6	23,3	23,4	23,6	22,6	21,5	Jun	21,2	21,8
Employment growth (y-o-y)	0,9	2,1	2,1	2,8	2,0	3,1	2,4	2,1	0,5	2,0	1,4	2,3	Jun	2,4	...
Prices (y-o-y period average)															
Headline inflation	-2,4	-2,1	-1,8	-0,6	-1,7	-0,9	-0,9	-1,0	-0,4	-0,8	1,4	1,3	Aug	0,9	1,3
Core inflation	-0,7	-0,9	-0,5	0,3	-0,5	0,2	0,3	-0,3	-0,7	-0,1	-0,4	0,2	Aug	0,3	0,3
Producer prices excl.energy	-0,1	0,2	0,2	-0,2	0,0	-0,6	-0,8	-0,9	-0,6	-0,7	0,4	0,3	Jul	0,3	...
Fiscal policy															
Gov. balance/GDP (Programme definition, according to MTF5 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	-1,1	Aug	0,0	...
Expenditure--Ordinary budget (cum. % change)	-2,2	-6,7	-5,3	0,2	0,2	-2,3	2,7	1,5	0,7	0,7	-0,8	-3,2	Aug	-4,4	...
Monetary sector (y-o-y, end of period)															
Private deposits (adjusted for the reclassification of the Consignment Deposits and Loan Fund)	-14,3	-25,8	-27,1	-23,8	-23,8	-13,1	0,9	2,6	3,8	3,8	4,2	3,4	Jul	3,5	...
Loans to private sector (incl. sec. & bond loans)	-2,5	-1,7	-1,5	-2,0	-2,0	-2,1	-2,0	-1,6	-1,5	-1,5	-1,3	-1,3	Jul	-1,2	...
Mortgage loans (including securitized loans)	-3,3	-3,4	-3,5	-3,5	-3,5	-3,4	-3,4	-3,4	-3,5	-3,5	-3,3	-3,2	Jul	-3,1	...
Consumer credit (including securitized loans)	-2,5	-2,3	-2,8	-2,3	-2,3	-1,7	-1,5	-0,7	-0,8	-0,8	-0,7	-0,7	Jul	-0,5	...
Interest rates (period average)															
10-year government bond yield	10,0	11,6	10,8	7,9	10,1	9,5	8,2	8,2	7,5	8,3	7,2	6,1	Aug	5,1	...
Spread between 10 year and bunds (bps)	967	1112	1011	730	955	919	805	823	733	820	689	577	Aug	512	...
Exchange rates (period average)															
USD/euro	1,13	1,11	1,11	1,10	1,11	1,1	1,13	1,12	1,08	1,11	1,07	1,10	Aug	1,18	...

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



Greece: Macro indicators heatmap

	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	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	
PMI (index level)	48,4	48,9	46,5	48	46,9	30,2	39,1	43,3	47,3	48,1	50,2	50	48,4	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	50,5	50,5	52,2	
Industrial confidence (index level)	-9,2	-10,2	-15	-13	-14,1	-26,4	-30,2	-23,3	-19,6	-16,6	-13,6	-10,1	-10,2	-7,8	-7,8	-11,6	-9,1	-7,3	-5,1	-6,2	-4,7	-7,8	-5,7	-5	-5,1	-6,7	-5,6	-10,4	-7,3	-2,7	-3,7	
Manufacturing production (yoy)	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	-1,7	7,2	7,2	8,9	10,8	3,2	1,9	7,3	1,3	-1,8	0,9	6,4	10,2	-0,3	5,3	3,0	1,3		
Industrial production (yoy)	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	-3,6	3,7	3,5	8,1	5,5	0,5	0,2	6,9	2,1	2,5	7,1	11,0	10,1	0,8	6,3	1,8	1,7		
Services confidence (index level)	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	-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	9	17,4	22,9	
Consumer confidence (index level)	-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	-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	-68,8	-61,5	-57	
Retail confidence (index level)	-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	3,0	5,6	5,1	4,7	8,2	9,3	15,0	10,7	10,9	9,8	12,9	1,9	2,7	3,0	1,5	-3,4	-1,3	-3,6	
Retail trade volume (yoy)	-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	-1,2	-2,0	-6,3	-3,6	9,5	-2,1	2,4	2,6	4,0	-1,0	-0,1	9,9	-1,2	2,1	0,3	3,9			
Construction Permits (yoy)	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	-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	22,1	52,7	25,1			
House prices (yoy quarterly series)	-4	-4	-5	-5	-5	-6	-6	-6	-5	-5	-5	-4	-4	-4	-3	-3	-3	-2	-2	-2	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	
Construction confidence (index level)	-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	-35,9	-45,9	-39,0	-39,8	-55,6	-52,5	-59,5	-67,1	-53,8	-44,0	-45,3	-59,7	-49,8	-53,5	-67,4	-55,6	-39,7	-49,2	
Employment (y-o-y)	1,2	0,7	2,0	2,2	1,9	1,9	2,4	2,2	2,6	2,6	3,1	2,7	3,1	3,3	3,0	2,2	2,2	2,3	1,8	2,2	0,7	0,7	0,0	0,6	1,7	2,0	2,1	2,4	2,4			
Interest rate on new private sector loans (CPI deflated)	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	6,2	6,1	5,7	5,6	6,1	5,9	5,7	5,5	5,7	4,8	3,7	3,2	2,7	3,1	3,6	3,5	3,7		
Credit to private sector (y-o-y)	-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	-5,1	-4,6	-3,2	-3,1	-2,6	-2,7	-2,7	-2,8	-2,5	-4,5	-4,7	-4,5	-4,7	-4,4	-4,7	-5,6	-6,1		
Private sector deposits (y-o-y)	-12,7	-14,3	-17,6	-20,4	-25,8	-26,9	-27,2	-27,1	-27,3	-27,3	-23,8	-18,2	-14,2	-13,1	-9,4	-6,5	0,9	2,5	3,5	2,6	4,1	4,3	3,8	3,7	3,7	4,2	3,5	3,6	3,4	3,5		
Interest rate on new time deposits (households, CPI deflated)	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	2,4	2,1	1,7	1,6	1,9	1,8	1,8	1,2	1,6	0,7	-0,5	-0,6	-1,1	-1,0	-0,5	-0,4	-0,4		
Economic sentiment index (EU Commission, Euro area)	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	102,8	103,8	104,4	104,2	104,3	103,4	104,7	106,3	106,5	107,8	108	108	108	109,7	109,3	111,1	111,3	111,9	
Exports (other (excl.oil&shipping) y-o-y 6m mov.avg)	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	-0,6	-0,1	-0,3	-2,0	-1,4	-1,2	0,5	0,9	4,1	5,2	6,5	5,8	6,4	6,1	7,5	10,0	9,6		
Imports (other (excl.oil&shipping) y-o-y 6m mov.avg)	9	10	10	9	8	2	-1	-5	-6	-8	-10	-7	-4	-3	-2	-1	-1	4	7	9	8	9	10	8	4	4	5	6	6	6		
NBG Composite Index of cyclical conditions ▶▶▶▶▶	-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	-23,5	-22,6	-22,0	-21,7	-20,3	-18,6	-19,8	-19,6	-21,3	-22,8	-19,3	-21,0	-17,3	-15,2	-11,5	-10,0	-8,9		

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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Note: The analysis is based on data up to September 25, 2017, unless otherwise indicated