



Economic Bulletin

Executive Summary

The state budget primary surplus stood above EUR 800 million in the first two months of 2019 exceeding the target by EUR 1 billion. Around one third of this fiscal overachievement is due to better than expected revenue figures. Total net revenues exceeded the target by EUR 344 million. Tax revenues, in particular, amounted to EUR 7.55 billion overshooting the target by EUR 195 million, mostly reflecting higher than expected VAT and income tax.

On April 5, the Eurogroup confirmed that Greece fulfilled all due post-program reform commitments and approved the release of the first tranche of policy-contingent debt relief measures amounting to EUR 970 million. These include the return of SMP and ANFA profits as well as the abolition of the step-up interest rate margin for certain EFSF loan instalments.

On April 4, Moody's noted that the revised household insolvency law, which was one of the key post-program commitments, is credit positive for Greece and the Greek banks as "it is a positive signal that the Greek authorities continue to feel bound by their commitments" and "banks will bolster their efforts to reduce the large stock of Non-Performing Exposures (NPEs)".

According to the Ministry of Finance (MoF) provisional estimates, the 2018 general government primary surplus is expected to be in the territory of 3.9% of GDP, under the enhanced surveillance definition¹, overshooting the fiscal target for a fourth consecutive year. The official Eurostat and ELSTAT figures (under ESA) are due to be published on April 23. The authorities' intention is to use part of the cash reserves accumulated due to the fiscal overachievement of the last four years for the early repayment of the most expensive segment of Greece's official sector debt.

Greek banks reduced their NPE stock by EUR 2.9 billion to EUR 81.8 billion in the fourth quarter (Q4) of 2018. At the end of March, banks submitted new operational targets to the Single Supervisory Mechanism (SSM) calling for a more ambitious reduction. The new targets imply an NPE ratio slightly below 20% by the end of 2021, while the previous targets envisaged a decline to 21.2%.

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 state budget primary surplus stood at EUR 822 million in the 2-month period of 2019 overachieving the target by EUR 1.02 billion, partly due to better than expected revenue figures.

On April 5, the Eurogroup confirmed that all due post-program reform commitments have been implemented and therefore approved the release of the first tranche of policy-contingent debt relief measures.

On April 4, Moody's noted that the revised household insolvency law, which was one of the key post-program commitments, is credit positive for Greece and the Greek banks.

According to the MoF provisional estimates, the 2018 general government primary surplus, under the enhanced surveillance definition, is expected to be in the territory of 3.9% of GDP. The authorities' intention is to use part of the cash reserves accumulated due to the fiscal overachievement of the last four years for the early repayment of the most expensive segment of Greece's official sector debt.

According to ELSTAT's latest data, the unemployment rate fell by 2.8 pp year on year (yoy) to 18% in December 2018, which is the lowest reading since July 2011.

Building activity increased for the second straight year by 10.3% in 2018 and residential property prices rose for the first time since 2008 by 1.5% in 2018.

Consumer confidence improved month on month (mom) and PMI climbed to a new 12-month high in March.

Greek banks reduced their NPE stock by EUR 2.9 billion quarter on quarter (qoq) to EUR 81.8 billion in Q4 2018. At the end of March, banks submitted to the SSM new operational targets calling for a more ambitious NPE reduction by 2021.

Economic Analysis

State budget primary surplus overshoots target in Jan-Feb 2019

In the first two months of 2019 tax revenues stood at EUR 7.55 billion exceeding the target by EUR 195 million, mainly due to higher than expected VAT and income tax. Total net revenues amounted to EUR 7.83 billion and outperformed the target by EUR 344 million.

State budget expenditure stood at EUR 8.97 billion, EUR 566 million lower than the target. This is attributed partly to unused appropriations of EUR 982 million incorporated in the 2019 budget but accrued in 2018.

Overall, the state budget primary surplus amounted to EUR 822 million in the 2-month period, overachieving the target by EUR 1.02 billion, approximately one third of which stems from better than expected revenue figures.

Eurogroup confirms completion of all due post-program commitments

On April 5, the Eurogroup confirmed that Greece fulfilled all due post-program reform commitments and therefore approved the release of the first tranche of policy-contingent debt relief measures amounting to EUR 970 million.

These include the return of SMP and ANFA profits as well as the abolition of the step-up interest rate margin for certain EFSF loan instalments.

New household insolvency law is credit positive for Greece and its banks, Moody's says

On April 4, Moody's noted that the revised household insolvency law, which was one of the key post-program commitments, is credit positive for Greece and its banks.

Specifically, "the sovereign will benefit because the law removes an important disagreement

with euro area creditors" and "is a positive signal that the Greek authorities continue to feel bound by their commitments".

In addition, the new law is expected to bolster Greek banks' efforts to reduce their large NPE stock, Moody's stressed.

Fiscal outturn expected to be close to 3.9% of GDP in 2018, according to MoF

According to the MoF provisional estimates, the 2018 general government primary surplus is expected to be in the territory of 3.9% of GDP, under the enhance surveillance definition.

The official 2018 figures (under ESA) will be published by Eurostat and ELSTAT in their 1st notification of 2018 fiscal data on April 23.

The cumulative fiscal overachievement in 2016-2018 stood, in nominal terms, at EUR 13 billion, of which approximately EUR 2 billion were distributed in the form of well-targeted one-off social dividend.

The remaining amount of EUR 11 billion contributed to the build-up of a sizeable cash buffer, part of which could now be used for the early repayment of the most expensive segment of Greece's official sector debt.

Unemployment rate fell to 18% in 2018

According to the latest data from ELSTAT, the unemployment rate continued its declining trend for the fifth successive year falling by 2.8 percentage points (pp) to 18% at the end of 2018, which is the lowest reading since July 2011. During 2018, employment rose on average by 2%.

Furthermore, the Labour Ministry database (ERGANI) showed that the employment balance (hirings minus exits) in the private sector was

positive in the first two months of 2019 with net hirings reaching 5,507 compared to just 86 in the same period in 2018.

Building activity and house prices increased in 2018

Building activity rebounded for the second consecutive year with building permits rising by 10.3% in 2018 following an increase by 8.6% in 2017. The 2017 figure was the first rebound since 2005. Furthermore, in 2018 the corresponding surface and volume rose at a sharper rate by 23.4% and 21.8% respectively.

In addition, residential property prices accelerated to 2.5% yoy in Q4 2018. Overall, house prices increased for the first time since 2008 by 1.5% in 2018.

Consumer confidence and PMI rebound in March

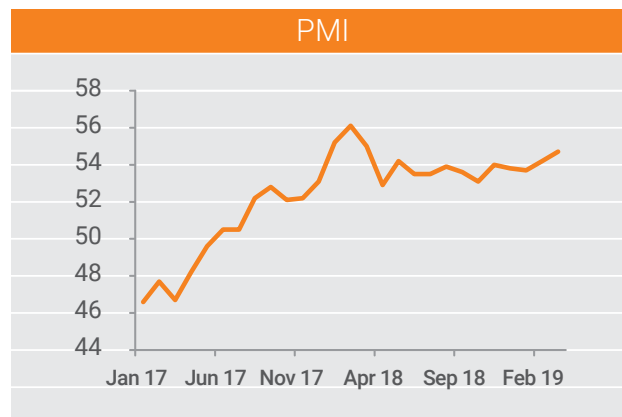
Consumer confidence improved by 1.7 points (pts) from the previous month and stood at -31.6 in March. Over the last 12 months, consumer confidence has increased by 20.5 pts.



Source: EC

The services and the construction confidence indicators also rose by 4.4 and 13.3 pts mom respectively in March.

Furthermore, PMI rebounded for the second successive month by 0.5 pts mom to a new 12-month high of 54.7.



Source: Markit

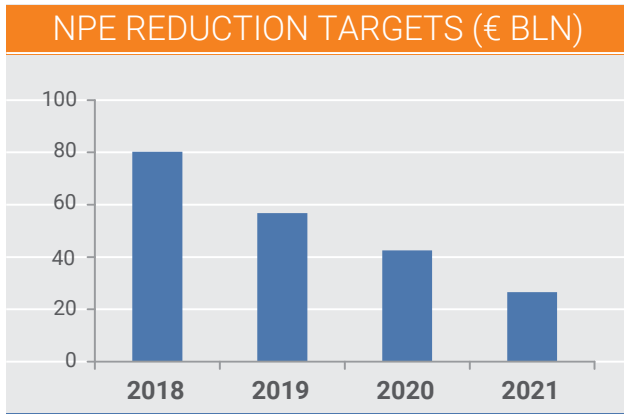
The continued improvement reflects stronger output and new order expansion amid robust client demand that led to the fastest rate of job creation in the series history.

Further decline in NPE stock in Q4, new NPE reduction targets

Greek banks reduced their NPE stock by EUR 2.9 billion qoq to EUR 81.8 billion at the end of Q4 2018 with the NPE ratio settling at 45.4%. In the course of 2018, NPEs have dropped by 13.4% or by EUR 12.7 billion and the NPE ratio has declined by 1.8 pp.

During the presentation of Q4 results, the four significant banks revealed their new operational targets, which were submitted to the SSM at the end of March and called for a more ambitious NPE reduction.

Specifically, the four significant banks now target a decrease in their NPE stock by 67% (or by EUR 53.7 billion) relative to the end-2018 level of EUR 80.2 billion to EUR 26.5 billion by 2021.



Note: Group target for Eurobank, solo targets for Alpha, National and Piraeus

Source: Four significant banks' presentations

According to the Bank of Greece, the new targets imply a reduction in the NPE ratio to a level slightly below 20% by the end of 2021, while the previous targets envisaged a drop to 21.2%.

Appendix

Selected Economic Indicators (annual)	2014	2015	2016	2017	2018
GDP (% change)	0.7	-0.4	-0.2	1.5	1.9
GDP at current prices (€ million)	178,656	177,258	176,488	180,218	184,714
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	-0.8	-1.7	-1.8	-2.9
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	19.3
Bank credit to private sector (% change)	-3.1	-2.0	-1.5	-0.8	-1.1

Notes: 1: Primary Balance and Overall Balance under ESA-2010 excluding bank support cost

2: 2018 fiscal and debt figures are MoF estimates as published in the 2019 Budget (December 2018)

3: The rise in 2018 debt is primarily due to the creation of a sizeable cash buffer

Source: ELSTAT, 2019 Budget

Selected Economic Indicators (latest)	yoy (%)	Period
GDP	1.6	Q4 2018
	1.9	2018
CPI	0.6	Feb 2019
	0.7	12m moving average
Industrial Production Index	3.4	Jan 2019
	1.0	Jan-Dec 2018
Turnover Index in Industry	-7.6	Jan 2019
	9.4	12m moving average
Building Activity (permits)	-7.5	Dec 2018
	10.3	Jan-Dec 2018
Turnover Index in Retail Trade	-2.3	Jan 2019
	2.1	Jan-Dec 2018
Motor Vehicle Circulation Licences	15.7	Feb 2019
	11.9	Jan-Feb 2019
Residential Property Prices	2.5	Q4 2018
Unemployment (%)	18.0	Dec 2018
Confidence Indicators	pts	Period
Economic Sentiment	101.3	Mar 2019
Consumer Confidence	-31.6	Mar 2019
Industry Confidence	-2.3	Mar 2019
Services Confidence	10.5	Mar 2019
PMI	54.7	Mar 2019

Source: BoG, ELSTAT, EC, Markit

Upcoming Statistical Releases

Apr 9

Industrial Production

February (ELSTAT)

Apr 9

Motor Vehicle Registration Licences

March (ELSTAT)

Apr 10

CPI

March (ELSTAT)

Apr 11

Unemployment

January (ELSTAT)

Apr 12

Building Activity

January (ELSTAT)

Apr 15

Budget Execution (preliminary)

March (MoF)

Apr 19

Turnover Index in Industry

February (ELSTAT)

Apr 19

Balance of Payments

February (BoG)

Apr 22

Travel Balance

February (BoG)

Apr 23

Fiscal Data - 1st Notification

2015-2018 (ELSTAT)

Apr 25

Budget Execution

March (MoF)

Apr 25

Turnover Index in Retail Trade

February (ELSTAT)

Apr 29

Economic Sentiment and Business Indicators

April (EC)

Apr 30

Bank Credit and Deposits

February (BoG)

May 2

PMI

April (Markit)

May 9

Commercial Transactions

March (ELSTAT)