



# Economic Bulletin

## Executive Summary

In its 2018 Article IV Consultation report published on July 31, the IMF commended Greece for the return to growth following important reforms and policy choices that have largely eliminated fiscal and current account imbalances and restored stability. It also advocated a shift to a more growth-friendly and inclusive fiscal policy mix to sustain growth over the long run.

The Fund welcomed the debt relief measures endorsed by the Eurogroup of June 22, noting that these measures, combined with a large cash buffer, have significantly improved debt sustainability over the medium term, though longer-term prospects remain uncertain. In this regard, the Fund welcomes the commitment of European partners to provide additional debt relief if needed.

Net hirings have increased further, while the economic sentiment indicator climbed to 105.3 in July, its highest level in the last four years, and most business confidence indicators also recorded a notable improvement from the previous month.

Following the rating upgrade of June 25, S&P changed Greece's rating outlook from stable to positive in its scheduled rating review on July 20 on the back of improved policy predictability and economic prospects.

On July 30, Moody's changed the Greek banking sector outlook to positive from stable on improving funding and asset risk. Earlier in July, S&P assigned an investment-grade rating to two Greek banks' covered and securitised bonds for the first time since 2011.

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# Key Developments

The IMF highlighted Greece's achievements and risks as well as significant improvement of its debt sustainability over the medium term in its 2018 Article IV Consultation report.

On July 20, S&P revised Greece's rating to positive on improved policy predictability and economic prospects.

Exports retained a positive momentum rising by 13.7% in the 5-month period, while imports edged up by 0.4%.

According to the Ministry of Labour database (ERGANI), the employment balance recorded a new record high of 298,171 net hirings in the first half of the year.

The retail trade turnover and volume indices rebounded strongly by 5.3% and 4.6% year on year (yoy) respectively in May.

The economic sentiment climbed to a four-year high in July, while most business confidence indicators also improved significantly from the previous month.

The ordinary state budget revenues (before tax refunds and excluding privatisation receipts) rebounded by 2.3% to EUR 22.74 billion in the 6-month period overshooting target by EUR 187 million.

In June, Greek banks reduced further their reliance on ELA funding by EUR 2.24 billion month on month (mom).

On July 30, Moody's changed the Greek banking sector outlook to positive from stable on improving funding and asset risk.

In early July, S&P assigned an investment-grade rating to two Greek banks' covered and securitised bonds for the first time since 2011.

# Economic Analysis

## IMF highlights achievements and risks as well as improved debt sustainability over the medium term

Supported by an impressive macroeconomic stabilisation effort, implementation of key structural reforms and a better external environment, macroeconomic imbalances have been redressed and growth has returned to Greece, the IMF stressed in its 2018 Article IV Consultation report published on July 31. The Fund expects an economic expansion of 2% in 2018 accelerating to 2.4% in 2019 and projects Greece will meet its primary fiscal target of 3.5% of GDP in 2018-2022.

The Greek authorities welcome the revised medium-term fiscal outlook of Greece following the IMF's sizeable forecast errors of the fiscal outturns of 2016 and 2017.

In its updated Debt Sustainability Analysis (DSA), the IMF noted that the debt relief measures endorsed by the Eurogroup of June 22 should secure a steady reduction of the stock of debt and gross financing needs (GFN), thereby supporting Greece's efforts to sustain market access over the medium term, while long-term risks remain. In this regard, the Fund welcomes the commitment of European partners to provide additional debt relief if needed.

According to its baseline scenario, the Fund continues to expect a long-run primary surplus of 1.5% of GDP and real GDP growth of 1% (corresponding to nominal growth of 2.8%). Under this scenario, Greece's GFN would breach the 20% of GDP threshold by 2038.

The Greek authorities consider that the Fund's assumptions on growth and market refinancing rates are overly pessimistic given the current low labour market participation rates and the ambitious set of reforms implemented in the recent years.

Note that the European institutions forecast a long-term primary surplus of 2.2% of GDP and

nominal GDP growth of 3% resulting in debt sustainability over the long term.

The report also stressed that Greece does not need further fiscal consolidation, but a shift to a more growth-friendly and inclusive fiscal policy mix, which is the key policy objective of the Medium-Term Fiscal Strategy of the authorities.

In addition, the Fund urged for an acceleration of Greek banks' efforts to reduce their high stock of non-performing loans (NPLs) and suggested further product and labour market reforms to boost productivity and labour force participation. "Greece should now consolidate and extend its success by addressing, with determination, its remaining challenges", the IMF concluded.

## S&P upgrades Greece's rating outlook to positive

Following the rating upgrade on June 25, S&P revised Greece's rating outlook to positive from stable in its scheduled rating review on July 20.

The positive outlook reflects improved policy predictability and economic prospects as well as the likelihood of a rating upgrade in the coming period.

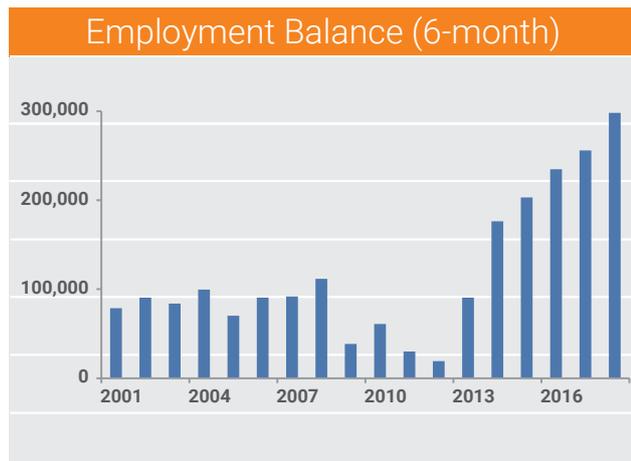
The rating agency appears optimistic over the short term based on planned increases to public expenditure on infrastructure projects in tourism, shipping and logistics that could contribute to stronger growth.

S&P projects the domestic economy will grow by 2.3% on average in 2018-2021 with the risks tilted to the upside.

## Employment balance at fresh record high in first half

The continuous improvement in the labour

market led the employment balance (hirings minus exits) up by 16.5% in the first half of the year, according to ERGANI database. Specifically, net hirings climbed to 298,171, which is a new record high for the 6-month period since 2001. The previous high of 255,903 was recorded in 2017, while this year's figure corresponds to 42,268 more net hirings from last year.



Source: ERGANI

Meanwhile, the unemployment rate dropped by 1.5 percentage points yoy to 20.2% in April.

### Retail turnover rebounds by 5.3% yoy in May

The turnover index in retail trade increased at an accelerating pace by 5.3% yoy in May after a rise of 0.9% recorded in April.

The rebound in May mainly reflects an increase in the turnover of automotive fuel (+9.7%), supermarkets (+7.9%), furniture, electrical and household equipment (+5.8%) and pharmaceutical products and cosmetics (+4.5%).

Overall, the retail turnover index rose by 1.3% on average in the 5-month period, while the volume index posted a slightly higher growth rate of 1.6%.

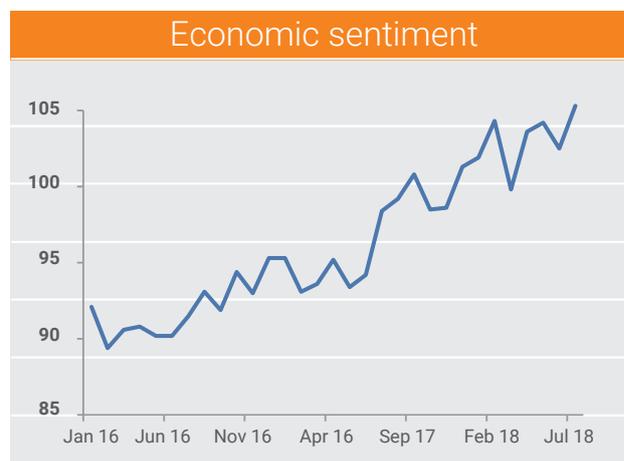
### Exports grow by 13.7% in 5-month period

The significant improvement in exports was maintained in May with a double-digit growth of 14.4% from last year. Overall, exports grew by 13.7% to EUR 13.41 billion in the 5-month period, while imports increased marginally by 0.4% to almost EUR 22 billion.

All key sectors recorded a rise in the 5-month period with the most notable improvement in fuels (+16.9%), industrial products (+14.7%), manufactured goods (+13.3%) and chemical products (+12.4%), according to data provided by the Panhellenic Exporters Association.

### Economic sentiment and consumer confidence improve in July

Economic sentiment climbed by 2.8 points mom to 105.3 in July, which is the highest reading since June 2014. Since the end of 2017, the index has rebounded by 4 points.



Source: EC

At the same time, consumer confidence rose by 2.5 points mom to -49.9 in July, while notable improvement was also recorded in the retail trade (+12.3 points), industry (+7 points) and construction (+2 points) confidence indicators.

## State budget revenues rebound in first half overshooting upward revised target

The ordinary budget revenues (before tax refunds and excluding privatisation receipts) rebounded by 2.3% to EUR 22.74 billion in the first half of the year, overshooting the target by EUR 187 million.

It is noted that the target, set in the Medium-Term Fiscal Strategy 2019 – 2022, exceeds the previous target incorporated in the 2018 Budget by EUR 898 million.

Tax revenues, in particular, were almost in line with the new upward revised target. At the same time, primary expenditure rose by 5.5% to EUR 20.39 billion also reflecting an increase of EUR 245 million for family allowances and of EUR 203 million for the Social Solidarity Income.

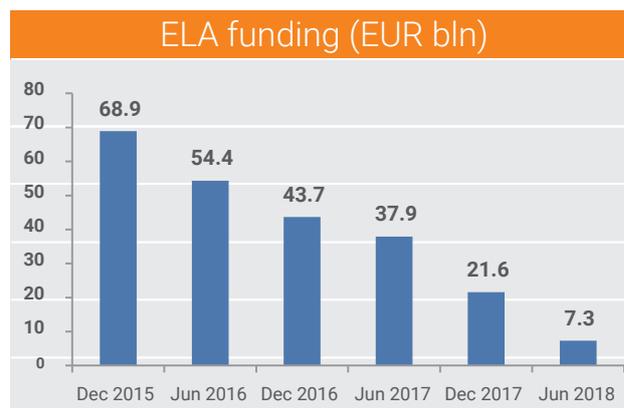
Overall, the state budget primary surplus (on a modified cash basis) stood at EUR 635 million in the 6-month period, EUR 1.1 billion above target.

## Greek banks' ELA funding down by EUR 2.24 billion mom in June

Greek banks reduced further their reliance on the Emerging Liquidity assistance (ELA) funding by EUR 2.24 billion from the previous month to EUR 7.32 billion at the end of June.

The lower dependence on ELA funding has remained intact throughout the first half of the year with the current outstanding balance standing around two thirds lower compared to the end of 2017.

Since the end of 2015, ELA funding has declined by 89.4% on the back of a significant improvement in the liquidity conditions of Greek banks, also reflecting increased interbank repos, access to financial markets, improved depositor sentiment and asset deleveraging.



Source: BoG

## Moody's revises Greek banking system outlook to positive

On July 30, Moody's revised the Greek banking sector outlook to positive from stable on improving funding and asset risk. The rating agency stressed that Greek banks' reliance on ELA funding is declining with ELA seen being fully eliminated in the coming months.

It also noted that Greek banks have comfortable capital ratios with Common Equity Tier 1 (CET1) ratio of 15.8% at the end of March.

## Upgrade of two Greek banks' covered and securitised bond ratings to investment grade by S&P

On July 5, S&P raised Piraeus Bank's securitised notes (Estia Mortgage Finance PLC's class A) to 'BBB-' from 'BB+' following the sovereign rating upgrade on June 25.

On the following day, S&P also assigned a "BBB-" rating to National Bank's covered bond programme.

This was the first time since 2011 that Greek banks' covered or securitised bonds were assigned an investment-grade rating improving their funding profile and facilitating their efforts for cheaper wholesale funding.

# Appendix

Selected Economic Indicators (annual)	2013	2014	2015	2016	2017
GDP (% change)	-3.2	0.7	-0.3	-0.2	1.4
GDP at current prices (€ million)	180,654	178,656	176,312	174,199	177,735
Primary Balance (€ million)	2,947	502	1,104	6,358	7,029
(as % of GDP)	1.6%	0.3%	0.6%	3.6%	4.0%
Overall Balance (€ million)	-4,328	-6,596	-5,148	743	1,403
(as % of GDP)	-2.4%	-3.7%	-2.9%	0.4%	0.8%
Gross Debt (€ million)	320,509	319,629	311,724	315,009	317,407
(as % of GDP)	177.4%	178.9%	176.8%	180.8%	178.6%
Current Account Balance (% of GDP)	-2.0	-1.6	-0.2	-1.1	-0.8
CPI (% average change)	-0.9	-1.3	-1.7	-0.8	1.1
HICP (% average change)	-0.9	-1.4	-1.1	0.0	1.1
Unemployment rate (% average)	27.5	26.5	24.9	23.5	21.5
Bank credit to private sector (% change)	-3.9	-3.1	-2.0	-1.5	-0.9

Note: Primary Balance and Overall Balance under ESA-2010 excluding bank support cost

Source: ELSTAT

Selected Economic Indicators (latest)	yoy (%)	Period
GDP	2.3	Q1 2018
	1.4	2017
CPI	1.0	Jun 2018
	0.6	12m moving average
Industrial Production Index	1.0	May 2018
	0.2	Jan-May 2018
Turnover Index in Industry	11.4	May 2018
	6.9	12m moving average
Building Activity (permits)	1.0	Apr 2018
	5.2	Jan-Apr 2018
Turnover Index in Retail Trade	5.3	May 2018
	1.3	Jan-May 2018
Motor Vehicle Circulation Licences	28.4	Jun 2018
	28.8	Jan-Jun 2018
Residential Property Prices	-0.2	Q1 2018
Unemployment (%)	20.2	Apr 2018
Confidence Indicators	pts	Period
Economic Sentiment	105.3	Jul 2018
Consumer Confidence	-49.9	Jul 2018
Industry Confidence	5.4	Jul 2018
Services Confidence	15.9	Jul 2018
PMI	53.5	Jul 2018

Source: BoG, ELSTAT, EC, Markit

# Upcoming Statistical Releases

**Aug 9**

**Industrial Production**

June (ELSTAT)

**Aug 9**

**Unemployment**

May (ELSTAT)

**Aug 9**

**Motor Vehicle Registration Licences**

July (ELSTAT)

**Aug 9**

**CPI**

July (ELSTAT)

**Aug 10**

**Building Activity**

May (ELSTAT)

**Aug 14**

**Budget Execution (preliminary)**

July (MoF)

**Aug 20**

**Balance of Payments**

June (BoG)

**Aug 20**

**Turnover Index in Industry**

June (ELSTAT)

**Aug 21**

**Travel Balance**

June (BoG)

**Aug 24**

**Budget Execution**

July (MoF)

**Aug 28**

**Bank Credit and Deposits**

July (BoG)

**Aug 30**

**Economic Sentiment and Business Indicators**

August (EC)

**Aug 31**

**Turnover Index in Retail Trade**

June (ELSTAT)