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www.eurobank.gr/research
research@eurobank.gr

GLOBAL ECONOMIC & MARKET OUTLOOK

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FOCUS NOTES

Dr. Platon Monokroussos
Group Chief Economist
Deputy General Manager
pmonokrousos@eurobank.gr

Greece

Flash Q3 GDP data better than expected; full-year real GDP growth now seen between -0.5% and 0.0%

According to the national account statistics for the third quarter of 2015 (flash estimate), Greece's real gross domestic product in seasonally and calendar adjusted terms declined by 0.5% QoQ /0.4% YoY. This is well above market consensus and compares with a +0.4% QoQ/+1.1% YoY reading in the prior quarter. In nominal terms, output growth in Q3 came in -0.5% QoQ/-1.8% YoY, with the implicit GDP deflator recording another negative reading (-0.7% YoY vs. -0.4% YoY in Q2), despite the across-the-board hikes in VAT rates implemented in early August. Furthermore, certain revisions were made to the prior quarters, with the revised data showing that the domestic economy recorded real output growth of +0.4% YoY in the nine months to September 2015.

Although the breakdown of national account statistics pertaining to the third quarter of this year will not be known before the second publication of Q3 GDP (provision data) on November 27, the flash estimate released earlier today points to significant upside risks to the official full-year growth forecast of -1.4% (European Commission, Winter 2015). Furthermore, based on the most recent official figures, we now see a good chance that full-year output growth will prove out to be better than our own (more optimistic) forecast of -1%. Note that the latter figure was based on the median real-time estimate for Q3 and the short-term forecasts for the last quarter of this year produced by our *GDP Nowcasting* model as well as a mixed-data sampling (*MIDAS/Bridge*) methodology we first introduced in our October 21 Greece Macro Monitor.[1]

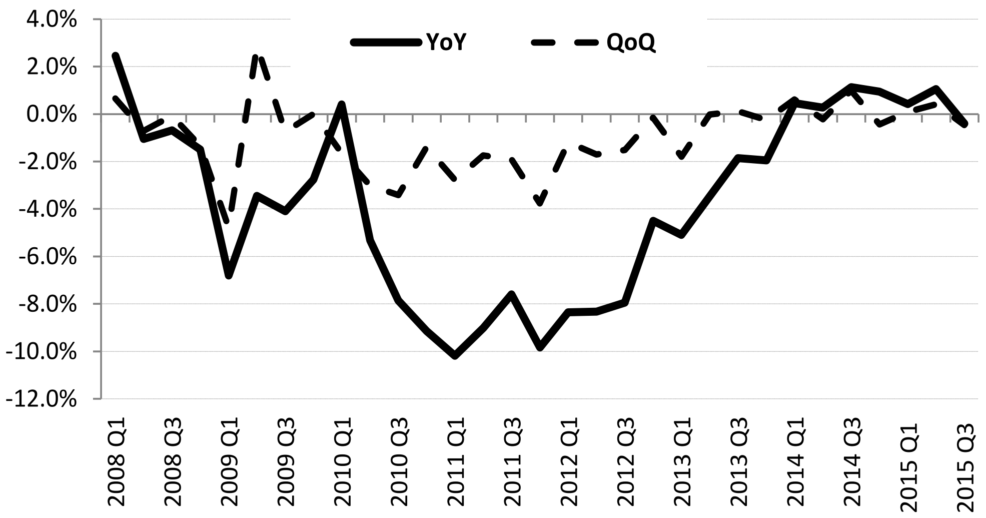
Higher frequency data pertaining to the third quarter of this year signal some sort of normalization in domestic economic conditions following the initial shock inflicted by the late June events, including the breakup of negotiations with official creditors on the last review of the 2nd bailout programme, the surprise announcement of a national referendum and the subsequent short-term bank holiday and capital controls. Among others, recent custom-based statistics (EL.STAT. data) revealed that the overall trade deficit (including oil products) narrowed by €3bn year-to-September (+23.8%YoY) mainly due to a €3.9bn (-10.9%YoY) drop in imports-arrivals. A broadly similar picture is portrayed by the most recent BoP statistics (BoG data), which showed that the current account balance recorded a €4.5bn (+27.8% YoY) surplus in July-August 2015. For the first eight months of this year, the current account balance recorded a surplus of €3.1bn (+29.2%), mainly on the back of a shrinking trade deficit. Over the same period, the services surplus declined by 3.4%YoY mainly reflecting a 34%YoY drop in the "other services" component. On a more positive tone, the travel balance improved by 8.5%YoY with travel receipts rising by 7.1%YoY (€10.4bn).[2] Elsewhere, the economic sentiment indicator improved in October for the second month in a row coming in at 86.5 following a 6-½ year trough (75.2) recorded just two months earlier. In a similarly encouraging note, the Manufacturing Purchasing Managers' Index (PMI) stood at 47.3 in October, remaining in an improving trend for the third consecutive month after recording an all-time low of 30.2 in July.

[1] Greece Macro Monitor, *Greek GDP NOWcasting: full-year recession likely to prove milder than expected*, Eurobank Economic Research, Oct 21, 2015. http://www.eurobank.gr/Uploads/Reports/GREECEMACROFOCUSOctober212015.pdf

[2] According to SETE (Association of Greek Tourism Enterprises), 2015 will be a record year for tourism with total travel receipts amounting to EUR 14.5 billion and total inbound travelers amounting to 26 million. In addition, according to SETE (based on studies conducted by KEPE in 2014 and IOBE in 2012) tourism's *direct* contribution to the Greek economy is estimated at around 9% of GDP in 2014, and, taking into consideration the *indirect* effects of tourism, its total contribution is estimated between €34bn and €45bn, i.e. between 18% and 25% of GDP in 2014.

All in all, a positive contribution from net exports and, probably, a less severe than expected decline in consumer expenditure appear to explain a significant part of the better than expected Q3 GDP reading. Looking ahead, we expect real GDP growth to remain in a negative territory in Q4, reflecting the impact of lingering restrictions in banking system transactions and the new fiscal austerity measures agreed in the context of the new bailout agreement in mid-August. Note that most of the income and property tax revenue for FY-2015 are expected to be generated in the last quarter of this year (and in the first two months of 2016). However, given the surprisingly resilient GDP growth readings in the first three quarters of the year, and barring any significant revisions to past data in the following months, we now forecast full-year real GDP growth between -0.5% and 0.0%. Last but not least, the latter imply a significantly milder carryover into next year's GDP than that forecasted earlier i.e., a figure close to -1ppts or higher vs. c. -2ppts expected before the Q3 flash report.

Figure: Greek real GDP growth (seasonally adjusted, %)



Source: EL.STAT.

[3] For our preliminary estimates on the potential recessionary impact of new fiscal measures see Greece Macro Monitor, *Draft 2016 Budget: estimating the recessionary impact of new austerity measures*, Eurobank Economic Research, Oct 8, 2015.
http://www.eurobank.gr/Uploads/Reports/Greece_MacroFocus_08102015.pdf

Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: *Group Chief Economist*
pmonokrousos@eurobank.gr, + 30 210 37 18 903

Dr. Tassos Anastasatos: Deputy Chief Economist
tanastasatos@eurobank.gr, + 30 210 33 71 178

Research Team

Anna Dimitriadou: *Economic Analyst*
andimitriadou@eurobank.gr, + 30 210 37 18 793
Ioannis Gkionis: *Research Economist*
igkionis@eurobank.gr + 30 210 33 71 225
Stylianos Gogos: *Economic Analyst*
sgogos@eurobank.gr + 30 210 33 71 226
Olga Kosma: *Economic Analyst*
okosma@eurobank.gr + 30 210 33 71 227

Arkadia Konstantopoulou: *Research Assistant*
arkonstantopoulou@eurobank.gr + 30 210 33 71 224
Paraskevi Petropoulou: *G10 Markets Analyst*
ppetropoulou@eurobank.gr, + 30 210 37 18 991
Galatia Phoka: *Research Economist*
gphoka@eurobank.gr, + 30 210 37 18 922
Theodoros Stamatiou: *Senior Economist*
tstamatiou@eurobank.gr, + 30 210 33 7 1 228

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

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