



Economic Bulletin

Executive Summary

The general government primary surplus (ESA 2010) reached 4% of GDP in 2017, according to the first notification data published by Eurostat on April 23. Under the programme definition¹, the primary surplus stood at 4.2% of GDP overshooting the target of 1.75% by a wide margin for a third consecutive year.

In the first quarter (Q1) of 2018, the budget primary surplus (on a modified cash basis) more than doubled year on year (yoy) to EUR 2.37 billion over-performing the target by EUR 1.27 billion, on the back of higher than expected ordinary budget and Public Investment Budget (PIB) revenues, while primary expenditure was spot on target.

Following a record year for job creation, the positive employment trend was maintained into 2018 Q1 with net job creation climbing to a fresh high of 55.580.

Tourism is set to record another strong year, with the World Travel and Tourism Council (WTTC) estimating a further boost in direct and indirect revenues and employment in 2018.

Exports increased at double-digit pace by 13.2% to new record high of EUR 28.8 billion in 2017, while the upswing was maintained in the first two months of the year.

1. The programme definition of the primary balance entails a different treatment of privatization proceeds, migration-related expenditure, bank support costs, ANFA-SMP revenues and unprocessed tax refund claims.

Contents

| | |
|--|----------|
| Executive Summary | 1 |
| Key Developments | 2 |
| Economic Analysis | 3 |
| Primary surplus overshoots target | 3 |
| IMF updates its macro and fiscal forecasts | 3 |
| Record net jobs in Q1 | 4 |
| Tourism to record a strong year in 2018 | 4 |
| Exports at fresh high in 2017 | 4 |
| Building activity rebounds | 5 |
| Budget primary surplus doubles in Q1 | 5 |
| Sustained decline of ELA funding | 5 |
| Appendix | 6 |
| Upcoming Statistical Releases | 7 |

Key Developments

1. The general government primary surplus stood at 4.2% of GDP in 2017, according to the programme definition, well above the programme target of 1.75%.
2. GDP is projected to grow by 2% and primary surplus to reach 2.9% of GDP in 2018, according to the IMF recently updated estimates.
3. Higher revenues led to a state budget primary surplus of EUR 2.37 billion in Q1 overshooting the target by EUR 1.27 billion.
4. According to the Ministry of Labour information system (ERGANI) data, net jobs soared by 65.2% to 55.580 in Q1, which is the highest reading for Q1 since 2001.
5. WTTC forecasts direct travel and tourism revenues to increase by 5.6% in 2018 with the related direct job creation rising at a similar pace.
6. Exports climbed by 13.2% to a record high of EUR 28.8 billion in 2017, while the double-digit growth was maintained in the first two months of 2018.
7. Building activity rebounded in 2017 showing the first signs of recovery since 2005.
8. Banks' reliance on ELA funding dropped by EUR 8.1 billion quarter on quarter (qoq) in Q1 pushing the cumulative decline to EUR 30.1 billion or 69% compared to the end-2016 figure.

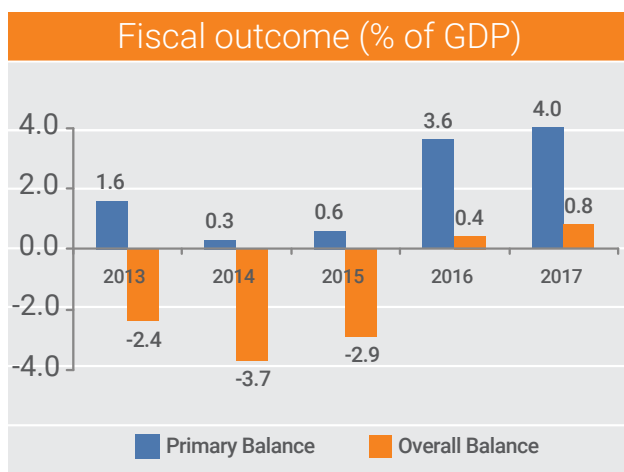
Economic Analysis

Primary surplus overshoots target by a wide margin in 2017

The general government primary surplus (ESA 2010) climbed to 4% of GDP in 2017, according to the fiscal data (first notification) published by both Eurostat and ELSTAT on April 23. The fiscal outcome exceeded even the Ministry of Finance (MoF) own conservative preliminary forecast of 3.4% of GDP reported in the first issue of the Economic Bulletin.

Under the programme definition, the primary surplus reached 4.2% of GDP surpassing the target of 1.75% by a wide margin for the third straight year.

Moreover, the general government balance remained positive for the second consecutive year increasing to 0.8% of GDP in 2017 from 0.4% of GDP in 2016. This places Greece firmly within a small club of EMU countries that have recorded a positive general government balance in both 2016 and 2017.



Note: Fiscal outcome under ESA 2010 excluding bank support cost

Source: ELSTAT

The fiscal outcome of 2017 largely reflects a notable rise in the social security funds' surplus to EUR 2.94 billion, partly sustained by robust employment growth. A detailed analysis of the drivers of over-performance will be supplied in the next issue.

IMF updates its Greek macro and fiscal estimates

In its latest World Economic Outlook (WEO) report, the IMF revised downwards its forecast for the 2018 output growth from 2.6% to 2%. GDP growth is estimated at 1.8% per annum for 2019 and 2020.

The Fund also projects a further decline in the unemployment rate from 21.5% in 2017 to 19.8% in 2018 and to 16.4% in 2020.

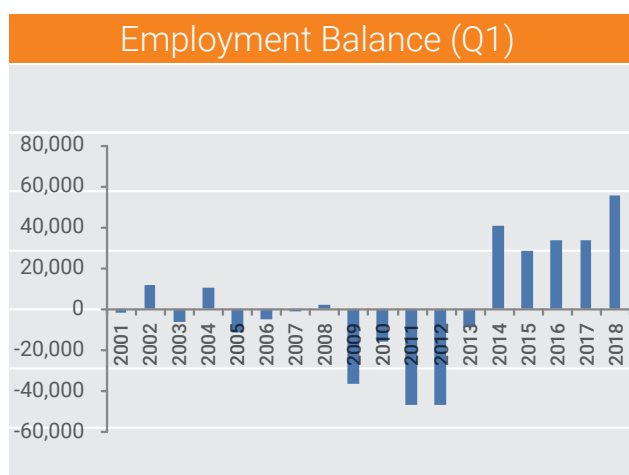
According to the latest IMF Fiscal Monitor published on April 18, the general government primary surplus is projected to reach 2.9% of GDP in 2018. Note that the IMF's forecast error for the primary surplus of 2016 was 3.5 pp and the IMF's forecast error for the primary surplus of 2017 was 2.3 pp².

Furthermore, the Fund forecasts the gross debt (as % of GDP) to decrease to 168.7% in 2022 after peaking to 191.3% in 2018.

2. The forecast error is defined as the difference between the fiscal outcome of each year and the IMF's forecast as reported in the IMF Fiscal Monitor issued in October of the relevant year.

Net jobs in Q1 climb to fresh high

According to ERGANI data, the employment balance (hirings minus exits) in the private sector stayed positive in Q1 of 2018 with net jobs soaring by 65.2% to 55,580 yoy. This is the highest figure for Q1 since 2001.



Source: ERGANI

The solid performance in Q1 of 2018 follows a record year for employment as net jobs in 2017 climbed to 143,545, which was the highest annual figure since 2001.

Tourism to record another strong year in 2018

The direct contribution of travel and tourism stood at EUR 14.3 billion in 2017 and is expected to rise by 5.6% to EUR 15.1 billion in 2018, according to the WTTC 2018 Annual Research report.

The total contribution, which also includes wider effects from investment, the supply chain and induced income impacts, is projected to increase by 5.3% to EUR 36.9 billion in 2018, corresponding to 20.2% of GDP.

WTTC also notes that travel and tourism directly accounted for 459,000 jobs in 2017 and this is projected to grow by 5.2% to 482,500 jobs

in 2018. The total contribution to employment is forecast to rise to 25.4% in 2018, including indirect and induced effects.

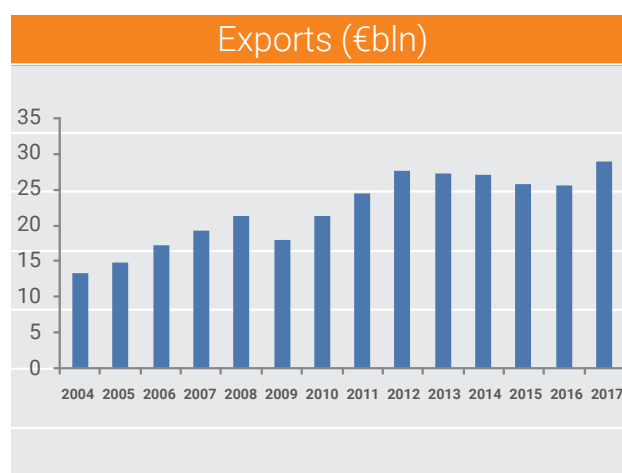
It is noteworthy that the latest airline seat planning for the summer period points to an increase in the number of foreign passengers by 18% yoy, which indicates a potential strong growth in arrivals for another year.

Exports at a new record high in 2017

Exports grew by 13.2% to a new record of EUR 28.83 billion in 2017, while, excluding oil products, they rose by 7.1% to almost EUR 20 billion, which also represents a new high.

Apart from oil products, which posted a robust growth of around 30%, the solid performance in 2017 was also driven by a double-digit rise in raw materials, manufacturing and chemical products.

The upswing was maintained in the first two months of 2018 as exports increased by 16.5% yoy and by 16.6% excluding oil products.

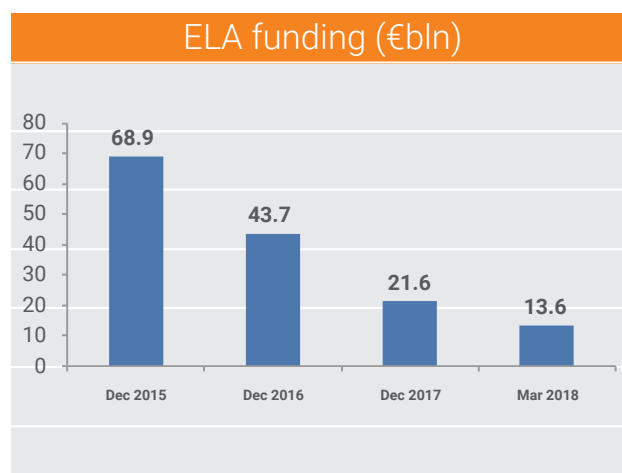


Source: ELSTAT

Building activity in 2017 rebounds for the first time since 2005

Building activity is showing signs of recovery with the number of building permits rebounding for the first time since 2005 by 8.6% in 2017. The corresponding surface and volume increased at a sharper pace by 17.7% and 20.1% respectively last year.

The positive trend was maintained in January with surface and volume surging by more than 45%, while permits also rose by 18%.



Source: BoG

State budget primary surplus more than doubles in Q1

The state budget primary surplus (on a modified cash basis) more than doubled yoy to EUR 2.37 billion in Q1 from EUR 1.07 billion a year ago, beating the target by EUR 1.27 billion. The over-performance largely reflects higher than expected ordinary budget and PIB revenues.

Specifically, tax revenues rose by 4.3% yoy and stood at EUR 9.93 billion in Q1 beating the target by EUR 118 million fully attributed to direct taxes.

Specifically, the four core banks have proceeded since last October to covered bond issues of EUR 2.25 billion for the first time since 2014, largely covered by international institutional investors. Meanwhile, they have gradually increased interbank funding, which reached EUR 13 billion in March.

Sustained decline in ELA funding

Greek banks' reliance on ELA funding was further reduced by EUR 1.5 billion month on month to EUR 13.55 billion at the end of March. Overall, the liquidity withdrawn from the ELA has dropped by EUR 8.06 billion qoq in Q1 and overall by EUR 30.11 billion since the end of 2016.

The sharp drop by 69% over the last fifteen months mostly reflects the positive private-sector deposit flow and increased interbank repos coupled with asset deleveraging and debt issues. As a result, banks have also diversified their funding sources.

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 | 1.9 | Q4 2017 |
| | 1.4 | 2017 |
| CPI | -0.2 | Mar 2018 |
| | 0.7 | 12m moving average |
| Industrial Production Index | -2.0 | Feb 2018 |
| | -1.6 | Jan-Feb 2018 |
| Turnover Index in Industry | 3.1 | Feb 2018 |
| | 9.6 | 12m moving average |
| Building Activity (permits) | 18.0 | Jan 2018 |
| | 8.6 | Jan-Dec 2017 |
| Turnover Index in Retail Trade | 0.7 | Jan 2018 |
| | 1.7 | Jan-Dec 2017 |
| Motor Vehicle Circulation Licences | 23.9 | Mar 2018 |
| | 33.3 | Jan-Mar 2018 |
| Residential Property Prices | -0.3 | Q4 2017 |
| Unemployment (%) | 20.6 | Jan 2018 |
| Confidence Indicators | pts | Period |
| Economic Sentiment | 99.8 | Mar 2018 |
| Consumer Confidence | -52.8 | Mar 2018 |
| Industry Confidence | -3.3 | Mar 2018 |
| Services Confidence | 17.7 | Mar 2018 |
| PMI | 55.0 | Mar 2018 |

Source: BoG, ELSTAT, EC, Markit

Upcoming Statistical Releases

Apr 30

General Government
March (MoF)

Apr 30

Bank Credit and Deposits
March (BoG)

Apr 30

Turnover Index in Retail trade
February (ELSTAT)

May 2

PMI
April (Markit)

May 5

Commercial Transactions
March (ELSTAT)

May 10

Industrial Production
March (ELSTAT)

May 10

Unemployment
February (ELSTAT)

May 10

Motor Vehicle Registration Licences
April (ELSTAT)

May 10

CPI
April (ELSTAT)

May 11

Building Activity
February (ELSTAT)

May 14

Budget Execution (preliminary)
April (MoF)

May 19

Balance of Payments
March (BoG)

May 20

Travel Balance
March (BoG)

May 21

Turnover Index in Industry
March (ELSTAT)