



NATIONAL BANK
OF GREECE

GREECE

Macro Outlook

September 2018



Greece's economic recovery on track against a more challenging international environment

NBG Economic Analysis Division

Greece Macroeconomic Analysis

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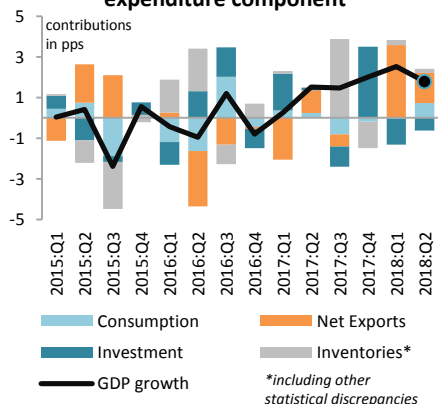


- Greece has successfully completed the 3rd Programme of financial support and has been granted a new set of public debt relief measures, which lower substantially Greece's medium-to-longer term servicing costs and maintain gross debt on a sustainable downward trend.
- A framework of "Enhanced Surveillance" has been specified to ensure the continuity and completion of reforms as well as maintain the remarkable progress in fiscal consolidation.
- Major rating agencies responded positively to the improving macroeconomic conditions, the decisions on the new debt relief measures and the accumulation of a sizeable cash buffer by the Greek State – which is estimated at €24bn – being sufficient to cover, if necessary, sovereign financing needs over, at least, a two-year period.
- Economic activity in Greece is gaining traction, with GDP growth reaching 2.2% y-o-y in H1:2018 from 1.3% y-o-y in FY:2017, supported by exports and increasing confidence, with private consumption showing the first signs of responsiveness to improving macroeconomic conditions (1.0% y-o-y in Q2:2018, the first increase in 1-year).
- Tourism arrivals increased by 19.1% y-o-y in H1:2018 and revenue by an outstanding 19.8% y-o-y in the same period, adding 0.9 pps to GDP growth in H1:2018, overperforming major competitors for a third consecutive year.
- Greece's goods exports remained on an upward trend for a 9th consecutive year – a cumulative increase in export volume of almost 72% between Q4:2009 and Q2:2018 – reaching a historical high of 18.8% of GDP in Q2:2018 from 18.5% in Q1:2018 and a 20-year average of 11.2% of GDP.
- Gross fixed capital formation (GFCF), excluding spending on transportation equipment, increased by 4.9% y-o-y in Q2:2018 from 9.1% y-o-y in Q1:2018. The decline in total GFCF by 5.4% y-o-y in Q2:2018 mainly reflects negative base effects from high ships orders in the same period in 2017 (contraction in investment on transportation equipment of -48.8% y-o-y in Q2:2018). The net impact on GDP growth from this decline is limited, as this investment category typically has a very high import content.
- GDP figures for the production and income sides of the economy point to a sustainable rebound in competitive business activity, reflected in the increasing value added of Greek production and the higher corporate profitability (annual increases of 2.3% y-o-y and 1.5% y-o-y, respectively, in H1:2018, according to national accounts data).
- Forward-looking indicators presage a further improvement in activity in Q3:2018, when the main part of the direct and indirect support from tourism comes to the fore.
- A back-loading of the public investment programme, along with positive confidence effects, should provide an additional boost to GDP growth in the H2:2018, offsetting the risks related to a slowdown in demand in major trade partners and increased turbulence in international financial markets (especially heightened exchange rate volatility in emerging markets).
- Nonetheless, the recovery remains uneven, with a significant number of households and less competitive businesses still in a vulnerable position that will slowly improve as the recovery continues.
- The fiscal outcome in 8M:2018 bodes well for an overperformance against fiscal targets for a 4th consecutive year and is expected to permit an effective loosening in fiscal conditions in H2:2018 and H1:2019.
- Overall, the steady improvement in macroeconomic conditions and an ongoing reassessment of Greece's sovereign risk have set the stage for a revaluation of investment opportunities in the economy, with the upward trend in FDI flows already exemplifying the attractiveness of specific Greek assets.

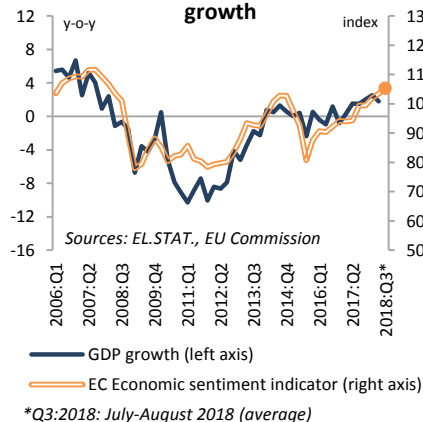


Strong exports and a pick-up in private consumption help maintain the recovery on track

Composition of output growth by expenditure component



Economic sentiment & real GDP growth



- Greek GDP recorded a healthy expansion of +1.8% y-o-y (+0.2 q-o-q, s.a.) in Q2:2018 – a 6th consecutive quarter of positive growth – from an upwardly revised +2.5% y-o-y in Q1:2018 and +1.3% y-o-y in FY:2017.
- A solid increase in net exports was the main driver of economic activity in Q2:2018, contributing +1.5 pps to annual GDP growth in this quarter, reflecting a 3 pp boost from the increase in exports of goods and services by 7.2% y-o-y and 12.2% y-o-y, respectively, which outweighed a 1.5 pp drag from the increase in imports by 4.3% y-o-y (mainly of production inputs, fuels and consumer durables).
- Consumer spending increased by 1.0% y-o-y, for the first time since Q2:2017, adding 0.7 pps to annual GDP growth in Q2:2018 and thus offsetting a 0.6 pp drag from the decline in gross fixed capital formation, that reflected lower spending on transportation equipment (i.e. mainly ships, vehicles and port machinery) in this quarter.
- Economic sentiment increased further to a 10-year high in July-August 2018, on the back of a broad-based improvement in indicators of sectoral activity. This bodes well for an acceleration in annual GDP growth in Q3:2018, when additional support from strong tourism activity will come to the fore and public investment activity will accelerate (0.4% of GDP higher in H2:2018 than in H2:2017, according to the MTF5 2019-22).
- NBG Economic Analysis' "high frequency indicator" of economic activity presages an acceleration in GDP growth to 2.2% y-o-y in Q3:2018, suggesting that the economic recovery in Greece remains on track to achieve average GDP growth of 2.0% y-o-y, or slightly higher, in FY:2018.

Greece: Growth Outlook

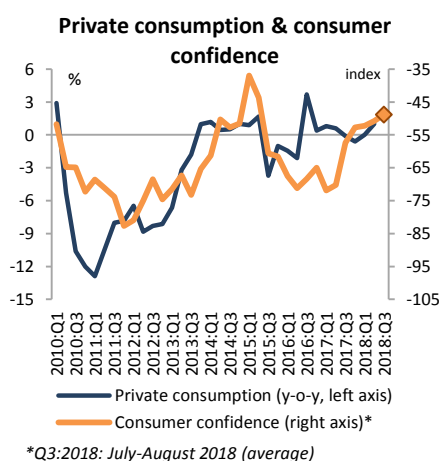
	2016	2017	2018f	2019f	2017				2018f			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f
GDP (real, % y-o-y, s.a.)	-0,2	1,3	2,0	2,3	0,3	1,5	1,5	2,0	2,5	1,8	2,2	1,7
GDP (real, % q-o-q, s.a.)	...	...	...	...	0,4	0,9	0,5	0,2	0,9	0,2	0,9	-0,4
Domestic Demand (y-o-y)	0,7	1,7	1,0	2,6	2,2	0,4	2,0	1,9	-1,0	0,3	2,9	1,9
Final Consumption (y-o-y)	-0,4	-0,1	1,0	1,8	0,4	0,3	-0,9	-0,2	0,0	0,8	1,5	1,6
Private Consumption (y-o-y)	0,1	0,2	1,1	2,3	0,8	0,6	-0,1	-0,6	0,0	1,0	1,3	1,9
Fixed Capital Formation (y-o-y)	1,5	9,5	1,1	8,2	17,0	1,1	-8,3	29,0	-10,3	-5,4	20,0	1,6
Residential construction	-12,3	-8,7	1,8	2,3	-11,1	-5,4	-7,2	-11,1	10,9	5,1	...	...
Total GFCF excluding residential	2,5	10,6	1,1	8,5	19,0	1,5	-8,3	31,4	-11,4	-6,0	...	...
Inventories* (contribution to GDP)	0,9	0,7	0,0	0,0	0,1	0,0	3,9	-1,3	0,3	0,2	-0,6	0,3
Net exports (contribution to GDP)	-1,0	-0,4	1,0	-0,3	-2,0	1,1	-0,6	0,0	3,6	1,5	-0,7	-0,3
Exports (y-o-y)	-1,9	6,9	7,1	5,5	5,4	9,3	7,6	5,5	8,0	9,4	6,1	5,2
Imports (y-o-y)	1,2	7,5	3,6	6,0	11,3	4,8	9,2	5,0	-3,1	4,3	7,8	5,5

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

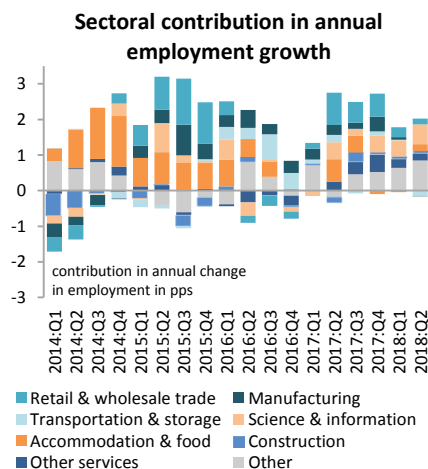
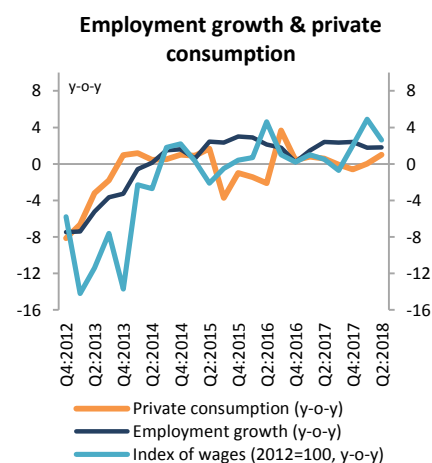
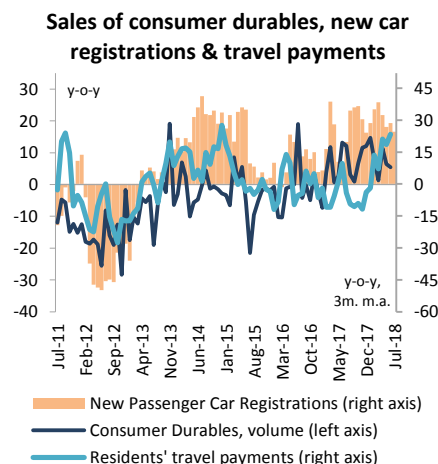
Sources: ELSTAT, EU Commission, MTF5 2019-2022, NBG Economic Analysis estimates



Private consumption has begun to reflect supportive labor market trends and improving confidence



*Q3:2018: July-August 2018 (average)



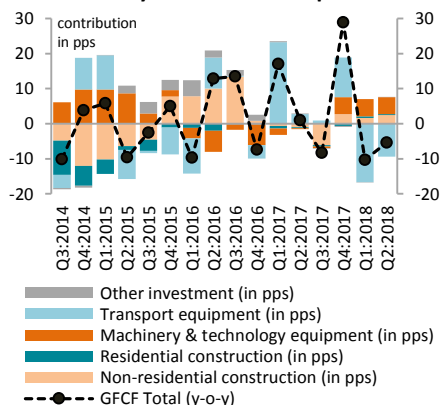
Sources: ELSTAT, Bank of Greece, EU Commission

- Private consumption increased by 1.0% y-o-y in Q2:2018, for the first time since Q2:2017, contributing almost one third of GDP growth in Q2:2018. Consumption has eventually responded to the positive trends in the labor market – an employment increase of 1.8% y-o-y in Q2:2018 and a decline in the unemployment rate to a 7-year low of 19.1% in June 2018 – which were accompanied by a significant improvement in confidence in the run-up to the successful completion of the 3rd Programme.
- This improvement was primarily led by increased spending by medium-to-high income households, as indicated by strong sales of consumer durables and cars of 7.6% y-o-y and 28.3% y-o-y, respectively, in Q2:2018 and higher spending by residents for tourism services domestically and abroad (an estimated +12% y-o-y in Q2:2018, the strongest in 10 years).
- Consumer spending is expected to be a key driver of economic growth in the coming quarters, buoyed by an ongoing turnaround in real disposable income, on the back of healthy employment growth (1.8% y-o-y in FY:2018, according to NBG Economic Analysis estimates), mild inflation (0.9% y-o-y in July-August from 0.5% y-o-y in Q2:2018) – that reflects the conservative pricing policies of Greek firms – and a pick-up in hourly wages. This improvement in hourly compensation reflects increasing employment creation in sectors demanding skilled labor, such as information and communication services and professional, scientific and technical activities. It is expected to be further supported by the effective reinstatement of collective bargaining by H2:2018, with the first decisions on an extension of the more favorable terms of sectoral collective agreements to all employees in certain sectors of the economy, such as in tourism services, mining and shipping – where the 50% threshold for employers participation has been exceeded – occurring in August-September 2018, following relevant decisions by the Supreme Labor Council.

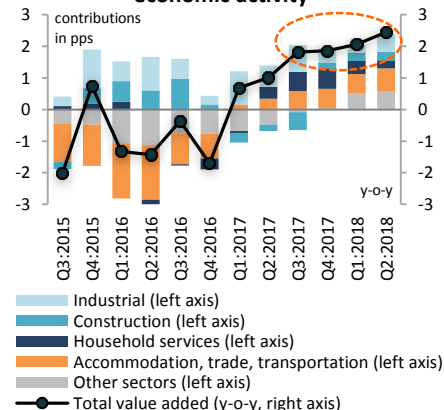


All major investment categories, except transportation equipment, recover

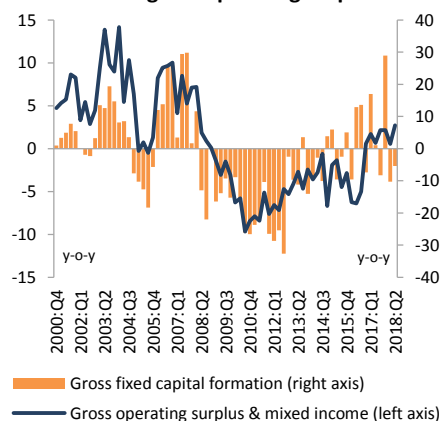
Contribution in annual change in GFCF by investment component



Gross value added by sector of economic activity

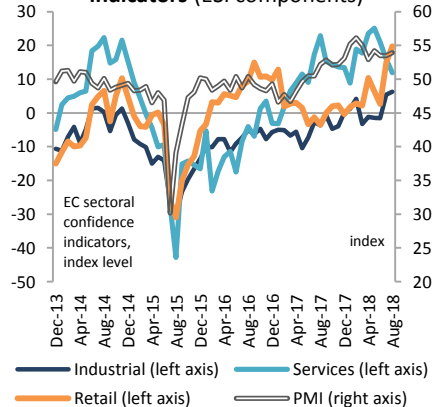


GFCF & gross operating surplus



Sources: ELSTAT, EU Commission

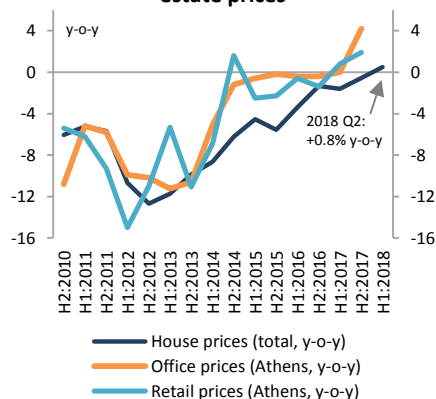
PMI & main sectoral confidence indicators (ESI components)



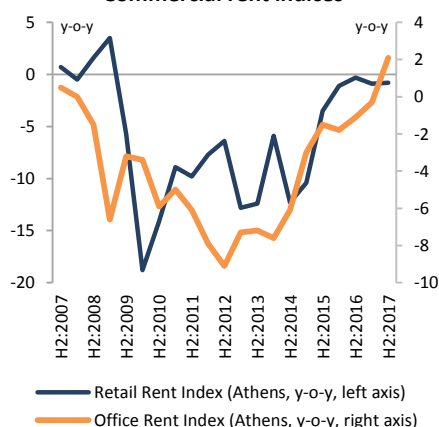
- Gross fixed capital formation (GFCF), excluding spending on transportation equipment, increased by 4.9% y-o-y in Q2:2018 from 9.1% y-o-y in Q1:2018. However, total GFCF contracted by 5.4% y-o-y in Q2:2018, for a 2nd consecutive quarter, due to lower spending on transportation equipment (-48.8% y-o-y in Q2:2018), which mainly reflects a negative base effect from elevated ships orders in H1:2017. The net impact on GDP growth from this contraction is limited, as this investment category typically has a very high import content. Investment on equipment (excluding transportation) showed robust growth of 18.3% y-o-y for a 3rd consecutive quarter. Similarly, non-residential construction increased by 6.9% y-o-y, despite the small contribution of public investment spending (increase in disbursements of 12.2% y-o-y or 0.1% of quarterly GDP in Q2:2018).
- GDP figures for the production and income sides of the economy point to a sustainable rebound in competitive business activity and an ongoing improvement in the value added of Greek production. Gross value added increased by 2.5% y-o-y in Q2:2018, expanding for a 6th consecutive quarter, on the back of strong expansion in the manufacturing, accommodation, transportation and retail trade sectors. In the same vein, business profitability, reflected in the annual change in gross operating surplus and mixed income, grew at its strongest pace in 10 years (2.7% y-o-y in Q2:2018 from 0.5% y-o-y in Q1:2018 and 1.7% y-o-y in FY:2017), despite a still weak position of smaller and less competitive business units.
- These improvements, in conjunction with the strength in forward looking indicators of business activity in Q3:2018 – e.g. industrial, services confidence and the PMI in July-August – and supportive rates of capacity utilization, bode well for an acceleration in gross fixed capital formation in H2:2018. However, a broadening of the investment recovery will require a further improvement in business profitability, along with low uncertainty and higher visibility regarding the priorities of economic policy in the post-programme era.



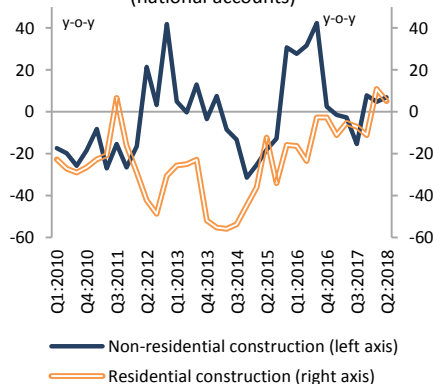
Residential & commercial real estate prices



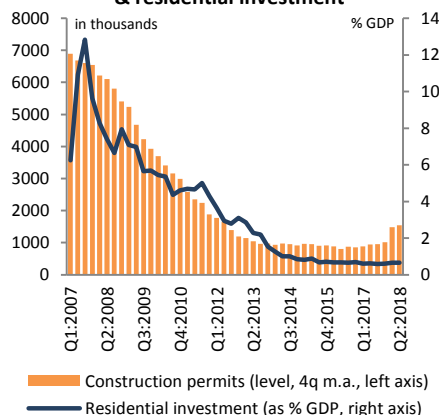
Commercial rent indices



Fixed investment in construction activity (national accounts)



Construction permits & residential investment



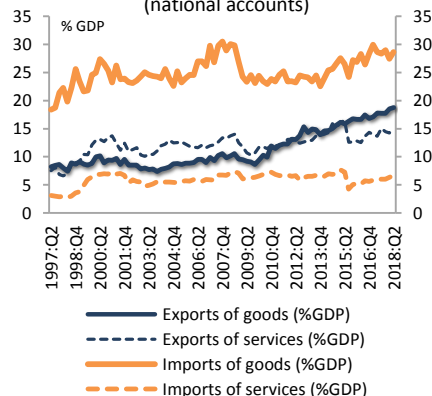
- House prices in Greece increased by 0.8% y-o-y (+0.7% q-o-q) in Q2:2018 and by an upwardly revised +0.1% y-o-y in Q1:2018, for the first time in 10 years, showing the first signs of responsiveness to improving macroeconomic conditions.
- Positive annual growth is recorded in all market segments (new and old apartments) and country regions, with Athens outperforming the market average (+1.2% y-o-y in Q2:2018 and +0.4% y-o-y in Q1:2018), possibly supported by a pick-up in demand in the premium segment (which suffered a sharper price adjustment during the crisis) and tourism-related demand (mainly for renting).
- The revival in the prime commercial segment started in 2017, with office and retail space prices increasing by 3.7% y-o-y and 2.2% y-o-y, respectively, in H2:2017 (latest available data) and rents following a similar trend. From a macroeconomic perspective, Greece's commercial real estate market remains highly heterogeneous and, thus, the observed recovery in prime properties has not been transmitted to the rest of the property stock, with downward pressures on prices in specific areas remaining significant.
- Residential investment increased by 5.1% y-o-y in Q2:2018 and 10.9% y-o-y in Q1:2018 – its first annual expansion in 10 years – confirming increased demand in specific areas.
- The increase in issuance of residential construction permits of 24.2% y-o-y in 4M:2018 presages a further increase in building activity in the following quarters, which is also related to increasing renovation of houses and commercial properties in high demand areas.

Sources: ELSTAT, Bank of Greece

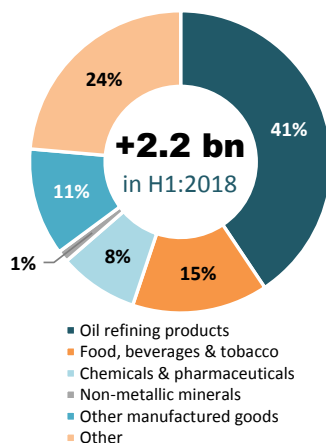


Imports & exports of goods and services

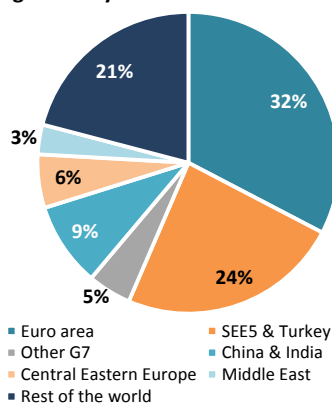
(national accounts)



Contribution in annual export growth by product category H1:2018



Contribution in annual export growth by destination - H1:2018



- Solid exports of goods were, again, a key driver of GDP growth in H1:2018. Greece's goods exports remained on an upward trend for a 9th consecutive year – a cumulative increase in export volume of almost 72% between Q4:2009 and Q2:2018 – reaching a historical high of 18.8% of GDP in Q2:2018 from 18.5% in Q1:2018 and a 20-year average of 11.2% of GDP, but still significantly lower than the euro area average of 35.9% of GDP in FY:2017.
- Germany, Italy and Turkey were again the main destinations of Greek goods exports in H1:2018, which mainly comprise olive oil, aluminum, pharmaceuticals, unprocessed food and chemicals products. Exports of oil products corresponded to one third of the annual increase in exports in H1:2018, with Turkey absorbing c. 15% of Greece's fuel exports. Notably, demand from Turkey and Italy in Q2:2018 was not affected by the increased uncertainty in these economies – which consistently rank in the top 4 destinations for Greek goods exports – but it is likely to soften considerably in H2:2018, especially in Turkey.
- Greek goods exports are estimated to remain on an upward trend in H2:2018, with their annual growth rate decelerating to a still healthy 4.3% y-o-y in H2:2018, from 9.0% y-o-y in H1:2018 (in constant price terms), on the back of a small slowdown in demand from the euro area – which could be more pronounced in major trading partners, such as Italy – continuing tensions in Turkey, heightened exchange rate volatility and less supportive base effects.

Top 5 destinations of Greek goods exports

2016		2017		2018:H1	
Country	€ bn	Country	€ bn	Country	€ bn
Italy	2.8	Italy	3.1	Italy	1.7
Germany	2.0	Germany	2.1	Turkey	1.2
Cyprus	1.6	Turkey	2.0	Germany	1.1
Turkey	1.4	Cyprus	1.9	Cyprus	1.0
Bulgaria	1.3	Bulgaria	1.4	Bulgaria	0.7

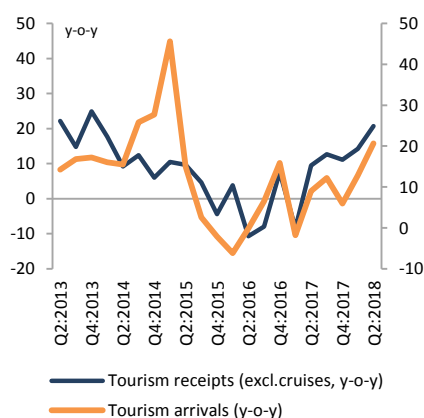
Sources: Eurostat, Panhellenic Exporters Association

Sources: ELSTAT, Panhellenic Exporters Association, Eurostat

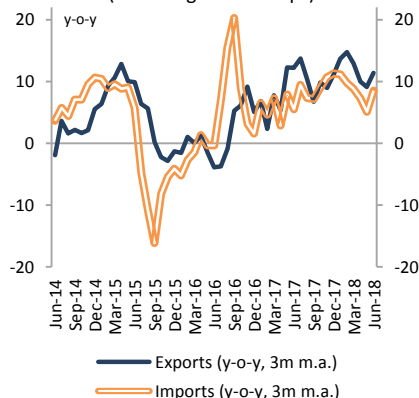


The current account stabilizes, as strong exports are offset by higher imports of production inputs and consumer durables

Travel receipts & arrivals



Goods trade
(excluding oil and ships)



- The current account balance recorded a deficit of 2.1% of GDP in H1:2018, against 1.8% in H1:2017, due to a widening in imports of oil and non-oil products of 0.7% and 0.6% of GDP, respectively, compared with H1:2017, that offset the combined increase in exports of goods (excluding fuel) and services of 1.1% of GDP in this period.
- The increase in the services surplus of 0.2% of GDP in H1:2018, on an annual basis, mainly reflects higher tourism receipts (+19.8% y-o-y or 0.4% of GDP higher than in H1:2017).
- Tourism arrivals increased by 19.1% in H1:2018 and revenue by an outstanding 19.8% y-o-y in the same period, adding 0.9 pps to GDP growth in H1:2018, with the German market contributing about 40% of the increase. Available data from arrivals in major Greek airports and hotel bookings for Q3:2018 suggest that the momentum of the tourism sector will be maintained in Q3:2018.
- In fact, an increasingly positive contribution from the tourism sector in Q3:2018, along with positive trends in goods exports, are expected to bring the current account balance in surplus in Q3:2018, and to an annual deficit of -1.2% of GDP in FY:2018, slightly higher than in FY:2017, due to a prospective negative seasonal effect in Q4:2018.
- However, it is notable that Greece remains highly dependent on imports of production inputs, fuels, capital goods and consumer durables, as indicated by the increase in growth in goods imports to 12.9% y-o-y in H1:2018 from 12.7% y-o-y in FY:2017. This trend will remain significant since the economic recovery is typically accompanied by increased spending on capital and discretionary consumer products.

Balance of Payments (as % GDP)

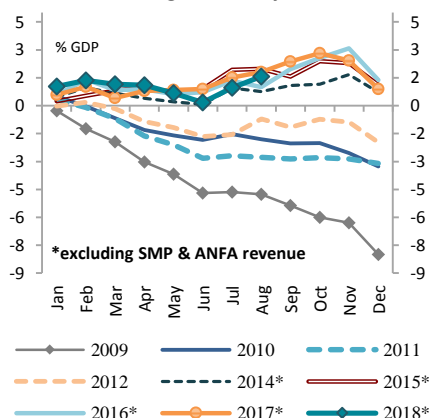
	2017	2018f	2017				2018	
			Q1	Q2	Q3	Q4	Q1	Q2
Current Account	-0,8	-1,2	-1,6	-0,2	2,6	-1,6	-1,5	-0,5
Non-oil Trade Balance	-8,2	-8,6	-2,1	-2,0	-2,0	-2,1	-2,1	-2,1
Non-oil Exports	11,3	11,9	2,7	2,9	2,8	3,0	3,0	3,1
Non-oil Imports	19,5	20,4	4,8	4,9	4,7	5,1	5,0	5,2
Oil Balance	-2,1	-2,6	-0,7	-0,3	-0,6	-0,5	-0,6	-0,7
Services Balance	9,8	10,3	0,6	2,4	5,6	1,3	0,5	2,6
Primary Income Balance	0,1	0,1	0,5	-0,1	-0,3	-0,1	0,5	-0,3
Secondary Income Balance	-0,3	-0,3	0,2	-0,2	-0,2	-0,2	0,1	-0,1
Capital account	0,5	0,5	0,1	0,1	0,0	0,3	0,1	0,0

Source: Bank of Greece & NBG estimates

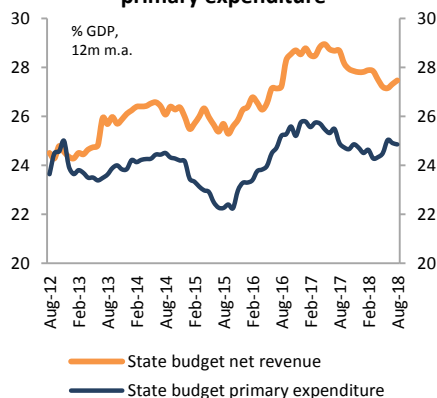
Sources: ELSTAT, Bank of Greece, EU Commission, NBG Economic Analysis estimates



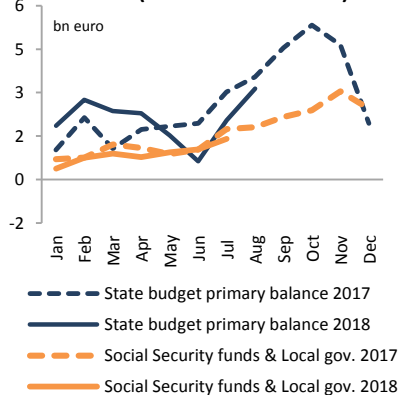
State Budget Primary balance



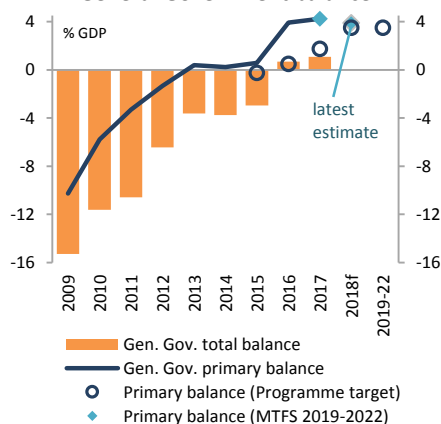
State budget net revenue and primary expenditure



General government budget trends (modified-cash basis)



General Government balance



Sources: Ministry of Finance, EL.STAT., European Commission, MTFS 2019-2022

- Data on the Greek State budget implementation point to a sustainable overperformance compared with the MTFS 2019-2022 targets. Primary surplus in State budget increased to 1.7% of GDP in 8M:2018 (preliminary data) from 1.1% of GDP in 7M:2018, exceeding the respective MTFS 2019-2022 target for 8M:2018 by 1.2% of GDP.
- Revenue growth (before tax refunds) accelerated to 4.1% y-o-y in July-August from 2.3% y-o-y in 6M:2018, tracking closely the estimated underlying increase in economic activity (projected at +3.1% y-o-y in Q3:2018, in nominal terms). Total revenue (before tax refunds) increased by 0.3% of GDP in 7M:2018, with revenue from indirect taxes rising by 4.3% y-o-y (0.3% of GDP) in the same period and by 6.3% y-o-y in July (latest available data for the decomposition of State budget revenue). Revenue from consumption taxes has been the best performing sub-category in 7M:2018, recording an increase of 5.9% y-o-y (0.2% of GDP higher than in 7M:2017), followed by an increase in VAT revenue of 1.0% y-o-y (0.1% of GDP higher than in 7M:2017) and of 7.3% y-o-y in July. Moreover, revenue from the settlement of previous years tax arrears posted an annual increase of 0.1% of GDP in 7M:2018, while non-tax revenue increased by 0.2% of GDP, on an annual basis, in the same period.
- Primary spending was 0.2% of GDP lower than the MTFS 2019-2022 target in 8M:2018, while the surplus in the public investment budget (PIB) exceeded the respective target by 0.4% of GDP, due to lower PIB expenditure, leading to an equivalent increase in primary surplus.
- General fiscal trends bode well for another year of fiscal overperformance, which will bring the General government primary balance close to 4% of GDP, if we take into account that the surplus of other government entities, on a modified cash basis, stood at 0.8% of GDP in 7M:2018 (from 1.0% of GDP in 7M:2017) reflecting, *inter alia*, a surplus in the single social security fund (EFKA) of about 0.5% of GDP in 7M:2018, which is expected to exceed 0.8% in FY:2018.



An “enhanced-surveillance” scheme supports policy credibility in the post-programme era

- Greece will be subject to an “Enhanced Surveillance” framework directed by the European Commission (EC). The agreed monitoring framework is more intensive, compared with that applying to other countries that exited economic support programmes, in view of the significantly higher level of Greek debt and the unprecedented amount of debt relief provided to Greece.
- The EC surveillance will be supplemented by the ESM’s “early warning system” for assessing fiscal imbalances, while the IMF is expected to remain engaged with its semi-annual post-programme monitoring reports.

Greece’s commitments to ensure the continuity and completion of reforms adopted under the ESM programme

Fiscal soundness

- Maintaining a primary surplus of 3.5% of GDP until 2022 and 2.2% of GDP, on average, in the period 2023-2060, ensuring that its overall fiscal performance remains in line with the EU fiscal framework.
- Conducting nationwide valuation exercises of property tax values (by mid-2019 and mid-2020) and adjusting the property taxation by mid-2020.
- Continuing reforms in the area of public financial management and avoiding accumulation of new government arrears to the private sector.
- Completing the cash monitoring and forecasting for the General Government Treasury account system (end-2019), the Chart of Accounts for the central administration (mid-2021) and General Government entities (mid-2022).

Social welfare

- Completing the final setup of the single pension fund “EFKA” by mid-2020 and the reform of social safety nets, agreed under the 3rd Programme, including all disability benefits.
- Reviewing the system of subsidies for local public transport.

Financial stability

- Restoring the health of the banking system, including the completion of NPL resolution efforts and increasing the effectiveness of the relevant legal framework (i.e. household and corporate insolvency, out-of-court workout, NPL sales, e-auctions).
- Increasing efficiency of the judicial system and minimizing the backlog of pending cases (Three-Year Action Plan on Justice, e-justice system by mid-2020, electronic filing of legal documents by end-2019).
- Concluding a final round relaxation of capital controls in line with the published roadmap.
- The HFSF will develop an exit strategy for the sale of its stakes in the systemic banks by end-2018. The decision on liquidation or extension of the mandate for the HFSF will be taken by mid-2022.

Other

- Safeguarding Greece’s labor market competitiveness through an annual update of the minimum wage, in line with the provisions of Law 4172/2012.
- Finalizing the investment licensing reform, ratifying and completing the cadastral mapping by mid-2020 and forest maps by mid-2021.
- Completing the agreed divestment of Public Power Corporation's lignite-fired capacity by end-2018.
- Updating and re-specifying a detailed timetable for privatizations involving an effective implementation of HCAP’s Asset Development Plan and the Strategic Plan.

Sources: EU Commission, Eurogroup



A decisive step towards debt sustainability

The Eurogroup on 21 June 2018 agreed to the implementation – in addition to the short-term debt measures applied in 2017 – of a new set of medium-term measures in order to reduce further Greece's medium-to-longer term debt servicing needs and maintain gross debt on a sustainable downward trend. The new measures comprise:

- A further deferral by 10 years applied to interest and amortization on €96.9bn of EFSF loans (until 2033) and an extension of their maximum weighted average maturity (WAM) by 10 years.
- Transfer of €5.8bn of profits from the GGB holdings by the ECB and Eurosystem central banks (SMP/ANFA) to Greece, on a semi-annual basis starting in 2018 until June 2022.
- Permanently waiving the 2 pp step-up on the interest on the €11.3bn of loans used in the 2012 debt buyback.

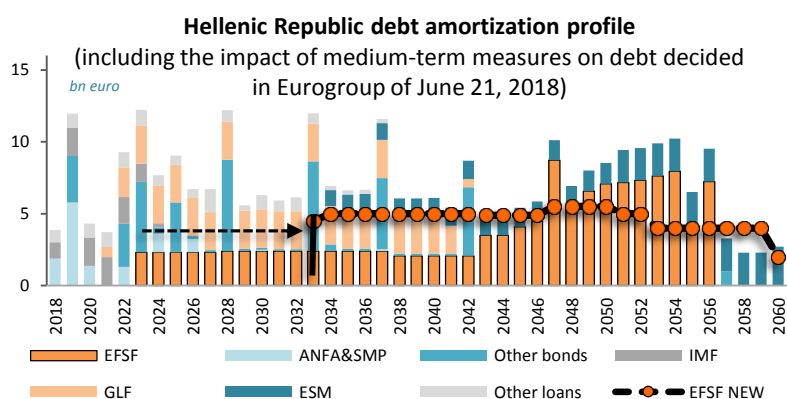
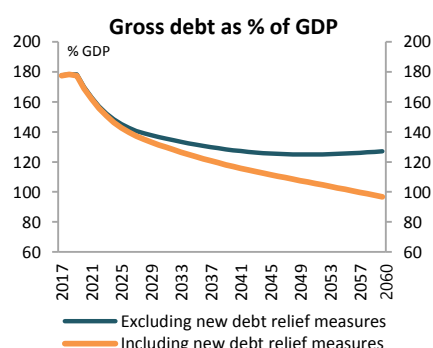
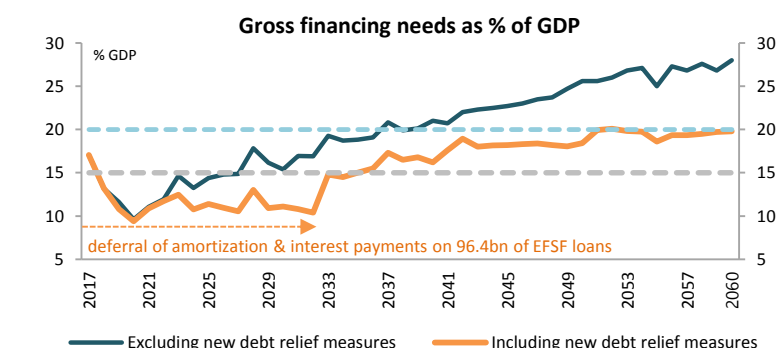
The implementation of the last two measures is subject to compliance to post-programme monitoring commitments

Impact on gross financing needs and gross debt dynamics

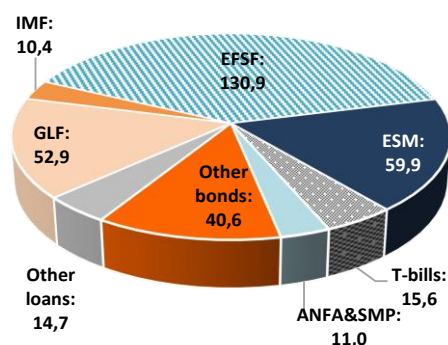
- Significant reduction in average gross financing needs (GFNs) of c. 4.0% of GDP p.a. in 2022-32, including gains from lower issuance of higher cost GGBs. Refinancing risk is very low for the next 10-15 years and GFNs remain below the agreed sustainability thresholds of 15% and 20% of GDP, respectively, in the medium and long term.
- Decline in gross debt to GDP ratio by c. 12%, on average, in 2019-2060 and by c. 30% of GDP in 2060.
- Debt dynamics will be reviewed in 2032, to assess whether additional debt measures are needed and a contingency mechanism, relating a potential lowering in Greece's debt servicing cost to its future macroeconomic performance (especially GDP growth) could be activated, following a Eurogroup decision in the case of an "unexpectedly more adverse scenario" and could entail measures such as a further re-profiling of EFSF loan maturities and capping and/or deferral of interest payments of the EFSF.

➤ **Greece's public debt characteristics already unique in 6M:2018: Weighted average maturity of 18.2 years; effective interest of c. 2.0%; 80% of debt at fixed rate; and 78.9% of debt held by the official sector.**

➤ **Greek state cash buffer is estimated at €24 bn, which is sufficient to cover, if necessary, sovereign financing needs over, at least, a two-year period.**



Structure of Greek debt holders as of September 2018, in billion

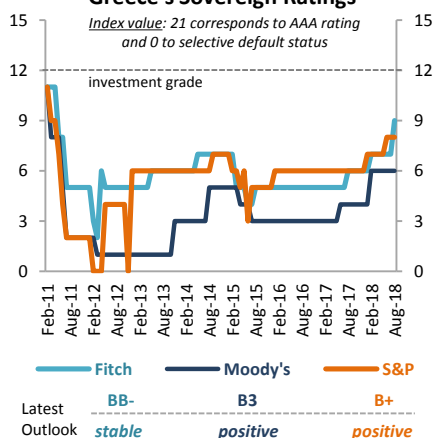


Sources: EU Commission, PDMA, ESM, Bloomberg, NBG Economic Analysis estimates

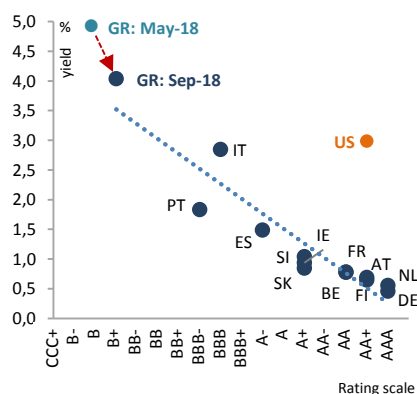


A positive assessment of Greece's achievements is counteracted by higher volatility in international financial markets

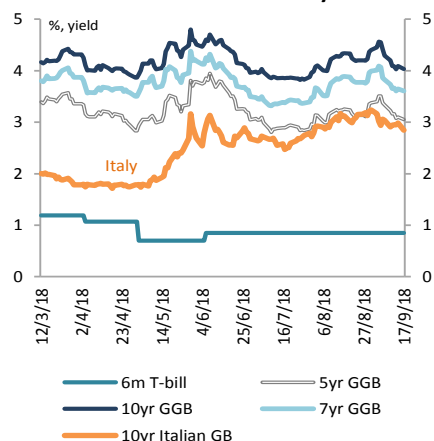
Greece's Sovereign Ratings



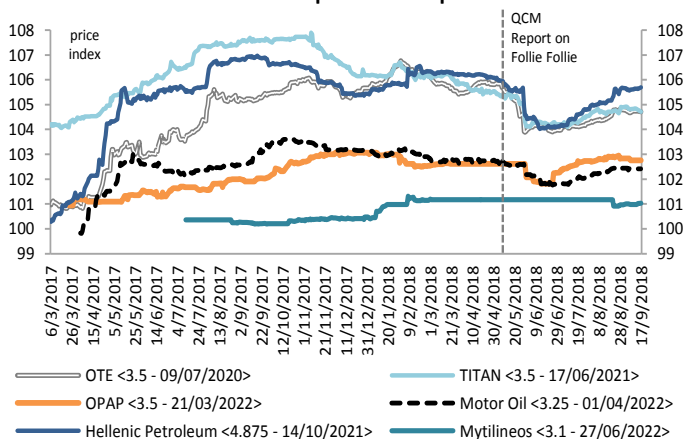
10y gov. bond yields & sovereign ratings in the Euro area & the US



Greek Government bond yields



Greek Corporate bond prices



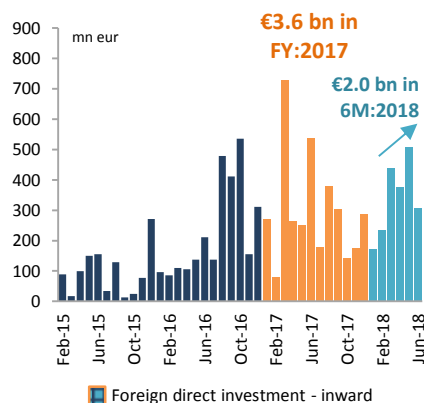
- Greek government bond (GGBs) valuations responded positively in the run-up to the 3rd Programme completion, but remain sensitive to external factors (Italy, emerging markets) and a prospective normalization in ECB policy.
- S&P upgraded Greece's sovereign rating to 'B+' on 25 June 2018 and revised its outlook to positive on 20 July 2018. S&P ratings for banks and specific instruments were also positively affected by this action, while Moody's upgraded its outlook for the Greek banking sector to positive on 30 July 2018. On 10 August 2018, Fitch upgraded Greece's sovereign rating by 2 notches to 'BB-' from 'B'. The agencies referred to: i) the substantially improved debt sustainability; ii) the large cash buffer, which covers over 2 years of funding needs; and iii) the increased fiscal credibility as major drivers of their decisions. A credible performance in structural reform implementation, continued fiscal efficiency and the pace of economic recovery are specified as the key factors for future upgrades.
- Valuations of high-quality Greek private assets gradually respond to the ongoing repricing of Greek risk, showing resilience to the increased volatility in international financial markets and some idiosyncratic risks related to specific Greek corporates.

Sources: Bloomberg, NBG Economic Analysis estimates



The “investability” of the economy is improving. Optimal use of the degrees of freedom in fiscal policy could provide additional catalysts

Inflows of foreign direct investment in Greece



Greece's sovereign ratings

	Current rating	Rating outlook	Distance from inv. grade (in notches)	Date of next review
Fitch	BB-	=	3	-
Moody's	B3	+	6	21/9/2018
S&P	B+	+	4	-

Ratings of Greek systemic banks

Current rating	
Short-term credit	B-
Long-term credit	B

Ratings of specific bank instruments

Piraeus' Estia (Class A)	BBB-
NBG's Covered Bond*	BBB-
*NBG's conditional pass-through covered bond program	
Sources: Bloomberg, Fitch, Moody's, S&P Global Ratings	

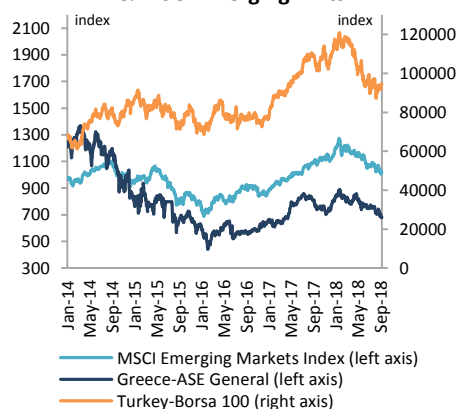
Receipts from major privatizations (mn euro) - H1:2018 and preliminary estimates for H2:2018

Athens International Airport (AIA)	1.115
Sale of 5% of OTE shares	284
Hellenic Gas Transmission System Operator (DESFA)	251
Thessaloniki Port Authority (OLTH)	232
EESSTY/ Railway infrastructure (Rosco)	22

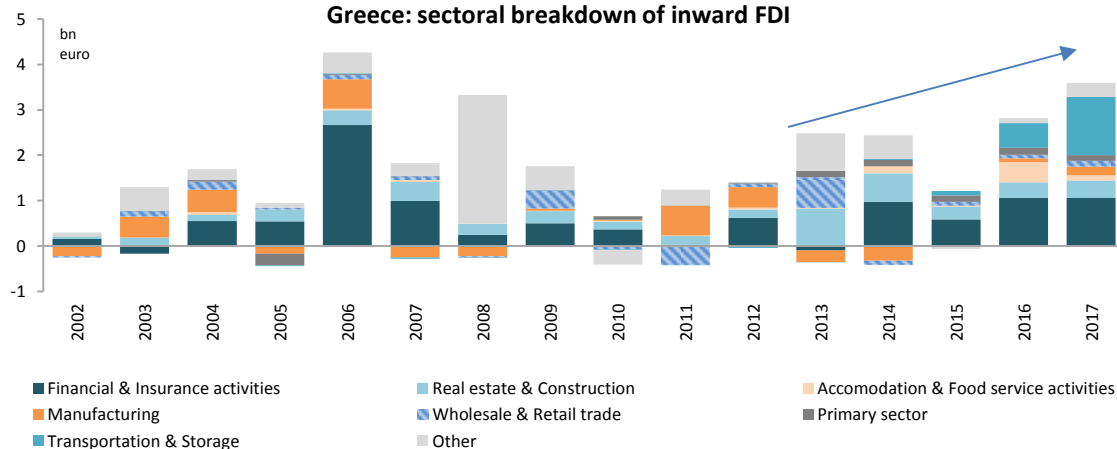
Source: HRADF

- Capital inflows from abroad appear to be gaining traction as uncertainty recedes.
- FDI inflows increased by €2.0bn in 6M:2018 and by €8.4bn, cumulatively, between January 2016 and June 2018, while “other investment” balance (excl. Gen. Government loans) increased by €1.4bn, cumulatively, in this period.
- A comprehensive specification of the economic policy and reform strategy for the following years, along with steadily improving macroeconomic conditions, would provide a decisive boost to investment decisions and related capital inflows, limiting gradually the transmission of external shocks to the Greek economy.
- Improvements in Greece’s sovereign rating have already been transmitted to the risk assessment of other high quality assets.

ASE-General, Borsa Istanbul 100 & MSCI Emerging Mkts



Greece: sectoral breakdown of inward FDI

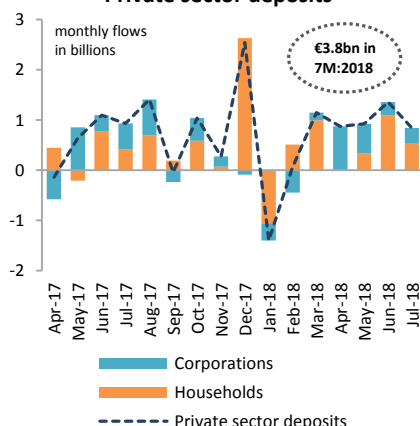


Sources: Bank of Greece, Bloomberg, HRADF, NBG Economic Analysis estimates

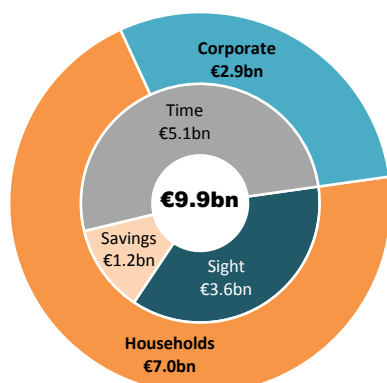


Liquidity balance is restored, with the banking system remaining in deleveraging mode

Private sector deposits

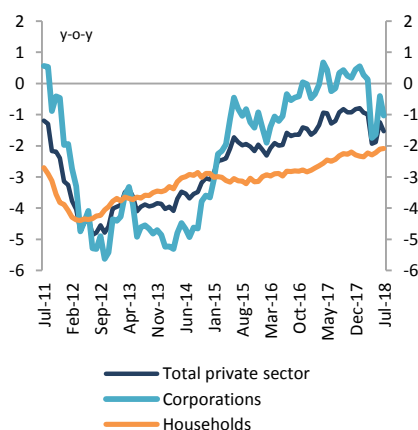


12-month change in private deposits by sector & type - July 2018



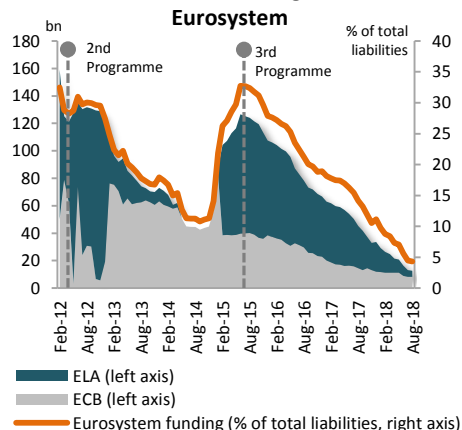
- Private sector deposits increased by €0.8bn in July, for a 6th consecutive month, with core deposits (sight & savings) and time deposits each increasing by €0.4bn. In 7M:2018, private sector deposits increased by €3.8bn, standing at €130.1bn from €126.3bn in December 2017, with household deposits exhibiting inflows of €2.4bn and corporate deposits inflows of €1.4bn in 7M:2018. This improvement mainly reflects increasing economic activity, higher capital inflows from abroad, in the form of portfolio investment and foreign direct investment, along with a further decline in cash hoarding by the private sector to the lowest point since 2008.
- Credit to the private sector decreased by 1.5% y-o-y in July 2018, compared with -1.2% y-o-y in June 2018 and -0.8% y-o-y in December 2017, mainly due to a decline in credit to corporates by -1.0% y-o-y in July 2018, as opposed to an increase of 0.4% y-o-y in December 2017. Negative base effects from accelerating credit expansion in the same period in 2017 in specific corporate sectors (i.e. energy, storage and transport services) amplified the decline. Nonetheless, in July 2018 credit to export-oriented sectors, such as tourism and manufacturing, remained positive and increased by 2.9% y-o-y and 0.9% y-o-y, respectively. Loans to households declined by a broadly stable pace of -2.1% y-o-y in July 2018.
- In August 2018, the Greek banking system's financing from the Eurosystem decreased further to €12.6bn from €13.0bn in July 2018 and €33.7bn in December 2017, with ELA declining to €4.5bn (from €21.6bn in December 2017). The improvement mainly reflects increasing access to interbank and wholesale markets, additional deleveraging and a gradual increase in deposits. In this respect, the ECB decision to revoke, upon the completion on 20 August of the 3rd Programme, the waiver on financial assets issued or guaranteed by the Greek state, is not expected to have a material impact on the financing capacity of Greek banks.

Bank credit to private sector



Source: Bank of Greece

Greek banks' borrowing from the Eurosystem





Greek Economy: Selected Indicators

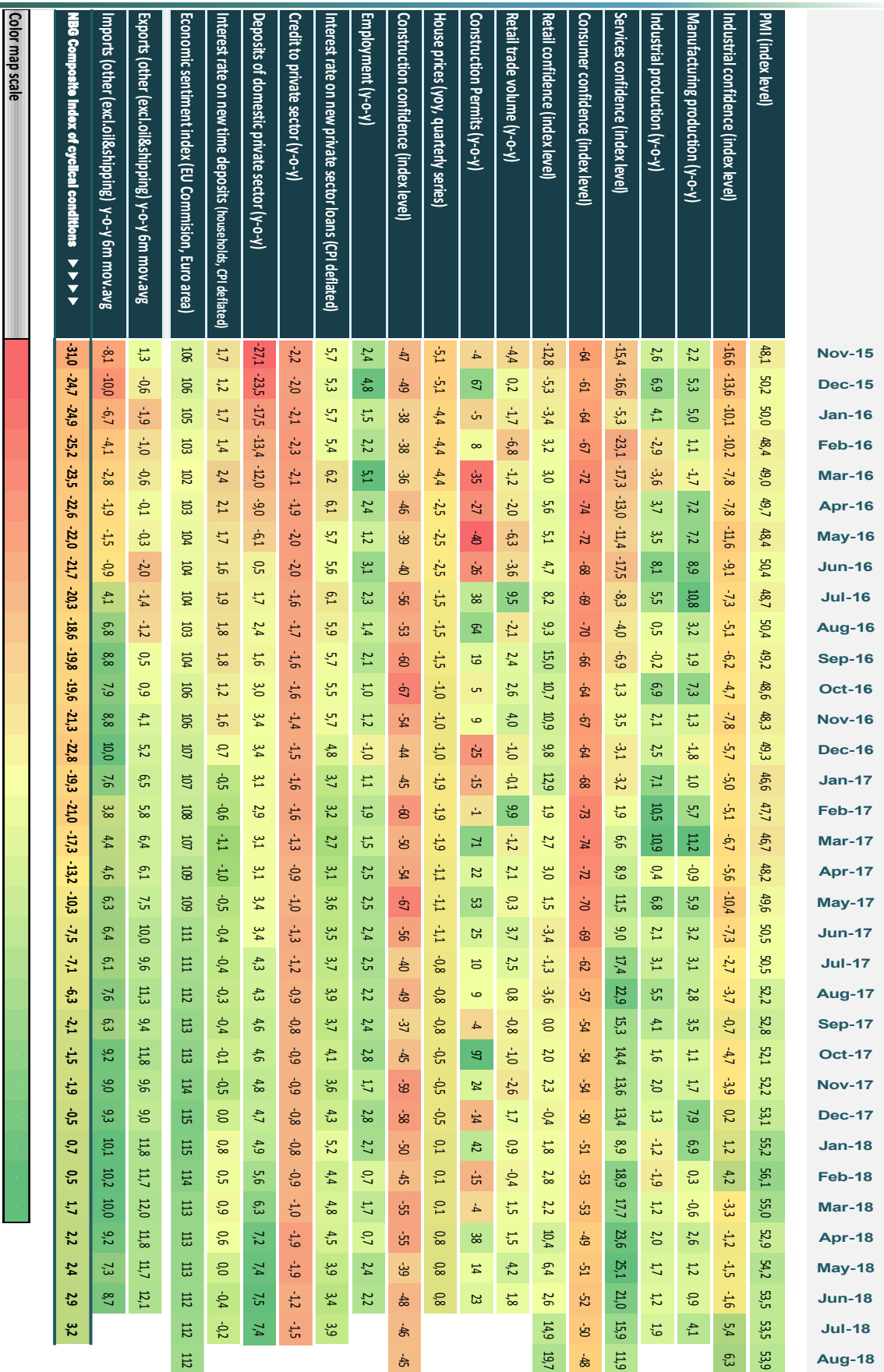
Greek Economy: Selected Indicators																				
	2015					2016					2017					2018				2018f
	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Most recent		
Real economy (y-o-y period average, constant prices)																				
GDP	0,0	0,4	-2,4	0,6	-0,3	-0,4	-0,9	1,2	-0,8	-0,2	0,3	1,5	1,5	2,0	1,3	2,5	1,8	Q2:18	1,8	2,0
Domestic demand	1,1	-1,4	-4,4	0,5	-1,0	-0,7	1,8	2,5	-0,7	0,7	2,2	0,4	2,0	1,9	1,7	-1,0	0,3	Q2:18	0,3	1,0
Final Consumption	0,5	0,8	-2,1	0,1	-0,2	-1,3	-1,8	2,2	-0,5	-0,4	0,4	0,3	-0,9	-0,2	-0,1	0,0	0,8	Q2:18	0,8	1,0
Gross fixed capital formation	5,9	-9,6	-2,6	5,0	-0,2	-9,6	12,9	13,6	-7,4	1,5	17,0	1,1	-8,3	29,0	9,5	-10,3	-5,4	Q2:18	-5,4	1,1
Exports of goods and services	12,9	11,6	-8,1	-3,6	2,9	-9,4	-10,4	9,2	5,0	-1,9	5,4	9,3	7,6	5,5	6,9	8,0	9,4	Q2:18	9,4	7,1
Imports of goods and services	15,8	4,6	-14,2	-3,4	0,4	-9,4	-1,9	14,0	4,9	1,2	11,3	4,8	9,2	5,0	7,5	-3,1	4,3	Q2:18	4,3	3,6
Coincident and leading indicators (period average)																				
Retail sales volume (y-o-y)	0,0	0,6	-4,2	-2,1	-1,5	-3,3	-4,0	3,1	1,7	-0,6	2,8	2,1	0,9	-0,5	1,2	0,6	2,5	Jun	1,8	...
Retail confidence (15-yr. average: -2,8)	-3,0	-1,3	-25,6	-11,1	-10,3	0,9	5,1	10,8	10,5	6,8	5,8	0,4	-1,6	1,3	1,5	2,3	6,5	Aug	19,7	...
Car registrations (y-o-y)	19,2	33,2	-2,2	2,1	13,8	-0,3	19,5	16,8	4,0	10,7	37,8	3,4	35,8	24,5	22,2	37,6	28,3	Jul	20,1	...
Consumer confidence (15-yr. average: -51,3)	-37,0	-43,6	-60,6	-61,6	-50,7	-67,5	-71,2	-68,4	-65,0	-68,0	-71,8	-70,2	-57,4	-52,7	-63,0	-52,3	-50,7	Aug	-47,8	...
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	9,5	3,0	4,2	1,6	4,5	-0,6	1,6	Jul	1,9	...
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	6,2	2,7	3,1	3,5	3,8	1,9	1,6	Jul	4,1	...
Capacity Utilization (15-yr. average: 70,7)	67,1	67,0	62,0	65,2	65,3	65,9	66,4	67,5	69,6	67,4	68,2	68,7	71,1	70,1	69,5	71,4	70,9	Aug	69,6	...
Industrial confidence (15-yr. average: -9,2)	-9,1	-14,0	-26,6	-16,6	-16,6	-9,4	-9,5	-6,2	-6,1	-7,8	-5,6	-7,8	-2,4	-2,8	-4,6	0,7	-1,4	Aug	6,3	...
PMI Manufacturing (base=50)	48,5	47,1	37,5	48,5	45,4	49,1	49,5	49,4	48,7	49,2	47,0	49,4	51,8	52,5	50,2	55,4	53,5	Aug	53,9	...
Construction permits (y-o-y)	29,2	-5,6	-22,4	5,9	-0,3	-11,9	-30,9	38,2	-9,4	-6,9	16,1	32,0	5,7	26,7	19,3	1,0	24,2	Jun	22,5	...
Construction confidence (15-yr. average: -34,1)	-33,9	-44,8	-60,9	-48,5	-47,0	-37,1	-41,6	-55,9	-55,0	-47,4	-51,6	-58,8	-41,9	-54,1	-51,6	-50,2	-47,2	Aug	-45,1	...
PIIP Disbursements (y-o-y)	-40,9	-57,6	-21,0	43,9	-2,8	7,0	18,0	35,8	-14,9	-1,8	-36,9	-24,9	-37,0	15,7	-5,4	-4,9	12,2	Aug	-48,0	...
Stock of finished goods (15-yr. average: 12,6)	13,0	15,0	17,4	15,3	15,2	12,5	11,1	14,9	12,2	12,7	10,7	11,8	12,7	10,3	11,4	6,1	3,8	Aug	3,8	...
External sector (period average)																				
Current account balance (% of GDP)	-1,9	-0,4	3,1	-1,0	-0,2	-1,5	-0,3	2,2	-1,4	-1,1	-1,6	-0,2	2,6	-1,6	-0,8	-1,5	-0,5	Jun	-1,1	-1,2
Current account balance (EUR mn)	-3295	-750	5482	-1841	-404	-2560	-608	3822	-2526	-1872	-2783	-427	4575	-2780	-1414	-2822	-943	Jun	210	...
Services balance, net (EUR mn)	1297	4757	9062	1816	16932	716	3776	8641	2179	15311	1006	4212	9864	2351	17434	885	4748	Jun	2585	...
Primary Income Balance, net (EUR mn)	477	-575	-185	699	416	759	-184	-636	57	-3	951	-233	-450	-177	91	958	-545	Jun	-384	...
Merchandise exports – non-oil (y-o-y cum.)	10,0	7,5	4,2	1,9	1,9	-1,1	-2,5	0,1	1,4	1,4	8,5	9,5	8,7	9,6	9,6	14,4	13,1	Jun	13,7	...
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	6,6	8,1	8,1	8,7	9,9	Jun	9,3	...
Gross tourism revenue (y-o-y)	10,5	9,6	4,7	-4,4	5,2	3,8	-10,7	-7,9	7,5	-6,8	-8,4	9,4	12,6	11,1	11,1	14,3	20,7	Jun	16,5	...
International tourist arrivals (y-o-y)	45,6	15,0	2,6	-2,1	7,1	-6,2	-0,2	6,5	15,9	5,1	-1,8	9,0	12,2	5,9	9,7	12,8	20,7	Jun	22,3	...
Employment																				
Unemployment rate	25,9	25,0	24,7	24,3	25,0	24,1	23,5	23,3	23,3	23,5	22,7	21,5	20,9	21,0	21,5	20,5	19,4	Jun	19,1	19,5
Employment growth (y-o-y)	0,7	2,3	2,4	3,0	2,1	2,9	2,2	1,9	0,4	1,9	1,5	2,4	2,4	2,4	2,2	1,7	1,8	Jun	2,2	1,8
Prices (y-o-y period average)																				
Headline inflation	-2,4	-2,1	-1,8	-0,6	-1,7	-0,9	-0,9	-1,0	-0,4	-0,8	1,4	1,3	1,0	0,8	1,1	-0,1	0,5	Aug	1,0	0,6
Core inflation	-0,7	-0,9	-0,5	0,3	-0,5	0,2	0,3	-0,3	-0,7	-0,1	-0,4	0,2	0,4	0,4	0,2	0,2	0,1	Aug	0,0	0,1
Producer prices excl.energy	-0,1	0,2	0,2	-0,2	0,0	-0,6	-0,8	-0,9	-0,6	-0,7	0,4	0,3	0,6	0,5	0,5	0,2	0,1	Jul	0,1	...
Fiscal policy																				
Gov. balance as % of GDP (Programme definition)	...	...	...	...	-3,0	...	...	...	...	0,7	...	...	...	...	1,1	...	...	...	...	0,2*
Government debt as % of GDP	...	...	...	...	176,8	...	...	...	...	180,8	...	...	...	...	178,6	...	...	...	...	183,1*
Revenues – Ordinary budget (cum. % change)	-1,8	-5,7	-6,7	-0,8	-0,8	4,3	6,9	9,7	7,6	7,6	0,4	-1,1	0,4	-0,2	-0,2	3,7	2,3	Aug	2,9	...
Expenditure – Ordinary budget (cum. % change)	-2,2	-6,7	-5,3	0,2	0,2	-2,3	2,7	1,5	0,7	0,7	-0,8	-3,2	-4,7	-1,9	-1,9	-8,5	2,0	Aug	1,6	...
Monetary sector (y-o-y, end of period)																				
Deposits of domestic private sector	-15,1	-26,0	-26,6	-23,5	-23,5	-12,0	0,5	1,6	3,4	3,4	3,1	3,4	4,6	4,7	4,7	6,3	7,5	Jul	7,4	...
Loans to private sector (incl. sec. & bond loans)	-2,5	-1,7	-1,5	-2,0	-2,0	-2,1	-2,0	-1,6	-1,5	-1,5	-1,3	-1,3	-0,8	-0,8	-0,8	-1,0	-1,2	Jul	-1,5	...
Mortgage loans (including securitized loans)	-3,3	-3,4	-3,5	-3,5	-3,5	-3,4	-3,4	-3,4	-3,5	-3,5	-3,3	-3,2	-2,9	-3,0	-3,0	-3,0	-3,0	Jul	-3,0	...
Consumer credit (including securitized loans)	-2,5	-2,3	-2,8	-2,3	-2,3	-1,7	-1,5	-0,7	-0,8	-0,8	-0,7	-0,7	-0,5	-0,5	-0,5	-0,6	-0,6	Jul	-1,0	...
Interest rates (period average)																				
10-year government bond yield	10,0	11,6	10,8	7,9	10,1	9,5	8,2	8,2	7,5	8,3	7,2	6,1	5,5	5,1	6,0	4,1	4,2	Aug	4,2	...
Spread between 10 year and bunds (bps)	967	1112	1011	730	955	919	805	823	733	820	689	577	502	469	559	346	376	Aug	384	...
Exchange rates (period average)																				
USD/euro	1,13	1,11	1,11	1,10	1,11	1,1	1,13	1,12	1,08	1,11	1,07	1,1	1,18	1,18	1,13	1,23	1,19	Aug	1,15	...

* according to Medium Term Fiscal Strategy 2019-2022. In 2018 public debt as % of GDP includes government cash buffer

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



Greece: Macro indicators heatmap



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



October						
1	12-14	mid	17	18	22	late
Draft Government Budget 2019/ Eurogroup meeting	IMF/World Bank annual meetings	Activation of the European Semester process	EL.STAT. release: Annual National Accounts (2017)	European Council meeting	EL.STAT. release: General government deficit and debt 2017 – 2 nd notification	Final submission of the 2018 EU-wide stress test's results to the EBA by EU banks

November				
2	5	7	-	21
EBA publication of the 2018 EU-wide stress test's results	Eurogroup meeting	ECB Governing Council: non-monetary policy meeting	EU Commission: 1 st enhanced surveillance report on Greece	Government Budget 2019/ ECB Governing Council: non-monetary policy meeting

December				
3	4	5	13	13-14
Eurogroup meeting	EL.STAT. release: Quarterly National Accounts (Q3:2018)	ECB Governing Council: non-monetary policy meeting	ECB Governing Council: monetary policy meeting	European Council meeting



**NATIONAL BANK
OF GREECE**

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Note: The analysis is based on data up to September 17, 2018, unless otherwise indicated