



NATIONAL BANK
OF GREECE

GREECE Macro Flash

GDP Q2:2019

September 2019

GDP growth accelerated to 1.9% y-o-y, driven by exports and public consumption



Greece's GDP growth accelerated to 1.9% y-o-y in Q2:2019 from a downwardly revised 1.1% y-o-y in Q1:2019.



Total exports increased by 5.4% y-o-y, adding 1.8 pps to GDP growth in Q2:2019, with exports of services (tourism and shipping) having the greatest impact (+1.0 pps). Net exports added 0.5 pps to GDP growth in Q2:2019, as total imports increased by 3.7% y-o-y in the same period.



The increase in public consumption by 5.3% y-o-y largely reflects the reimbursement in May 2019 of the "13th pension" – which was abolished in 2012 – along with a normalization in government expenditure in the run-up to the elections in May and July 2019.



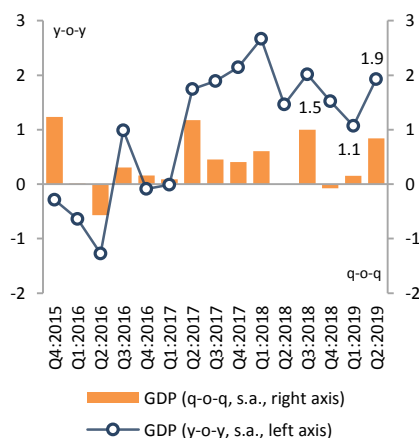
The unexpected contraction in private consumption by 0.7% y-o-y can be mainly attributed to a deferral of important spending decisions during the pre-election period, which is expected to be reversed in Q3:2019 in view of the outstanding improvement in consumer confidence.

GDP Q2:2019

Key Drivers

Trends & Challenges

GDP increased by 1.9% y-o-y



- ▲ Increase in services exports (tourism & shipping) by 6.9% y-o-y (constant prices)
- ▲ Acceleration in public consumption (5.3% y-o-y)
- ▲ Further inventory stockpiling that added 0.9 pps to GDP growth
- ▲ Continuing recovery in residential construction (19.5% y-o-y)
- 🌀 Pick-up in total investment excl. construction (20.1% y-o-y)
- ▼ Private consumption contracted by 0.7% y-o-y
- ▼ Higher import spending (3.7% y-o-y, constant prices)
- ▼ Reduction in non-residential construction by 45.5% y-o-y

- A notable improvement in consumer confidence in August (19-year high), along with a back-loading of fiscal easing – which affects mainly H2:2019 – point to an acceleration in GDP growth to above 2.5% y-o-y for the remainder of the year.
- The deterioration in the external environment and a subdued improvement in business sentiment reflect the downside risks surrounding investment spending.



GDP growth accelerated in Q2:2019

- Greek GDP increased by 1.9% y-o-y (0.8% s.a., q-o-q) in Q2:2019, reflecting the positive contribution in GDP growth on an annual basis from: i) increasing exports (+1.8 pps); ii) public consumption (1.1 pps); and iii) inventories (0.9 pps), as well as other non-allocated expenditure (0.6 pps). The above factors outweighed the negative impact on growth from the expansion of imports (-1.3 pps), the contraction of investment spending (-0.7 pps) and the decline in private consumption (-0.5 pps).



Export growth remained solid, with services exports being the key driver of activity

- Exports of goods (in constant price terms) increased by 4.0% y-o-y in Q2:2019 – to a historical high of 19.1% of GDP – despite the slowdown in euro area growth and the significant deterioration in economic conditions in highly important exporting markets for Greek products (such as Turkey and Italy). Exports of services – mainly tourism and shipping – increased by 6.9% y-o-y, approaching the all-time high of 16.4% of GDP in 2015 (this share shrunk following the implementation of capital controls).
- The combined contribution of the above export categories outweighed the negative impact from the increase in imports of 3.7% y-o-y (in constant prices), mainly in the form of productive inputs, energy materials and consumer goods. Overall, net exports contributed 0.5 pps to annual GDP growth in Q2:2019.



A pick-up in public consumption

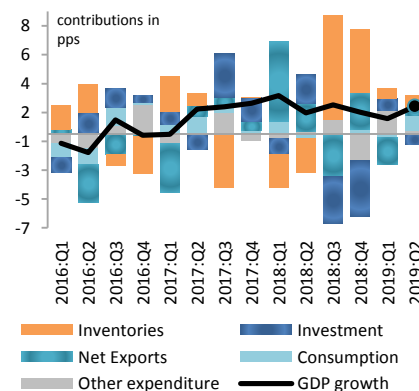
- Public consumption increased by 5.3% y-o-y in Q2:2019, contributing 1.1 pps to annual GDP growth – following higher-than-budgeted restraint in Q1:2019 (-1.4% y-o-y).
- This development mainly reflects the reimbursement of the 13th pension in May 2019 – with the total amount reaching 1.8% of quarterly GDP – as well as an acceleration in government payments, ahead of local government, EU Parliament and national elections in Q2:2019 and the clearance of government arrears.



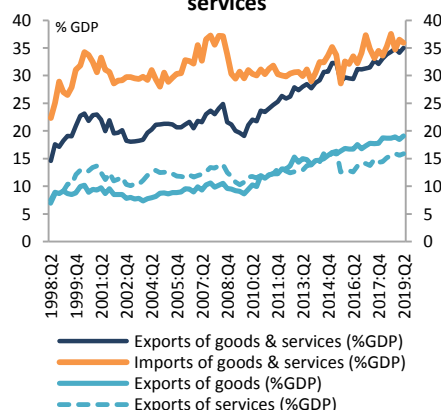
Additional boost from inventory accumulation

- A new increase in inventory stockpiling contributed 0.9 pps to GDP growth, reflecting improving business expectations for demand and production trends for the rest of the year, which resulted in higher spending on imported primary and semi-processed goods used in production. Moreover, a further rise in non-allocated expenditure added 0.6 pps in GDP growth, which could be reclassified as consumption and/or investment spending in future revisions to the GDP data series.

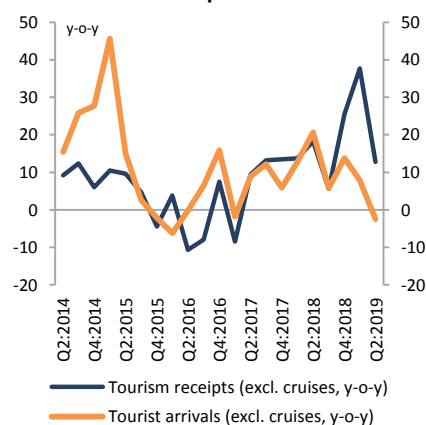
Composition of output growth by expenditure component



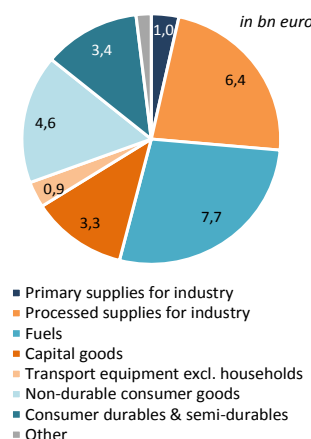
Imports & exports of goods and services



Travel receipts & arrivals



Greek imports - 6M:2019





Total investment spending shrunk, due to lower non-residential construction, despite a new rise in spending on equipment

- Gross fixed capital formation decreased by 5.8% y-o-y, in Q2:2019, although investment spending on machinery and transport equipment remained on an upward trend (increasing by 3.0% and 73.6% y-o-y, respectively, in Q2:2019, with the latter including purchases of merchant ships), reflecting higher spending by the more competitive firms. Specifically, investment excluding total construction increased by 20.1% y-o-y, contributing 1.4 pps in annual GDP growth in Q2:2019, while residential construction increased further by 19.5% y-o-y.
- However, non-residential construction declined by 45.5% y-o-y, subtracting 2.3 pps from the annual GDP growth in Q2:2019. This contraction reflects delays in the implementation of a number of important construction projects (public and private), along with an adverse base effect from an extraordinary increase of 54.3% y-o-y in non-residential construction in Q2:2018.



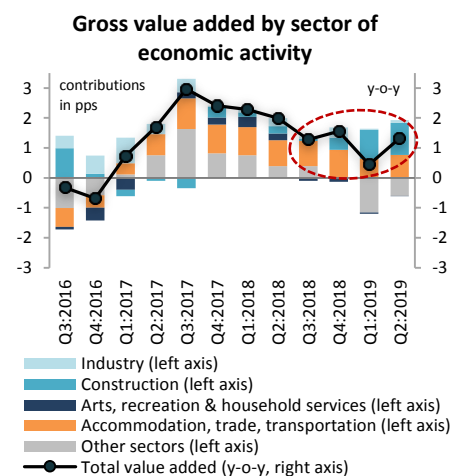
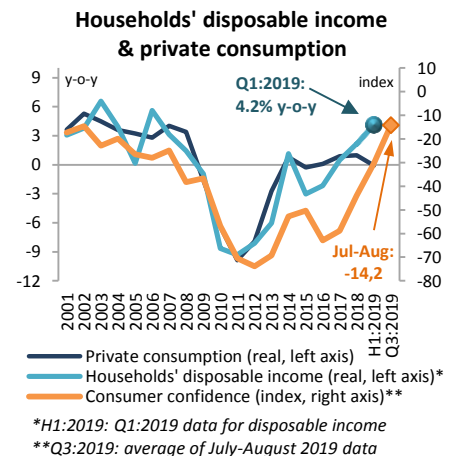
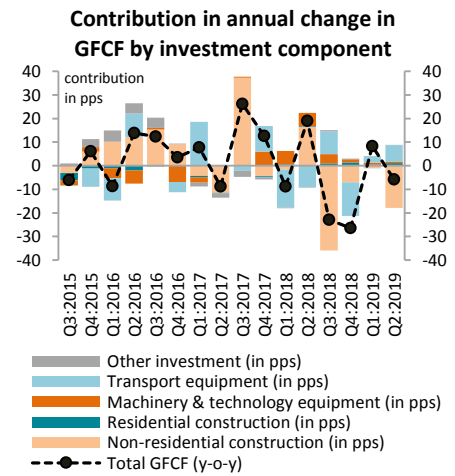
Private consumption surprised negatively, but is expected to rebound in H2:2019

- Despite the positive labor market trends (employment growth of 2.5% y-o-y in 5M:2019 and a further decline in the unemployment rate to an 8-year low of 17.1% in May) and steadily improving consumer confidence, private consumption contracted by 0.7% y-o-y in Q2:2019 (from +0.5% y-o-y in Q1:2019).
- The above development is estimated to reflect a “wait-and-see” stance by households during the pre-election period, which led to a deferral of important spending decisions and possibly altered the typical consumption patterns in the run-up to the summer sales period.
- Accordingly, the notable improvement in consumer confidence and especially the sharp increase in household intentions for major purchases in Q3:2019 and their optimistic assessment of economic prospects over a 12-month horizon – as indicated by the respective survey data – presage a strong increase in private consumption in the second semester of the year.



Value added increased by 1.3% y-o-y

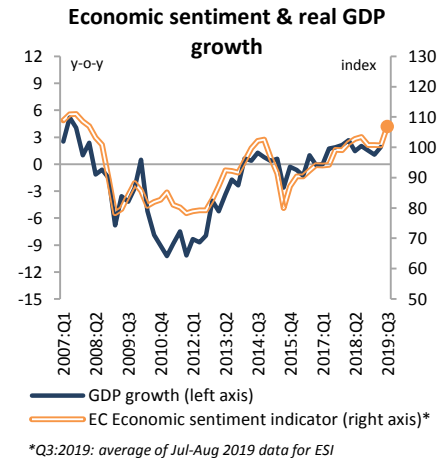
- GDP breakdown from the production side indicates an acceleration in gross value added generation in the Greek business sector, with the annual increase reaching 1.3% in Q2:2019 from 0.4% in Q1:2019, on the back of positive contributions of the wholesale-retail trade and construction sectors.





Positive trends in high frequency indicators in Q3:2019 presage a sharp acceleration in GDP growth in H2:2019

- The available data for economic sentiment, key business sectors, as well as consumer confidence during July-August, in conjunction with the positive impact from the phasing-in of fiscal expansion measures, point to an acceleration in GDP growth to above 2.5% y-o-y in H2:2019 and to c. 2.1% y-o-y in FY:2019.
- Undoubtedly, there are still downside risks to the above scenario – mainly related to external factors – which could adversely affect spending/investment decisions of export-oriented firms, as indicated by the relatively high volatility of a number of sectoral confidence indicators.
- Furthermore, there is still high heterogeneity in the pace of improvement in the financial position of a significant number of less-competitive business entities and financially weak households, which affects general macroeconomic trends.

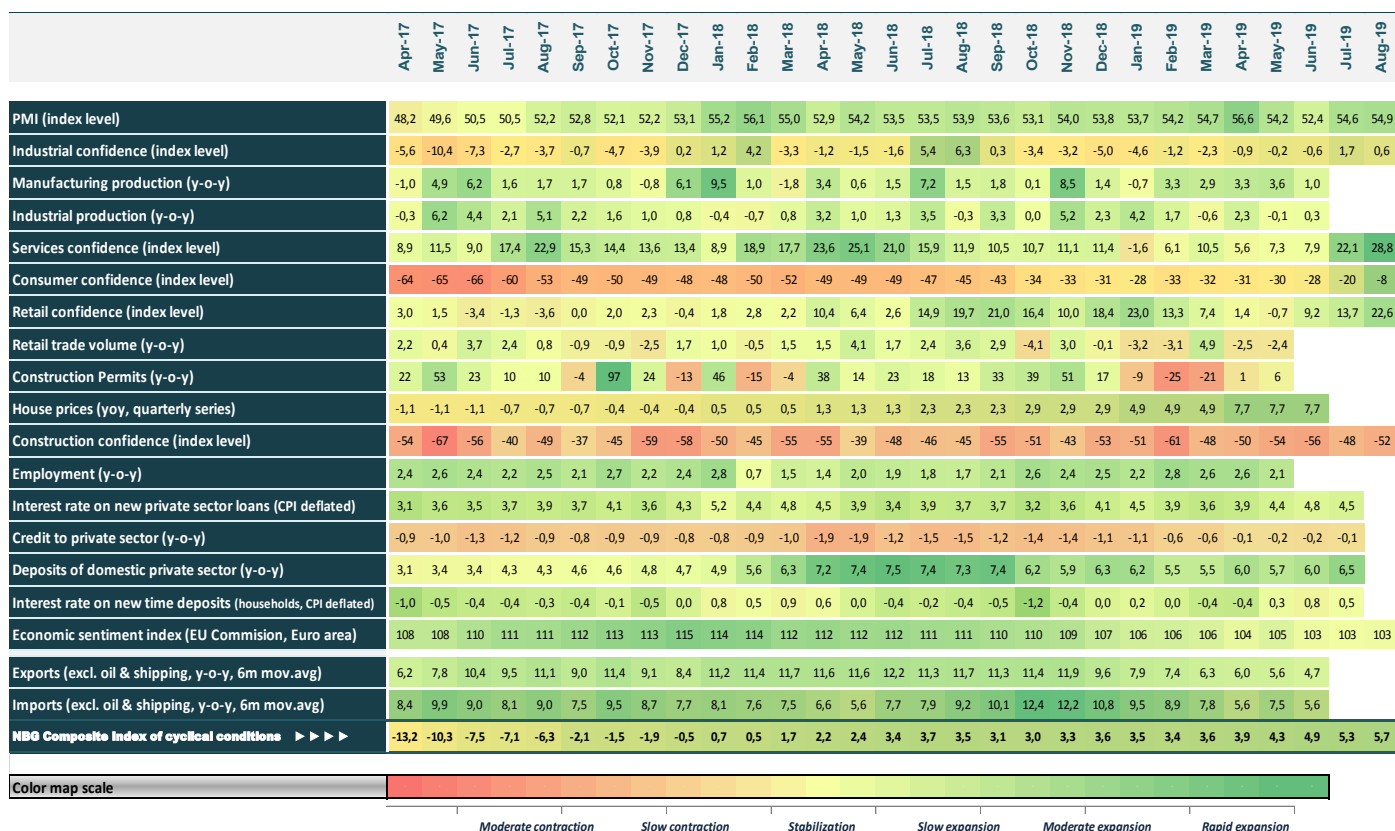


Greece: Growth Outlook

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

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

Greece: Tracking the economy's cyclical position



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

Main contributors: N. Magginas, Chief Economist, Head of NBG Economic Analysis Division, e-mail: nimagi@nbg.gr | E. Alevizopoulou, e-mail: alevizopoulou.e@nbg.gr | A. Gouveli, e-mail: gouveli.aikaterini@nbg.gr | E. Balikou, e-mail: balikou.eleni@nbg.gr | E. Kyrkopoulou, e-mail: kyrkopoulou.eleni@nbg.gr | G. Murphy, e-mail: gmurphy@nbg.gr

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