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OF GREECE

GREECE Macro Flash

GDP Q2:2017

GDP growth gains traction in Q2:2017

- Greek GDP growth accelerated to +0.8% y-o-y in Q2:2017 from +0.4% y-o-y in Q1:2017, maintaining its strong momentum, on a quarterly basis, of +0.5% (s.a. q-o-q) in both Q1:2017 and Q2:2017.
- The most impressive component of the Q2 results was the solid development in exports of goods and services, which were the main driver of GDP in Q2:2017. Net export growth contributed +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 was unexceptional, increasing by +0.7% y-o-y (lower than the Q1:2017 growth of 1.2% y-o-y). However, public consumption was quite 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, following an over-restraint in spending in Q1:2017.
- The main disappointment is the decline in gross fixed capital formation (by 4.6% y-o-y). The contraction mainly reflected lower non-residential construction (-9.3% y-o-y, partly related to a decline in public investment program disbursements of 24.9% y-o-y or -1.2% of GDP in Q2:2017) 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, mostly due to public investment.

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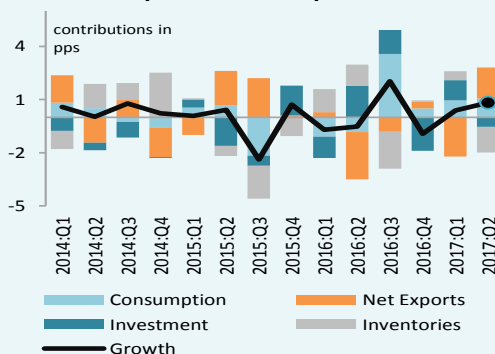
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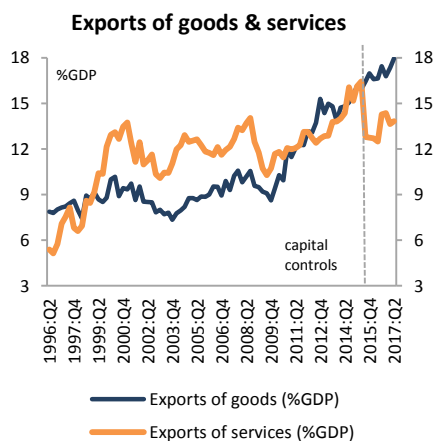
Composition of output growth by expenditure component



An analysis of the subcomponents of net exports is noteworthy. Services exports grew by 11.5% y-o-y (in constant price terms), buoyed by accelerating tourism activity and higher “other services” exports (mainly shipping), as reflected in the increase in tourism and shipping revenue of 9.8% and 18.0% y-o-y, respectively, in Q2:2017, according to balance of payments data.

In fact, the increase in gross exports, in constant price terms, added 2.8 pps to annual GDP growth in Q2:2017 – with the share of goods exports in GDP reaching an all-time high of 17.9% -- outweighing the negative contribution of 1.0 pp from higher imports in this quarter. Import growth slowed to 3.1% y-o-y in Q2:2017 from 11.7% y-o-y in Q1:2017, showing a close correlation with the weakening in non-residential investment, as the latter typically has a high import content.

An additional positive outcome is the pick-up in revenue generated from Greek firms’ services exports, following a sharp contraction that followed the imposition of capital controls and continued in the first half of 2016. In essence, this is equivalent to an improvement in the terms of trade and provides further stimulus to the economy, currently suggesting that private sector confidence in the prospects of the economy is picking up.

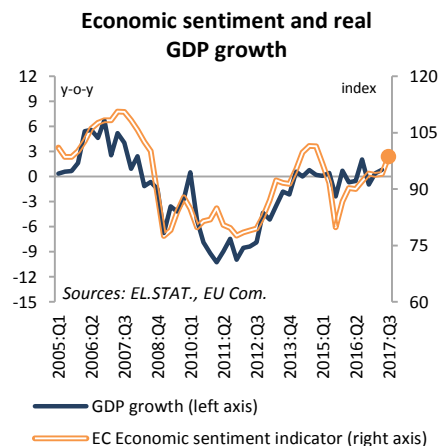


Looking forward, NBG Economic Analysis’ “high frequency indicator” of economic activity, incorporating the latest information from macroeconomic data releases for July-August 2017, suggests an acceleration in GDP growth to above 1.5% y-o-y in Q3:2017. This

projection mainly reflects the notable improvement in economic sentiment and manufacturing PMI indices, which rose to 30-month and 9-year highs, respectively, in August, along with solid tourist arrivals data for July (+5.7% y-o-y increase in non-resident arrivals at major Greek airports). Indeed, in view of the notable acceleration in tourism revenue in Q2:2017 -- which exceeded arrivals growth in this period (+10.1% y-o-y versus +9.0% y-o-y, respectively, in Q2:2017) for the first time since 2014 -- GDP growth is expected to receive a substantial net direct boost of 1.6 pps from tourism in Q3:2017 (and 0.8 pps in FY:2017). This estimate is conditioned on the rather conservative assumption for an average annual growth in tourism revenue of 9.0% y-o-y in FY:2017 (versus +14.7% y-o-y in June 2017).

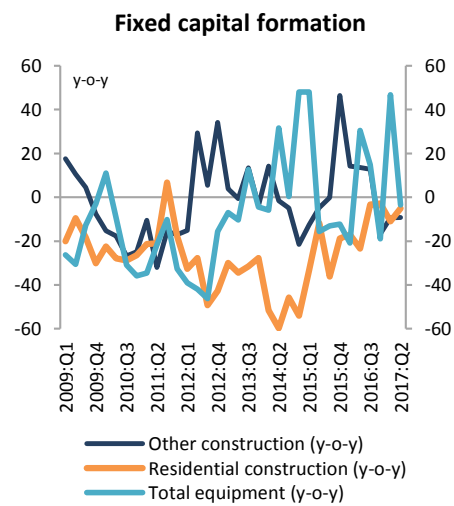
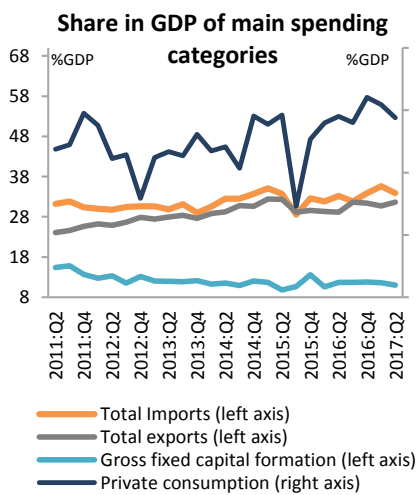
Moreover, the back-loading of the public investment program, along with the planned clearance of government arrears, which jointly amount to 7.0% of H2:2017 GDP (1.3% of GDP higher than in H2:2016) are estimated to offset the additional drag from higher tax payments of 1.0% of GDP in the second half of the year compared with H2:2016.

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.



Greece: Growth Outlook											
	2015	2016	2017f	2016				2017f			
				Q1	Q2	Q3	Q4	Q1	Q2e	Q3f	Q4f
GDP (real, % y-o-y, s.a.)	-0,3	0,0	1,6	-0,7	-0,5	2,0	-0,9	0,4	0,8	1,7	3,3
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	-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	-1,2	-0,9	4,0	0,6	1,0	1,2	0,1	1,2
<i>Private Consumption (y-o-y)</i>	-0,3	1,4	1,2	-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	-10,4	18,1	12,7	-14,0	10,8	-4,6	8,0	14,6
<i>Residential construction</i>	-26,0	-12,6	-7,0	-17,0	-23,4	-3,3	-2,9	-11,0	-5,1	...	...
<i>Total GFCF excluding residential</i>	2,4	0,9	8,0	-9,8	22,1	13,8	-14,5	12,3	-4,6	...	...
Inventories* (contribution to GDP)	-0,9	0,1	-0,3	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	-2,7	-0,8	0,4	-2,2	1,8	0,7	0,7
Exports (y-o-y)	3,1	-1,7	7,3	-10,2	-10,3	10,8	5,0	5,2	9,5	6,8	7,9
Imports (y-o-y)	0,3	0,6	6,1	-10,2	-2,0	13,9	3,5	11,7	3,1	4,5	5,2

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



This analysis can be viewed at:
<https://www.nbg.gr/el/the-group/press-office/e-spot/reports?cat=THB0v484d%2bex%2f20Eq1iFif5rxRc%3d>



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Note: The analysis is based on data up to September 1, 2017