



Economic Bulletin

Executive Summary

On August 20, Greece successfully concluded the European Stability Mechanism (ESM) economic adjustment programme and was integrated into the normal cycle of the European Semester framework. Greece will also be subject to enhanced surveillance under the EU Regulations. The enhanced surveillance framework will follow macroeconomic and financial developments of the Greek economy as well as progress on a set of agreed reforms. The first post-programme review took place from September 10 to 14 and the first quarterly enhanced surveillance report will be issued in November.

In his keynote address at the Thessaloniki International Fair (TIF), the Prime Minister reiterated Greece's commitment to maintain fiscal sustainability and the reform momentum and outlined the key policy priorities for the 2019 Budget and beyond. A primary objective is the gradual rebalancing of fiscal policy in a more growth-friendly direction comprising of a reduction of corporate income tax, property taxes, social security contributions and an increase in targeted social spending.

The Greek economy expanded by 1.8% year-on-year (yoy) in the second quarter (Q2) of 2018 largely driven by a recovery in household consumption and a strong rise in exports. Moreover, GDP growth in Q1 was revised upwards from 2.3% to 2.5% yoy. Overall, GDP grew by 2.2% in the first half of the year, which is the highest figure since 2007.

On August 10, Fitch upgraded Greece's long-term rating by two notches to 'BB-' from 'B' with a stable outlook largely on the back of the successful exit from the ESM programme, substantial debt relief measures, significant improvement in public finances and expectations for sound fiscal performance in the post-programme period. On September 10, R&I also upgraded the country's rating by one notch to 'B' with a stable outlook.

Greek bank deposits increased for the sixth straight month with inflows of EUR 841 million on the back of continued improvement in depositor sentiment. Since the end of 2016, deposits of EUR 9.52 billion have returned to the domestic banking system with more than 62% stemming from households.

Contents

Executive Summary	1
Key Developments	2
Economic Analysis	3
Greece graduates ESM programme	3
PM reiterates commitment to maintain fiscal sustainability and reform momentum	3
GDP continues expanding in Q2	3
Fitch and R&I upgrade Greece's rating .	4
Unemployment rate drops to 19.1% in June	4
Travel receipts climb by 18.9% in first half	5
Industrial turnover increases by 17.4% in June	5
Building activity rises in first half, house price growth accelerates in Q2	5
Consumer confidence rebounds in August, PMI reaches 3-month high	5
State budget primary surplus well above target in 8-month	6
Greek bank deposits increase for the sixth straight month in July	6
Appendix	7
Upcoming Statistical Releases	8

Key Developments

On August 20, Greece successfully concluded the European Stability Mechanism (ESM) economic adjustment programme and was integrated into the normal cycle of the European Semester framework. Greece will also be subject to enhanced surveillance under the EU Regulations. The first post-programme review took place from September 10 to 14.

In his keynote address at the Thessaloniki International Fair (TIF), the Prime Minister reiterated Greece's commitment to maintain fiscal sustainability and the reform momentum and outlined the key policy priorities for the 2019 Budget and beyond.

GDP rose by 1.8% yoy in Q2 leading to a growth of 2.2% for the first half of the year.

In its scheduled rating review on August 10, Fitch upgraded Greece's rating by two notches to 'BB-' with a stable outlook. On September 10, R&I also upped the country's rating by one notch to 'B' with a stable outlook.

The unemployment rate dropped by 0.2 percentage points (pp) month on month (mom) to 19.1% in June, its lowest level since August 2011. In addition, the employment balance in the private sector improved by 13.3% in the 8-month period.

Travel receipts increased sharply by 18.9% to EUR 4.85 billion in the 6-month period due to strong growth in foreign tourist arrivals (+19.1% in the first half).

The turnover index in industry increased further in June by 17.4% reflecting a similar rise in both domestic and non-domestic markets.

Building activity (permits) rebounded by 16.2% yoy in June and overall by 7.8% in the 6-month period. In addition, house prices increased for the second straight quarter by 0.8% yoy in Q2.

Retail trade and industry confidence indicators registered multi-year highs in August. PMI also reached a three-month high in August.

The state budget primary surplus stood at EUR 3.14 billion in the 8-month period overshooting the target by EUR 2.22 billion.

The deposit flow of Greek banks remained positive for the sixth successive month with inflows reaching EUR 841 million in July mainly driven by households. Meanwhile, Greek banks' reliance on ELA funding dropped further to EUR 4.49 billion at the end of August.

Economic Analysis

Greece graduates from the ESM programme, enhanced surveillance activated

On August 20, Greece successfully concluded the ESM economic adjustment programme having implemented all prior actions of the fourth and last review as ratified by the June 22 Eurogroup.

At the same time, Greece was integrated into the normal cycle of the European Semester framework. Greece will also be subject to enhanced surveillance under the Regulation (EU) 472/2013, following an EC decision on July 11.

The enhanced surveillance will follow developments in key policy areas that will safeguard fiscal sustainability and the reform momentum, such as the budget, the social safety net, the banking sector and privatisations. The EC will issue quarterly reports on macroeconomic and financial developments.

The first post-programme review took place in Athens from September 10 to 14 and focused on the state of the economy and the implementation of agreed reforms.

PM reiterates Greece's commitment to maintain fiscal sustainability and reform momentum, outlines policy priorities

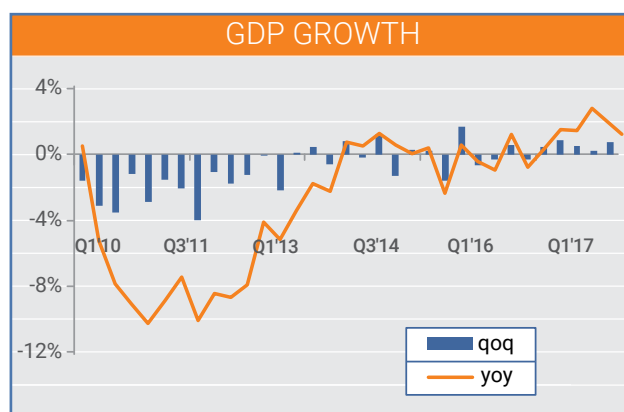
In his keynote address at the Thessaloniki International Fair, the Prime Minister reiterated Greece's commitment to maintain fiscal sustainability and the reform momentum and outlined the key policy priorities for the 2019 Budget and the medium term.

A primary objective is the gradual rebalancing of fiscal policy in a more growth-friendly direction comprising of a reduction in corporate income tax, property taxes, social security contributions and an increase in targeted social spending.

Specifically, the policy package includes a reduction of the corporate income tax rate from 29% to 25% over a 4-year period (2019-2022), a reduction of the ENFIA property tax by 30% on average over two years (2019-2020), lower SSCs for self-employed (as of 2019), SSC subsidy for young employees in the private sector (as of 2019) and the introduction of a housing allowance. This modest fiscal impulse is fully consistent with the agreed medium-term fiscal targets.

GDP grows by 1.8% yoy and by 0.2% qoq in Q2

The Greek economy expanded by 1.8% yoy in Q2, mainly driven by a rebound of household consumption (+1%) and a strong rise in exports (+9.4%).



Source: ELSTAT

Investment fell 5.4% yoy fully attributed to a drop in transport equipment (mainly ships), while all other investment categories recorded a rebound. Specifically, investment in machinery equipment grew by 19.3%, in information communication technology equipment by 15.4%, in other buildings and structures by 6.9% and in dwellings by 5.1%.

Overall, GDP increased by 2.2% in the first half of the year, which is the highest growth rate since 2007, supported by a solid rise in exports by 8.7% coupled with a household consumption growth of 0.5%. Furthermore, nominal GDP grew by 2.6%.

GDP components	Q2 2018		H1 2018
	q-o-q	y-o-y	y-o-y
Final Consumption	0.5%	0.8%	0.4%
Households	0.6%	1.0%	0.5%
General Government	-0.2%	-2.0%	-0.9%
Gross Capital Formation	-2.2%	1.7%	-5.0%
Gross Fixed CF	0.0%	-5.4%	-7.9%
Exports	3.9%	9.4%	8.7%
Goods	1.6%	7.2%	9.0%
Services	6.5%	12.2%	9.4%
Imports	4.8%	4.3%	0.5%
Goods	4.6%	1.7%	-2.3%
Services	5.2%	16.2%	14.0%
GDP	0.2%	1.8%	2.2%

Source: ELSTAT

Fitch and R&I upgrade Greece's rating

In its scheduled rating review on August 10, Fitch upgraded Greece's long-term rating by two notches to 'BB-' from 'B' with a stable outlook.

The key drivers for the rating upward revision include the successful exit from the ESM programme, the sizeable cash buffer and the substantial debt relief measures agreed at the Eurogroup of June 21-22 coupled with the significant improvement in public finances and the expectations for sound fiscal performance in the post-programme period.

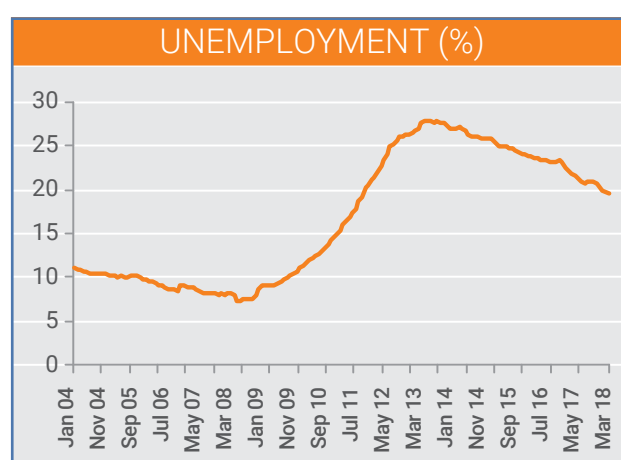
The rating agency also stressed that "the domestic political backdrop has become somewhat more stable and the working relationship between Greece and European creditors has substantially improved, lowering the risk of a future government sharply reversing policy measures adopted under the ESM programme".

On September 10, R&I also upgraded the country's rating by one notch to 'B' with a stable outlook on improvement in the government's funding structure, fiscal position and debt sustainability.

Unemployment rate down to 19.1% in June, lowest reading since August 2011

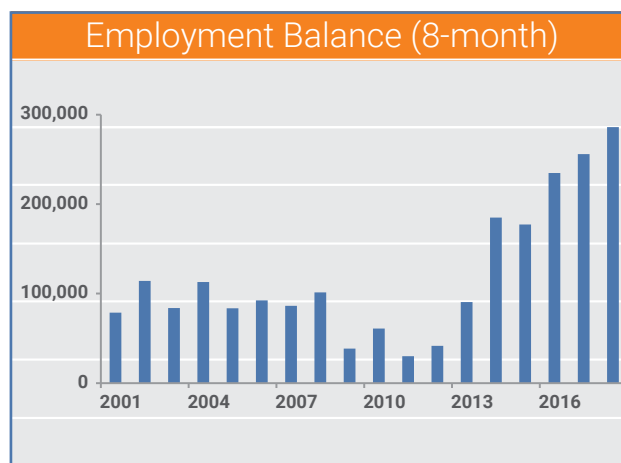
The unemployment rate fell further for the fourth straight month by 0.2 pp to 19.1% in June driven by a continued improvement in employment, which increased by 1.7% yoy on average in the first half of the year.

The June figure is the lowest reading since August 2011 and corresponds to a drop of 1.7 pp since the end of 2017.



Source: ELSTAT

Meanwhile, the employment balance (hirings minus exits) in the private sector continued its upswing rising by 13.3% yoy in the 8-month period, according to the Ministry of Labour database (ERGANI). Specifically, net hirings increased by 33,070 yoy and stood at 281,813 in the January – August period, which represents a fresh high for this period since 2001.



Source: ERGANI

Travel receipts climb by 18.9% in first half

Travel receipts increased sharply by 16% yoy to EUR 2.33 billion in June pushing the first-half figure up by 18.9% to EUR 4.85 billion.

The marked improvement largely reflects a double-digit rise of foreign arrivals by 19.1% to 9.46 million in the 6-month period, while the average expenditure per trip edged up by 0.6% just shy of the 500-euro mark over the same period.

Overall, the travel balance posted a surplus of EUR 3.76 billion in the first half, up by 19.5% from last year's figure, with a consequent positive impact on GDP performance.

Industrial turnover index increases at double-digit pace by 17.4% in June

The turnover index in industry increased at a faster pace by 17.4% yoy in June compared to the 11.9% yoy growth recorded in the previous month.

The improvement reflects a similar rise in both the domestic and the non-domestic markets by 17% and 17.9% respectively.

During Q2, the index yoy growth stands at 11.9%, compared to 6.6% in Q2 of the previous year, with the first half figure pointing to an increase of 9.4%.

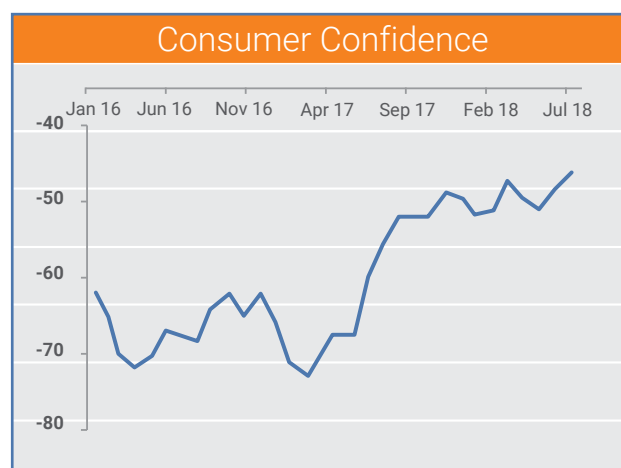
Building activity rises in first half, house price growth accelerates in Q2

Building activity (measured by the number of issued permits) rebounded by 16.2% yoy in June and overall by 7.8% in the first half. The corresponding surface and volume figures recorded a double-digit rise (15.5% - 25.5%) in both periods.

At the same time, the residential property prices rose by 0.8% yoy in Q2, at a sharper pace compared to the 0.1% yoy growth recorded in Q1. The latter was the first positive reading since Q4 2008, indicating that house prices have bottomed out.

Consumer confidence rebounds for second straight month, PMI reaches 3-month high in August

Consumer confidence improved for the second successive month by 2.1 points (pts) to -47.8 in August, which is the highest reading in more than three years (since June 2015). Compared to the August 2017 figure, consumer confidence has soared by 9.2 pts.

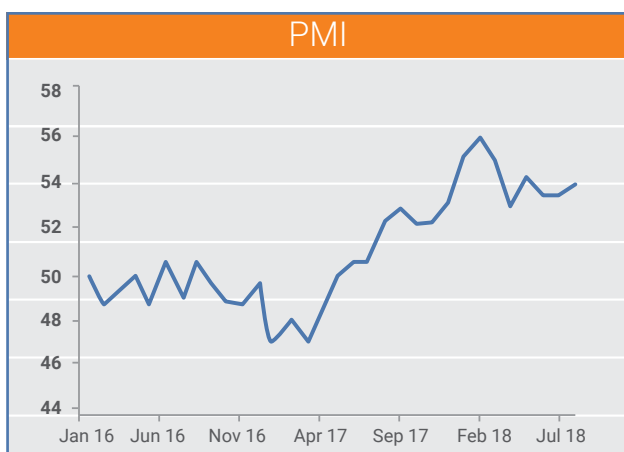


Source: EC

Most of the other business confidence indicators recorded a month-on-month rise with two registering multi-year highs. Specifically, retail trade confidence climbed by 4.8 pts to 19.7, which is a new high since June 2008 and industry confidence jumped to its highest level since May 2007 at 6.3, up by 0.9 pts from the previous month. Overall, economic sentiment remained almost stable at 105.2 in August.

Moreover, strong growth in output and new orders led the PMI to a 3-month high of 53.9 in August. This reflected a strong improvement in operating conditions in the domestic manufacturing sector, while the pace of job creation accelerated for the second successive month on the back of greater production requirements.

“Looking ahead, panellists were confident of a rise in output over the coming year. Positive sentiment was driven by stronger domestic and foreign demand”, Markit stressed.



Source: Markit

State budget primary surplus at EUR 3.14 billion in 8-month period, well above target

The state budget primary balance recorded a surplus of EUR 3.14 billion in the 8-month period overshooting the target by EUR 2.22 billion.

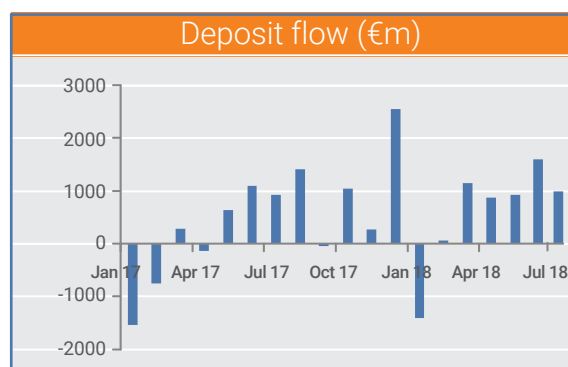
Revenues (before tax refunds) rebounded by 2.9% yoy to EUR 32.75 billion. It is noted that the revenue overperformance increased to EUR 706 million in the 8-month from EUR 188 million in the January to July period. A detailed analysis of the tax revenue performance will be supplied in the next issue, when the final budget execution data will be made available.

Primary expenditure stood at EUR 27.24 billion in the 8-month period slightly below target but up by 3.5% yoy, also reflecting a rise in the expenditure for family allowances and the Social Solidarity Income by EUR 230 and 218 million respectively.

Greek bank deposits increase for sixth month in a row in July

The continued improvement in depositor sentiment led to an increase in private-sector deposits at Greek banks for the sixth successive month. Specifically, inflows stood at EUR 841 million in July mainly led by households (EUR 498 million).

Since the end of 2016, Greek bank deposits have increased by EUR 9.52 billion with the household positive flow accounting for 62% of total.



Source: BoG

At the same time, Greek banks reduced further their reliance on ELA funding by EUR 348 million from the previous month to EUR 4.49 billion at the end of August. It is worth noting that two of the four systemic banks (National and Piraeus) have already eliminated their ELA funding exposure.

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	1.8	Q2 2018
	2.2	H1 2018
CPI	1.0	Aug 2018
	0.5	12m moving average
Industrial Production Index	1.9	Jul 2018
	0.7	Jan-Jul 2018
Turnover Index in Industry	17.4	Jun 2018
	7.7	12m moving average
Building Activity (permits)	16.2	Jun 2018
	7.8	Jan-Jun 2018
Turnover Index in Retail Trade	3.3	Jun 2018
	1.6	Jan-Jun 2018
Motor Vehicle Circulation Licences	36.8	Aug 2018
	28.1	Jan-Aug 2018
Residential Property Prices	0.8	Q2 2018
Unemployment (%)	19.1	Jun 2018
Confidence Indicators	pts	Period
Economic Sentiment	105.2	Aug 2018
Consumer Confidence	-47.8	Aug 2018
Industry Confidence	6.3	Aug 2018
Services Confidence	11.9	Aug 2018
PMI	53.9	Aug 2018

Source: BoG, ELSTAT, EC, Markit

Upcoming Statistical Releases

Sep 20

Balance of Payments

July (BoG)

Sep 21

Travel Balance

July (BoG)

Sep 24

Budget Execution

August (MoF)

Sep 27

Bank Credit and Deposits

August (BoG)

Sep 27

Economic Sentiment and Business Indicators

September (EC)

Sep 28

General Government

August (MoF)

Sep 28

Turnover Index in Retail Trade

July (ELSTAT)

Oct 1

PMI

September (Markit)

Oct 8

Commercial Transactions

August (ELSTAT)

Oct 9

Motor Vehicle Registration Licences

September (ELSTAT)

Oct 10

Industrial Production

August (ELSTAT)

Oct 10

CPI

September (ELSTAT)

Oct 11

Unemployment

July (ELSTAT)