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Carsten Hesse, Economist | carsten.hesse@berenberg.com | +44 20 3753 3001

GREECE GDP: SIGNS OF HOPE

Berenberg Macro Flash

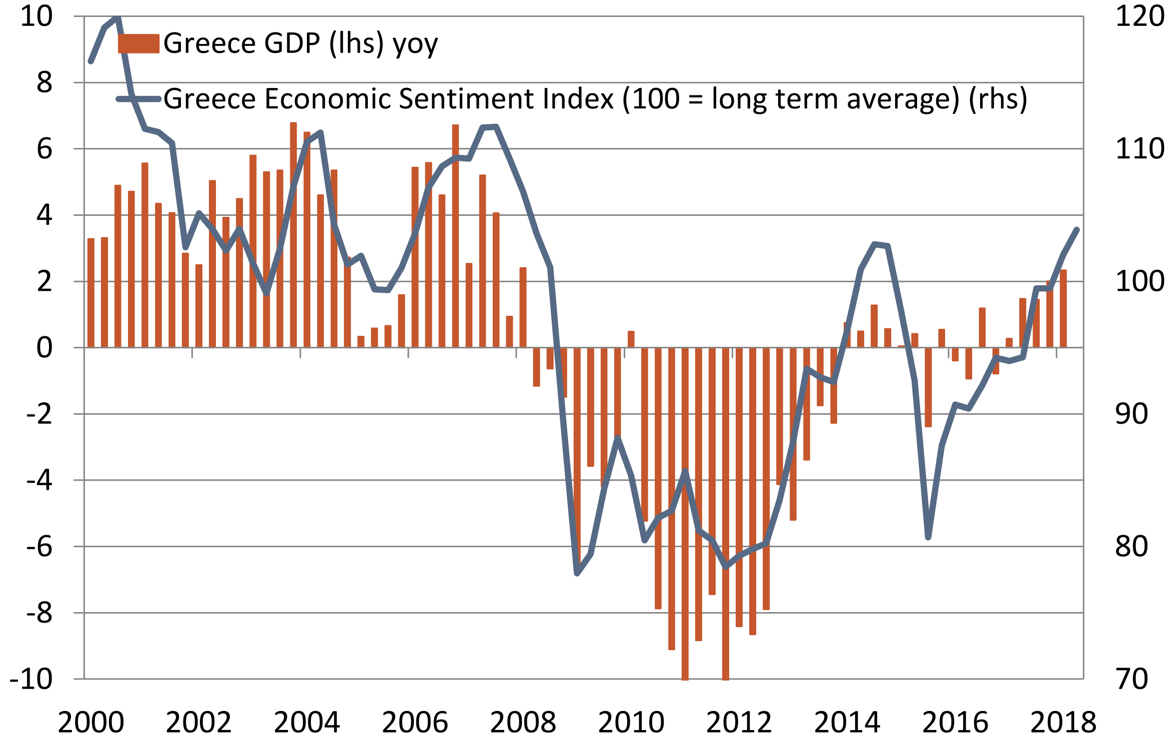
Pick-up in exports raises Greek growth: Greece's real GDP expanded by 0.8% qoq in Q1 after gains of 0.2% in Q4 (revised up from 0.1%). The Q1 result beat the 0.3% qoq consensus estimate and came in close to the top of the Eurozone growth ranking, just behind Latvia, Finland and Slovakia. Greek GDP has now expanded for five quarters in a row. Keep in mind though, Greece's GDP readings have been pretty volatile in the past and are occasionally prone to revision.

On an annual basis, GDP growth accelerated to 2.3% from 2.0% in Q4 2017, the fastest pace since 2008. The Greek economy could finally be turning the corner after shrinking by around one fourth during the great financial crisis and the Greek debt crisis. Q1 GDP growth was driven by an increase in net exports. Imports fell by 2.7% qoq (and 2.8% yoy), while exports increased by 1.4% qoq (and 7.6% yoy). Final domestic consumption was little changed (+0.1% qoq vs. -0.2% in Q4) as the 0.3% qoq increase in household consumption was offset by a 1.7% qoq decline in government spending. The Syriza government is still pursuing a policy of fiscal austerity with an aim of outperforming the 3.5% of GDP primary surplus target demanded by Greece's official lenders. Investments remained extremely volatile with gross fixed capital formation dropping by 28.1% qoq in Q1 (and 10.4% yoy) after rising by a revised 39.4% qoq in Q4.

Strengthening the Greek hand in the negotiations: At the margin, the positive GDP reading strengthens the hand of the Greek government in the bailout negotiations with its official lenders. The strong budget performance year to date (EUR 2.3bn primary surplus vs. EUR 0.4bn target) and better-than-expected GDP reading reduces the pressure on Greece to agree to further austerity measures. Greece, after finally rebounding from a long period of hardship and now growing at roughly twice the Italian rate, shows that crisis countries can recover if and when they choose the right domestic economic policies.

Leading indicators suggest more growth ahead: Greece is at an important crossroads. Its third bailout programme will end on 20 August. It needs to convince creditors that it can follow in the footsteps of Cyprus, Spain, Portugal and Ireland and live in the future without further assistance of official lenders. Greece still suffers from a huge debt load (around 180% of GDP) and is in negotiations with its lenders to receive more debt relief in the future. A success in those negotiations would strengthen investors' confidence in Greece. But confidence is fickle. It is crucial for Greece to remain on the reform path over the coming years. Leading indicators point into the right direction and suggest that growth could beat the official forecast estimates of the EU Commission (1.9%) and IMF (2.0%). Greece's EC Economic Sentiment Index edged up to 104.2 in May vs. 103.6 in April, the second highest reading since 2014, driven by the services sub-index which rose to the highest level since 2008 (see chart).

Chart: Greece GDP yoy growth (in %) vs. Greek economic sentiment index (quarterly average)



Sources: European Commission, Eurostat. April and May's average economic sentiment index reading is a proxy for 2Q 2018

Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7878
www.berenberg.com
holger.schmieding@berenberg.com