HELLENIC REPUBLIC
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Economic Bulletin

Executive Summary

The Board of Directors (BoD) of the European Stability Mechanism (ESM) approved on March 27 the fourth tranche of EUR 6.7 billion following the completion of the third programme review.

For the first time since 2006, the Greek economy grew for four consecutive quarters (qoq). GDP in Q4 rose by 1.9% on an annual basis (yoy) mainly supported by a double-digit rebound in investment. Overall, real GDP grew by 1.4% in 2017 fully reflecting a strong rise in investment and exports.

The three rating agencies recently upgraded Greece's rating by one to two notches with positive outlook on improved growth and fiscal prospects and lower political risk. The Public Debt Management Agency (PDMA) successfully concluded on February 8 a 7-year bond issue of EUR 3 billion at a yield of 3.5% with total bids exceeding EUR 6 billion.

The primary cash balance of the general government reached 3.7% of GDP in 2017. In accrual terms (ESA 2010), the primary fiscal surplus is expected to reach 3.4% of GDP[1] significantly overshooting the target for a third consecutive year.

The improved liquidity conditions of Greek banks led the ECB to further reduce the ELA ceiling. Private sector deposit inflows stood at EUR 5.73 billion in 2017, mainly stemming from a positive flow of EUR 2.68 billion from households.

1. Ministry of Finance (MoF) provisional estimate. The official ESA Eurostat and ELSTAT figure is pending and due to be released on April 23.

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Key Developments

1. The ESM BoD approved on March 27 the fourth tranche of EUR 6.7 billion.

2. The Greek economy expanded by 1.9% yoy in Q4, following an upward revised growth of 1.4% in Q3. Overall, GDP rebounded by 1.4% in 2017 reflecting a robust increase in investment and exports.

3. S&P and Fitch upgraded Greece's rating by one notch to 'B' and Moody's by two notches to 'B3' with positive outlook on improved growth and fiscal prospects as well as lower political risk.

4. The unemployment rate dropped to 20.8% in December down by 2.6 percentage points (pp) compared to the end of 2016.

5. The 2017 current account deficit was slashed by 22.3% to EUR 1.45 billion (0.8% of GDP). Travel receipts increased by 10.5% to EUR 14.6 billion in 2017, primarily due to higher foreign arrivals.

6. Economic sentiment reached a 3.5-year high in February. PMI hit a 17.5-year peak of 56.1 in February on strong output and new order growth coupled with solid job creation.

7. The primary cash surplus of the general government reached EUR 5.93 billion or 3.7% of GDP in 2017, while arrears to the private sector fell by EUR 1.61 billion during 2017 to EUR 3.3 billion at the end of December.

8. PDMA concluded a 7-year bond issue of EUR 3 billion at a yield of 3.5%, which was more than two times oversubscribed. For the first time since April 2010, PDMA successfully auctioned 12-month T-Bills with total bids close to EUR 2 billion, while the yield settled at 1.25%.

9. Private sector deposits recorded a positive flow of EUR 5.73 billion in 2017 mostly due to household inflows of EUR 2.68 billion.

10. ECB lowered on March 8 the ELA ceiling for Greek banks by another EUR 3.2 billion to EUR 16.6 billion.

11. The MoF further relaxed capital controls on February 28.

Economic Analysis

ESM approves fourth tranche of EUR 6.7 billion

Following the green light by the March 12 Eurogroup on the completion of the third programme review, the BoD of the ESM approved on March 27 the fourth tranche of EUR 6.7 billion.

The amount of the first sub-tranche is earmarked for debt servicing needs (EUR 3.3 billion), build-up of the cash buffer (EUR 1.9 billion) and arrears' clearance (EUR 0.5 billion). The second sub-tranche of EUR 1 billion for arrears clearance is expected to be released later in spring and before the conclusion of the fourth programme review.

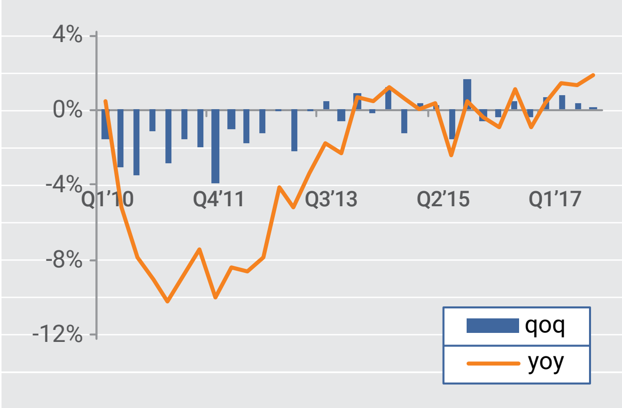
Meanwhile, technical work on medium-term debt relief measures is well underway, particularly on the growth-contingent mechanism aiming to recalibrate the profile of EFSF loans by adjusting future debt repayments to growth performance.

GDP grows by 1.4% in 2017

GDP increased in Q4 by 1.9% yoy. Investment soared by 28.9% and export growth (+5.3%) was faster than that of imports (+4.9%).

On a qoq basis, GDP increased for the fourth successive quarter, for the first time since 2006, by 0.1% qoq in Q4, after an upward revised growth of 0.4% in Q3.

GDP GROWTH



Source: ELSTAT

Overall, the domestic economy expanded by 1.4% in 2017, largely on the back of a strong rise in investment (+9.6%) and exports (+6.8%), and despite a modest increase in household consumption (+0.1%). Furthermore, nominal GDP grew by 2% to EUR 177.7 billion in 2017.

GDP COMPONENTS	Q4		2017
	q-o-q	y-o-y	y-o-y
Final Consumption	**-0.3%**	**-0.3%**	**-0.2%**
Households	-0.4%	-1.0%	0.1%
General Government	-1.8%	2.1%	-1.1%
Gross Capital Formation	**9.9%**	**22.6%**	**15.7%**
Gross Fixed CF	27.8%	28.9%	9.6%
Exports	**-2.3%**	**5.3%**	**6.8%**
Goods	-0.1%	7.1%	5.5%
Services	-4.3%	2.9%	8.3%
Imports	**1.7%**	**4.9%**	**7.2%**
Goods	2.3%	3.9%	6.4%
Services	2.5%	9.7%	10.8%

Source: ELSTAT

According to the MoF latest estimates, the economic expansion is set to gather pace in 2018 with GDP growth reaching 2.3%. Key drivers are the sustained improvement in the labour market and in consumer sentiment, which are bound to boost private consumption, while business climate is expected to improve further as the economy grows and reforms bear fruit.

All three rating agencies upgrade Greece's rating with positive outlook

S&P and Fitch raised on January 19 and February 16 respectively Greece's rating by one notch to 'B' from 'B-', while Moody's followed suit with a 2-notch upgrade to 'B3' on February 21.

The upward revisions reflect gradually recovering economic prospects, reduced political risks and increased confidence that general government finances are now set on a sustainable path. Moreover, the three rating agencies retained a positive outlook reflecting further upside rating potential.

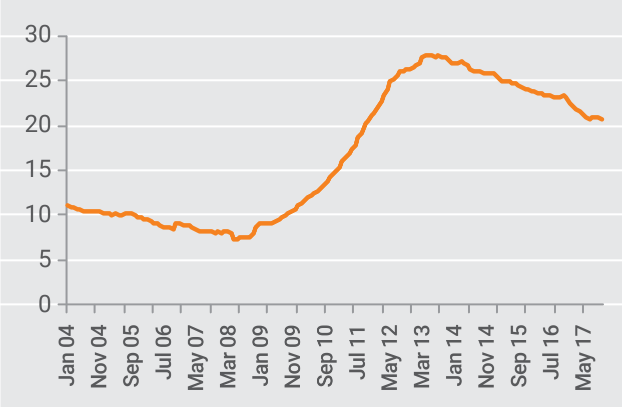
Specifically, all rating agencies expect a strong GDP rebound in excess of 2% for both 2018 and 2019 as investment demand, declining unemployment rate and continued clearance of arrears are set to support domestic demand, while solid external demand should support export performance.

The rating agencies highlight that the fiscal overachievement of the past two years has enhanced policy credibility and reduced uncertainty. They also regard the build-up of a sizeable cash buffer as a credible insurance mechanism against future market volatility. Furthermore, they stress that the political situation and outlook are more stable noting that policy uncertainty has receded.

Unemployment rate drops by 2.6 pp in 2017

The unemployment rate – at 20.8% in December – fell by 2.6 pp during 2017, while employment increased by 2.2% on average over the same period.

UNEMPLOYMENT (%)



Source: ELSTAT

The employment balance (hirings minus exits) in the private sector stayed positive in 2017, increasing by 5.3% yoy to 143,545 net jobs, which is the highest reading since 2001, according to the Ministry of Labour information system (ERGANI).

Current account deficit narrows to EUR 1.45 billion in 2017

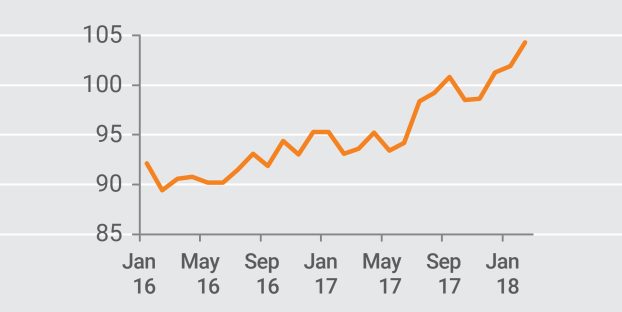
The current account balance recorded a deficit of 0.8% of GDP in 2017 compared to a deficit of 1.1% in 2016. The current account deficit narrowed by 22.3% to EUR 1.45 billion in 2017, mostly on the back of a notable increase in the services' surplus mitigated by a widening of the goods' deficit. It is worth noting that both exports and imports rose by 14.1% and 12.7% respectively in 2017.

Foreign direct investment (FDI) soared by 29.4% yoy to EUR 3.59 billion in 2017. Travel receipts increased by 10.5% to EUR 14.6 billion, attributed to a rise in non-resident arrivals by 9.7% to 27.2 million.

Economic sentiment reaches a 3.5-year high, PMI hits a 17.5-year high

Economic sentiment improved for the fourth straight month to 104.3 in February reaching a fresh high since July 2014. Overall, economic sentiment has increased by 11.2 points over the last twelve months on the back of improved growth prospects.

ECONOMIC SENTIMENT



Source: European Commission

PMI rebounded for the fourth successive month and hit a 17.5-year high of 56.1 in February. Moreover, the increase extended the period of expansion to nine months.

The marked improvement in the manufacturing sector reflected the sharpest rate of job creation since 1999, while the output and new order growth reached decade highs.

PMI

Source: Markit

General government primary cash surplus reaches 3.7% of GDP in 2017

The general government primary cash surplus rose to 3.7% of GDP or EUR 5.93 billion in 2017. According to the MoF provisional estimate, the primary fiscal surplus is expected to reach 3.4% of GDP, in accrual terms, significantly overshooting the target for a third consecutive year.

General government arrears to the private sector declined by EUR 1.61 billion within 2017 to EUR 3.3 billion at the end of December.

PDMA successfully concludes 7-year bond issue of EUR 3 billion

PDMA successfully concluded on February 8 a 7-year bond issue of EUR 3 billion at a yield of 3.5%. The order book was oversubscribed as total bids from 210 investors (81% outside of Greece) exceeded EUR 6 billion.

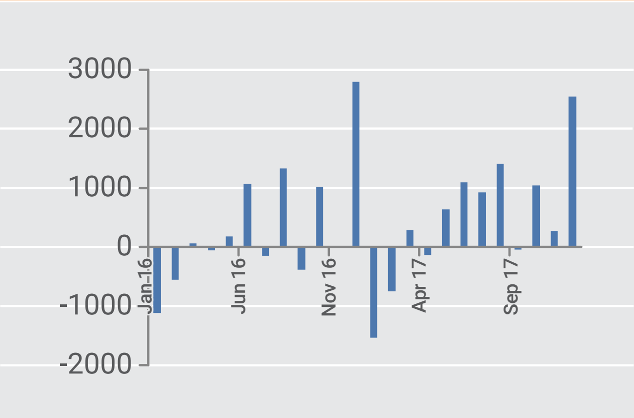
Greece tapped debt markets for the first time since 2014 last July with a 5-year bond issue of EUR 3 billion at a yield of 4.625%, while almost half of the issue involved a bond swap. PDMA also concluded a debt exchange offer in November involving PSI bonds worth EUR 30 billion with a high participation rate of around 86%.

PDMA also successfully auctioned EUR 625 million of 12-month T-Bills on March 14 with total bids close to EUR 2 billion, while the yield settled at 1.25%. This marked the first 52-week T-Bill issue since April 2010.

Deposit inflows reach EUR 5.73 billion in 2017

Greek banks recorded a positive flow of EUR 5.73 billion in 2017 reflecting the improved depositor sentiment particularly after the completion of the second programme review in May 2017. Specifically, deposits of 3.65 billion from households and 2.25 billion from non-financial corporations have returned to the banking system in the course of 2017.

DEPOSIT FLOW (€m)



Source: BoG

Reduction of Greek banks' ELA cap by EUR 8.2 billion since early January

On March 8, ECB lowered the ELA ceiling for Greek banks by EUR 3.2 billion, bringing the cumulative drop to EUR 8.2 billion since the beginning of the year and to almost EUR 30 billion since early 2017. On top of deposit inflows, the reduction of the ELA cap reflects the improved liquidity of Greek banks taking also into account their access to wholesale financial markets.

Further relaxation of capital controls

On February 28, MoF proceeded to further relaxation of capital controls by increasing the monthly cash withdrawal ceiling to EUR 2,300 (from EUR 1,800 previously) and the limit for cash transfer abroad to EUR 2,300 (from EUR 2,000 before) per trip. In addition, the restrictions for the opening of new bank accounts were lifted, while an amount of EUR 2,000 per customer every two months is allowed to be transferred abroad.

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	553	1,081	6,090	6,033
(as % of GDP) (*)	1.6%	0.3%	0.6%	3.5%	3.4%
Overall Balance (€ million) (*)	-4,328	-6,543	-5,241	439	680
(as % of GDP) (*)	-2.4%	-3.7%	-3.0%	0.3%	0.4%
Gross Debt (€ million) (*)	320,509	319,726	311,763	315,036	318,330
(as % of GDP) (*)	177.4%	179.0%	176.8%	180.8%	179.1%
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
(*) 2017 fiscal figures according to MoF latest estimates, debt according to 2018 budget. The official ESA Eurostat and ELSTAT figure is pending and due to be released on April 23.
Source: ELSTAT

Selected Economic Indicators (latest)	yoy (%)	Period
GDP	1.9	Q4 2017
	1.4	2017
CPI	0.1	Feb 2018
	0.9	12m moving average
Industrial Production Index	-1.7	Jan 2018
	4.1	Jan-Dec 2017
Turnover Index in Industry	12.7	Jan 2018
	11.0	12m moving average
Building Activity (permits)	-6.7	Dec 2017
	8.6	Jan-Dec 2017
Turnover Index in Retail Trade	0.7	Jan-18
	1.7	Jan-Dec 2017
Motor Vehicle Circulation Licences	33.1	Feb 2018
	39.4	Jan-Feb 2018
Residential Property Prices	-0.3	Q4 2017
Unemployment (%)	20.8	Dec 2017
Confidence Indicators	**pts**	**Period**
Economic Sentiment	104.3	Feb 2018
Consumer Confidence	-53.0	Feb 2018
Industry Confidence	4.2	Feb 2018
Services Confidence	18.9	Feb 2018
PMI	56.1	Feb 2018

Source: BoG, ELSTAT, EC, Markit

Upcoming Statistical Releases

Apr 12
Building Activity
January (ELSTAT)

Apr 12
Unemployment
January (ELSTAT)

Apr 13
Motor Vehicle Registration Licences
March (ELSTAT)

Apr 13
CPI
March (ELSTAT)

Apr 16
Budget Execution (preliminary)
March (MoF)

Apr 19
Turnover Index in Industry
February (ELSTAT)

Apr 20
Balance of Payments
February (BoG)

Apr 21
Travel Balance
February (BoG)

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