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GREECE MACRO MONITOR

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Greece: 2017 Economic Outlook

Summary of views

Greece's real GDP came in at -0.4% QoQ / +0.3% YoY in Q4-16 (quarterly national accounts, flash estimate), interrupting two consecutive quarters of positive QoQ growth (Q3: 0.9%; Q2: 0.3%). For the full-year, real output grew by 0.3%, broadly in line with our earlier forecast and compared with a -0.3% projection penciled in the 2017 budget. This translates into a positive carry-over effect into 2017, to the tune of 0.3ppts, same as a year earlier.

Growth in 2016 was mainly driven by private consumption and investments. On the other hand, net exports are estimated to have had a negative contribution as imports rose faster than exports due to strengthened domestic demand. These trends can be partly attributed to favorable base effects, linked to the sharp decline in economic activity in the initial period following the summer 2015 turbulence. Nonetheless, the view of domestic economic stabilization throughout the greater part of last year is supported by a range of higher-frequency indicators, which point to gradually improving conditions in key sectors such as retail trade and manufacturing.

Reflecting the aforementioned trends, conditions in the labor market continued to improve throughout last year, with employment growth averaging around 2.3% in the first 11 months and the jobless rate hitting a 56-month low of 23% in November 2016. Also on a positive note, labor productivity growth (both in terms of output per employee and output per hour worked) switched into a positive territory in Q3-16, interrupting 5 consecutive quarters of negative growth. Despite these improvements, Greece's unemployment rate remains exceptionally high, especially among the most vulnerable segments of the working-age population (e.g. youth unemployment 45.7% in November 2016). Furthermore, the very high level of long-term unemployment (72.6% in Q3 2016) remains a serious cause of concern for the outlook of employment and productivity growth.

On the external sector, the most recent balance of payments data published by the Bank of Greece revealed a small current account deficit of €1.1 billion (-0.6% of GDP) in January-December 2016, against a surplus of €0.26 billion (0.1%) in the same period a year earlier. This was mainly the result of a lower surplus in the services balance, which more than outweighed a concomitant improvement (decline) in the deficit of the balance of goods. Overall, the total value of both exports and imports of goods and services recorded respective declines of 6.1% YoY and 4.2% YoY. Moreover, the primary and secondary income accounts worsened. As regards the combined current and capital account, it recorded a small deficit of €68 million, against a surplus of €2.2 billion in 2015.

Separately, a notable development in the financial account balance over the period January-December 2016 was the €2.8 billion increase in non-residents' (inward) direct investment, which compares with a rise of €1.0 billion in the same period a year earlier. As a result of the aforementioned, Greece's reserve assets stood at €6.5 billion at the end of December 2016, compared with €5.5 billion in the same month of the prior year. Looking ahead, we project a broadly balanced current account outturn for 2017, with the external sector exerting a slightly negative contribution to overall GDP growth.

The annual change of the general price level, measured either in terms of the CPI or HICP, remained in a deflationary territory for the 4th consecutive year in 2016. The average annual change of the CPI was -0.8%, bringing its respective cumulative drop over the period 2012-2016 to -4.7%. It is interesting to note that the deceleration of the deflation rate recorded last year was mainly the result of the increase in certain indirect tax rates (including a rise of the main VAT rate to 24%, from 23%) and, to a lesser extent, the rebound in oil prices. For 2017, we expect a gradual buildup of domestic inflationary pressures, forecasting an average annual rate of 1.0% for both CPI and HICP.

On the fiscal front, the most recent budget execution data point to a general government primary surplus (programme definition) close to 2.0% of GDP for the full-year 2016. If so, this would be in line with the European Commission's latest (Winter 2017) forecast and well in excess of the respective programme target. For the current year, we believe that the 2.0%-of-GDP primary surplus target penciled in the new budget is well within reach, conditional on a further improvement of domestic economic activity, the swift elimination of uncertainties surrounding the 2nd programme review as well as the smooth implementation of the agreed structural measures aiming to curb tax evasion and broaden the tax base.

Regarding Greece's 2017 growth outlook, we note that it is surrounded by an unusually high degree of uncertainty, not least because of the delays encountered thus far in reaching a staff level agreement on the 2nd programme review. In any case, we are growing increasingly concerned about some recent, still anecdotal evidence suggesting that the latest respite of uncertainty has already started to take its toll on the domestic economy. Therefore, a swift agreement with official creditors is key for averting a renewed deterioration in domestic economic conditions, amid heightening market jitters ahead of the heavy debt service payments falling due in July 2017. Against this backdrop, our current forecasts for real GDP growth this year fall within the 1.5%-2.0% range, contingent on the assumed timeline for securing an agreement on the pending programme review. We note that the aforementioned are strictly preliminary and subject to revisions, once more clarity on the outlook of the current programme review is provided.

For demonstration purposes, our study presents a numerical exercise for the evolution of GDP and its components in 2017. Under the baseline scenario, which takes into account only the expected impact of developments and measures announced so far, real GDP growth is estimated at 1.7% for 2017. The latter figure does not necessarily coincide with our point forecast for real GDP growth this year. Nonetheless, it provides a useful quantitative framework for evaluating plausible scenarios in the months and quarters ahead. In more detail, the projected economic recovery is based on a mild increase of private consumption on the back of slow improvement in wages, firm profitability and a further gradual decline of the unemployment rate. The increase is mitigated by the contractionary impact on disposable incomes from the new fiscal measures worth ca €2.6bn that are planned to be implemented in 2017. Investment is also expected to increase, while the external sector is expected to have a mildly negative contribution due to the recovery of imports.

Overall, the aforementioned scenario assumes a completion of the 2nd programme review without further significant delays along with a subsequent inclusion of Greece in the ECB's quantitative easing programme (QE). Possible delays in the aforementioned pose significant downside risks to the projection. Other downside risks include: low ownership of reforms, delays in lifting capital controls, a slow pace of deposit inflows to the domestic banking system, weaker-than-projected growth in the Eurozone, a worsening of the refugee crisis and rising geopolitical tensions. On the other hand, upside risks include: a quicker than expected lift of capital controls, a lessening of euro area political jitters later on in the current year and increased competitiveness gains due to sizeable wage adjustment domestically and sustained euro weakness.

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Greece: 2017 Economic Outlook

Part 1 - Domestic economic developments: recent performance & 2017 outlook

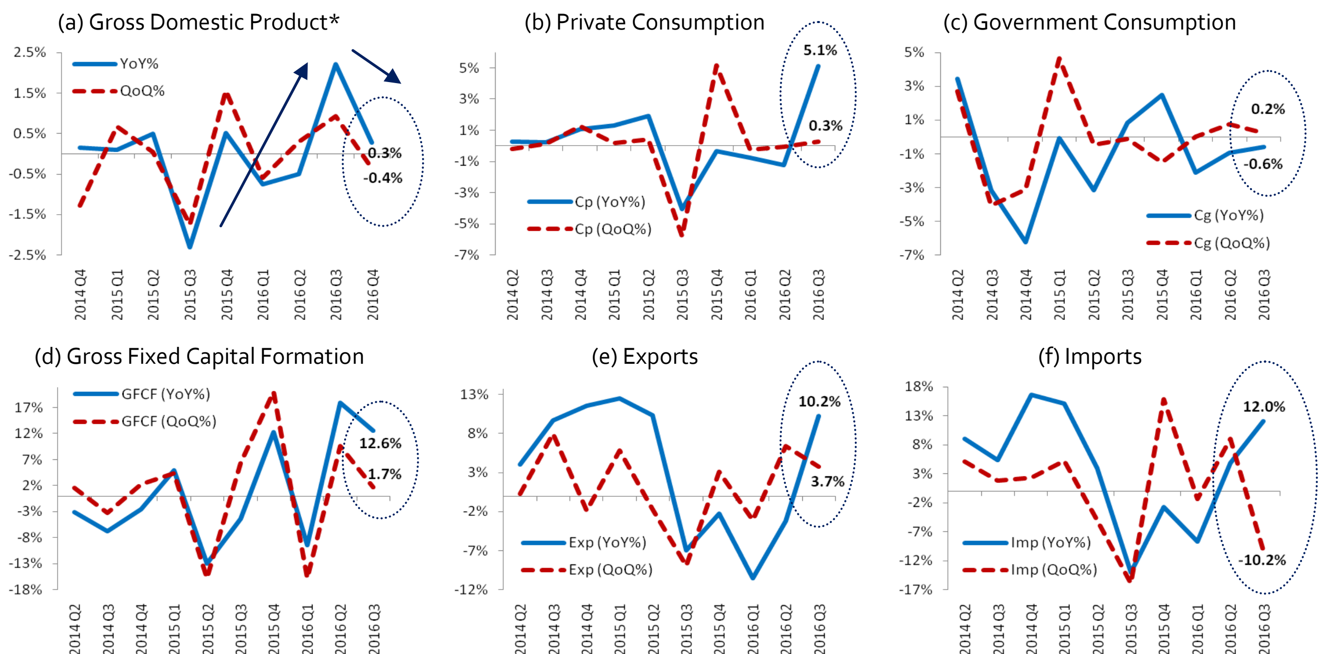
1.1 Greece 2016 - Episode IX: a new hope?

Stylianos G. Gogos[1]

1.1.1 Domestic economy: signs of stabilization in H2 2016

After a milder than expected recession in 2015, the Greek economy grew by a slightly positive rate last year. According to the quarterly national accounts flash estimates for Q4 2016, seasonally adjusted real GDP contracted on a quarterly basis by -0.4% in the fourth quarter of last year. The respective reading in Q3 2016 was positive at 0.9% (revised upwards by 0.1 ppts). On an annual basis, real GDP rose by 0.3% in Q4 2016 against 2.2% in the prior quarter (revised upwards by 0.4 ppts). All in all, the growth rate of real GDP was 0.3% in 2016 (-0.6 in H1 2016 and 1.2% in H2 2016) from -0.2% and 0.4% in 2015 and 2014 respectively. This performance was in line with European Commission's Winter 2017 forecasts and better than what was foreseen in the 2017 state budget (November 2016, -0.3%). Moreover, it indicates a positive statistical carry over effect of 0.3 ppts into 2017. In what follows, we provide a brief analysis on the evolution of some key economic indicators throughout last year.

Figure 1.1: Real Gross Domestic Product Components, Seasonally Adjusted Data



Source: (a) ELSTAT, (b) Eurobank Research.

Note: (a) *The series for Figure 1.1(a), i.e. real GDP, is taken from the flash estimates for Q4 2016. The respective series for the other 5 Figures are taken from the provisional data for Q3 2016.

Since the time series that include the breakdown of Q4 2016 GDP were not yet available at the time of writing this report, the analysis below is based on the provisional data for Q3 2016 (published by ELSTAT on November 29, 2016).[2] Greek real GDP grew by 0.2 YoY% (0.3 YoY% based on the flash estimates for Q4 2016) in the period January-September 2016, mainly thanks to stabilizing private consumption and higher investment expenditure. Over the said period, the former expanded by 1.0 YoY% in real terms, while the latter recorded real growth of 10.2% (6.1 YoY% if the respective change in inventories is not accounted for). On the flip side, government consumption and exports declined by -1.2 YoY% and -1.6 YoY% respectively, while imports grew by 2.0 YoY%. It is worth noting that the improvement in Greek GDP dynamics during the first 9 months of last year was not uniform. The delay on the conclusion of the 1st review of the 3rd economic adjustment programme along with the negative effects from capital controls took their toll on domestic growth in the first half of 2016, with private consumption, government consumption, exports and imports recording respective declines of -1.0 YoY%, -1.5 YoY%, -6.9 YoY% and -2.1 YoY%. Over that period, a positive impulse came from

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[2] The provisional data for Q4 2016 is scheduled to be released on March 6, 2017.

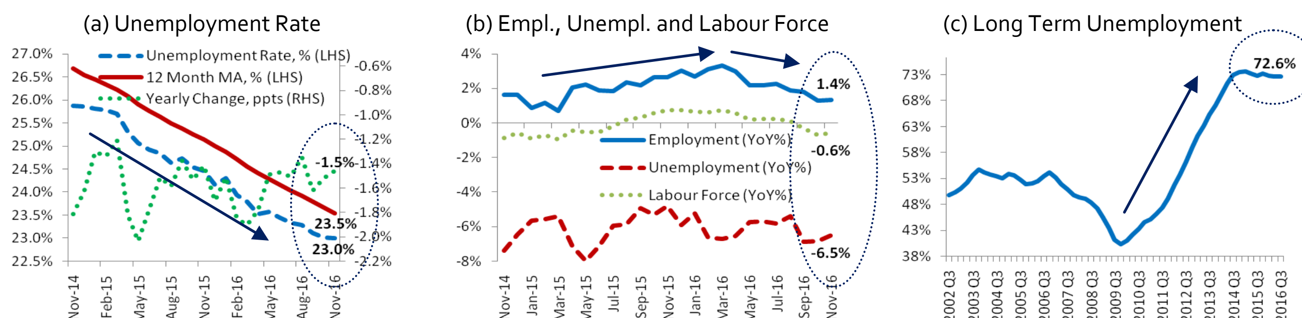
investment, which grew by 23.7 YoY%. This strong rebound mainly reflects a restocking by domestic firms following the huge drawdown of inventories in the couple of quarters following the imposition of capital controls (June 2015) and, to a lesser extent, new expenditure on fixed capital (3.0 YoY% in gross fixed capital formation terms).

The Greek economy returned to a positive annual growth rate in Q3 2016. Real GDP grew by 1.8 YoY% (revised upwards to 2.2 YoY% in the Q4 2016 flash estimate), the highest rate since Q1 2008 (2.4 YoY%). This was driven by private consumption (5.1 YoY%), gross fixed capital formation (12.6 YoY%) and exports (10.2 YoY%), which more than offset the negative contributions from government consumption (-0.6 YoY%), inventory investment and imports (12.2 YoY%).[3] The aforementioned performance was supported by strong base effects stemming from the sharp GDP decline in Q3 2015 and by improving sentiment following the successful completion of the 1st programme review in late May 2016. This last contributing factor was mainly reflected in the positive Q3 GDP growth reading (0.9 QoQ% from 0.8 QoQ% reported earlier).

1.1.2 Labour Market: keep an eye on productivity

Based on the seasonal adjusted time series from the monthly labour survey conducted by ELSTAT, the unemployment rate in Greece reached an all time high of 27.9% in July 2013. In that month, approximately 3,495.1 k people were having a job and 1,353.4 k people were looking for a job. The respective figures in May 2008 – a record low for the unemployment rate in Greece, i.e. 7.3% - were 4,611.1 k and 362.8 k. Hence, during the aforementioned 62 month period, the relevant cumulative changes were as follows: unemployment rate +20.6 ppts, employment -1,116.0 k persons, unemployment +990.6 k persons and labour force -125.4 k persons. According to the latest available data (November 2016), the ratio of the unemployed over the labour force stood at 23.0% (or 23.5% in 12 month average terms). As a result, during the last 40 months the cumulative decrease of the unemployment rate was -4.9 ppts (approximately -0.1 ppts per month or -1.5 ppts per year). Furthermore, employment increased by 188.7 k persons, unemployment decreased by -253.3 k persons and the labour force contracted by -64.6 k persons. For the coming months we expect a further reduction of the unemployment rate, with the full year (2016) average jobless rate coming in at around 23.4%.

Figure 1.2: Basic Labour Market Variables



Source: (a) ELSTAT, (b) Eurobank Research.

As depicted in Figure 1.2(c), one major structural characteristic of the Greek labour market is its very high level of long term unemployment (> 12 months). In terms of a 4 month moving average, the long term unemployment stood at 73.6% in Q1 2015 (record high) compared to 40.4% in Q4 2009 (record low). The respective figure in Q3 2016 was 72.6%. The high level of long term unemployment is a major obstacle in the way towards labour market recovery. Furthermore, it constitutes a serious drag on labour productivity, since it leads to an obsolescence of human capital. In Q3 2016, the YoY% of labour productivity, measured either in terms of output per employee or output per hour worked, was positive (0.2% and 2.1%, respectively). This followed 5 consecutive quarters of negative productivity growth (in terms of output per hour worked) and thus, it is still too early to judge whether the latest reading marks a return to a sustainable positive trend.

1.1.3 Prices: deflationary pressures decelerate…

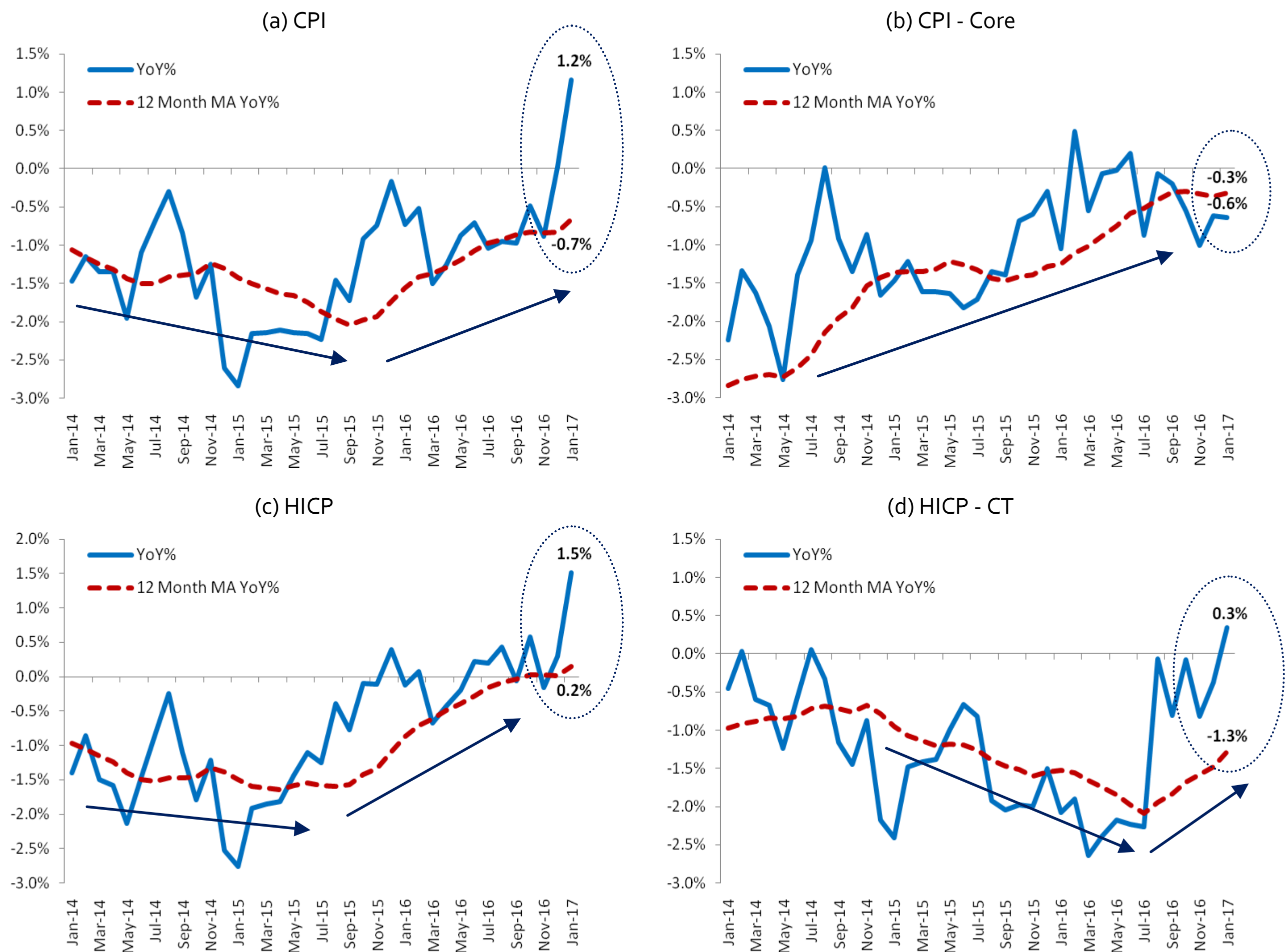
The annual change of the general price level, measured either in terms of the CPI or HICP, remained in a deflationary territory for the 4th consecutive year in 2016.[4] The average annual change of the CPI was -0.8%, compared to -1.7% in 2015, -1.3% in 2014 and -0.9% in 2013. As a result, the cumulative drop of the CPI over the period 2012-2016 was -4.7%.[5]

[3] Since gross capital formation decreased by -16.9 YoY% and gross fixed capital formation increased by 12.6 YoY% it is reasonable to argue that inventory investment had a negative contribution on Q3 2016 growth.

[4] According to the respective press release from ELSTAT, the differences between CPI and HICP are as follows: "*1st the HICP reference year is 2015=100.0 and CPI 2009=100.0, 2nd the HICP covers all consumption expenditure, which takes place on the economic territory of Greece independently of the consumer (permanent and non permanent residents), while the national CPI covers only the consumption expenditure of the residents of private*

It is interesting to note that the deceleration of the deflation rate in 2016 was mainly a result of the increase in indirect taxation. As Figure 1.3(c) demonstrates, the average annual change of the HICP was 0.0% in 2016 vs -1.1% in 2015. The respective figures for the HICP in constant taxes (HICP-CT, see Figure 1.3(d)) were -1.5% and -1.6% respectively.

Figure 1.3: Inflation Rate, CPI and HICP



Source: (a) ELSTAT, (b) Eurobank Research.

Note: (a) CT stands for constant taxes, (b) CPI-Core index is the CPI index excluding the subcategories of food, alcoholic beverages, tobacco and energy.

According to the latest available data (January 2017), the YoY% CPI rate stood at 1.1%, compared to 0.0% and -0.7% in December 2016 and January 2016 respectively. Furthermore, the YoY% HICP rate was 1.5%, compared to 0.3% and -0.1% in December 2016 and January 2016 respectively. The aforementioned inflation increase is attributed mainly to higher indirect tax rates and the rebound in oil prices. As depicted in Figures 1.3(b) and 1.3(d) inflation based on the core CPI remained in a negative territory in January 2017 while the divergence between the YoY% rates of HICP and HICP-CT increased from 0.7 to 1.2 ppts.

1.1.4 External Sector: balance of goods and services deteriorates

The external sector of the Greek economy is expected to have a negative contribution to real GDP growth in 2016. According to the balance of payments (BoP) data published by Bank of Greece (BoG), the balance of goods and services decreased on a yearly basis by -€1,309.7 mn (mn of € in current prices) in the period January-December 2016. The balance of goods increased by €649.4 mn (oil €1,375.6 mn, ships €289.9 mn and other goods -€1,016.2 mn) while the balance of services deteriorated by -€1,612.2 mn (travel -€878.2 mn, transportation -€1,177.5 mn and other services €443.6 mn). In Table 1.1 we present a detailed breakdown of the yearly

households which take place on the economic territory of the country and abroad and 3rd the HICP weights of the items are calculated based on data of the National Accounts and HBS data and CPI calculated using HBS data.".

[5] The respective figures for the 12 basic groups of goods and services of the CPI were: food and non alcoholic beverages -0.1%, alcoholic beverages and tobacco 9.1%, clothing and footwear -8.8%, housing -6.6%, durable goods, household appliances and services -7.7%, health -0.5%, transport -10.2%, communication -3.9%, recreation and culture -8.1%, education -10.8%, hotels, cafes and restaurants -1.0% and miscellaneous goods and services -11.7%.

changes, both in percentages and in levels, of all the subcomponents of exports and imports. Furthermore, in the lower panel of Table 1 we present the yearly changes of the respective balances.

Table 1.1: Exports and Imports of Goods and Services, Current Prices, Balance of Payments Data – Bank of Greece

	Q1 2016		Q2 2016		Q3 2016		Q4 2016		2016	
	YoY%	YoY € mn	YoY%	YoY €mn	YoY%	YoY €mn	YoY%	YoY €mn	YoY%	YoY €mn
Exports - Total	-20.7	-2,227.0	-16.7	-2,442.5	3.1%	531.8	9.1	945.9	-6.1	-3,191.8
Goods – Total	-8.9	-543.6	-6.9	-452.5	5.6	332.1	5.8	363.5	-1.2	-300.5
Oil	-29.6	-494.0	-15.7	-269.9	5.4	88.3	6.9	118.0	-8.3	-557.6
Ships	-70.9	-51.8	2.1	1.8	666.5	14.3	104.0	16.3	-11.1	-19.4
Other Goods	0.1	2.3	-3.9	-184.4	5.3	229.4	5.1	229.2	1.5	276.5
Services - Total	-35.9	-1,683.4	-24.7	-1,989.9	1.8	199.7	13.9	582.4	-10.4	-2,891.3
Travel	4.5	23.2	-9.7	-353.5	-7.8	-676.3	7.5	100.9	-6.4	-905.8
Transportation	-44.9	-1,393.9	-43.2	-1,436.4	29.0	475.4	10.5	200.8	-21.6	-2,154.1
Other Services	-29.1	-312.7	-18.3	-200.0	55.7	400.6	29.8	280.7	4.4	168.6
Imports - Total	-17.4	-2,515.1	-13.1	-1,888.2	13.6	1,509.4	5.1	664.9	-4.2	-2,228.6
Goods - Total	-12.8	-1,413.4	-7.9	-879.3	9.6	889.0	4.3	453.9	-2.3	-949.8
Oil	-39.7	-1,140.7	-25.5	-687.5	-16.7	-453.8	13.3	348.9	-17.7	-1,933.1
Ships	-59.4	-158.4	-66.5	-163.2	131.9	30.5	-24.5	-18.2	-51.0	-309.3
Other Goods	-1.4	-114.3	-0.4	-28.6	20.3	1,312.3	1.6	123.2	4.2	1,292.6
Services - Total	-32.4%	-1,101.7	-30.5%	-1,008.9	32.4%	620.4	8.9%	211.1	-11.6%	-1,279.1
Travel	6.0%	26.2	-9.8%	-52.0	5.5%	30.3	-6.2%	-32.1	-1.4%	-27.6
Transportation	-38.9%	-664.4	-38.7%	-683.4	31.8%	277.0	8.7%	94.2	-18.0%	-976.6
Other Services	-37.0%	-463.5	-26.9%	-273.6	64.1%	313.1	19.6%	149.0	-7.8%	-275.0
Balances - Total		288.1		-554.2		-977.7		281.0		-962.8
Goods - Total		869.8		426.8		-556.9		-90.3		649.4
Oil		646.7		417.6		542.1		-230.9		1,375.6
Ships		106.6		165.0		-16.2		34.6		289.9
Other Goods		116.5		-155.8		-1,082.9		106.0		-1,016.9
Services - Total		-581.7		-981.0		-420.7		371.3		-1,612.2
Travel		-3.0		-301.5		-706.6		133.0		-878.2
Transportation		-729.5		-753.0		198.4		106.6		-1,177.5
Other Services		150.8		73.5		87.5		131.7		443.6

Source: (a) Bank of Greece, (b) Eurobank Research.

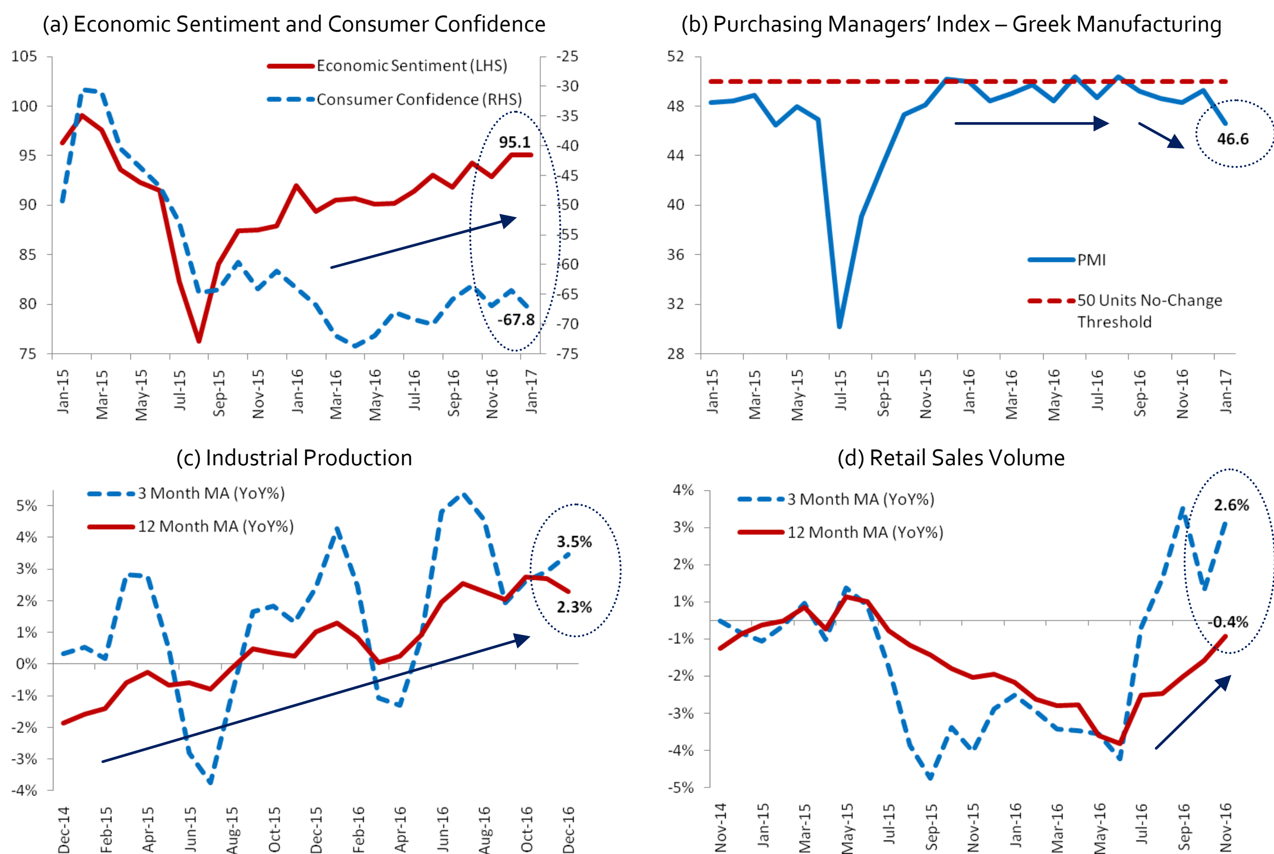
In Q1 2016, the balance of goods and services increased on a yearly basis by €288.1 mn. The goods sector had a positive contribution of €869.8mn, while the contribution of services was negative, i.e. -€581.7mn. During the following quarter, the yearly change of the balance in goods and services turned negative, with the decrease in the balance of services (-€981.0) more than outweighing the concomitant increase in the balance of goods (€426.8 mn). It is worth noting, that during H1 2016 oil products and transportation services recorded the highest decreases both in exports and imports. The contributing factors of this development were the drop in oil prices and the effects of capital controls, especially for the transportation services sector. In Q3 2016, the decrease in the balance of goods and services accelerated (-€977.7 mn). The balance of goods decreased by -€556.9 mn (strong base effects in the subcomponent of the other goods in the imports side). The respective figure for services was also negative (-€420.7 mn), mostly affected by the decrease in tourism revenue. Finally, in Q4 2016, the balance of goods and services increased by €281.0 mn on the back of a rebound in the balance of services (€371.3 mn), which more than offset a decline in the balance of goods (-€90.3 mn).

1.1.5 Hard and Soft data: pointing to a rather improving picture for the greater part of 2016…

In terms of other higher frequency indicators of domestic economic activity the balance remains rather mixed. First, the economic sentiment indicator (ESI), after a continuous decline in H1 2015 – with an accelerating pace during the summer of 2015 - it started to recover, and in December 2016 reached a 21 month high. Moreover, the consumer confidence indicator – a sub-index of the ESI (weight 20%) – after stabilizing during the last four months of 2015 it started to decline until April 2016 (32 month low) and then it

followed an upward trajectory. The conclusion of the 1st review of the 3rd economic adjustment programme in the end of May 2016 and the prospects, back then, for a swift completion of the 2nd review by December 2016, were the main contributing factors to the aforementioned improvement in the economic climate. Second, the purchasing managers' index (PMI) constructed by Markit for the Greek manufacturing sector, oscillated around an average value of 49.2 units in 2016. This performance is slightly below the boom-bust threshold of 50 units (>50 expansion and <50 contraction). Third, the industrial production index, after recording an average annual decrease of -1.1% in Q1 2016 it recorded positive growth rates in Q2, Q3 and Q4 2016 of 4.8%, 1.9% and 3.5% respectively. All in all, the industrial sector, 12.2% of total gross value added in 2015, had a positive contribution to real GDP growth in 2016. Lastly, the retail sales volume index, picked up in Q3 2016 (3.0 YoY%). after recording 4 consecutive quarters with negative growth rates. Furthermore, during the period October-November 2016 its average annual change stood at the positive territory of 2.8%.

Figure 1.4: Economic Sentiment, Consumer Confidence, PMI, Retail Sales Volume and Industrial Production



Source: (a) ELSTAT, (b) Markit, (c) Industrial Production, (d) Retail Sales Volume, (e) Eurobank Research.

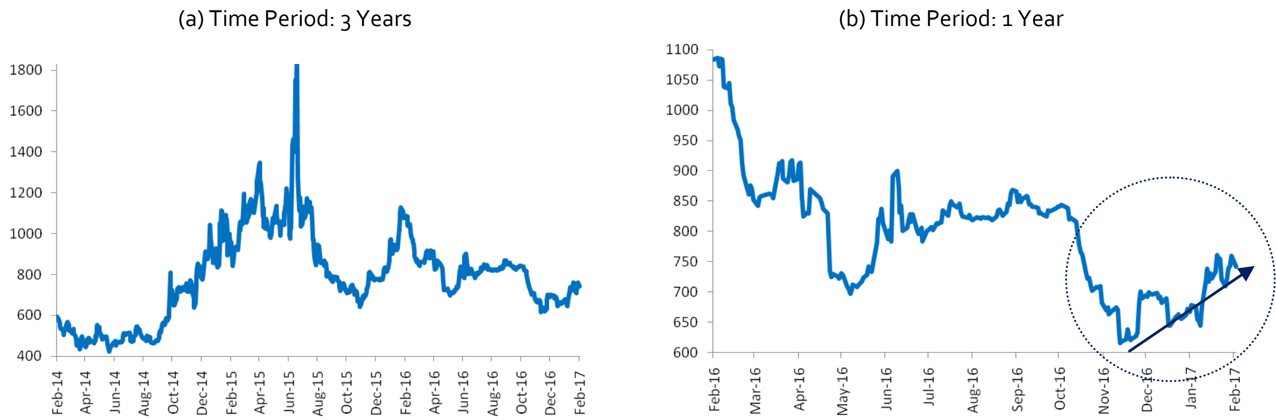
1.1.6 …but uncertainty surrounding the 2nd programme review seems to have taken its toll lately

Uncertainty surrounding the completion of the 2nd programme review has increased over the last 2-1/2 months. As shown in Figure 1.5(b), the 10-yr GGB / German Bund yield spread rose to 740 bps in mid-February, from levels around 620 bps in early December 2016. It goes without saying that in the current, fragile environment (2016 marked the 9th year of the Greek crisis) domestic economic activity exhibits high sensitivity to episodes of increased uncertainty as regards the prospects of the present bailout programme. Thus, pronounced delays in completing the 2nd review are having a negative impact on the domestic economy.

Based on (mostly) anecdotal evidence and media reports, increasing uncertainty surrounding the outlook of the pending review has already started to take its toll. Among other, NPLs flows are estimated to have moved upwards again (by c. €1.0 bn) in the first half of Q1 2017, after decreasing by c. €400 mn in Q4 2016. Over the same period, bank deposits reportedly declined by €2.8 bn, though this may have been partly due to seasonal effects. Finally, in terms of soft data from official databases, Greece's economic sentiment indicator for January 2017 remained steady at the prior month's level (at a 21-month high of 95.1), while the consumer confidence indicator declined to a 5 month low (Figure 1.4(a)). Furthermore, the Greek PMI-Manufacturing index retreated to a 16 month low in January 2017 (Figure 1.4(b)), though this had been due to exceptionally bad weather conditions earlier in the current year.[6]

[6] Press release: https://www.markiteconomics.com/Survey/PressRelease.mvc/48548384a6994b31968c97c1b18cb520

Figure 1.5: 10-yr GGB / German Bund Yield Spread (bps)



Source: (a) Thomson Reuters, (b) Eurobank Research.

1.2 A Numerical Exercise for GDP and its components in 2017

Tassos Anastasatos[7]

Table 1.2: Evolution of Basic Macroeconomic Variables for 2017

	2015, bn.	2016 %yoy Real growth (projection)	Shares in 2016 GDP	2017 %yoy Real growth
Priv. Consumption	122.8	0.3	68.9%	0.9
Gov. Consumption	35.3	-0.5	21.8%	0.1
Total Consumption	158.2	0.1	90.7%	0.7
GCF	17.3	6.6	11.3%	9.5
Domestic demand	175.4	0.8	102.0%	1.7
Imports	55.8	1	32.9%	4.1
Exports	56.1	-0.7	30.7%	4.2
GDP	175.7	**0.3**		**1.7**
GDP deflator	-1.1%	-0.1%		1%
Unemployment Rate (% of l. f.)	24.9%	23.6%		22.5%

Key points

- This note offers a numerical exercise for real GDP growth in Greece in 2017, taking into account the latest developments, both domestic as well as in the Eurozone outlook; a quantification of trends in components of GDP is conducted, with economic rationale offered for each. This exercise is not an official forecast.
- Under the main scenario, which takes into account only the expected impact of developments and measures announced so far, real growth is estimated at 1.7% for 2017. This is subject to a number of assumptions, the most important of which are a successful conclusion of the 2nd review of the 3rd Adjustment Programme by end of Q1 2017 and the subsequent inclusion of Greece in ECB's QE. Possible delays in the conclusion of the Review pose significant downside risks to the projection.
- This estimate is provisional since the detailed specification of measures (and hence their impact on real disposable incomes) is not finalized yet. Significant uncertainty to the growth outlook remains.

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1.2.1 Introduction

This numerical exercise quantifies theoretical macroeconomic relations in order to provide a framework for the 2017 Greek GDP growth outlook. By its nature, it should not be taken to constitute an exact forecast, especially given the large uncertainties surrounding the macroeconomic landscape. The exercise incorporates the latest developments, both domestic as well as in the Eurozone outlook, including the progress of the 2nd review of the 3rd Adjustment Programme of the Greek economy.

1.2.2 Analysis and Projection for 2016

The first estimate of Q4 2016 GDP data showed that the real Greek GDP expanded in Q4 by 0.3% on an annual basis, but contracted by 0.4% on a qoq basis. This performance undershot market expectations of a positive qoq reading. This partial retreat can mainly be attributed to a combination of deteriorated expectations about a delay in the 2nd review's conclusion (which hurt investor and consumer confidence), household restraint of consumption due to the increase of the tax weight (realised, as evident in tax collection overperformance, and precautionary, vis-à-vis tax rate hikes from 1.1.2017) and an increase in the international prices of oil. In parallel, the estimate for Q3 2016 was updated positively to +2.2%yoy from 1.8%yoy previously. Thus, on a yoy basis, the H2 readings reversed a contraction of -0.8% and -0.5% in Q1 and Q2 respectively. This positive change is partly due to a favourable base effect, given that real GDP in Q3 2015 had shrunk by -2.2% in the aftermath of the eventful path to the 3rd Adjustment Programme and the imposition of capital controls, and recovered weakly by +0.5%yoy in Q4 2015. Nevertheless, the course of economic activity in 2016 as a whole has overperformed expectations of both the Programme and the market and, according to the 1st estimate, it closed at +0.3% (2nd estimate to be announced in 8.3.2017). Note that the official EC projection for the 2016 GDP conducted after the agreement for the 3rd Programme (August 2015) envisaged a real contraction of -1.3%, which was subsequently upwardly revised in May 2016 to a contraction of -0.3%. At the time of the writing the breakdown of the 2016 GDP outcome was not available. Thus, this note uses the Eurobank projection for the decomposition of growth in GDP components, as an input (a given) in conducting this exercise. The Eurobank projection is informed by latest available readings of high frequency soft data.

This was the second year in a row in which growth overshot Programme forecasts, despite the maintenance of capital controls (even if partly alleviated), and the implementation of contractionary measures as part of the 3rd Adjustment Programme. In fact, reasons behind the good performance were similar to those prevailing in 2015. Namely, the overperformance was, to a great extent, based on resilient private consumption, given also its large share on GDP (almost 69%). In the first three quarters of 2016, real private consumption growth averaged 1% YoY, having remained broadly stable relative to its level at the end of 2015. For the FY 2016, Eurobank Research projects real private consumption growth of +0.3%, with risks to the upside (e.g. EC projection for a +0.6% change for FY 2016). This is despite the fact that gross disposable income is estimated (AMECO) to have recorded a further decline by -0.2% throughout the year (-0.6% for households) from a level that was even before inconsistent with current levels of consumption. This divergence between disposable incomes and private consumption is reflected in deeply negative levels of savings: the gross saving rate of households remained at -5.4% in 2016, the lowest in the Eurozone, from -6.1% in 2015. Effectively, this means that households are "burning" deposits in order to maintain a level of consumption that is inconsistent with their current disposable incomes. This is possibly related to three reasons: (a) a perception by households that this level of consumption is inelastic and serves vital needs, (b) an expectation that the economy will recover and therefore their disposable incomes will rise to cover for prior net wealth reduction and indebtedness, (c) a still significant in size unrecorded economy. The process has been potentially facilitated by the ready availability of cash, given the massive withdrawals of bank deposits before the imposition of capital controls (over €55bn in total since the fall of 2014, €40bn during H1 2015 alone). At peak, cash in circulation is calculated to have exceeded €47bn or 27% of GDP, against a 10% EA average, and still remained at €43bn in end 2016. Lingering uncertainty has so far prevented a large-scale return of deposits in banks; instead, many individuals may have chosen to use cash for consumption and financing of tax obligations.

Gross Capital Formation has also contributed positively to GDP; it is expected to have increased by 6.6% in the year 2016 as a whole, starting from a very low basis though. This increase was partly due to the re-building of inventories in H1 2016 (drawn down in Q3 2016) following their huge decrease in H2 2015, and the pick-up of GFCF in H2 on the back of expectations for a swift conclusion of the negotiation for the 2nd Programme review, inclusion of the country in the QE and dynamic recovery in 2017. These expectations may have emboldened certain domestic firms to undertake replacement investment following the huge disinvestment that took place in the past several years. The external sector is expected to have contributed negatively in 2016, with exports falling slightly on a yearly basis and imports increasing. Regarding exports, the underperformance was mainly due to services, with both shipping and tourist receipts falling (the latter despite an increase in tourist arrivals), while goods' exports -excluding oil - increased. As to imports, the increase was primarily a side-effect of consumption resilience, and secondarily due to an increase in oil prices towards year end.

Regarding fiscal economics, the Ministry of Finance has announced the achievement of a primary fiscal surplus of €4.4bn on a modified cash basis, against a target of a €2bn primary surplus. Even though this is not comparable to the definition of a surplus according to the Programme (which is calculated on an accrual basis), it is a near certainty that the target of a 0.5% of GDP primary surplus will be exceeded. This is mainly due to the overperformance of tax revenue by €1.9bn against target on a cash basis, while expenditure also undershot targets by a lesser margin (by €350mn and €460mn for ordinary budget and public investment bills,

respectively). The downside of this solid performance is the negative impact of increased taxation on disposable incomes and the liquidity of the economy.

High frequency indicators sketch a mixed picture regarding latest trends; they are compatible with a scenario of tentative recovery but may indicate a deceleration in the beginning of 2017. Unemployment exhibited some de-escalation but it remains at exceptionally high levels; it is expected to have averaged 23.6% of the labour force in 2016, vs 24.9% in 2015.

The successful recapitalization of Greek banks in 2015 has further shielded their capital adequacy. In addition, some tapping of international capital markets against high quality collaterals and some return of deposits in 2016 have enabled the reduction of Eurosystem dependence for liquidity to €68.5bn in November 2016 from €127bn in June 2015. Yet, slow return of deposits and obligation to deal with NPLs continue to put limitations to the ability of the banking system to finance the real economy. A successful and timely completion of the 2nd review would help reinstating depositors' confidence and thus accelerate the return of deposits, thereby improving the currently tight liquidity conditions.

1.2.3 Derivation of real GDP growth estimate for 2017 (1.7%)

This section provides a theoretically consistent economic rationale for anticipating and quantifying impacts of various factors on each GDP component. The GDP growth estimate for 2017, which we consider to be feasible, takes into account only fiscal measures that have been legislated or are anticipated to be undertaken by the time of publishing and their impact on disposable income and the economic climate. The basis for conducting the exercise is provided from the projection of full year 2016 GDP, as well as a particular level of each GDP component and a respective share in 2016 GDP. With a 0.3% estimated real expansion and a GDP deflator of -0.1% in 2016, nominal GDP at the beginning of 2017 should stand at ca €176bn. Thus, the 2017 estimate is subject to an additional risk related to basis effects in case these figures change in later data estimates.

In addition, the exercise assumes that the 2nd review will have been concluded by end Q1 2017 and a clear path to enhancing the sustainability of public debt will have been agreed; any departure from these assumptions poses serious downside risks to the GDP outlook. At the time of writing, creditors' technical teams had returned to Athens and resumed discussions with the government for concluding the 2nd Review. The review discussions encompass a number of important reform areas, including the tax system, pensions, further labour market liberalization, progress of privatizations and completion of the legal framework for NPL management (out-of-court settlements). Successfully concluding the Review will lead to the disbursement of €6.1bn that will help in fully covering gross financing needs of the State. More importantly, should the review be accompanied by an agreement on the nature and trigger conditions for medium-term debt relief measures, this would pave the way for a positive DSA on behalf of the IMF (and an equivalent one by the ECB) and the subsequent participation of the Fund in the Programme, as well as the inclusion of Greece in the QE. This, in turn, will have a beneficial impact on economic sentiment leading to a significant reduction in GGB's yields and risk premia, which would bring about a reduction in bank and firms' borrowing costs. Obviously, QE is not a panacea and cannot ensure low borrowing costs in the long-term as it will be phased out at some point. Still, it would help in jump-starting the Greek economy and assist the return of the State to the markets, while also offering a significant time window for fully implementing structural reforms. The latter is a necessary condition for improving growth potential in a sustainable manner.

However, the completion of the 2nd review is delayed. Note that when the official Programme projection for a 2.7% rate of real GDP growth was made, the expectation was that the 2nd review would be concluded by Q1 2016. After delays in agreeing both the 1st and the 2nd Review, the Government had stated it expected conclusion in 5 December 2016. This deadline was also missed and, at the time of writing, the Government aims to reach a full Staff-Level Agreement (SLA) in March 2017. As a result, all the aforementioned beneficial developments are delayed and uncertainty has increased. This is expected to have a negative impact on the growth outlook relative to the initial assumption.

The 20 February Eurogroup agreed that the review will include upfront legislation of interventions in pensions and the tax system, as the IMF had asked. This increases risks related to the backing of reforms from government MPs. Lastly, implementation of already voted reforms also relies on the adequacy and timeliness of secondary legislation.

1.2.4 Evolution of GDP Components

<u>(a) Private consumption (68.9% of GDP – using chained-linked volumes in 2010 prices):</u> Private consumption predominantly depends on disposable income. As explained above, in 2016, real private consumption is estimated to have grown by (at least) 0.3%yoy, while gross disposable incomes declined by (at least) -0.2%, thereby resulting in yet another negative reading of gross household savings. Throughout the crisis, consumers exhibited behavior consistent with a more general intertemporal smoothing of consumption.[8] This was reflected in the large decline of the elasticity of private consumption with respect to disposable income in crisis years compared

[8] This theory postulates that consumers try to achieve a more balanced level of consumption intertemporally in order to maximise their utility. Hence, when optimism about future incomes is prevalent, consumption increases faster than current income. On the contrary, when consumers experience income cuts which they perceive as temporary, they run down on their savings and cut consumption by less.

to the years of rapid growth based on booming consumption, 2001-2008. The end of the observed decoupling between disposable income and consumption has been hypothesised before and did not occur. However, this is not a trend that can continue for ever as it results in the depletion of savings. In addition, it increases the share of private consumption over GDP, which is already ca 14ppts larger than the EA average, and drags the growth paradigm away from an exports- and investment-led model. Either productivity – and thus disposable incomes – will increase, or consumption will be tamed to reduce the dissaving trend. This dichotomy, in turn, is closely related to the timeliness of closing the review and finishing the Programme, which was the chief factor behind the expectations for macroeconomic normalization that fuelled consumption. If these expectations are falsified, households will gradually realize that disposable income reduction is permanent and not temporary and consumption will begin to be aligned with developments in real incomes. Additional wealth effects on consumption are also possible.

The 2017 Budget projects measures of marginal worth (i.e. on top of impacts already materialized in previous years) of ca €2.6bn or ca 1.5ppts of GDP for 2017. From those, only ca €150mn will come from the expenditure side and ca €2.45bn from the revenue side. The sheer size of the package but also the highly unbalanced mix in favour of tax measures is expected to negatively affect economic activity.

At the beginning of 2016, net nominal disposable income is estimated (AMECO) to stand at €141.1bn. In order to calculate the impact that measures could cumulatively have on net nominal disposable income, we need to account for: i) the fact that not all measures affect disposable incomes, at least not equi-proportionately, ii) the degree of implementation varies across measures, and iii) the fact that households and corporations partly finance tax payments by drawing from savings. This is a notion similar to the impact of the fiscal multiplier, albeit applied only on net nominal disposable income and not on GDP as a whole. A disaggregated analysis leads us to the estimate that fiscal measures will incur a reduction of net nominal disposable income by ca €1.8bn or by -1.3% in 2017.[9]

Net nominal disposable income is not only affected by fiscal measures but also by other factors, most importantly wages in the private sector, unemployment and profits on capital. As far as nominal wages in the private sector are concerned, AMECO projects nominal compensation per employee to increase by 1.4% yoy, while newer EC winter forecasts revise this downwards to +1%. Nominal ULCs are projected to increase by a lesser +0.5%, obviously due to the assumed simultaneous increase of productivity (GDP/employee). On one hand, there are factors that may exert downward pressures on wages: (a) a still exceptionally high level of unemployment, (b) despite introduced flexibility in the labour market, high taxation and non-wage costs discourage migration of the grey economy back to the official economy, (c) the full impact of any structural reforms on productivity and thus on wages can only be felt in the more medium term. On the other hand, a possible rapid implementation of privatizations and improvement of the investment climate following the conclusion of the 2nd review may increase appetite for consumption, investment and inventory re-building, thereby reinvigorating the labour market. All in all, we take the median way between EC projections for the growth of the nominal compensation per employee to a 1.2% increase in order to capture effects not captured already by the fiscal drag. Considering that about 58% of the labour force is employed in the private sector (after taking account of unemployment), and the fact that labour has a share of ca 60% in the GDP, this constitutes a €0.7bn or 0.5% increase in net nominal disposable income.

For unemployment, the EC projects a decrease to 22% of the labour force in 2017, against a 22.6% projection of the budget and 23% in October 2016. The unemployment rate has seen a sustained decrease since late 2014 on the back of (a) a lagged impact of previous labour market reforms, (b) replacement by businesses of expensive full-time workers with part-timers, (c) expectations of an incipient recovery in 2016. However, the fall in unemployment has slowed down in recent months as a dynamic recovery is delaying and thus developments in productivity undermined the trend of new hires. Based on our assumptions about developments regarding the Programme, we project a continuation of this trend of slow de-escalation and a year average unemployment rate of 22.5% of the labour force, i.e. ca 53,000 fewer persons unemployed compared to 2016. Assuming that the per person loss in disposable incomes is approximately equal to the difference between the per capita net income and the unemployment benefit, decrease of unemployment will increase the total net nominal disposable income by ca €0.6bn or 0.4%.

Profits on capital are projected by AMECO to increase by 9.6%. Low wages should give a boost to profitability. Yet, despite disinvestment in previous years, reduction in production has resulted in relatively less intensive use of capital. This is reflected in the capital stock-to-output ratio being 4.3 in 2016 vs 3.4 in 2008 so that capacity utilisation remains low. This is a disincentive for conducting investment when the economy recovers as firms will attempt to use existing capital more intensively before undertaking new investment. If not reversed, productivity-enhancing reforms should also kick-in. However, profitability will be adversely affected by the fiscal drag, onerous taxation and a still high unemployment rate. In addition, the NPL management process will involve some business consolidation in the medium term. Hence, we downgrade the projection to a 5% increase. Considering a 40% share of capital in the GDP, this means a ca €3.5bn or 2.5% increase in nominal disposable income.

[9] This is tantamount to a quasi "fiscal multiplier" of ca 0.7, which is close to the size of Year 1 fiscal multipliers estimated for Greece. For example, see ECB's WP 1760, March 2015.

In total, net nominal disposable income is projected to increase by ca €3bn or 2.1%. In order to translate this into an increase in real disposable income, we need an estimate about consumer prices. Eurobank Research projects an HICP change of 1% (period average) against a projection of +0.6% in the Budget and flat prices in 2016. This is based on an enhanced effect from recent VAT and other tax rate hikes. In addition, oil prices are expected to increase in 2017 and the stance of ECB's monetary policy to remain accommodative. With an HICP change of +1%, real disposable incomes should be increased by 1.1%.

Finally, we have to deduce to which extent the fall of real disposable income will affect private consumption. According to the aforementioned analysis of reduced intertemporal consumption smoothing, as well as the experience of the relative resilience of consumption in the previous crisis years, we assume an income elasticity of consumption of 0.8. Hence, real private consumption will expand in 2017 by 0.9% (against the budget's projection of +1.8%).

(b) Government consumption: (21.8% of GDP): the Budget projects a -0.3% change. Experience of previous years compels to allow for some modest slippage and thus we pencil a +0.1% change.

Final consumption: (90.7% of GDP): +0.7%

(c) Gross Capital Formation: (11.3% of GDP): GCF is the most sensitive component of GDP in changes of interest rates and the economic climate. Investment has been falling rapidly in crisis years, reaching €17.3bn or 10.6% of GDP in 2015 from €57.4bn or 23.7% of GDP in 2008. As a result, the country's capital stock has declined by a massive €70bn in real prices since 2009. GCF is expected to have risen slightly to €18.4bn or 11.3% of GDP in 2016. The low level constitutes a favorable basis effect, as firms position themselves for the incipient recovery and expect increased demand. However, there are reasons to be cautious: (a) capacity utilization is still low so that enterprises need not invest to serve this demand, unless they perceive it as increasing fast and in a sustained manner, (b) liquidity conditions remain tight; for seeing positive credit expansion, a much larger return of deposits than the one observed so far and progress in banks' dealing with NPLs will be needed (c) capital controls are still in place, albeit gradually relaxed, (d) uncertainty related to the Programme's 2nd review has not dissolved yet. The latter is also reflected in a still high risk premium: the GGB's spread remains a multiple of the spread of countries in comparable macroeconomic condition and has increased further after the unsuccessful outcome of the Eurogroup in January 26. This keeps interest rates elevated, thus eliminating positive NPV for many investment projects.

A rapid conclusion of the Review and progress with privatizations could help in spurring a revitalization of investment, given that the wage cost competitiveness of the country has been restored. Expectations of increased demand may also motivate quantitatively significant re-stocking. In addition, planned product market reforms improve the entrepreneurial environment and are hoped to improve investment prospects and produce a supply boost. However, the full impact of those developments will materialize only gradually; in the shorter-term, the most important factors are business sentiment and sovereign risk, which in turn mainly relate to the timing and quality of agreement for the Programme's 2nd review.

Public investment is projected in the Budget to remain at €6.75bn in 2017, the same level as in 2016. Efforts to improve bureaucratic procedures for absorbing EU Structural and Cohesion Funds need to intensify in order to take advantage of the easing of the requirement for national sources' co-financing.

Taking into account all aforementioned developments, and given our assumption of a swift conclusion of the review, we pencil a +9.5% increase, (the Budget projects a 9.1% increase for GFCF, excluding inventories; EC projects a 12% increase).

Domestic demand (102% of GDP): +1.7% change.

(d) Exports of g&s (30.7% of GDP): As long as price competitiveness is concerned, a relevant measure is nominal ULC, except for tourism for which CPI is more relevant. However, in 2016, nominal ULCs increased by 2.7%, partly due to increasing non-wage costs, and yet goods' exports increased marginally – excluding oil, which fell due to oil price decreases. This is evidence of the multitude of other factors affecting exports apart from relative costs, including origin and destination country's income, transport costs, bilateral exchange rates, economic and political climate, geopolitical situation etc. In this case, resilient Greek exports in 2016 are also related to trading partners' recovery and the partial normalization in the supply chain of businesses after the initial disruptions by the imposition of capital controls. All the more so given that Greek exports have a large import content. However, capital controls continue to hit shipping, which to a large extent circumvented the Greek financial circuit altogether, and tourism revenue, despite record arrivals. A potential normalization of sovereign risks should the 2nd review be concluded, and the continuing recovery in the Eurozone, Greece's largest trading partner, indicate room for a positive evolution this year.

In terms of price competitiveness, nominal ULC is expected to increase by 0.4% in 2017, a rate comparing favorably to Eurozone's 1.2% projected increase. For HICP we projected a change of +1% vs ECB's +1.3% change for the Eurozone as a whole, while other countries competitive to Greece in tourism are projected to record slightly higher inflation rates. With tourism accounting for 26.8% of total Greek exports of g&s in 2015, the combined improvement in competitiveness should be ca 0.6%. In terms of international demand, roughly 50% of Greek exports go to Eurozone countries and another 25% to SE Europe. Eurozone GDP is expected to recover by a further 1.4% in 2017 and SE Europe is expected to maintain a healthy +3% rate of real growth (on average, notable

differentiations across countries). To be conservative, we assume a unitary elasticity of international demand for Greek exports w.r.t. both trading partners' growth rates and prices (competitiveness gains). One has to also factor in the expected increase in oil prices as refined oil products constitute ca 13% of Greek exports of goods and services, also counting in some price elasticity of demand. The overall effect should be a 4.2% increase (against the Budget's projection for +5.3%).

(e) Imports of g&s (32.9% of GDP): the increase of imports in 2016 was once again a multiple of the increase in private consumption, proving the related elasticity is larger than unity; imports of goods excluding oil and ships have grown by 4.3%yoy in the Jan-Nov 2016 period, while oil imports fell due to oil price declines. This is related to the fact that, to a large extent, imports comprise consumer goods of high income elasticity and investment goods, as well as to the strong import content of exports. Hence, incipient recovery indicates that imports' level and share in the consumer's basket may increase once again in 2017. We assume an income elasticity of imports of 1.2, which is close to the empirical elasticity observed in previous years. Furthermore, oil prices are also expected to increase in 2017 by ca 22%[10], which pushes imports upwards as oil accounts for ca 21% of Greek imports of goods. To conclude, we project a 4.1% real increase of imports (against the Budget's projection for a +3.2% change).

1.2.5 Risks to the Projection

Risks-Negative

1. Negative risks stem mainly from delays in the conclusion of the 2nd review of the 3rd Adjustment Programme beyond Q1 2017 as well as watering down the quality of reforms and the medium-term debt relief measures. Delays would adversely affect investment and consumer confidence and the financing of the public sector, possibly leading to the accumulation of arrears and reduced liquidity for the private sector. A possible delayed implementation of output-boosting reforms and privatizations would be equally harmful. In the extreme scenario, it could cast doubt once again on the ability of the Greek economy to achieve sustainable growth within the Eurozone.
2. Political wavering and low ownership of reforms could harm confidence and mitigate the growth-enhancing content of reforms, as well as cast doubts at the country's ability to abide by its commitments.
3. A highly unbalanced mixture of measures, biased towards tax increases rather than expenditure rationalization, could undermine sustainability of fiscal consolidation and, conditional on the form of implementation, enhance the fiscal drag.
4. A delayed lift of capital controls could have adverse implications on the businesses' supply chain, on imports and exports.
5. A delayed return of deposits to banks and/or delays in dealing with NPLs could adversely affect banks' ability to reduce exposure to the Eurosystem for liquidity and thus to finance the economy.
6. Any policy shortcomings delaying recovery could also reduce social tolerance towards the Programme and social cohesion.
7. Weaker-than-projected growth in the Eurozone would adversely affect exports.
8. A resurgence of the refugee crisis would burden fiscal economics and increase social fatigue. A possible escalation of peripheral confrontations would also harm growth prospects.

Risks-Positive

1. A rapid, successful completion of the 2nd review would boost economic confidence and persuade investors of the government's ownership of the Programme. Possible medium-term debt relief measures would enhance perceptions of debt sustainability. Equally importantly, it would allow for the participation in ECB's QE, even if for reduced amounts compared to previous estimations. All the above could decrease sovereign risk and lending rates for corporates faster than currently expected and trigger a technical reaction of investment and domestic demand in general.
2. Political ownership in the implementation of reforms could precipitate reaping their benefits.
3. A quicker than expected full lift of capital controls would help exports, boost investor confidence and reduce distortions in resource allocation; this requires a reinstatement of depositors' confidence.
4. Geopolitical risks in neighbouring countries, up to a certain extent, could benefit tourism.
5. A stronger growth in the Eurozone would benefit exports and tourism.
6. Sustained weakness of the Euro could benefit competitiveness.

[10] We take the U.S. Energy Information Administration projection of Brent Crude Oil price to average 53.50 dollars per barrel in 2017 vs 43.74 in 2016.

Part 2 - Fiscal outlook

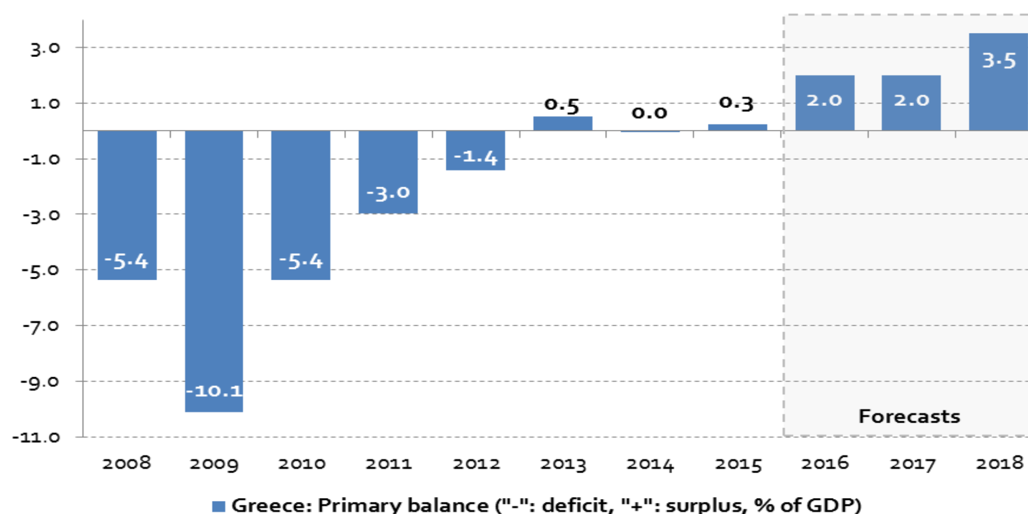
Theodoros Stamatiou[11]

2.1 *Fiscal performance in 2016*

According to the ESM Compliance Report of the 3rd bailout programme (June 2016), Greece should target respective general government primary surpluses (in programme terms[12]) of 0.5% of GDP and 1.75% of GDP in 2016 and 2017. Separately, the 2017 Budget that was ratified by the Hellenic Parliament last November forecasted a general government primary surplus (in programme terms) of 1.1% in 2016, significantly higher compared to the respective target penciled in the 2016 Budget (0.5% of GDP in programme terms).

Based on the most recent state budget execution data (January-December 2016), we believe that both the programme target for a primary surplus of 0.5% of GDP in FY-2016 and the respective forecast included in the 2017 Budget (1.1% of GDP) will be outperformed by a significant margin. This is on the basis that the state budget primary balance recorded a surplus of c. €4.44 bn over that period, strongly outperforming the respective outcome envisaged in the 2017 Budget (primary surplus €1.98 bn). Taking into account that the latter figure corresponds to a *general government* primary surplus of 1.1% (as per our own calculations and the new Budget's analysis), we are looking for a general government primary surplus realization of c. 2% of GDP for FY-2016, broadly in line with the what is being projected in the European Commission's Winter 2017 forecasts. As a result, 2016 will be the third year since 2013 with a positive *general government* primary balance. The 2014 primary balance was negative but close to zero. (Figure 2.1).

Figure 2.1: General Government Primary Balance (2008-2018, in programme terms, % of GDP)



Source: IMF, 2017 Budget, 3rd Economic Adjustment Programme

The aforementioned 2016 outperformance can be mainly attributed to higher than expected ordinary budget net revenue for January – December 2016. On the other hand, the realizations of the ordinary state budget expenditure and the public investment budget (PIB) balance were close to their annual targets. In more detail, ordinary budget ***net*** revenue for January-December 2016 amounted to c. €49.86 bn, higher by c. €1.88 bn or 3.9% relative to the respective forecast penciled in the 2017 Budget. In a similar vein, ***total*** tax revenue over-performed by c. €1.70 bn or 3.7% (Figure 2.2). As regards direct tax revenue, the respective outperformance rates were: personal income tax (2.0%), corporate income tax (14.1%), property tax (8.7%) and other direct taxes (2.0%). Furthermore, revenue from direct tax arrears in January-December 2016 exceeded by 8.7% the respective forecast presented in the new Budget. With respect to indirect tax receipts, VAT revenue was higher by 2.1% relative to what was projected in the 2017 Budget, with the respective outperformance rates of the major sub-components being as follows: fuel (+3.5%), tobacco (+0.6%) and all other goods (+1.5%). Overall, it seems that that a range of recently implemented indirect tax hikes supported budget revenues in recent months. These measures included, inter alia, (i) increase in the sales tax on tobacco products, which came into effect on

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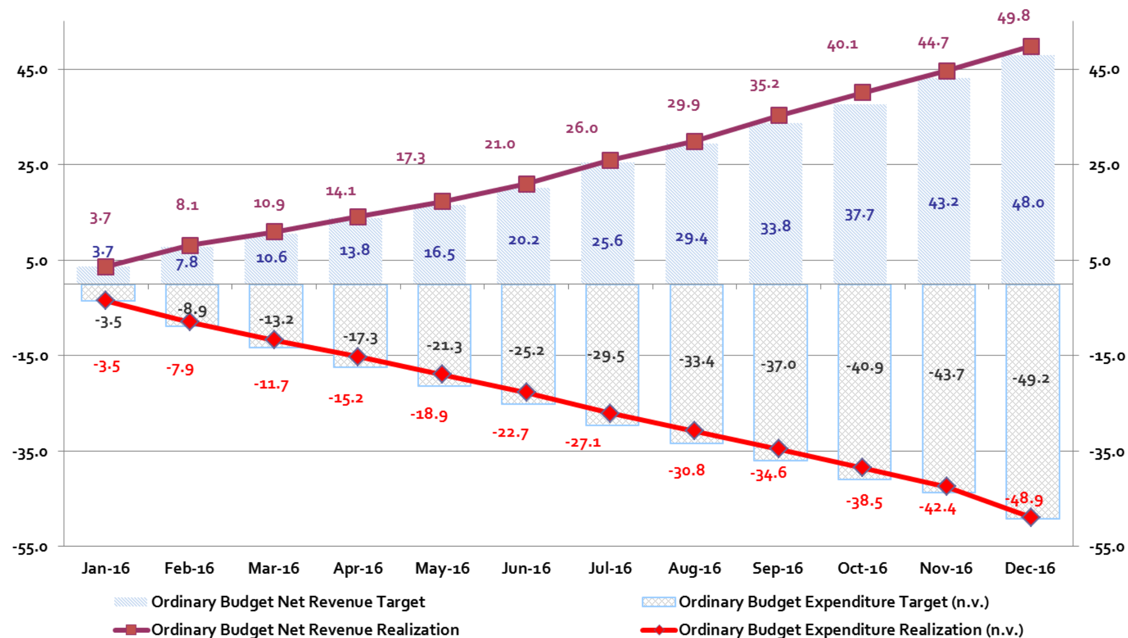
[12] The programme definition of the primary balance excludes from the primary balance in ESA2010 terms (Eurostat) a) the one-off cost of bank recapitalization, b)the SMP and ANFA revenues and c) part of the privatization proceeds. See footnote 49 in the recent European Commission 2017 Winter forecasts for Greece: https://ec.europa.eu/info/files/winter-2017-economic-forecast-greece_en

January 1, 2016; (ii) a further increase of the main VAT rate from 23% to 24% (effective from June 2016); (iii) abolition of the reduced VAT rates earlier applied in a number of Greek islands; and (iv) increased use of electronic means of payment in the period after the imposition of capital controls. Elsewhere, consumption taxes were higher by 2.2% relative to the respective forecast presented in the 2017 Budget, while tax refunds underperformed slightly (by -0.7%). Finally, non-tax revenue outperformed their budget target by c. €0.16bn or 3.6%.

Figure 2.2: State Budget Execution in January-December 2016; Revenue & Expenditure (2016, € bn)



Source: Greek Ministry of Finance

The 2016 outperformance can be mainly attributed to higher than expected ordinary budget net revenue for January – December 2016. On the other hand, the realizations of the ordinary state budget expenditure and the public investment budget (PIB) balance were close to their annual targets. In more detail, ordinary budget *net* revenue for January-December 2016 amounted to c. €49.86 bn, higher by c. €1.88 bn or 3.9% relative to the respective forecast penciled in the 2017 Budget. In a similar vein, *total* tax revenue over-performed by c. €1.70 bn or 3.7% (Figure 2.2). As regards direct tax revenue, the respective outperformance rates were: personal income tax (2.0%), corporate income tax (14.1%), property tax (8.7%) and other direct taxes (2.0%). Furthermore, revenue from direct tax arrears in January-December 2016 exceeded by 8.7% the respective forecast presented in the new Budget. With respect to indirect tax receipts, VAT revenue was higher by 2.1% relative to what was projected in the 2017 Budget, with the respective outperformance rates of the major sub-components being as follows: fuel (+3.5%), tobacco (+0.6%) and all other goods (+1.5%). Overall, it seems that that a range of recently implemented indirect tax hikes supported budget revenues in recent months. These measures included, inter alia, (i) increase in the sales tax on tobacco products, which came into effect on January 1, 2016; (ii) a further increase of the main VAT rate from 23% to 24% (effective from June 2016); (iii) abolition of the reduced VAT rates earlier applied in a number of Greek islands; and (iv) increased use of electronic means of payment in the period after the imposition of capital controls. Elsewhere, consumption taxes were higher by 2.2% relative to the respective forecast presented in the 2017 Budget, while tax refunds underperformed slightly (by -0.7%). Finally, non-tax revenue outperformed their budget target by c. €0.16bn or 3.6%.

On the spending side, ordinary state budget expenditure in January-December 2016 amounted to c. €48.89 bn, undershooting the forecast penciled in the 2017 Budget by c. €0.33 (or -0.7%), but were c. €0.35 bn (or 0.7%) higher than the respective 2015 figure (Figure 2.2). Primary spending was more or less in line with the budget forecast. Finally, PIB total revenue amounted to c. €4.18 bn in January-December 2016, lower by c. €0.02 bn (or -4.5%) and €0.75 bn (or -13.5%) relative to the respective forecast in the 2017 Budget and the FY-2015 realization. PIB total expenditure amounted to c. €6.29 bn, lower by c. €0.46 bn (or -6.8%) and c. €0.12 bn (or -1.8%) compared with the respective budget target and the 2015 realization.

2.2 Attainability of the 2017 fiscal target

For this year, Greece's current Economic Adjustment Programme targets a general government primary surplus of 1.8% of GDP (programme definition), which compares with a surplus of 2.0% of GDP penciled in the country's 2017 Budget. Although it is still too

early to make any judgment on the full-year fiscal performance, the data for the State Budget execution in January 2017 are encouraging. In more detail, the central government primary balance recorded a surplus of €1.02 bn, €0.35 bn higher compared to the 2017 Budget target. This was on the back of better than projected ordinary budget net revenue (8.9% higher relative to the January 2017 target) due to improved revenue from direct and indirect taxes (12.5% and 4.5% higher respectively compared to the 2017 Budget target). Note, however, that VAT revenue from all goods excluding VAT and fuel was -6.8% lower (or €0.1 bn) relative to the 2017 Budget target, which might be attributed to the renewed decline of the consumer sentiment to a five-month trough of -67.8 in January as well as the bad weather conditions in the same month. To a lesser extent, a slight under-execution (by -0.5%) of the ordinary budget net expenditure was also behind the generation of a general government primary surplus in the first month of this year.

In our view, the following factors will be crucial in fulfilling the 2017 fiscal target:

a) Additional revenue to reach state coffers as a result of the new fiscal measures agreed in the context of the 1st programme review. The 2017 Budget envisages additional budgetary savings of €2.60 bn this year, with the majority of these being generated from the revenue side (€2.45 bn).
b) The progress made by the Independent Authority for Public Revenue (IAPR) in collecting taxes and fighting tax evasion.
c) The non-acceleration of the arrears to the *general government* throughout 2017 despite the fiscal drag expected from the implementation of the fiscal measures of €2.6 bn for 2017 (2017 Budget). Note that according to the most recent data from the IAPR, new arrears to the general government reached €13.91 bn at the end of 2016. The respective end-2015 figure was at €15.92 bn.
d) The achievement of the 2.7% real GDP growth forecast for this year that is assumed in the new budget. Currently, the average market forecast for Greece's 2017 real GDP growth stands at c. 1.6%.[13]

2.3 Clearance of the General Government Arrears

According to the latest data on General Government Arrears (January-December 2016), total funds transferred to the various General Government entities and to the tax authority for the clearance of arrears to third parties that have been outstanding for more than 90 days stood at €3.47 bn. This amount is lower than the arrears clearance target of €4.30 bn for 2016 (ESM Compliance Report of the 3rd Economic Adjustment Programme of Greece, June 2016). However, it is broadly in line with the total programme financing (€3.50 bn) released in the context of the 1st review for the purpose of settling outstanding state debts to third parties. Moreover, actual payments to the private sector over the said period amounted to €3.13 bn, reflecting certain delays related to the verification of debts and the actual disbursement of the respective amounts.

As a result, the total outstanding stock of general government arrears (including tax arrears) stood at €4.54 bn at the end of December 2016, compared to €5.60 bn in the prior month and €7.28 bn at the end of June 2016. The clearance of arrears will continue in the following months, conditional on the timely conclusion of the present (2nd) review. Finally, note that the ESM compliance report targets a further reduction of Greece's state arrears by c. €3.50 bn in 2017.

2.4 Developments Regarding General Government Gross Public Debt

According to the most recent data from the Public Debt Management Agency, the Central Government Gross Public Debt (CGGPD) was at c. €326.36 bn (or 185.1% of GDP[14]) at the end of December 2016 slightly improved (by €0.021 bn) compared to the respective forecast envisioned in the 2017 Budget (€326.57 bn or 185.9% of GDP). The 2017 Budget (CGGPD) target for 2017 is at c. €330.07 bn (or 180.0% of GDP).

According to the 2017 Budget, the General Government Gross Public Debt for (GGGPD) 2016 and 2017 is expected at c. €315.4 bn (or 178.9% of GDP) and at c. €319.2 bn (or 174.0% of GDP) respectively. According to the 2017 Winter Economic Forecast of the European Commission GGGPD is projected at €316.9 bn (or 179.7% of GDP), €325.0 bn (or 177.2% of GDP) and €326.2 bn (or 170.6% of GDP) for 2016, 2017 and 2018 respectively. Note that total debt financing needs for 2017 are estimated at €15.3 bn according to the Compliance Report of the 3rd Economic Adjustment Programme of Greece (June 2016).

[13] Average market forecast: average of the most recent 2017 real GDP consensus forecasts from Bloomberg (1.5% (February 2017)), Reuters (1.6% (January 2017)) and Focus Economics (1.7% (March 2017)).
[14] For comparison purposes, the 2016 and 2017 nominal GDP readings from the 2017 Winter forecasts of the European Commission were used in the calculation of the for the CGGPD ratios instead of the respective 2017 Budget nominal GDP forecasts.

Part 3 – Domestic financial sector: current trajectory and outlook

Platon Monokroussos[15]

The analysis provided in this section draws on the Bank of Greece's latest (January 2017) Overview of the Greek Financial System (available only in Greek).[16] Readers interested in a more thorough analysis on the evolution and determinants of non-performing loans as well as domestic banks' provisioning policies to deal with bad debts may also wish to read the following two empirical studies:

Monokroussos, Platon; Thomakos, Dimitrios D.; Alexopoulos, Thomas A., "The Determinants of Loan Loss Provisions: An Analysis of the Greek Banking System in Light of the Sovereign Debt Crisis" London School of Economics, European Institute, GreeceSE Paper No. 104, November 2016.

http://www.lse.ac.uk/europeanInstitute/research/hellenicObservatory/CMS%20pdf/Publications/GreeSE/GreeSE-No.104.pdf

Monokroussos, Platon; Thomakos, Dimitrios D.; Alexopoulos, Thomas A., "Explaining Non-Performing Loans: A Comparative Study on the Effects of Recession and Banking Practices", London School of Economics, European Institute, GreeceSE Paper No. 101, August 2016.

http://www.lse.ac.uk/europeanInstitute/research/hellenicObservatory/CMS%20pdf/Publications/GreeSE/GreeSE%20No.101.pdf

3.1 Summary of views

The first nine months of 2016 have seen a relative stabilization in the overall stock of non-performing exposures (NPEs) in the Greek banking system along with a slight reduction in the accumulated provisions for their coverage. However, the cumulative stock of NPEs remained excessively high, with the respective ratio to total exposures standing at 45.2% at the end of September 2016, compared to 45.1% in the prior quarter and 44.2% at the end of 2015. Greek banks continued their conservative provisioning policies over that period, with the respective ratio for NPEs remaining slightly lower than 50% and higher than the respective EU average. To the extent that current expectations for a return to more dynamic GDP growth this year are verified, we believe that the NPEs ratio will have peaked late last year, with a gradual de-escalation expected from 2017 onwards. This is in line with the respective operational targets that Greek banks have agreed with their supervisory authorities (BoG and SSM), which for 2017 envisage a reduction in the outstanding stock of non-performing exposures (before provisions) by 7.2%, from €105.8bn expected at the end of December 2016 to €102bn at the end of December 2017. Following the massive deposit outflows of the period September 2014 to June 2015 (c. €55bn), there has been a gradual improvement in the liquidity position of the domestic banking system, with Greek banks gradually re-establishing access to short-term internal liquidity through repurchase agreements (repos) collateralized by both non-correlated and correlated assets. As a result, domestic banks have been able to reduce their reliance for liquidity on the Bank of Greece's ELA facility and the Eurosystem as a whole to €45bn and €68.5bn in November 2016, from €87bn and €127bn, respectively at the peak of the most recent crisis (June 2015). Furthermore, over the period July 2015 to November 2016, there has been a small net inflow of deposits in the domestic banking system (to the tune of c. €4bn as regards resident private sector deposits and c. €7.3bn in terms of total resident deposits). Despite these improvements, big amounts of liquidity remain outside Greek banks. According to our calculations, around €20bn of *excess* liquidity is currently kept "under the mattress". Following a number of loss-making years, Greek banks returned to marginal pre-tax profitability on a consolidated basis in 2016, while they continue to enjoy strong capitalization ratios. A swift completion of the 2nd programme review that would allow a further stabilization in depositor sentiment and facilitate a faster relaxation/removal of capital controls is a crucial factor for the short-term outlook of the domestic banking sector. From a medium-term perspective, the effective management of non-performing loans and the rigorous implementation of domestic banks' restructuring plans will be key for maintaining capital adequacy at satisfactory levels.

3.2 Dealing with the large stock of non-performing exposures remains a key challenge for the Greek banking system

3.2.1 NPEs stabilizing, albeit at excessively high levels

The first nine months of 2016 have seen a relative stabilization in the overall stock of non-performing exposures (NPEs) in the Greek banking system along with a slight reduction in the accumulated provisions for their coverage. However, the cumulative stock of NPEs remained excessively high, with the corresponding ratio to total exposures standing at 45.2% at the end of September 2016, compared to 45.1% in the prior quarter and 44.2% at the end of 2015 (Figure 3.1).[17] As regards their structure with respect to the number of days past due (dpd), the ratio of total exposures classified as *unlikely to pay*[18] to total NPEs stood at 27.6%, the ratio of

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[16] http://www.bankofgreece.gr/Pages/el/Bank/News/PressReleases/DispItem.aspx?Item_ID=5572&List_ID=1af869f3-57fb-4de6-b9ae-bdfd83c66c95&Filter_by=DT

[17] In terms of outstanding amounts, total NPEs stood at €107.6bn at the end of Q3 2016, compared to a total stock of exposures of €238bn.

[18] These are outstanding exposures not in arrears or in arrears for less than 90 days that are judged to have limited prospect of being repaid, on the basis of certain qualitative and quantitative criteria.

exposures in arrears for more than 90 days stood at 28.3%, and the ratio of denounced exposures to total NPEs was 44.2%. Notably, at the end of the above mentioned period around 70% (48%) of total NPEs classified as more than 90 days past due (dpd) were in arrears for more than 1 year (2 years), even without taking into account denounced exposures. As noted in the Bank of Greece's latest *Overview of the Greek Financial System* (January 2017), these developments highlight the inherent difficulties in dealing with the problem of NPEs in the current trajectory.[19]

3.2.2 Greek banks better provisioned for bad debts than their EU peers

The coverage of NPEs by provisions remained relatively stable during the first half of 2016 (and higher than the respective EU average - Figure 3.2), while the so-called *Texas Ratio* i.e., the ratio of total non-performing exposures to total provisions and regulatory capital of Greek banks stood at 126% at the end of that period.

3.2.3 Some recent signs of improvement in the quality of loan portfolios

Total forborne exposures rose by 8.6% in the first half of last year, reaching €46.7bn, while the respective ratio to total exposures stood at 19.5% at the end of the aforementioned period compared to 17.6% at the end of 2015. Of all major loan categories, mortgage loans recorded the highest ratio of forborne exposures (29.4%), while the respective percentages for consumer and corporate loans were 19% and 15%. Separately, loan write-offs during the first semester of 2016 amounted to €1.6bn compared to c. €0.69bn in the same period a year earlier. Furthermore, the ratio of collateral values to total non-performing exposures stood at c. 51% in June 2016, with immovable property representing over 80% of respective collateral. Overall, some encouraging signs regarding the quality of domestic banks' loan portfolios are provided by the recent decline in the flow of exposures from the performing to the non-performing categories as well as the increase in the flow of exposures from the non-performing to the performing categories. At the end of first semester of 2016, the so-called *cure rate*[20] was higher than the *default rate*[21] (2.6% vs. 2.4%), with the corresponding *net* flow from non-performing to performing exposures amounting to just €0.3bn in June 2016 compared to €4bn in the same period a year earlier.

3.2.4 A move towards long-term restructurings of non-performing exposures

As regards the management of non-performing exposures, a trend towards maturity extensions has been observed, though there was a significant number of cases that have been subject to repeated restructurings. Overall, Greek banks are now moving towards long-term arrangements to facilitate the servicing of outstanding debts, especially as regards corporate and mortgage loans.

3.2.5 Sectoral distribution of credit risk

The total outstanding amount of credit to domestic non-MFI residents by domestic MFIs excluding the Bank of Greece stood at €221.1bn in November 2016, of which €198.1bn are loans to the private sector. Of the latter aggregate, 54.1% were loans to domestic corporations and sole proprietors while the remaining 45.9% were household loans. At the end of H1 2016 the overall corporate NPEs ratio stood at 44.7% (45.7% for households), being particularly high for SMEs (59.9%) and SBPs (67.2%). At a more disaggregated level, some of the sectors featuring particularly high NPE ratios were: catering (76.3%), agriculture (62.7%), telecommunications & media (58.4%) and manufacturing (53.2%). On the other hand, some of the sectors with relatively low NPE ratios included, inter alia, energy (3.7%), public administration (7%), financial services (27%) and shipping (30.9%).

3.2.6 Regulatory reforms and supervisory initiatives to deal with NPEs

In the context of the new bailout agreement that was signed with official creditors in August 2015, authorities have taken a number of initiatives to address the problem of private sector over-indebtedness in Greece and speed up the management of NPEs. *Table 3.1* below highlights some of the key initiatives/reforms that have been introduced thus far (or are in the process of being introduced) to deal with the above-mentioned issues.

3.3 Greek banks enjoy strong capital adequacy; liquidity conditions and profitability are improving

3.3.1 Liquidity conditions improving

Following the massive deposit outflows of the period September 2014 to June 2015 (c. €55bn), there has been a gradual improvement in the liquidity position of the domestic banking system. This has been reinforced by the new recapitalization of systemic banks (December 2015), the successful completion of the 1st programme review and the reintroduction of the ECB waiver on the minimum credit rating requirements for marketable instruments issued or fully guaranteed by the Hellenic Republic. As a

[19] Bank of Greece notes that some comfort can be derived by the fact that ratio of exposures in arrears for more than 90 days to total NPEs actually declined by c. 4.3ppts in H1 2016.

[20] The cure rate is defined as the ratio of the flow from non-performing to performing exposures to total NPEs at the beginning of the respective period.

[21] The default rate is defined as the ratio of the flow from performing to non-performing exposures to total NPEs.

result, domestic banks have been able to reduce their reliance for liquidity on the Bank of Greece's ELA facility and the Eurosystem as a whole to €45bn and €68.5bn, from €87bn and €127bn, respectively at the peak of the most recent domestic crisis (Figure 3.3). Furthermore, over the period July 2015 to November 2016 (following the imposition of capital controls), there has been a small net inflow of deposits in the domestic banking system (to the tune of c. €4bn as regards resident private sector deposits and c. €7.3bn in terms of total resident deposits – Figure 3.4). Against this backdrop, the gradual deleveraging process in the Greek banking system continued in recent months, with the ratio of total outstanding loans (after provisions) to total deposits of domestic commercial banks falling below 120% in Q3 2016 (from c. 130% in the same quarter a year earlier), compared to a respective EU average of c. 91%. Despite these improvements, big amounts of liquidity remain outside Greek banks, reflecting the impact of capital controls and lingering depositor worries over the prospects of the domestic banking system. According to our calculations, around €20bn of *excess* liquidity is currently kept "under the mattress".

3.3.2 Greek banks reestablishing access to interbank market for liquidity

The gradual improvement in the prospects of the domestic economy following the signing of the new bailout programme in August 2015 has allowed Greek banks to reestablish partial access to short-term internal liquidity through repurchase agreement (repos) with foreign counterparties accepting as collateral a broadening set of non-correlated and correlated assets such as T-bills, Pillar II bonds and Greek corporate bonds. According to Bank of Greece data, the total outstanding liquidity raised by Greek banks in the interbank market stood at c. €19bn in November 2016 compared to levels below €2bn in September 2015. Despite the aforementioned improvement, there is still very limited access of Greek banks to the interbank market for unsecured lending.

Figure 3.1- Total exposures by portfolio category (% Δ, H1 2016)

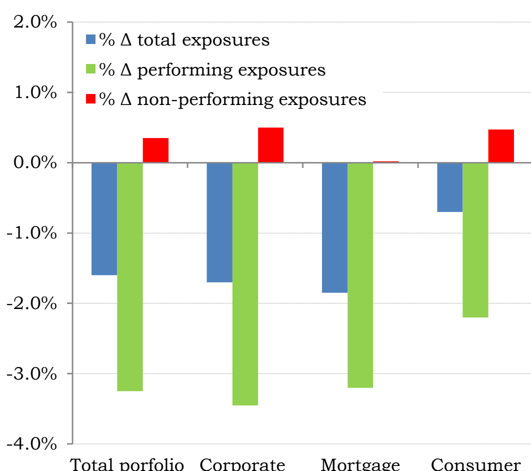


Figure 3.2 - Coverage of NPEs by provisions (%)

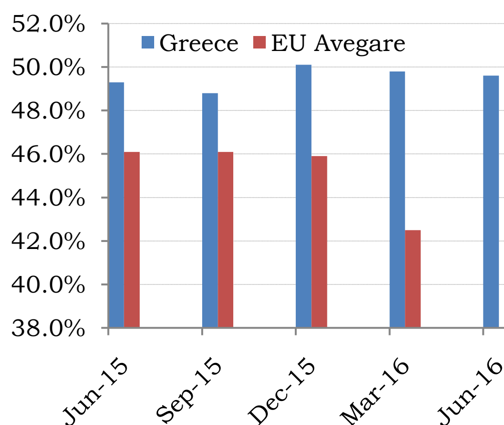


Figure 3.3- Eurosystem funding to Greek banks (EUR bn)

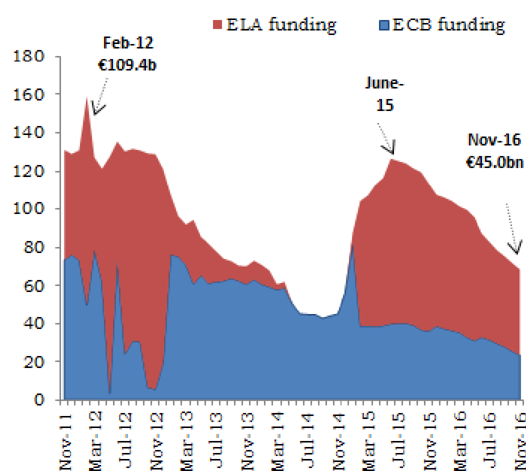
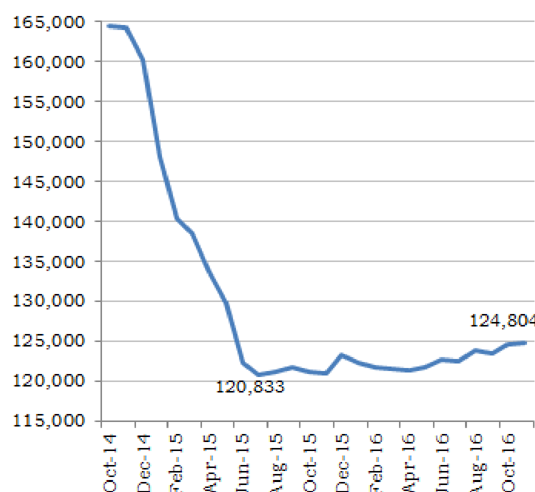


Figure 3.4 - Private sector deposits in domestic MFIs (EUR mn) H1 2016)



Source: BoG, Eurobank Research

3.3.3 Capital adequacy remains strong

The capital adequacy of Greek banks recorded further improvement in 2016, with the system-wide Common Equity Tier I (CET 1) ratio reaching 18.1% in September 2016, from 17.8% in June 2016 and 16.3% in December 2015. Respectively, the capital adequacy ratio (CAR) rose to 18.2% in September 2016, from 18% in June 2016 and 16.5% at the end of the prior year. From a medium-term perspective, the effective management of non-performing loans and the rigorous implementation of domestic banks' restructuring plans will be key factors for maintaining capital adequacy at satisfactory levels.

3.3.4 Bank profitability improving

Greek banks returned to marginal pre-tax profitability on a consolidated basis in 2016, following a number of loss-making years. This was facilitated by the improvement in operating results and, in particular, the significant decline in the provisions for bad debts. In particular, net interest income increased by 1.7% YoY in the first semester of 2016, driven by the significant drop of interest expense that more than offset the concomitant decline in interest income. The decline in interest expense was in turn driven by lower Eurosystem financing costs, a further gradual de-escalation of the interest rates on new deposits and the shift in the structure of the deposits base towards current account and saving deposits. On the other hand, interest income was negatively affected by a further contraction in the loan portfolio of domestic banks. As a result of the aforementioned, the system-wide net interest margin improved in the first half of 2016 compared with the corresponding period of 2015, remaining significantly higher relative to that recorded by mid-size banking groups in the rest of the EU. Separately, net revenue from interest bearing operations grew by 35.9% in H1 2016, mainly as a result of profits generated the sale of domestic banks' participation in Visa Europe. Furthermore, net revenue from commissions increased due to the increased sales of POS terminals and the repayment of part of the pillar II bonds portfolio of domestic banks. On the expenditure side, the first semester of 2016 saw a small increase in operating expenditure, which was counterbalanced by the concomitant rise in operating revenue, leading to a further improvement in net revenue. Greek banks continued their conservative provisioning policies in the first half of 2016, increasing their provisions for bad credits by a further €1.9bn. Despite this policy (and the reduced pace of new NPL formation), the increased write-offs made by banks in the first half of 2016 led to a marginal decrease in the coverage of non-performing exposures by accumulated provisions on a consolidated basis (June 2016: 49.6%, December 2015: 49.7%).

Table 3.1 - Improved regulatory & supervisory frameworks to deal with NPLs

- **Law (4354/2015) opened the way for secondary market for NPLs to be supervised by the BoG**
  - ✓ partial liberalization of market for servicing and/or transfer of NPLs to specialized AMCs
  - ✓ identification of relevant regulatory and legal framework for NPL AMCs
  - ✓ NPLs to be sold as units or in groups together with other assets, including performing loan receivables
- **Improvement of NPL resolution framework in the context of the 1st programme review**
  - ✓ full liberalization of the sale of all performing and non-performing loans (exception till Dec. 31, 2017 for the sale of NPLs collateralized by primary residence with a value ≤ €140k)
  - ✓ removal of tax and other impediments to the efficient management of NPLs
- **Remaining issues to be addressed in the 2nd and subsequent reviews**
  - ✓ strengthening the capacity of courts in dealing with household insolvency
  - ✓ out of court settlements
  - ✓ amendment to corporate insolvency law
  - ✓ assessment of effectiveness of for household insolvency law
  - ✓ full operationalization of the profession of insolvency administrators
- **Supervisory initiatives taken jointly by the BoG and the SSM**
  - ✓ binding operational targets for all Greek banks to reduce NPEs by 40% (or c. €40bn) by end-2019
  - ✓ banks already submitted detailed targets by NPE categories for H2 2016, 2017, 2018 and 2019

Part 4 – State financing needs and sources in 2017 and beyond; evaluation of the agreed short-term debt relief measures & updated DSA

The Summary of views below constitutes an excerpt from our recent report titled "Greece: State financing needs and sources in 2017 and beyond; evaluation of the agreed short-term debt relief measures & updated DSA", published on January 10, 2017. Readers interested in a thorough analysis of these issues can access the full study by using the following link:

https://www.eurobank.gr/Uploads/Reports/201701GR%20DSA_Jan_2017.pdf

4.1 Summary of views

Greece's general government gross financing needs are projected to reach €16.9bn in 2017 and €9.6bn over the period January-August 2018, with the ensuing financing gap being comfortably covered by committed ESM financing under the present bailout (Table 4.1). That is, assuming a swift resumption of official loan disbursements. The most challenging month of 2017 in terms of debt servicing costs is July, with respective amortisation and interest payments expected to amount to c. €7.4bn (=€6.6bn bond and loan amortisations + €0.8bn interest payments). Average debt service payments over the rest of this year (excl. July) are projected at slightly less than €0.75bn per month. The aforementioned amounts suggest that State cash reserves should be adequate to cover interest and amortisation payments on public debt due in the first 4-5 months of 2017, even in the absence of new external financing from the official sector. Yet, a swift completion of the 2nd programme review without further significant delays is of crucial importance to prevent a renewed deterioration of domestic economic climate and maintain the expectation of Greece's eventual inclusion in the ECB's quantitative easing program. Even in the absence of additional debt relief in the context of the medium-term measures agreed at the Eurogroup of May 25, 2016, the Hellenic Republic should be able to cover its projected funding gaps over the 5-year period following the completion of the present programme (2019-2023) through limited market borrowing (estimated at c. €7.5/annum on average). That is, assuming, inter alia, that: domestic economic growth broadly evolves in line with the current baseline scenario; the present targets for the primary balance (3.5% of GDP) and privatization revenue over that period are maintained; and, crucially, Greece restores some market access before the termination of the present bailout programme. The required market access to cover the projected funding gaps under the present baseline scenario will increase significantly in outer years (averaging more than €20bn/annum over the period 2023-2033, €50bn/annum in 2034-2043 and €80bn to €110bn/annum in the period 2044 to 2060), rendering Greece's fiscal position highly unsustainable under the present operational definition of sustainability. This could be addressed through lower interest rates on official loans and a further sizeable re-profiling of Greek debt service payments in the context of the relevant framework agreed at the 25 May 2016 Eurogroup. Besides its necessity for the restoration of debt sustainability, a more sizeable debt relief could accommodate a relaxation of the medium-term fiscal targets, allowing the Greek economy the necessary fiscal space to grow out of the current recession.

Table 4.1 – Greece: State borrowing needs & sources of funding (EUR bn) January 2017-August 2018

	FY-2017					FY-2018				
	Q1	Q2	Q3	Q4	FY-2017	Q1	Q2	July	August	Jan-Aug 2018
State cash primary balance[1] ("-" = surplus)	-1.0	1.7	-4.5	0.0	-3.8	-1.1	-1.1	-0.4	-0.4	-3.0
Interest payments	2.4	1.1	1.3	0.7	5.6	2.3	0.7	0.6	1.1	4.7
Amortization payments	0.2	2.2	7.1	0.2	9.7	0.7	0.8	2.4	0.0	3.9
Banking sector needs[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Parial unwinding of repo operations[3]	0.0	0.0	0.0	2.0	2.0	0.0	0.0	2.0	0.0	2.0
Clearance of arrears[4]	1.7	0.0	1.8	0.0	3.5	1.0	1.0	0.0	0.0	2.0
I. Gross financing need	**3.3**	**5.0**	**5.7**	**3.0**	**16.9**	**2.9**	**1.4**	**4.6**	**0.7**	**9.6**
II. Gross financing source	**0.8**	**0.5**	**0.5**	**0.5**	**2.3**	**1.1**	**0.8**	**0.0**	**0.0**	**1.9**
Privatisation revenue[5]	0.5	0.5	0.5	0.5	2.0	0.8	0.8	0.0	0.0	1.6
Return to Greece of ANFA and SMP profits	0.3	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.3
III. Net financing need (I-II)	**2.5**	**4.5**	**5.2**	**2.5**	**14.6**	**1.8**	**0.6**	**4.6**	**0.7**	**7.7**
Official loan dispersements[6]	7.6	9.6	2.0	5.1	24.3	3.0	3.4	0.0	3.5	9.9
State deposit financing	-5.1	-5.1	3.2	-2.6	-9.7	-1.2	-2.8	4.6	-2.8	-2.2
Use of subsector deposits (repos)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV. Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items										
Total State deposit stock e.o.p (assumed c. € 3bn at end-2016)	*8.1*	*13.2*	*10.0*	*12.7*	*12.7*	*13.9*	*16.7*	*12.1*	*14.9*	*14.9*

(*) Table assumes rollover of full amount of T-bills oustanding (c. €15bn currently)
1/ Assumptions for FY-2017 in line with 2017 Budget; assumptions for 2018 in line with EC compliance report (June 2016)
2/ Table assumes no need for any new bank recapitalisations
3/ & 4/ Eurobank Research assumptions
5/ Revenues assumed for FY-2017 in line with 2017 Budget; assumptions for 2018 in line with EC compliance report (June 2016)
6/ Timeline of official loan disbursements assumed to be in line with the EC compliance report (June 2016); €6.1bn loan tranche of 2nd programme review assumed to be disbursed in Q1 2017

Source: PDMA, Greek budget 2017, EC (June 2016); Eurobank Research

Part 5 – Privatisations: projected proceeds and progress in key items

Anna Dimitriadou[22]

5.1 Summary

In the context of the 3rd Economic Adjustment Programme Greece has committed to carry out an ambitious privatisations programme to promote growth, competitiveness and investment and secure additional funds for the servicing of its debt. According to the Memorandum of Understanding (19 August 2015), the monetisation of state assets will be one source to make the scheduled repayment of the new ESM loan, decrease the debt-to-GDP ratio and boost investment. During the previous years, a number of privatisation projects have been completed bringing since 2011 revenues of €3,366 million (see Table 5.1). For 2017 the State Budget foresees privatisation proceeds in the area of €1,925 million out of which €105 million concern tranches from transactions that were completed in previous years up to and including 2016 (see Table 5.1), while the projected revenue from tenders that are expected to be concluded in 2017 amount to €560 million. As the privatisations programme constitutes a central issue in the ongoing 2nd programme review, in this section we present the state of affairs with regard to the main privatisation projects that are under way.

5.2 Progress in key privatisation projects

- **Hellenic Corporation of Assets and Participations S.A. (HCAP)** The HCAP constitutes a central part of Greece's privatisation programme as it is responsible for the asset management and full exploitation of assets in order to facilitate investment and the gradual repayment of the country's external financial obligations. The HCAP, established in May 2016 (Law 4389), acts in an independent, professional and entrepreneurial manner with a long-term perspective in the achievement of results in accordance with its internal rules of procedure, which have not, however, been established yet.

  The HCAP has the following subsidiaries:

  a. the Hellenic Financial Stability Fund (HFSF), which controls the shareholding rights from participations in credit institutions to which capital support has been provided by the HFSF,

  b. the Hellenic Republic Asset Development Fund (HRADF), which controls corporate, infrastructure and land assets,

  c. the Public Properties Company (ETAD), which controls a real estate portfolio including 210 tourist real estate in Greece, marinas, camping sites, golf courses, ski resorts, museums, caves, tourist kiosks, mineral springs, land of significant size and potential for tourism development, 8 Olympic venues, and approximately 70.000 property titles of the private Greek State property, and

  d. the Public Participations Company, which will be established as a limited liability company of public interest to manage/monetize State Owned Enterprises (SOEs) and other shareholdings of the Greek State.

  The governing bodies of the HCAP are the General Assembly of the sole shareholder i.e. of the Greek State, the Supervisory Board, the Board of Directors and the auditors. The Supervisory Board consists of five members appointed by the General Assembly as follows: three members are selected by the sole shareholder, with the agreement of the European Commission and the European Stability Mechanism which act jointly; two members, one of which is the President of the Supervisory Board, are selected by the European Commission and the European Stability Mechanism, acting jointly, with the agreement of the Minister of Finance. The Supervisory Board was appointed in October 2016 by the Ministry of Finance in agreement with the European institutions. Recently, in collaboration with external advisors, the Supervisory Board unanimously decided on the appointments of the Chairman, CEO and COO of the Board of Directors, while the full composition of the Board of Directors has not been announced yet.

  The HCAP should have been fully operational by end 2016 but there are still a number of pending items, namely the establishment of its internal rules of procedure, the constitution of its BoD as a body and the establishment of its subsidiary, the Public Participations Company. The latter in particular is of special importance as there are a number of SOEs (OASA, OSE, OSY, STASY, ELTA, EYATH, EYDAP, KTYP) that should be transferred to it but cannot as it has not yet been established.

- **14 Regional Airports**. HRADF successfully concluded an international tender process for the concession of the development and operation of 14 regional airports in Greece. The 40-year concession, granted to the consortium Fraport AG – Slentel entails an upfront payment of €1,234 million and an annual payment of €22.9 million for the life of the concession, annually adjusted according to CPI. In addition, the investor is obliged within 4 years to upgrade and maintain the airports for the duration of the concession. In total, the concessionaire estimates that the investments will amount to

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€330 million over the first four years reaching €1.4 billion over the 40 years of the concession. The development is expected to bring about considerable benefits for Greek tourism and the local economies of the islands and cities where the airports are situated while the increased capacity and traffic will result in job creation that will amount to 1,500 new jobs in and around the airports. The original timetable envisaged the transfer of the airports to the consortium by the end of 2016. However, due to procedural delays the transaction has fallen behind and is now expected to be concluded by the end of Q1 2017.

- **Independent Power Transmission Operator S.A. (ADMIE)**. In the context of the energy market reform foreseen in the 3rd Economic Adjustment Programme, ADMIE is to be unbundled from the Public Power Corporation (PPC). To this end, a public tender was launched for the sale of a 24% share of ADMIE and the €320 million sale agreement with the preferred bidder, the Chinese State Grid Corporation, was signed in December 2016. However, a complication arose when four creditor banks that have issued a syndicated bond loan of €2.2 billion to PPC argued that the unbundling of ADMIE from PPC alters a number of parameters pertaining to the loan and the economic status of the borrower thus raising concerns for its lenders. The syndicated bond loan outstanding amount stood at €1,476 million on December 31st 2016 while the maturity of the loan is April 2019. According to the Supplemental MoU (16 June 2016), if insufficient progress is made to complete the unbundling of ADMIE in 2016, particularly in relation to the identification of and purchase by the strategic investor, Greece shall proceed to the sale of all PPC's shares in ADMIE with a view to fully privatise it in 2017. To avoid such a development, the Greek government and PPC reportedly reached a preliminary agreement with the four creditor banks to support the outstanding ADMIE loan with additional collateral. In particular, banks commit to not terminating the loan agreement as long as additional collateral of €300 million is granted. According to a statement issued by the PPC, the collateral will primarily be covered by corporate guarantees from the holding company where a 51% share of ADMIE will be transferred by PPC. Should such guarantees fall short of the requested €300 million, other means of collateral will be examined such as the assignment of PPC claims from corporate clients to the banks. With regard to a requested new syndicated loan of €200 million, the potential pledge of PPC assets for this purpose is being examined in order for the company to increase its liquidity while maintaining the ownership of its assets.
- **Public Power Corporation S.A. (PPC)**. PPC is the incumbent power producer and electricity supplier in Greece. PPC currently holds assets in lignite mines, power generation, transmission and distribution. PPC's current power portfolio consists of conventional thermal and hydroelectric power plants, as well as RES units. The HRADF holds 17% of PPC's shares and according to the April 2016 HRADF Asset Development Plan by Q3 2016 the Fund should have engaged advisors to determine its strategy but this action has not yet been completed. It is possible that no progress will be made before the issue of ADMIE (see above) is closed. It should be noted, that according to the Memorandum of Understanding, the Greek energy markets need wide-ranging reforms to bring them in line with EU legislation and policies and promote competition. To this end, PPC is obliged to lower by 20% its retail and wholesale market shares and bring them below 50% by 2020. The NOME system of auctions was selected for this purpose and two such auctions have already materialised, one in October 2016 and the other in January 2017. Nevertheless, the efficiency of this mechanism has been questionable, raising a number of concerns from both the PPC and smaller energy suppliers and bringing to the fore talks about the break-up of PPC as a means to reduce its market share. Responding to such talks, the Ministry of Energy George Stathakis stated recently that the break-up of PPC is not on the agenda at the moment and that the upcoming negotiations with the institutions on the energy market reform will revolve around the NOME auctions and the timeline for the reduction of PPC's market share.
- **Hellenic Gas Transmission System Operator S.A. (DESFA)**. Negotiations for the sale of 66% of DESFA to the Azeri company SOCAR for €188 million were terminated in December 2016. Although several scenarios have surfaced lately as to the intentions of the Greek government on the issue, the Minister of Energy George Stathakis stated a few weeks ago at a press conference that a new tender procedure for the sale of the 66% stake of DESFA will commence soon.
- **Hellenic Petroleum S.A. (HELPE)**. HELPE is the leading oil refiner and distributor in Greece and a significant player in the Southeast European market. It operates three refineries in southern and northern Greece which cover approximately 2/3 of the country's refining capacity. HELPE's shareholders are Paneuropean Oil and Industrial Holdings S.A. (42.6%), HRADF (35.5%), institutional investors (15.3%) and private investors (6.6%). The April 2016 HRADF Asset Development Plan (ADP) envisaged the engagement of advisors to evaluate alternative strategic options and provide recommendations to HRADF. The original deadline for this action was end-Q3 2016 and was later changed to end-2016; however, no progress has yet been made due partly to the fact that the updated HRADF ADP has been delayed.
- **Public Gas Corporation S.A. (DEPA).** DEPA is the incumbent natural gas importer and distributor. It sources gas from a number of suppliers through long-term contracts and provides approximately 90% of the gas consumed in the country. It is owned 65% by the HRADF and 35% by Hellenic Petroleum (HELPE). The April 2016 HRADF Asset Development Plan (ADP) envisaged the appointment of advisors to assess alternative options and re-launch a new process. The original deadline for this action was end-Q3 2016 and was later changed to end-2016; however, no progress has yet been made due partly to the fact that the updated HRADF ADP has been delayed.

- **Hellinikon S.A.** The share-purchase agreement for Hellinikon was ratified by the Greek Parliament on September 21st 2016 paving the way for the financial closing of the €900 million concession, which will take place when a number of conditions have been fulfilled. The 2017 Budget foresees the receipt of the first installment of €300 million in 2017. On January 31st, the BoD of the HRADF approved the development plan that had been submitted by the investor, which will then be put to public consultation and once this procedure has been concluded a Presidential Decree will be issued approving the spatial development plan. Other pending items include the issuance of a license for the operation of a casino on the property and the removal from the property of any use that is currently housed there. Other potential sources of delay constitute the queries that have been raised with regard to archaeological findings or the potentially historical value of existing buildings on the site. With regard to the time-table, the Undersecretary of the Ministry of Economy Stergios Pitsiorlas stated recently that construction works at Hellinikon are likely to begin before the end of 2017.

- **Egnatia Motorway S.A.** The Egnatia motorway – approximately 660km long – is the most important road axis of Northern Greece extending from the Greek-Turkish border to the Port of Igoumenitsa, which connects Greece to Italy. The project for the concession of the right to operate, maintain and commercially exploit Egnatia motorway and its three vertical axes has stumbled onto a number of obstacles in the past few years, which have caused significant delays. In fact, according to the June 9 Compliance Report, the HRADF should have launched expressions of interest for the long-term (35 year) concession of Egnatia Motorway S.A. and three Vertical Axes by mid-September 2016 but this has not yet been done. On October 5th 2016 the BoD of the HRADF launched a preparatory and consultative period with potential investors that will end with the submission of the expressions of interest. The tender is expected to be concluded by Q3 2017.

- **Piraeus Port Authority S.A. (OLP)**. A 67% share of HRADF in OLP was sold in August 2016 to the Chinese Cosco Group Limited. The sale of the 67% share in OLP which will materialise in two phases (51% + 16%) was concluded in 2016 and a tranche of €280.5 million corresponding to 51% was received. An additional €88 million for the remaining 16% will be paid once the investor has completed investments in the area of €300 million at the port.

- **Thessaloniki Port Authority S.A. (OLTH).** HRADF currently holds 74% of the shares of OLTH, Greece's second largest port authority, which has a long – term concession agreement with the Hellenic Republic for the use of the port until 2051 and is listed on the Athens Exchange. The HRADF updated Asset Development Plan (ADP) foresees the sale of 67% of share capital of OLTH. On January 31st the BoD of HRADF set a deadline of March 24 2017 for the submission of binding offers. The agreement between the selected investor and OLTH will then have to be ratified by the Greek parliament. According to press reports the preferred investor will have to undertake investments of €180million in seven years.

- **Trainose S.A.** The agreement for the sale of the 100% share of Trainose for €45 million from the Hellenic Republic Asset Development Fund (HRADF) to Ferrovie dello Stato Italiane S.p.A. was signed on 18 January 2017. The actual payment of the price, however, has been delayed as the buyer requests the issuance of a ministerial decision which will expressly state that the unprofitable routes will continue to be subsidized as they have been so far.
- **Hellenic Company for Rolling Stock Maintenance S.A. (EESTY or ROSCO)**. EESSTY, established in 2013, provides rolling stock maintenance and availability services to train operating companies. Today EESSTY is 100% owned by the HRADF, which is planning to sell the whole of its shareholding. The deadline for the submission of binding offers has been pushed back various times and recently the HRADF BoD moved it to 31 June 2017.

- **Athens International Airport S.A. (AIA)**. The AIA was established in 1996 as a Public-Private Partnership with a 30-year concession agreement which grants the right to use the airport site for the purpose of the "design, financing, construction, completion, commissioning, maintenance, operation, management and development of the airport". HRADF holds 30% of AIA and the right to extend the concession agreement, the Greek State holds 25% while private shareholders collectively hold 45%. The current concession agreement expires in 2026 while the BoDs of both AIA and HRADF have decided to examine its extension for 20 years, i.e. up to 2046. The transaction, which could be concluded by the end of 2017, could reportedly bring revenues in the area of €580 million in the current year and €1.2 billion more throughout the 20-year scope of the concession starting from 2026. According to press reports in a meeting on February 1st the competent ministers requested from the management of HRADF further clarifications and expressed the intention of the government to have the issue closed as soon as possible as it constitutes a pending item in the context of the 2nd programme review. It should be noted that once the agreement is signed, it will have to be approved by the Court of Auditors, then ratified by the Greek Parliament and, finally, endorsed by the European Commission Directorate General for Competition.

- **Afantou Rhodes**. The project entails a golf and tourist development in two properties in the Afantou area of the island of Rhodes. The HRADF will sell 100% of the shares of the two SPVs that have been set up, one for each property. Although the preferred investors have been selected, a complication arose in the spring of 2016 when the Central Archaeological Council of the Ministry of Culture declared a large part of the area an archaeological site. Ever since the Greek government has sought for ways to address the problem but no satisfactory for all sides solution has yet been found while the investors have at times implied that unless the issue is resolved they might take legal action against the Greek state.

- **Astir Vouliagmenis**. A 90% share – of which 21.23% was held by the HRADF - of the Astir Palace Vouliagmeni S.A. hotel complex was sold to Apollo Investment Holdco S.A.R.L. in 2016 for €395.15 million.

- **Hellenic Post S.A. (ELTA)**. ELTA is the leading postal service provider in the Greek market. The HRADF holds 90% of its voting rights, not ownership of shares. The April 2016 HRADF Asset Development Plan (ADP) envisaged the transfer of ELTA to the HCAP following a restructuring plan that would be prepared six months prior to the transfer. In December 2016, the General Assembly of ELTA decided the engagement of a financial advisor to assess the company's financial position.

- **Athens Water Supply and Sewerage S.A. (EYDAP)**. EYDAP has the exclusive right to provide water and sewerage services in the Greater Attica area. The terms of this right and its renewal are regulated by a 20-year agreement signed by the Hellenic Republic and EYDAP in 1999. HRADF holds 27% of EYDAP shares and according to its April 2016 Asset Development Plan (ADP), is planning to sell 11%. According to a decision by the Council of State the state should retain at least 50% plus 1 share of EYDAP so only a minority stake can be sold. The aforementioned ADP envisaged that advisors should have been engaged by Q3 2016 to assess strategic options for EYDAP. Also, according to the Supplemental MoU (June 16 2016), EYDAP should have launched a process of preparing business plans, including for investments and key capital projects for the next 5 years by December 2016 with the help of external advisors. However, these actions have not yet been completed.

- **Thessaloniki Water Supply and Sewerage S.A. (EYATH)**. EYATH has the exclusive right to provide water and sewerage services in the Greater Thessaloniki area through a 30-year exclusive concession agreement with the Hellenic Republic effective from 2001. The HRADF holds 74% of EYATH shares and according to its April 2016 Asset Development Plan (ADP), is planning to sell 23%. According to a decision by the Council of State regarding the similar privatisation of EYDAP, only a minority stake can be sold. The aforementioned ADP envisaged that advisors should have been engaged by Q3 2016 to assess alternative options for the sale of 23% of EYATH. Also, according to the Supplemental MoU (June 16 2016), EYATH should have launched a process of preparing business plans, including for investments and key capital projects for the next 5 years by December 2016 with the help of external advisors. However, these actions have not yet been completed.

5.3 Concluding remark

The privatisations programme constitutes an important pillar of the 3rd Economic Adjustment programme as it will be used to cover Greece's debt servicing needs but also support growth through increasing competitiveness and investments. Nevertheless, as was also the case in previous adjustment programmes, its implementation has been slow-moving and difficult stumbling on an number of obstacles of legal, administrative, political, and social nature. At the same time, privatisations proceeds have at many instances been lower than initially projected, reflecting changing conditions since the onset of the crisis such as for example in the real estate market. Despite setbacks, progress has been significant and support by the political spectrum and society at large has been growing. Furthermore, the establishment of the Hellenic Corporation of Assets and Participations, which acts in an independent and technocratic manner and the inclusion therein of all to-be-exploited assets, is expected to streamline processes, create synergies and increase the expected benefit for the country. As regards the current state of affairs, significant delays have indeed been observed in a number of projects many of them related to the updated HRADF Asset Development Plan, which has not yet been approved by the Government Council for Economic Policy (KYSOIP) and the Public Participations Company, which has not yet been set up. The prolonged negotiations for the completion of the 2nd programme review may also have contributed to inaction in the privatisations programme due to increasing uncertainty. Even so, statements from various official sources suggest that once the review is successfully closed, privatisations will progress at an accelerated pace.

Table 5.1: Privatization proceeds

Privatisation proceeds (in million euros)										
Privatisation	Total Amount	Paid Amount	First payment	Installments / Concession fees						
				2011	2012	2013	2014	2015	2016	2017
Rights for the use of the 900 MHz and 1800 MHz spectrum bands	393.50	386.80	2011	316.70				34.20	35.90	37.70
License for the installation and operation of gaming machines (VLTs)	560.00	560.00	2011	474.00		86.00				
Extension of the contract for the conduct of lottery games between the Greek Sate and OPAP for 10 years	375.00	375.00	2011	375.00						
NBG - ALPHA - Piraeus Bank shares	14.70	14.70	2012		5.20	9.50				
Sale of selected buildings abroad (London, Tashkent, Brussels)	30.30	30.30	2013			30.30				
Sale of the State Lotteries license (*Note 1*)	490.00	190.00	2013			190.00				
Sale of a 33% share in OPAP S.A.	652.00	631.00	2013			622.00	3.00	3.00	3.00	3.00
OPAP S.A. shares	21.60	21.60	2013			21.60				
Lease for 90 years of the International Broadcasting Centre (IBC)	81.00	81.00	2013			81.00				
E-AUCTION I	11.00	10.30	2013				8.00	1.90	0.37	0.30
Sale of selected buildings abroad (Dusseldorf)	0.80	0.80	2014				0.80			
Paliouri	14.00	12.00	2014				7.00	3.00	2.00	2.00
Digital Dividend	385.00	333.40	2014				114.00	189.80	29.60	31.10
Sale and leaseback of selected public buildings (28 properties)	261.30	261.30	2014				261.30			
E-AUCTION II	1.80	0.80	2014					0.50	0.30	0.30
E-AUCTION III	8.50	6.10	2015					5.30	0.80	0.80
Sale of selected buildings abroad (Belgrade)	2.40	2.40	2015					2.40		
Xenia Hotel Skiathos	2.60	2.60	2015					2.60		
Agios Ioannis Sithonias property	9.60	9.60	2015					9.60		
Mutual Horse Race Betting	40.50	20.30	2015					8.10	12.20	22.20
E-AUCTION VI	0.44	0.26	2015					0.10	0.16	0.05
Sale of selected buildings abroad (New York, Washington)	10.60	10.60	2016						10.60	
Sale of selected buildings abroad (Rome, Yerevan)	10.80	10.80	2016						10.80	
Sale of selected buildings abroad (Ljubljana)	0.60	0.60	2016						0.60	
Port of Piraeus (OLP) (51% + 16%)	368.50	280.50	2016						280.50	
E-AUCTION VI	18.50	3.80	2015					0.10	3.80	3.70
Astir Palace Vouliagmeni	95.00	95.00	2016						95.00	
Property at Kassiopi, Corfu	23.00	10.00	2016						10.00	3.00
Modiano Market, Thessaloniki	1.90	0.38	2016						0.38	0.38
Sale of 2 Airbus aircrafts	3.84	3.84	2016						3.84	
E-AUCTION V	0.80	-	2017							0.80
Regional Airports	2,150.00	-	2017							1234.00
Property at Afantou, Rhodes	42.10	-	2017							27.50
Hellinikon Concession	915.00	-	2017							300.00
TRAINOSE	45.00	-	2017							45.00
DESFA	188.00	-	2017							188.00
Other properties	110.00	-	2017							110.00
E-AUCTION VI	20.00	-	2017							20.00
Total number of privatisation projects: 38	7,359.68	3,365.78		1,165.70	5.20	1,040.40	394.10	260.60	499.85	2,029.83

Notes

1. Out of the €490 million, €300 million will be ascribed directly to the Greek State

2. The difference between the total price, the paid amount and the estimated amount for 2017, [i.e. 7,359.68-(3,365.78+2,029.83)=1,964.07] is expected to be received in 2018 and onwards

Source: 2017 State Budget

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