HELLENIC REPUBLIC
Ministry of Finance
Council of Economic Advisors

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Economic Bulletin

Executive Summary

On April 23, ELSTAT confirmed that the 2018 primary surplus outturn reached 4.4% of GDP (in ESA 2010 terms) and 4.3% of GDP under the enhanced surveillance definition[1]. This is the fourth straight year that Greece over-achieves its fiscal targets by a wide margin. The overall fiscal surplus of 1.1% of GDP places Greece firmly among the six Eurozone countries with a positive fiscal balance consistently since 2016.

Data from the first quarter (Q1) of 2019 shows that the state budget primary surplus amounted to EUR 1.44 billion and overshot the target by EUR 2.4 billion. Half of the over-performance is due to a one-off revenue that is related to the extension of the concession rights of the Athens International Airport. The other half is due to buoyant VAT revenues, which reflect the sustained rebound in household consumption, and lower expenditure.

The 10-year Greek Government Bond (GGB) yield fell to historic lows at 3.3% largely on the back of sustained primary surpluses, lower uncertainty and improving investor confidence fuelled by the positive growth prospects, credit rating upgrades and Eurogroup approval of the first tranche of policy-contingent debt relief measures. The increased appetite for Greek assets also led the domestic stock market up by 26% year to date, mainly driven by soaring bank share performance (+47.5%).

On April 22, R&I upgraded Greece's rating by one notch to 'B+" and the outlook to positive on sustained primary surpluses, improved debt sustainability and steady implementation of the reform programme.

Greek banks virtually eliminated their Emergency Liquidity Assistance (ELA) funding, which stood at EUR 18.9 million at the end of March. Moody's noted that the repayment of ELA funding is credit positive "because it signals banks' liquidity and funding have improved, which will likely further reduce their funding costs".

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 primary surplus outturn, under the enhanced surveillance definition, stood at 4.3% of GDP over-achieving the fiscal target for a fourth year in a row.

The state budget primary surplus reached EUR 1.44 billion in Q1 2019, outperforming the target by EUR 2.4 billion.

The 10-year GGB yield dropped to historic lows at 3.3% and the Greek stock market has surged by 26% year to date, on the back of sustained primary surpluses, lower uncertainty, improved investor sentiment and positive growth prospects.

On April 22, R&I upgraded Greece's rating by one notch to 'B+' and revised the outlook to positive from stable.

The IMF retained unchanged its macroeconomic and fiscal estimates on Greece in the World Economic Outlook (WEO) and Fiscal Monitor reports published on April 9 and 10 respectively. For 2019 the IMF projects an annual growth rate of 2.4% and a fiscal outcome of 3.5%.

The Bank Lending Survey (BLS) conducted by the Bank of Greece (BoG) showed increased demand for both corporate and household loans in Q1 2019.

Greek banks virtually eliminated ELA funding, which stood at EUR 18.9 million at the end of March, on the back of improved liquidity and funding conditions. Note on May 2012, ELA funding stood at EUR 124.1 billion.

Economic Analysis

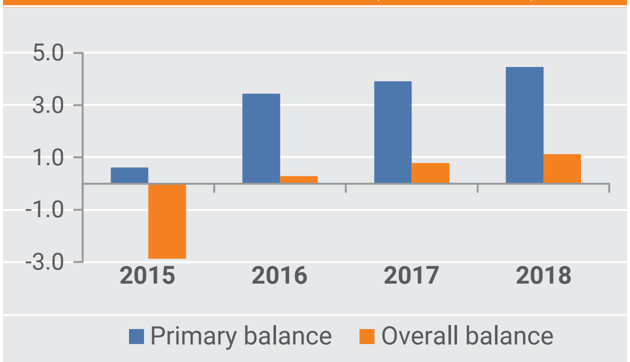
2018 primary surplus over-achieves target for fourth consecutive year

On April 23, the first notification of fiscal data by ELSTAT confirmed that the 2018 primary surplus outturn of Greece reached 4.4% of GDP (in ESA 2010 terms).

Under the enhanced surveillance definition, the primary surplus reached 4.3% of GDP overshooting the fiscal target of 3.5% by a wide margin for a fourth successive year. In light of the latest ELSTAT data, the Ministry of Finance (MoF) own preliminary estimate of around 3.9% of GDP proved cautious.

Furthermore, the general government overall fiscal surplus of 1.1% of GDP in 2018 places Greece firmly among the six Eurozone countries with a positive balance consistently since 2016.

FISCAL OUTTURN (% OF GDP)



Note: Fiscal outturn under ESA 2010 excluding bank support
Source: ELSTAT

The cumulative yield of the fiscal over-achievement of 2016-2018 significantly strengthens the resilience of the Greek economy in face of future fiscal or financial shocks. In particular, the sizeable cash buffer could now be used to restructure the public debt through the early repayment of the most expensive segments of the official sector debt, to support potential NPL reduction schemes and to shield Greece against future fiscal risks that may emerge from a global economic slowdown.

State budget primary surplus outperforms target in Q1

The state budget primary surplus stood at EUR 1.44 billion in Q1, overshooting the target by EUR 2.4 billion.

Half of the over-performance is due to a one-off revenue that is related to the extension of the concession rights of the Athens International Airport, which was initially estimated to be received in 2018.

Nearly EUR 220 million of the fiscal over-performance is due to buoyant VAT revenues that reflect the sustained rebound in household consumption and the positive momentum in economic recovery.

On the expenditure side, the over-performance of EUR 1.01 billion is largely attributed to unused appropriations of EUR 982 million incorporated in the 2019 budget but accrued in 2018. It should be stressed that these unused appropriations do not constitute available fiscal space and, therefore, cannot be repurposed to other uses.

10-year GGB yield falls to historic lows, Greek stocks soar

The 10-year GGB yield retained its declining trend falling to historic lows at 3.3% on the back of sustained primary surpluses, lower uncertainty, improving investor confidence and market conditions, following the two successful bond issues earlier this year.

In addition, the market applauds the positive growth prospects, the credit rating upgrades and the Eurogroup approval of the release of the first tranche of policy-contingent debt relief measures.

10-YEAR GGB YIELD (%)

Source: PDMA

The increased investor appetite for Greek assets was also evident in the domestic stock market with the General Index of the Athens Stock Exchange having soared by 26% since the end of 2018, one of the best performances in the world so far. The strong upswing was mainly led by banks, which have surged by 47.5% year to date.

Meanwhile, the adoption by the Parliament of the proposal for an amendment to the Greek constitution (to be ratified by the next Parliament) decoupling the Presidential election (due in early 2020) from snap elections eliminates the risk of political uncertainty, following the national elections due by October 2019.

R&I upgrades Greece's rating by one notch and outlook to positive

On April 22, R&I upgraded Greece's rating by one notch to 'B+' from 'B' and raised the outlook to positive from stable.

The rating action reflects improved debt sustainability due to the sizeable cash buffer and benign funding environment coupled with sustained primary surpluses and steady implementation of the reform programme.

R&I noted that it will further upgrade the rating if it confirms that fiscal discipline is maintained and the reform momentum is sustained following the elections due in October 2019.

IMF retains unchanged its macro and fiscal forecasts on Greece

The IMF retained unchanged its macroeconomic and fiscal estimates on Greece in the WEO and Fiscal Monitor reports published on April 9 and 10 respectively.

The Fund expects real GDP growth of 2.4% in 2019 with the unemployment rate falling to 18.5% and the Consumer Price Index (CPI) increasing by 1.1%.

On the fiscal front, the general government primary surplus is estimated at 3.5% of GDP until 2022. Furthermore, the debt-to-GDP ratio is forecast to decline to 143.2% by 2024.

Loan demand increases in Q1, Positive net corporate lending flow

Demand for corporate loans increased in Q1 2019, according to the BLS conducted by the BoG. This mainly reflects increased financing needs for fixed investments and debt refinancing/ restructuring.

The BLS also showed increased demand for household loans. Specifically, demand for housing loans rose in Q1 due to improved prospects of the real estate market supported by increased activity of non-residents.

Moreover, demand for consumer credit rose on the back of improved consumer confidence and the need to finance purchases of consumer durables, according to the BoG.

LOAN DEMAND

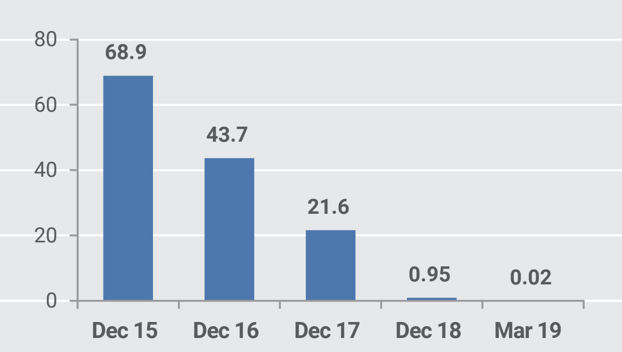
Source: BoG

The latest BoG data showed that the net lending flow was positive in three of the last four months (November 2018 – February 2019) with cumulative net loan additions in the corporate sector of EUR 1.53 billion during this 4-month period.

Greek banks' ELA funding close to zero in March

Greek banks' ELA funding dropped further by EUR 929 million quarter on quarter to just EUR 18.9 million at the end of March 2019, according to the BoG. The ELA had peaked during the crisis periods and has been consistently declining since July 2015.

ELA FUNDING (EUR BLN)



Source: BoG

In the presentation of their Q4 2018 results, Alpha and Eurobank announced that they had repaid their ELA funding by the end of March. The other two largest Greek banks, National and Piraeus, had eliminated their ELA exposure in December 2017 and July 2018 respectively.

In its semi-weekly credit outlook report published on April 4, Moody's noted that the full repayment of ELA is credit positive for Greek banks "because it signals banks' liquidity and funding have improved, which will likely further reduce their funding costs".

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	1,084	6,079	7,052	8,246
(as % of GDP)	0.27%	0.61%	3.44%	3.91%	4.46%
Overall Balance (€ million)	-6,491	-5,111	507	1,423	2,088
(as % of GDP)	-3.63%	-2.88%	0.29%	0.79%	1.13%
Gross Debt (€ million)	319,629	311,729	315,010	317,485	334,573
(as % of GDP)	178.9%	175.9%	178.5%	176.2%	181.1%
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: The rise in 2018 debt is primarily due to the creation of a sizeable cash buffer

Source: ELSTAT

Selected Economic Indicators (latest)	yoy (%)	Period
GDP	1.6	Q4 2018
	1.9	2018
CPI	0.9	Mar 2019
	0.8	12m moving average
Industrial Production Index	2.3	Feb 2019
	3.2	Jan-Feb 2019
Turnover Index in Industry	7.7	Feb 2019
	9.7	12m moving average
Building Activity (permits)	-10.2	Jan 2019
	10.3	Jan-Dec 2018
Turnover Index in Retail Trade	-2.3	Feb 2019
	-2.4	Jan-Feb 2019
Motor Vehicle Circulation Licences	-9.5	Mar 2019
	3.9	Jan-Mar 2019
Residential Property Prices	2.5	Q4 2018
Unemployment (%)	18.5	Jan 2019
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 29
Economic Sentiment and Business Indicators
April (EC)

Apr 30
Bank Credit and Deposits
March (BoG)

May 2
PMI
April (Markit)

May 9
Commercial Transactions
March (ELSTAT)

May 9
Unemployment
February (ELSTAT)

May 10
Building Activity
February (ELSTAT)

May 10
Industrial Production
March (ELSTAT)

May 10
Motor Vehicle Registration Licences
April (ELSTAT)

May 10
CPI
April (ELSTAT)

May 15
Budget Execution (preliminary)
April (MoF)

May 20
Turnover Index in Industry
March (ELSTAT)

May 21
Balance of Payments
March (BoG)

May 22
Travel Balance
March (BoG)

May 27
Budget Execution
April (MoF)

May 28
Bank Credit and Deposits
March (BoG)

May 28
Economic Sentiment and Business Indicators
May (EC)

May 31
Turnover Index in Retail Trade
March (ELSTAT)

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soe@minfin.gr