HELLENIC REPUBLIC
Ministry of Finance
Council of Economic Advisors

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Economic Bulletin

Executive Summary

The 2018 general government primary surplus outturn is expected to safely exceed the target of 3.5% of GDP[1]. Also, the latest data shows that the state budget primary surplus widened to EUR 3.24 billion in 2018.

Greece tapped markets in January with Public Debt Management Agency (PDMA) successfully concluding a EUR 2.5 billion 5-year bond issue at a yield of 3.6%. The transaction was more than 4 times oversubscribed attracting a high quality and diverse investor base (89% long-term investors and 89.5% outside Greece). After a period of heightened market turbulence, largely driven by exogenous factors, the 10-year Greek Government Bond (GGB) yield has been declining and currently stands at pre-crisis levels.

On February 1, the minimum wage increased by 10.9% and the sub-minimum wage for young employees was abolished. This is the first nominal increase since the sharp minimum wage reduction of 22% that was legislated 7 years ago. The rise in the minimum wage is expected to support household consumption and domestic demand. In the medium-term, it is also expected to lead to efficiency gains.

The private non-financial deposit inflows at Greek banks climbed to EUR 3.5 billion in December, also due to seasonal factors, pushing the cumulative figure for 2018 to EUR 7.55 billion, which is the highest reading since 2009. The deposit flow remains positive in the last 3 years with total inflows reaching EUR 17.87 billion, on improved depositor sentiment and reduction of uncertainty.

1. The enhanced surveillance definition of the primary balance entails a different treatment of privatisation proceeds, migration-related expenditure, bank support costs, ANFA-SMP revenues and unprocessed tax refund claims.

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Key Developments

The 2018 general government primary surplus, under the enhanced surveillance definition, is expected to safely exceed the target of 3.5% of GDP.

On January 29, PDMA successfully concluded a EUR 2.5 billion 5-year bond issue at a yield of 3.6%. The transaction was significantly oversubscribed mostly from foreign high quality investors.

On February 1, the minimum wage increased by 10.9% and the sub-minimum wage for young employees (under the age of 25) was abolished.

On January 16, the government won a vote of confidence strengthening political stability for the coming months and ahead of the general elections due in fall 2019.

The ongoing implementation of the cash management reform is expected to lead to a significant reduction of the state financing cost and to a more efficient management of the general government resources.

In the 1st Post-Programme Monitoring (PPM) statement released on January 25, the IMF expects GDP growth of 2.1% in 2018 and 2.4% in 2019.

The European Commission (EC) projects a GDP rebound of 2% in 2018 accelerating to 2.2% in 2019, largely on improved private consumption.

The retail turnover rose by 4% year on year (yoy) in November and overall by 2.3% in the 11-month period.

S&P and Fitch affirmed Greece's rating and outlook in their scheduled rating reviews published on January 18 and February 8 respectively.

Private non-financial deposit inflows stood at 3.5 billion in December and overall at 7.55 billion in 2018 on improved depositor sentiment and reduction of uncertainty.

Economic Analysis

State budget primary surplus of EUR 3.24 billion in 2018, tax revenues increase

Tax revenues rose by 6.2% yoy in December and overall by 2.7% to EUR 48.85 billion in 2018, in line with target. Both direct and indirect taxes increased by 1.3% and 3.8% respectively in 2018. Overall, net revenues increased by 4.2% to EUR 51.04 billion in 2018.

Ordinary primary expenditure increased by 1.6% to EUR 44.21 billion in 2018, EUR 603 million lower than target, of which around half relates to one-offs payments that will be paid in January instead of December.

Furthermore, Public Investment Budget (PIB) revenues and expenditure rose by 7.8% and 4.8% respectively compared to the previous year.

Overall, the state budget primary surplus stood at EUR 3.24 billion in 2018 (from EUR 1.94 billion in the previous year).

It is expected that the general government primary surplus, under the enhanced surveillance definition, will safely exceed the target of 3.5% of GDP.

PDMA successfully concludes a 5-year bond issue

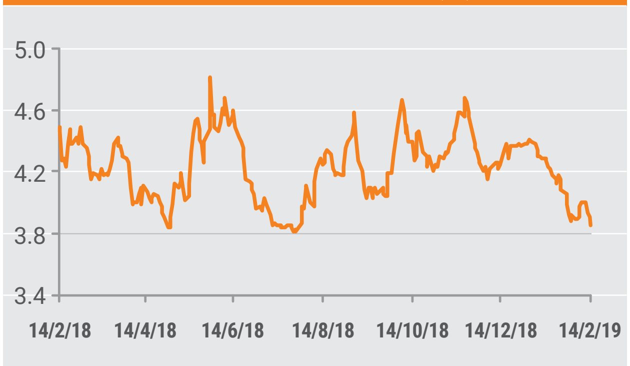
On January 29, Greece tapped markets with PDMA issuing a 5-year bond of EUR 2.5 billion at a yield of 3.6% and a coupon of 3.45%.

The order book was 4 times oversubscribed as total bids from 290 investors exceeded EUR 10 billion. The transaction attracted a high quality and diverse investor base (89% long-term investors and 89.5% outside Greece).

Moody's noted on January 31 that "Greece's foray into international capital markets is credit positive, as it reflects improving investor confidence and paves the way for Greece returning to full market-based funding".

After a period of heightened market turbulence, largely driven by exogenous factors, the 10-year GGB yield has been declining and currently stands at pre-crisis levels.

10-YEAR GGB YIELD (%)



Increase of minimum wage and abolition of sub-minimum wage

On February 1, the minimum wage increased by 10.9% to EUR 650 (from EUR 586 previously) and the sub-minimum wage of EUR 510 euros, which was applied to young employees (under 25 years old), was abolished.

This is the first nominal increase since 2011. In 2012, the minimum wage was slashed by 22% and remained frozen until now. At the same time, the sub-minimum wage was introduced for young employees, implying a reduction of 32% compared to their previous minimum wage.

The government expects that the rise in the minimum wage will increase disposable income and support domestic demand and consumption. In the medium-term, it is also expected to lead to efficiency gains.

Government wins vote of confidence

On January 16, the government won a vote of confidence. The result of the vote ensures political stability in the period leading to the end of the government's term in fall 2019.

Cash management reform under way

The reform of the cash management framework continues through the systemisation of the pooling and management of the general government idle reserves in the Treasury Accounts System (TAS).

The new legal and operational framework includes the regular monitoring of cash balances, the introduction of cash flow forecasting by the largest entities, the re-channeling of grants from the state budget so as to minimise buffers of idle reserves and the gradual development of projections referring to the overall cash position of the general government.

This alignment of the cash management framework with international best practices is expected to lead to significant reduction in the financing costs of the state and to a more efficient management of the general government resources.

The current reform constitutes the culmination of continuous efforts over the past few years to introduce best-practice cash management techniques that have significantly improved the state's cash position.

IMF releases preliminary findings of 1st Post-Programme Monitoring

Following its 1st PPM mission to Athens during January 21-25, the IMF issued a concluding statement outlining its preliminary findings.

The Fund noted that the domestic economic activity is projected to accelerate to 2.4% in 2019, from an estimated 2.1% GDP growth in 2018, largely on the back of strong tourism and consumption coupled with job creation.

EC expects GDP growth of 2.2% and 2.3% in 2019 and 2020 respectively

In its winter economic forecasts published on February 7, the EC estimates a GDP growth of 2% in 2018 accelerating to 2.2% in 2019 and further to 2.3% in 2020.

The EC stressed that private consumption is estimated to remain a major contributor to the economic recovery on improved consumer confidence, which returned to pre-crisis levels. Furthermore, goods' exports are also set to remain on an increasing trajectory despite the slowdown in the EU.

Retail trade up by 4% yoy in November

The turnover index in retail trade rebounded by 4% yoy in November, while the corresponding volume also grew by 3.2%. It is worth noting that both turnover and volume recorded 10 positive yoy readings in the 11-month period.

Overall, retail turnover and volume increased by 2.3% and 1.6% respectively in the January - November period, supported by increased employment and higher disposable income.

Fitch and S&P affirm Greece's rating and outlook

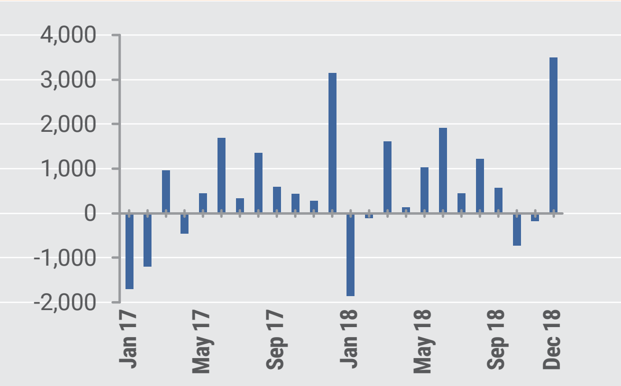
In its scheduled rating review on January 18, S&P affirmed Greece's 'B+' rating and positive outlook. The rating agency estimates average annual GDP growth of 2.4% in 2019-2022 on the back of strengthening domestic demand and continued solid export performance.

On February 8, Fitch also confirmed its 'BB-' rating on Greece with a stable outlook. The rating agency projects the recovery of the domestic economy to gather further momentum in 2019 with GDP rising by 2.3% this year and 2.2% in 2020.

Deposit inflows of EUR 7.55 billion in 2018, highest since 2009

The private non-financial sector deposit inflows stood at EUR 3.5 billion in December 2018, which is the highest reading for December since 2012.

DEPOSIT FLOW (EUR M)



Source: BoG

Deposit flow has been traditionally positive in December, even during the crisis years, mostly due to seasonal factors, also including the payment of the Christmas bonus in the private sector and more recently the payment of the social dividend.

Overall, deposit inflows accelerated to EUR 7.55 billion in 2018 from EUR 5.91 billion in 2017 and EUR 4.41 billion in 2016. The 2018 figure is the highest reading since 2009 and rests mainly on improved depositor sentiment and reduction of uncertainty.

Appendix

Selected Economic Indicators (annual)	2014	2015	2016	2017	2018e
GDP (%, change)	0.7	-0.4	-0.2	1.5	2.1
GDP at current prices (€ million)	178,656	177,258	176,488	180,218	185,658
Primary Balance (€ million)	479	1,154	6,196	6,959	7,573
(as % of GDP)	0.3%	0.7%	3.5%	3.9%	4.1%
Overall Balance (€ million)	-6,491	-5,099	581	1,341	1,171
(as % of GDP)	-3.6%	-2.9%	0.3%	0.7%	0.6%
Gross Debt (€ million)	319,629	311,725	315,011	317,414	335,000
(as % of GDP)	178.9%	175.9%	178.5%	176.1%	180.4%
Current Account Balance (% of GDP)	-1.6	-0.2	-1.1	-0.8	na
CPI (%, average change)	-1.3	-1.7	-0.8	1.1	0.6
HICP (%, average change)	-1.4	-1.1	0.0	1.1	0.8
Unemployment rate (%, average)	26.5	24.9	23.5	21.5	19.6
Bank credit to private sector (%, change)	-3.1	-2.0	-1.5	-0.9	na

Notes: 1: Primary Balance and Overall Balance under ESA-2010 excluding bank support cost
2: 2018 figures are MoF estimates as published in the 2019 Budget (December 2018)

Source: ELSTAT, 2019 Budget

Selected Economic Indicators (latest)	yoy (%)	Period
GDP	2.2	Q3 2018
	2.1	9M 2018
CPI	0.4	Jan 2019
	0.7	12m moving average
Industrial Production Index	1.1	Dec 2018
	1.0	Jan-Dec 2018
Turnover Index in Industry	7.0	Nov 2018
	10.8	12m moving average
Building Activity (permits)	18.0	Nov 2018
	11.9	Jan-Nov 2018
Turnover Index in Retail Trade	4.0	Nov 2018
	2.3	Jan-Nov 2018
Motor Vehicle Circulation Licences	9.2	Jan 2019
	22.6	Jan-Dec 2018
Residential Property Prices	2.5	Q3 2018
Unemployment (%)	18.5	Nov 2018
Confidence Indicators	**pts**	**Period**
Economic Sentiment	99.6	Jan 2019
Consumer Confidence	-28.3	Jan 2019
Industry Confidence	-4.6	Jan 2019
Services Confidence	-1.6	Jan 2019
PMI	53.7	Jan 2019

Source: BoG, ELSTAT, EC, Markit

Upcoming Statistical Releases

Feb 19
Turnover Index in Industry
December (ELSTAT)

Feb 20
Balance of Payments
December (BoG)

Feb 21
Travel Balance
December (BoG)

Feb 25
Budget Execution
January (MoF)

Feb 27
Bank Credit and Deposits
January (BoG)

Feb 27
Economic Sentiment and Business Indicators
February (EC)

Feb 28
Turnover Index in Retail Trade
December (ELSTAT)

Mar 1
PMI
February (Markit)

Mar 7
GDP (provisional)
Q4 2018 (ELSTAT)

Mar 7
Annual National Accounts
2018 (ELSTAT)

Mar 7
Unemployment
December (ELSTAT)

Mar 8
Commercial Transactions
January (ELSTAT)

Mar 8
Industrial Production
January (ELSTAT)

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soe@minfin.gr