



Economic Bulletin

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Executive Summary

GDP grew by 0.6% quarter on quarter (qoq) and by 2.3% year on year (yoy) in the third quarter (Q3), according to ELSTAT provisional data published on December 5. The annual growth reflects positive net exports, slight increase in final consumption and rebound in investment. The performance in Q3 coupled with the upward revision of first-half GDP data led the economic expansion at 2.2% in the 9-month period, which suggests that the 2020 Budget estimate of 2% is within reach.

The 2020 Budget, which foresees an acceleration of the economic expansion to 2.8% in 2020 supported by growth-friendly policies and implementation of structural reforms, was voted in Parliament on December 18. The general government primary surplus (under the enhanced surveillance definition¹) is estimated to meet the fiscal target and reach 3.58% of GDP, including growth and social interventions of EUR 1.18 billion.

On December 4, the Eurogroup approved the second set of policy-contingent debt measures worth EUR 767 million, following a positive assessment by the European institutions that Greece has taken the necessary actions to achieve its specific reform commitments for mid-2019. Furthermore, the Eurogroup gave a mandate to the European institutions to initiate technical work on the possible use of ANFA and SMP income equivalents to reduce gross financing needs or to finance mutually agreed investments, in line with the agreed fiscal targets and the June 2018 Eurogroup statement.

The state budget primary surplus stood at EUR 6.95 billion in the 11-month period, EUR 2.23 billion above target. Tax revenues amounted to around EUR 46 billion, EUR 117 million higher than the upward revised target.

Following the approval by the European Commission (EC) of the Greek plan for an Asset Protection Scheme (APS) “Hercules” on October 10, the relevant legislation was voted in the Greek Parliament on December 12. The APS to assist banks in securitising

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.

and moving non-performing loans (NPLs) off their balance sheets is expected to reduce their NPL stock by around 40%.

On October 8, the Hellenic Republic priced a EUR 1.5 billion tap of their outstanding 10-year bond issued last March at a yield of 1.5%, significantly below the rate of 3.9% of the March issue.

Following the completion of national procedures and the ESM and EFSF governing bodies' waiver of their rights for a proportional prepayment, the Ministry of Finance (MoF) announced on November 25 the completion of the process for the early repayment of the most expensive part (EUR 2.7 billion) of the outstanding IMF loan. The transaction generates savings of around EUR 70 million in 2020, reduces foreign exchange rate risk and improves debt sustainability, thus enhancing Greece's credibility and market confidence.

Key Developments

GDP rose by 2.3% in Q3 driven by positive net exports, modest increase in private consumption and rebound in investment.

The 2020 Budget, voted in Parliament on December 18, foresees acceleration of economic expansion to 2.8% in 2020 and general government primary surplus of 3.58% of GDP, slightly above the primary fiscal balance target.

The European Commission (EC) published on November 20 its fourth enhanced surveillance report concluding that Greece has taken the necessary actions to achieve its specific reform commitments for mid-2019.

On December 4, the Eurogroup approved the second set of policy-contingent debt measures worth EUR 767 million.

The state budget primary surplus stood at EUR 6.95 billion in the 11-month period, EUR 2.23 billion above the new target (according to 2020 budget). Tax revenues amounted to around EUR 46 billion, EUR 117 million higher than the upward revised target.

On December 12, the legislation on APS (Hercules) was voted in the Parliament and is expected to facilitate a swift reduction of Greek banks' NPLs by approximately 40%.

On November 25, Greece completed the process for the early repayment of the most expensive part (EUR 2.7 billion) of the outstanding IMF loan.

On October 25, S&P upgraded Greece's long-term rating by one notch to 'BB-' with positive outlook. The rating agency also upgraded three Greek bank ratings by one notch to 'B'.

On October 8, the Hellenic Republic priced a EUR 1.5 billion tap of their outstanding 10-year bond issued last March at a yield of 1.5%, significantly below the rate of 3.9% of the March issue.

In its latest Economic Outlook published on November 21, OECD noted that the economic expansion in Greece is expected to continue with GDP projected to grow by 2.1% in 2020 and 2% in 2021.

In its autumn economic forecast released on November 7, EC stressed that GDP is estimated to grow by 2.3% in 2020 mainly led by a strong rebound in investment and a further increase in private consumption.

On November 15, the IMF published its Article IV Consultation report on Greece acknowledging the progress in reform implementation so far, also noting the challenges that lie ahead.

Travel receipts retained a double-digit growth rising by 16% yoy in September and by 14% to EUR 16.09 billion in the 9-month period.

Building activity rebounded for the sixth straight month with permits increasing by 8.5% in September. Apartment prices rose for the seventh successive quarter by 9.1% yoy in Q3.

Economic Analysis

GDP grows by 2.3% yoy in Q3 and 2.2% in 9-month

According to ELSTAT provisional data published on December 5, GDP grew by 0.6% qoq and by 2.3% yoy in Q3.

At the same time, ELSTAT upward revised its previously announced GDP data for Q1 and Q2, which coupled with the performance in Q3 led to an economic expansion of 2.2% in the 9-month period. The GDP performance suggests that the 2020 Budget forecast of 2% is within reach.

The yoy growth in Q3 reflects positive net exports, as exports rose by 9.5%, while imports declined by 2.9%, increase in final consumption by 0.5% and rebound in investment by 2%.

GDP components	Q3 2019		9M 2019
	q-o-q	y-o-y	y-o-y
Final Consumption	-0.4%	0.5%	0.7%
Households	0.4%	0.2%	0.2%
General Government	-6.9%	-0.5%	3.0%
Gross Capital Formation	5.7%	-5.0%	3.0%
Gross Fixed CF	-5.0%	2.0%	1.0%
Exports	4.5%	9.5%	6.6%
Goods	2.4%	6.2%	3.3%
Services	6.7%	14.5%	10.8%
Imports	0.6%	-2.9%	3.3%
Goods	-1.0%	-4.9%	2.7%
Services	8.1%	8.6%	5.9%
GDP	0.6%	2.3%	2.2%

Source: ELSTAT

It is noteworthy that real GDP amounted to almost EUR 49 billion in Q3, which is the highest reading since Q4 2011.

Parliament votes 2020 Budget

The 2020 Budget, tabled to Parliament on November 21, was voted on

December 18. It foresees an acceleration of the economic expansion supported by growth-friendly fiscal policies and implementation of structural reforms.

Specifically, GDP is set to gather pace growing by 2.8% in 2020 driven by a double-digit rebound in investment (+13.4%), higher private consumption (+1.8%) and solid export growth (+5.1%). Furthermore, the unemployment rate is forecasted to drop further by 1.8 percentage points (pp) to 15.6% in 2020, on the back of a rise in employment by 1.8%.

Macro estimates (yoy %)	2019	2020
GDP	2.0	2.8
Private Consumption	0.6	1.8
Public Consumption	1.6	0.6
Investment	8.8	13.4
Exports	4.9	5.1
Imports	4.1	5.2
HICP	0.6	0.7
Employment	2.0	1.8
Unemployment rate (%)	17.4	15.6

Source: 2020 Budget

On the fiscal front, the general government primary surplus (under the enhanced surveillance definition) is estimated to meet the fiscal target and reach 3.58% of GDP, including growth and social interventions of EUR 1.18 billion.

Having peaked at 181.2% in 2018, the debt-to-GDP ratio is projected to follow a downward trajectory, settling at 167% in 2020.

EC publishes 4th enhanced surveillance report and opinion on 2020 DBP

The fourth enhanced surveillance report, published by the EC on November 20, concluded that “Greece has taken the necessary actions to achieve its specific

reform commitments for mid-2019” adding that “further actions will be crucial to complete, and where necessary accelerate, reforms”.

The report also highlights “the efforts of the new administration over the last month to implement the commitments, in the context of advancing a broader reform agenda, and its willingness to prepare them in close cooperation with the institutions”.

On the same day, the EC published its opinion on Greece’s 2020 Draft Budgetary Plan (DBP) noting that it is compliant with the provisions of the Stability and Growth Pact and Greece is expected to meet its medium-term budgetary objective complying with the enhanced surveillance primary surplus target of 3.5% of GDP.

Eurogroup approves 2nd tranche of policy-contingent debt measures

Following a positive assessment by the European institutions that Greece has taken the necessary actions to achieve its specific reform commitments for mid-2019, the Eurogroup of December 4 approved the second set of policy-contingent debt measures worth EUR 767 million.

Those measures include the return of the SMP and ANFA income and the waiver for the step-up interest margin (for the second half of 2019) for certain EFSF loans.

The Eurogroup also mandated the European institutions to initiate technical work on the possible use of ANFA and SMP income equivalents to reduce gross financing needs or to finance mutually agreed investments, in

line with the agreed fiscal targets and the June 2018 Eurogroup statement.

State budget primary surplus at EUR 6.95 billion in 11-month, tax revenues beat target

Tax revenues outperformed target by 67 million in November, while the 11-month figure stood at almost EUR 46 billion, EUR 117 million above the upward revised target. The new target for 2019 reflects the better-than-expected budget execution and is according to 2020 budget.

Overall, the state budget primary balance recorded a surplus well above the EUR 1-billion mark for the fifth consecutive month (at EUR 1.21 billion in November) with the 11-month figure reaching EUR 6.95 billion, EUR 2.23 billion higher than (the revised) target, mostly due to lower expenditure.

Parliament votes APS (Hercules)

Following the approval by the EC of the Greek plan for an APS (Hercules), the Parliament voted the relevant legislation on December 12.

The APS provides for securitising and moving NPLs off Greek banks’ balance sheets and aims to facilitate a swift reduction of their NPL stock by around 40%.

Greece completes early repayment of EUR 2.7 billion IMF loans

Following the completion of national procedures and the ESM and EFSF governing bodies’ waiver of their rights for a proportional prepayment, the MoF announced on November 25 it completed the process for the early

repayment of the most expensive part (EUR 2.7 billion) of the outstanding IMF loan.

The transaction generates savings of around EUR 70 million in 2020, reduces the foreign exchange rate risk and improves debt sustainability, thus enhancing Greece's credibility and market confidence.

S&P upgrades sovereign and bank ratings

On October 25, S&P upgraded Greece's long-term rating by one notch to 'BB-' from 'B+', on receding budgetary risks and lifting of capital controls, while it also retained a positive outlook signifying a potential upgrade within the next twelve months.

The rating agency expects an acceleration of GDP growth from 2% in 2019 to 2.5% in 2020 and further to 2.7% in 2021 and 2.9% in 2022.

Following the sovereign rating upgrade, S&P also took various positive rating actions on Greek banks on November 8.

Specifically, the rating agency upgraded the long-term rating on Alpha, Eurobank and National by one notch to 'B' (from 'B-') with positive outlook, while also revised Piraeus' outlook to positive (from stable) affirming the 'B-' rating. The upward revisions reflect banks' improving fundamentals.

10-year bond issue at yield of 1.5%

Following the successful 7-year bond issuance of EUR 2.5 billion in mid-July, the Hellenic Republic priced a EUR 1.5 billion tap of their outstanding March 2029 issue on October 8.

The yield stood at 1.5% significantly below the respective rate of 3.9% of the March issue.

The transaction attracted strong interest with total bids in excess of EUR 5.4 billion from a high quality and diversified investor base (87.2% long-term investors and 95.3% allocated internationally).

OECD projects GDP growth of at least 2% per annum in 2020-2021

In its latest Economic Outlook published on November 21, OECD noted that the economic expansion in Greece is expected to continue with GDP forecast to grow by 2.1% in 2020 and 2% in 2021.

Key drivers of the anticipated economic recovery are low double-digit rebound in investment, continued export growth (>3%) buoyed by tourism receipts and further rise in private consumption.

OECD forecasts, yoy (%)	2019	2020	2021
GDP	1.8	2.1	2.0
Private consumption	0.6	1.8	1.4
Gov't consumption	2.3	1.1	0.7
Investment	7.3	10.3	10.0
Exports	3.9	3.6	3.0
Imports	4.0	3.1	3.6
Unemployment (%)	17.5	16.3	14.8
GG balance (% of GDP)	1.3	1.0	1.1
Debt (% of GDP)	176.9	171.9	167.3

Source: OECD

OECD also stressed that ambitious structural reforms need to continue, while the government's plan for an Asset Protection Scheme is expected to accelerate disposal of banks' non-performing loans (NPLs).

EC projects GDP growth of 2.3% in 2020, achieving fiscal targets by 2021

In its autumn economic forecast released on November 7, EC stressed that the ongoing economic recovery in Greece is likely to be supported by share gains in export market as well as by fiscal policy measures that aim to stimulate investment and reduce labour costs.

GDP is estimated to grow by 2.3% in 2020 mainly led by a strong rebound in investment (+12.5%) and a further increase in private consumption (+1.5%).

EC also stressed that Greece is expected to achieve the primary surplus target in the forecast period (i.e. until 2021) adding that the fiscal performance should facilitate a rapid reduction in debt, to 163.1% of GDP in 2021.

EC forecasts, yoy (%)	2019	2020	2021
GDP	1.8	2.3	2.0
Private consumption	0.5	1.5	1.4
Public consumption	3.4	0.3	0.1
Investment	10.1	12.5	8.1
Exports	4.3	3.4	3.0
Imports	5.1	4.0	3.0
Unemployment (%)	17.3	15.4	14.0
GG balance (% of GDP)	1.3	1.0	1.1
Debt (% of GDP)	175.2	169.3	163.1

Source: EC

IMF publishes Article IV Consultation report

On November 15, the IMF published its Article IV Consultation report on Greece acknowledging the progress in reform implementation so far, also noting the challenges that lie ahead.

The Fund welcomed the government's early policy actions as well as its commitment to pursue a growth-friendly and inclusive policy agenda. The report

also highlighted the significant importance of restoring the banking sector ability to support growth and reiterated the Fund's view for a rebalancing of the fiscal mix to strengthen growth and social inclusion.

According to the IMF projections, GDP is forecast to grow by 2.3% in 2020 and 2% in 2021 with the unemployment rate falling to 14.4% in 2021. Furthermore, debt (as % of GDP) is estimated to drop to 152% in 2024.

Double-digit growth in travel receipts in 10-month

Travel receipts grew by 4.1% yoy to EUR 1.44 billion in October, according to the Bank of Greece (BoG).

The aggregate figure for the 10-month period showed a strong rise by 13.1% to EUR 17.53 billion, mainly driven by a rise in the average expenditure per trip, while foreign arrivals increased by 3.7%.

Building activity and housing prices rebound

Building activity rebounded for the sixth successive month with permits increasing by 8.5% yoy in September. The corresponding surface and volume figures surged by 29.1% and 61.5% yoy respectively.

In the 9-month period, permits grew by 7.9%, while surface and volume increased by 5.4% and 8.8% respectively. All indications suggest that 2019 will be the third year of recovery of building activity, which rebounded in 2017 for the first time since 2005.

According to market sources, foreign demand for real estate picked up

(+25%) in 2019, mostly driven by US, German and UK investors.

Meanwhile, apartment prices increased yoy for the seventh straight quarter by 9.1% yoy in Q3 having recorded a cumulative rise by 11.5% since Q3 2017, when they bottomed out.

Appendix

Selected Economic Indicators (annual)	2015	2016	2017	2018	2019e
GDP (% , change)	-0.4	-0.2	1.5	1.9	2.0
GDP at current prices (€ million)	177,258	176,488	180,218	184,714	190,004
Primary Balance (€ million)	1,170	6,119	6,971	7,997	7,880
(as % of GDP)	0.66%	3.47%	3.87%	4.33%	4.15%
Overall Balance (€ million)	-5,111	507	1,405	1,923	2,217
(as % of GDP)	-2.88%	0.29%	0.78%	1.04%	1.17%
Gross Debt (€ million)	311,729	315,009	317,484	334,721	329,300
(as % of GDP)	175.9%	178.5%	176.2%	181.2%	173.3%
Current Account Balance (% of GDP)	-0.8	-1.7	-1.8	-2.9	na
CPI (% , average change)	-1.7	-0.8	1.1	0.6	na
HICP (% , average change)	-1.1	0.0	1.1	0.8	0.6
Unemployment rate (% , average)	24.9	23.5	21.5	19.3	17.4
Bank credit to private sector (% , change)	-2.0	-1.5	-0.8	-1.1	na

Notes

1: Primary Balance and Overall Balance under ESA-2010, excluding impact of bank support

2: 2019 figures are MoF estimates, according to 2020 Budget

Source: ELSTAT

Selected Economic Indicators (latest)	yoy (%)	Period
GDP	2.3	Q3 2019
	2.2	9M 2019
CPI	0.2	Nov 2019
	0.2	12m moving average
Industrial Production Index	-0.3	Oct 2019
	0.8	Jan-Oct 2019
Turnover Index in Industry	-7.4	Oct 2019
	0.1	12m moving average
Building Activity (permits)	8.5	Sep 2019
	7.9	Jan-Sep 2019
Turnover Index in Retail Trade	4.5	Sep 2019
	0.5	Jan-Sep 2019
Motor Vehicle Circulation Licences	12.5	Nov 2019
	12.2	Jan-Nov 2019
Residential Property Prices	9.1	Q3 2019
Unemployment (%)	16.8	Sep 2019
Confidence Indicators	pts	Period
Economic Sentiment	107.0	Nov 2019
Consumer Confidence	-6.8	Nov 2019
Industry Confidence	1.4	Nov 2019
Services Confidence	17.8	Nov 2019
PMI	54.1	Nov 2019

Source: BoG, ELSTAT, EC, Markit

Upcoming Statistical Releases

Dec 27 – Budget Execution – November (MoF)

Jan 2 – PMI – December (Markit)

Jan 3 – Bank Credit and Deposits – November (BoG)

Jan 8 – Economic Sentiment and Business Indicators (EC)

Jan 9 – Commercial Transactions – November (ELSTAT)

Jan 9 – Industrial Production – November (ELSTAT)

Jan 9 – Unemployment – October (ELSTAT)

Jan 13 – CPI – December (ELSTAT)

Jan 14 – Motor Vehicle Registration Licences – December (ELSTAT)

Jan 17 – Building Activity – October (ELSTAT)

Jan 20 – Balance of Payments – November (BoG)

Jan 20 – Turnover Index in Industry – November (ELSTAT)

Jan 21 – Travel Balance – November (BoG)

Jan 31 – Turnover Index in Retail Trade – November (ELSTAT)