Greece

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IN A NUTSHELL

→ Following stagnation in 2015-2016, GDP growth turned positive in 2017 (1.4%) and further increased in the first quarter of 2018 (2.3% y-o-y). The successful completion of the fourth and final review and the strengthening of the recovery outlook of the Greek economy, suggests that economic activity will improve for 2018 and accelerate further for the years 2019 and 2020.

→ Based on Bank of Greece residential property data, in 2017, nominal apartment prices for the whole country marginally declined on average by 1.0%, whereas for 2016 the average annual decline was 2.4%.

→ Based on Bank of Greece commercial property data, the nominal prices of prime offices increased by 1.7% on average in 2017, against a marginal increase of 0.2% in 2016, whereas nominal prime retail prices increased by 1.6% in 2017, against a marginal drop of 0.4% in 2016.

→ Based on a new ministerial decision, further relaxations were introduced on capital controls.

→ Housing loans continued to decline by 3.0% in 2017 and in the first four months of 2018 in a decelerating rate compared to the declines of previous years.

MACROECONOMIC OVERVIEW

Following stagnation in 2015-2016, the economic activity rebounded in 2017, recording positive, albeit low, growth rates and creating expectations of further acceleration and a positive outlook for the year 2018. In particular, the GDP growth turned positive (1.4%) for the first time in 2017 after two years of negative growth. In the first quarter of 2018, according to ELSTAT GDP provisional data, GDP growth increased further (2.3% y-o-y). The contribution to the positive GDP growth was mainly by gross fixed capital formation (9.6% y-o-y) and exports of goods and services (6.8% y-o-y). Overall, from the beginning of the current crisis in 2007 (average level) up till the first quarter of 2018, the cumulative decline in real GDP was 24.3%. Investment in construction had rebounded in 2016 relative to the previous year (18.2%), for the first time since 2007, recording though a decline in 2017 (-4.1%), before posting a positive growth rate in the first quarter of 2018 (4.8% y-o-y). Unemployment decelerated further and stood at 21.5% on average in 2017 against 23.5% in 2016 and 24.9% in 2015, with the share of long-term unemployed (12 months and above) in total employment accounting for 72.9% in 2017 against 72.0% in 2016 and 73.2% in 2015.

According to provisional non-seasonally-adjusted estimates published by ELSTAT, on the demand side, private consumption in 2017 increased marginally by 0.1% and gross fixed capital formation increased by 9.6% relative to the previous year. Public consumption decreased by 1.1% decelerating with respect to the previous year (2016: -1.5%). On the supply side, gross value added (at basic and constant prices), which had been declining continuously in the previous two years, increased by 1.4% in 2017, a significant increase with respect to the previous year (2016: -1.2%). On the income side (GDP at current prices), compensation of employees for 2017 increased by 2.3% for the first time since 2009, mainly reflecting a robust increase in dependent employment. According to ELSTAT's Labour Force Survey (LFS), employment increased by 2.2% in 2017 (1.8% y-o-y in Q1 2018) against 1.7% in 2016. Nevertheless, unemployment remained high at 21.5%, the highest in EU-28. At the same time, the long-term unemployment rate dropped to 15.6% in 2017 (16.9% in 2016), with the majority of unemployed individuals being women. Along with the decrease in total unemployment, youth unemployment rate (aged 20-29 years old) continued its downward trend and stood at 34.7% in 2017 (2016: 37.7% and 2015: 40.6%).

Inflation (HICP) came in positive territory in 2017 at 1.1% against 0.0% in 2016, -1.1% in 2015 and -1.4% in 2014, mainly due to increases in indirect taxation and higher crude oil prices. In May 2018, the inflation value stood at 0.8% y-o-y. For 2018, the overall inflation is expected to increase, though at more moderate rates compared to 2017. Core inflation (HICP excluding energy and unprocessed food) was in negative territory since September 2012 up to May 2015 and since then increased only marginally to 0.1% in 2015 and 0.7% in 2016 and remained stable at 0.6% in 2017 (in May 2018 stood at 0.5% y-o-y). The GDP deflator increased by 0.7% in 2017 (0.4% y-o-y in Q1:2018) mainly reflecting an increase in the unit labour cost as a result of a drop in productivity.

Based on a new ministerial decision, capital controls were further relaxed involving the opening of new accounts, monthly cash withdrawals (from EUR 2,300 increased to EUR 5,000) and fund transfers abroad (from EUR 2,300 to EUR 3,000).

The primary fiscal balance as a percentage of GDP has improved by about 14 pps since the beginning of the sovereign debt crisis. The 2017 primary fiscal outcome (programme definition) recorded a surplus of 4.2% of GDP, outperforming significantly the target of 1.75% of GDP. The improvement compared to the target reflects primarily under execution of government investment and intermediate consumption as well as revenue overperformance across the board on the back of fiscal measures. For 2018 the primary balance target of 3.5% of GDP is considered achievable.

Following the implementation of the fiscal and structural reforms that warranted the successful conclusion of the ESM programme and the announcement of the medium-term debt measures by the Eurogroup in June 2018, the growth prospects of the economy are expected to be stronger. The gradual restoration of confidence in 2017 and in the recent months of 2018 suggests that economic activity will improve for 2018. According to Bank of Greece estimates, real GDP is expected to accelerate further for the years 2018 and 2019 by 2.4% and 2.5% respectively. Downside risks, however, include a possible deterioration in the refugee crisis as well as the impact of increased taxation on economic activity and the reform implementation.

HOUSING AND MORTGAGE MARKETS

The improving of the economic environment and expectations, the recovery of the economy to positive, albeit low, growth rates in 2017, and the completion of

[1] The views expressed are solely those of the author and should not to be interpreted as reflecting the views of the Bank of Greece.

the fourth and final review create expectations of gradual stabilisation of the property market. This is confirmed by recent developments in property values. However, factors such as the high unemployment rate, the imposition of capital restrictions, the lack of liquidity, the reduction of real disposable income (-0.2% on average in 2017) and the constantly changing tax framework are impediments in the real estate market recovery. Pressures on market values and rents for residential and commercial properties continued through 2017, albeit weaker than in the past few years. The two sectors that stood out and attracted investor interest were those of tourist and prime income properties (office and retail). With regard to tourist properties in particular, interest headed towards a number of new investment projects in hotel units located in the greater Athens area, as well as in tourist destinations throughout Greece.

According to the ELSTAT data collected by notaries throughout the country, the number of sales in real estate increased for a second consecutive year on average by 10.8% in 2016 (25.8% in 2015). The annual rate of change in private construction activity, in terms of building permits, increased on average by 8.7% relative to 2016, recording a positive rate of change for the first time since 2005, a trend that continued in the first quarter of 2018 (6.4% y-o-y). By contrast, investment in construction decreased by 4.1% on average in 2017, inverting the positive growth in 2016 (18.2%), but still represents a significantly smaller contraction compared to the dramatic rates of decline since 2008. Residential investment continued its downward trend (-8.7% in 2017) although there was a deceleration in the rate of decline with respect to previous years. A reversal of the negative rates, for the first time since 2008, was recorded in the first quarter of 2018 (10.7% y-o-y). Residential investment (at constant prices) declined from 9.9% of GDP in 2007 to 0.6% of GDP in 2017 and still remains at very low levels in the first quarter of 2018 (at 0.6% of GDP). Business expectations in construction reached lowest point in 2015 (-29.9%) and remained into negative territory in 2016 (-1.1%) and in 2017 (-9.6%), whilst the first half of 2018 a positive rate of change was recorded (15.6%). In contrast, business expectations for dwellings rebound in 2016 and in 2017 by 44.4% and 18.8% respectively, after a significant drop in 2015 (-32.2%). In the first half of 2018 an increase of 31.4% y-o-y was recorded.

The housing market continued to be characterised by a downward trend in prices in 2017, albeit at a more moderate pace, as the high rates of price reduction recorded in 2012 and 2013 moderated from 2014 onwards, while during the second half of 2017, a trend of gradual price stabilisation was observed. In particular, on the basis of data collected from credit institutions, it is estimated that nominal apartment prices fell marginally on average 0.2% in the first quarter of 2018 compared with the respective quarter of 2017. For 2017 as a whole, apartment prices declined at an average annual rate of 1.0% (with a significant deceleration in price declines in individual quarters: -1.9%, -1.0%, -0.8% and -0.4% in the first, second, third and fourth quarter 2017, respectively); also significantly lower than the corresponding rate of decline of 2.4% in 2016 and 5.1% in 2015. Cumulatively, however, nominal apartment prices have dropped by 42.1% from 2008 (average level) to the first quarter of 2018, while a breakdown by age shows that the decline was more significant for older apartments (43.0%). A geographical breakdown reveals that prices dropped more in the two major urban centres (Athens: -44.5% and Thessaloniki: -46.4%) compared with other cities (-39.5%) and other areas (-38.0%). It should be noted that the recent (12 June2018) revision of zonal property values (administrative values for tax purposes) for the 10,216 areas of the country is not expected to have a significant impact on the real estate market and prices during 2018. However, the readjustment is expected to continue in 2019 and 2020 in order to achieve progressively the alignment of zonal property values with the market ones.

The successful completion of the fourth and final review and the strengthening of the recovery outlook of the Greek economy, coupled with the expected successful implementation of the privatisation and public real estate development programme and a stable tax regime, should contribute to ensuring an era of gradual price stabilisation and strong investor interest in the market, as a result of the prevailing low property prices and high returns on real estate. The stabilisation trend in house prices is expected to continue into the quarters ahead of 2018.

The volume of credit to the private sector has contracted at relatively stable rates in the last seven years. The rate of contraction of bank credit remains negative and has been relatively stable during 2017 and the first two months in 2018. The outstanding balances of loans from domestic MFIs to households declined at an annual rate of -2.3% in 2017, a downward trend albeit at a more moderate pace relative to previous years, and remained unchanged in April 2018. Similarly, housing loans continued to decline by 3.0% in 2017 and in the first four months of 2018 in a decelerating rate compare to the declines of previous years. The negative growth of domestic private sector lending bottomed-out in mid-2012 and has been gradually decelerating ever since, especially for non-financial corporations and to a lesser extent for households. In particular, the rate of contraction of bank credit to non-financial corporations has been decelerating since the beginning of 2014, but stopped decelerating after the imposition of capital controls in June 2015, reflecting the slowdown in economic activity; however, since March 2016 it has started to decelerate again and a marginal increase of 0.4% was recorded in April 2017 for the first time since August 2011. Since then the rate of bank credit to non-financial corporations has been decelerating up to November 2017, where it turned into positive sign for two months and since March 2018 up to April 2018 (latest figure) returned back to negative sign. The rate of contraction of bank credit to households bottomed-out in mid-2012 and has been gradually decelerating ever since, stabilised for 3 years (2014-2016), on average, by approximately -3.0% and in 2017 the rate decelerated further by -2.3% (-2.3% y-o-y in the first four months of 2018). The corresponding consumer credit rate, which decelerated significantly in 2015, has been stabilised during 2017 and in the first four months of 2018 at approximately -0.6%.

Interest rates on new residential loans, as a weighted average of entire market, reached their peak in August 2011 (4.6%) and started decelerating for one year (August 2012: 2.9%) and since then remained stable and are on average approximately 3.0% (2017: 2.8%, April of 2018: 2.9%). Similarly, bank interest rates on the outstanding amounts of housing loans with over 5 years maturity reached their peak in August 2011 (4.0%) and since then started constantly decelerating and in 2017 stood on average at 2.4% (April of 2018: 2.2%).

The strong recession has affected borrowers' ability to service their outstanding mortgage debt. As a consequence, the share of non-performing housing loans has increased substantially since 2008 (NPLs in 2008: 5.3%). An increase was recorded also in 2017, albeit at a weaker pace compared to the previous years, reaching the share of 33.2% (2016: 32.4%). NPLs (on a solo basis) decreased to 32.7% in 2017 from 35.1% in 2016.

MORTGAGE FUNDING

Housing loans continue to record negative y-o-y growth rates, with the latest figure (April 2018) standing at -3.0%, unchanged compared to 2017 but at a relatively decelerated rate against 2016 (-3.5%). Since the eruption of the Greek crisis in October 2009, deposits are down by EUR 101.7 bn in total. More specifically, the strong deposit outflows between October 2014 and June 2015 (private sector deposits reduced by EUR 48 bn) ceased after the imposition of capital controls (July 2015) and the agreement on the third economic adjustment program (August 2015). Since then, deposits were up by EUR 11 billion up to April 2018 and returned back to the levels of May 2015. The finalisation of the Eurogroup discussion on the ongoing fourth and final review of the ESM programme for Greece in June 2018 represents a step towards the restoration of confidence in the Greek banking system and consequently an improvement in bank credit conditions.

According to the Bank Lending Survey results for Greece, against the previous quarter, terms and conditions for loans to households for house purchase and consumer credit were tightened moderately by the banks during Q3 2016, and remained unchanged since then (latest figure up to Q1 2018). Similarly, credit standards for loans to households for house purchase and consumer credit were tightened moderately by the banks during Q3 2016 as well as during Q2 2017 and remained unchanged since then (Q1 2018), and this trend is expected to continue in Q2 2018. The proportion of rejected loan applications to housing loans increased moderately in Q3 2017 and remained unchanged during the last two quarters, i.e. Q4 2017 and Q1 2018. As far as demand is concerned, it considerably increased for housing loans and only marginally increased for consumer loans in Q1 2018. For Q2 2018, the demand for both housing loans and consumer credit is expected to increase moderately.

After some years of stagnation in the Greek covered bond market that was due to adverse macro-economic conditions, from the year 2016, the market has started to move again. The outstanding amount of covered bonds significantly increased in 2017 as compared with the year 2016 reaching the amount of EUR 10.1 bn. The largest amount of issuances was held by the banks and was used mainly for engaging into repo transactions of which the primary purpose was to enhance banks' liquidity and reduce banks dependency from ELA. It is expected that the Greek Covered Bond Market will be further expanded in the near future as long as the economic conditions continue to improve.

	GREECE 2016	GREECE 2017	EU 28 2017
Real GDP growth (%) (1)	-0.2	1.4	2.4
Unemployment Rate (LSF), annual average (%) (1)	23.6	21.5	7.6
HICP inflation (%) (1)	0.0	1.1	1.7
Outstanding Residential Loans (mn EUR) (2)	61,397	58,812	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	6,893	6,616	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	53.9	51.6	73.8*
Gross residential lending, annual growth (%) (2)	5.4	10.0	3.5
Typical mortgage rate, annual average (%) (2)	2.7	2.8	2.4**
Owner occupation rate (%) (1)	73.9	n/a	66.4*
Nominal house price growth (%) (2)	-2.5	-1.0	6.0

* The aggregate EU figure is from 2016.
** Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

GREECE FACT TABLE

Entities which can issue mortgage loans:	All credit institutions authorised in Greece under the Law 4261/2014, Directive 2013/36/EU.
The market share of the mortgage issuances:	Confidential information
Proportion of outstanding mortgage loans of the mortgage issuances:	Confidential information
Typical LTV ratio on residential mortgage loans:	Not available
Any distinction made between residential and non-residential loans:	The distinction is made by the reporting agents themselves.
Most common mortgage product(s):	Mortgages with floating rate
Typical maturity of a mortgage:	Not available
Most common way to fund mortgage lending:	Deposits
Level of costs associated with a house purchase:	Taxation on property: • For house purchase, transaction tax is at 3%. • Capital gains tax levied on property-selling owners (equal to 15% of the difference between the acquisition price and the selling price, progressively depreciated depending on the holding period of the property). Note that the application of this law is frozen up to the end of 2018.
The level (if any) of government subsidies for house purchases:	For house purchase, there are no government subsidies