



Economic Bulletin

Issue 11

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Executive Summary

The economic recovery retained its positive trajectory in the second quarter (Q2) of 2019 with GDP growing by 0.8% quarter on quarter (qoq) and 1.9% year on year (yoy), mainly led by a rebound in consumption and net exports. Recent soft data indicate that the economic expansion is expected to gather pace in the second half of the year and close around 2% for the whole year.

During his speech at the Thessaloniki International Fair (TIF), the Prime Minister announced a set of measures aiming to ease the tax burden on companies and individuals including a reduction in the corporate and dividend tax rate to 24% (from 28%) and to 5% (from 10%) respectively as well as the introduction of a new tax scale with a tax rate of 9% (from 22%) for individuals' income up to EUR 10,000. Furthermore, the Prime Minister outlined a reduction in the social security contributions by 5 percentage points (pp) for full-time employees starting from July 2020 until 2023.

Tax revenues outperformed target in July and August extending the year to date overperformance to EUR 468 million in the January to August period, mainly led by higher than expected VAT revenues. Taking into account the revenue performance so far this year and recent economic developments, the Ministry of Finance (MoF) is confident that the primary surplus target of 3.5% of GDP for 2019 will be met.

In cooperation with BoG and agreement with the European institutions, capital controls have been fully lifted as of September 1, which constitutes a significant step towards the normalisation of the domestic economy. In addition to the structural effects of normalising credit conditions, the abolition of capital controls is anticipated to have a significant signalling effect with a positive impact upon expectations and risk premia. On September 16, the MoF submitted an official request for the partial early repayment of IMF loans.

On July 16, the Hellenic Republic successfully issued a EUR 2.5 billion 7-year fixed-rate bond at a yield of 1.9%, significantly below the cost of the same term bond issued in February 2018. At the same time, the improved investor sentiment and confidence on the Greek economy's prospects has led the 10-year Greek Government Bond (GGB) yield to a new historical low of 1.4% having recorded a significant drop of around 150 basis points (bps) over the last three months.

Key Developments

The Greek economy maintained its positive momentum with GDP growing by 0.8% qoq and 1.9% yoy in Q2. An acceleration of the economic expansion is foreseen in the second half of the year.

The Prime Minister announced a series of measures to ease the tax burden on companies and individuals mainly including a reduction in the corporate and dividend tax rate and the introduction of a significantly lower tax scale for individuals' income up to EUR 10,000 (9% from 22%)

Tax revenues outperformed target in July and August as well as in the 8-month period. The state budget primary surplus amounted to EUR 2.9 billion in the January to August period overperforming the target by EUR 3.18 billion, also supported by one-off revenues of EUR 2.04 billion.

Capital controls have been fully lifted as of September 1, which constitutes a significant step towards the normalisation of the Greek economy with significant knock on effects on the economic activity. The MoF also submitted an official request for the partial early repayment of IMF loans.

On July 16, the Hellenic Republic issued a EUR 2.5 billion 7-year fixed-rate bond at a yield of 1.9%, significantly below the cost of the same term bond issued in February 2018.

The economic sentiment and consumer confidence strongly rebounded in August reaching fresh 12 and 19-year highs respectively.

The employment balance in the private sector turned positive in August for the first time for this month since 2014 pushing the 8-month net hirings to a new record high since 2001.

The positive flow in the Greek banking sector was maintained for the sixth straight month in July. On July 16, Moody's upgraded the deposit rating outlook to positive from stable on three Greek banks.

Credit expansion in the corporate sector accelerated to 2.8% yoy in July, while the cumulative net corporate lending flow has reached EUR 2.29 billion in the last nine months.

Economic Analysis

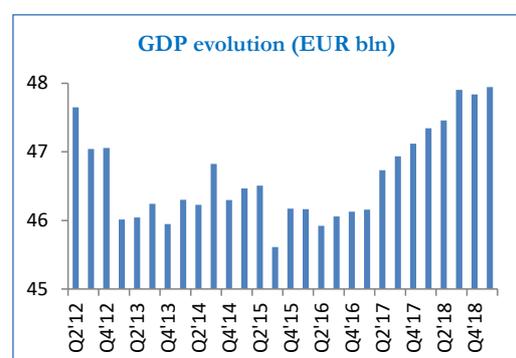
GDP growth of 1.9% yoy in Q2 2019

GDP grew by 0.8% qoq and by 1.9% yoy in Q2, according to ELSTAT figures published on September 4. The yoy economic expansion was largely driven by a rebound in final consumption by 1.2%, led by general government (+5.3%), and higher net exports. The latter reflects strong export growth of 5.4%, while imports increased at a slower pace by 3.7%.

GDP components	Q2 2019		H1 2019
	q-o-q	y-o-y	y-o-y
Final Consumption	0.7%	1.2%	0.5%
Households	-0.4%	-0.7%	-0.1%
General Government	4.3%	5.3%	1.9%
Gross Capital Formation	-5.5%	1.1%	7.6%
Gross Fixed CF	2.4%	-5.8%	0.7%
Exports	3.3%	5.4%	4.8%
Goods	4.2%	4.0%	1.8%
Services	2.8%	6.9%	8.0%
Imports	-0.8%	3.7%	6.7%
Goods	-0.9%	3.9%	6.9%
Services	1.2%	2.8%	4.5%
GDP	0.8%	1.9%	1.5%

Source: ELSTAT

Investment dropped by 5.8% yoy in Q2 mostly due to a decrease in other buildings and structures by 45.5%, also reflecting a high base effect, while transport equipment and dwellings rose by 73.6% and 19.5% respectively.



Source: ELSTAT

In absolute numbers, real GDP stood at EUR 48.31 billion in Q2, which is the highest reading since Q1 2012.

Recent soft data indicate that the economic recovery will gather pace in the second half of the year and it is expected to close around 2% for the whole year.

PM announces tax reductions

During his speech at the TIF, the Prime Minister announced a set of measures to ease the tax burden on companies and individuals.

The key measures include a reduction of the corporate tax rate to 24% (from 28%) and the tax rate on dividends to 5% (from 10%) as well as the introduction of a new tax scale with a tax rate of 9% (from 22%) for individuals' income up to EUR 10,000. In addition, the tax-free threshold will remain unchanged at current levels.

The Prime Minister also outlined a gradual decrease in the social security contributions of full-time employees by a total of 5 percentage points starting from July 2020 until 2023.

The government has already passed legislation on the reduction of the property tax (ENFIA) by 22% on average and a new instalment scheme designed to operate as a last chance for firms and individuals to clear their outstanding debts to the state and the social security funds.

Tax revenues outperform target in 8-month period

Tax revenues overachieved target by EUR 140 million cumulatively in July

and August extending the year to date overperformance to EUR 468 million in the 8-month period, the budget execution bulletin showed.

State budget net revenues stood at EUR 33.13 billion in the January to August period, EUR 2.42 billion above target, including one-off revenues of EUR 2.04 billion related to the extension of the concession agreement of the Athens International Airport (EUR 1.39 billion) and ANFA income of EUR 644 million.

Overall, the state budget primary surplus amounted to EUR 2.9 billion in the 8-month period outperforming target by EUR 3.18 billion.

Taking into account the revenue performance so far this year and recent economic developments, the MoF is confident that the primary surplus target of 3.5% of GDP for 2019 will be met.

Full lifting of capital controls

In cooperation with BoG and agreement with the European institutions, capital controls have been fully lifted as of September 1.

The restoration of capital movement constitutes a significant step towards the normalisation of the domestic economy, contributes to the establishment of confidence, investment attraction, increase in employment and further upgrade of Greece's ratings, the Finance Minister stressed during a speech at the Parliament.

In addition to the structural effects of normalising credit conditions, the abolition of capital controls is anticipated to have a significant

signalling effect impacting positively upon expectations and risk premia.

Moody's commented that that the removal of capital controls is credit positive for Greek banks, as it will strengthen depositors' confidence and help banks improve their funding profile and revenue.

On September 16, the MoF submitted an official request for the partial early repayment of IMF loans. The transaction is estimated to yield annual savings of around EUR 70 million and improve debt sustainability as well as to multiply the signalling effect of the capital controls' abolition.

7-year bond issuance at favourable yield on improved investor confidence

On July 16, the Hellenic Republic issued a EUR 2.5 billion 7-year fixed-rate bond at a yield of 1.9%, significantly below the cost of the same term bond issued in February 2018.

The transaction attracted a high quality and diversified investor base (90% long-term investors and 84% allocated internationally) with total bids from more than 335 investors exceeding EUR 13 billion.

At the same time, the improved investor sentiment and confidence on the prospects of the Greek economy has led the 10-year GGB yield to a new all-time low of 1.4% having recorded a notable drop of around 150 bps over the last three months.

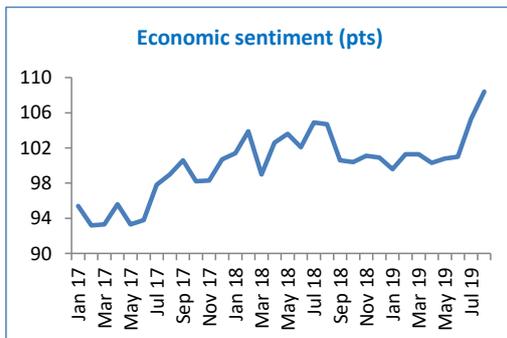


Source: Bloomberg

Strong improvement in economic sentiment and consumer confidence in August

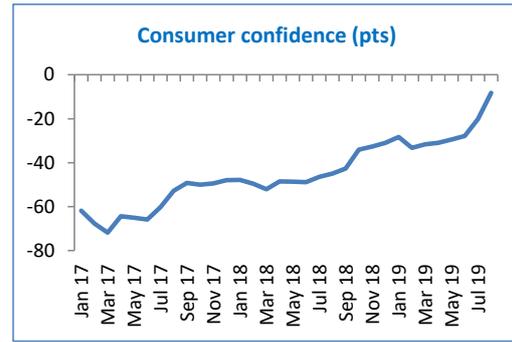
The economic sentiment (ESI) rose further by 3.1 pts mom to 108.4 in August, which is a fresh high since November 2007. The increase in August follows a strong improvement by 4.3 pts mom in July pushing the cumulative rise to 7.4 pts in the last two months.

In addition, the Greek ESI stayed above the respective euro area index for the second straight month in August.



Source: EC

Three of the five business confidence indicators incorporated in the ESI improved in August with the most notable performance recorded by consumer confidence, which surged by 12 pts mom to -8.2, which is the highest reading since September 2000.



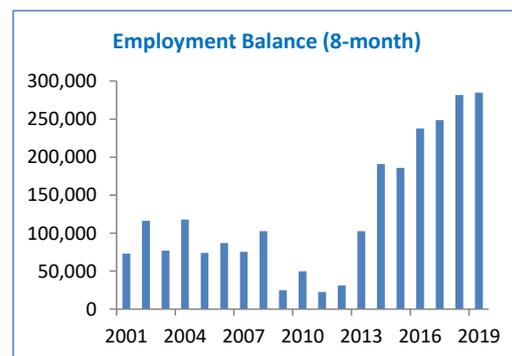
Source: EC

Significant increases were also posted by retail trade (+8.9 pts) and services (+6.7 pts).

Private-sector employment balance records fresh high in 8-month period

The employment balance (hirings minus exits) in the private sector turned positive in August with net hirings reaching 3,111, according to the Ministry of Labour database (ERGANI). This year's figure is the first positive figure for August since 2014.

The aggregate data for the 8-month period show that net hirings increased by 1.1% yoy to 284,886, which is new record figure for this period since 2001.



Source: ERGANI

Meanwhile, the unemployment rate continued its downward trend falling to 17% in June, its lowest level since May 2011.

Over the last twelve months, the unemployment rate has dropped by 2.1

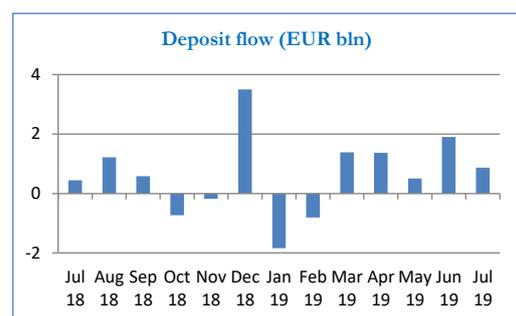
pp reflecting an increase in employment by 2.1%.

Positive deposit flow for the fifth successive month in July

The positive deposit flow in the Greek banking system was maintained for the fifth straight month with private non-financial sector inflows reaching EUR 869 million in July.

Specifically, households and non-financial corporations recorded a positive flow of EUR 534 and 335 million respectively in July.

Over the last twelve months, deposit inflows have amounted to EUR 7.76 billion, of which the bulk (more than 88%) stemmed from households.



Source: BoG

On July 16, Moody's upgraded the deposit rating outlook to positive from stable on Alpha, Eurobank and National Bank.

“The rating action was primarily driven by our expectation of further improvement in asset quality, funding and profitability in 2019-20 benefiting from a more supportive operating environment”, Moody's noted.

Credit expansion in the corporate sector accelerates to 2.8% yoy in July

Bank of Greece (BoG) data show that credit expansion in the corporate sector accelerated to 2.8% yoy in July from 2.2% yoy in the previous two months.

Furthermore, the positive net corporate lending flow of around EUR 1 billion in the first seven months of the year is the highest reading for this period since 2010.

Overall, net loan additions in the corporate sector amounted to EUR 2.29 billion in the last nine months (November 2018 – July 2019). Credit expansion reflects companies' increased loan demand coupled with banks' improved funding conditions with a gradual positive impact on the economic recovery and market liquidity.

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	1.9	Q2 2019
	1.5	H1 2019
CPI	-0.2	Aug 2019
	0.6	12m moving average
Industrial Production Index	-2.1	Jul 2019
	0.8	Jan-Jul 2019
Turnover Index in Industry	4.3	Jul 2019
	4.7	12m moving average
Building Activity (permits)	4.7	Jun 2019
	1.0	Jan-Jun 2019
Turnover Index in Retail Trade	2.3	Jun 2019
	-0.2	Jan-Jun 2019
Motor Vehicle Circulation Licences	20.2	Aug 2019
	12.0	Jan-Aug 2019
Residential Property Prices	7.7	Q2 2019
Unemployment (%)	17.0	Jun 2019
Confidence Indicators	pts	Period
Economic Sentiment	108.4	Aug 2019
Consumer Confidence	-8.2	Aug 2019
Industry Confidence	0.6	Aug 2019
Services Confidence	28.8	Aug 2019
PMI	54.9	Aug 2019

Source: BoG, ELSTAT, EC, Markit

Upcoming Statistical Releases

Sep 20 – Balance of Payments – July (BoG)

Sep 23 – Travel Balance – July (BoG)

Sep 25 – Budget Execution – August (MoF)

Sep 25 – Bank Credit and Deposits – August (BoG)

Sep 27 – Economic Sentiment and Business Indicators – September (EC)

Sep 30 – Turnover Index in Retail Trade – July (ELSTAT)

Oct 1 – PMI – September (Markit)

Oct 8 – Commercial Transactions – August (ELSTAT)

Oct 9 – Motor Vehicle Registration Licences – September (ELSTAT)

Oct 10 – Industrial Production – August (ELSTAT)

Oct 10 – Unemployment – July (ELSTAT)

Oct 10 – CPI – September (ELSTAT)

Oct 11 – Building Activity – July (ELSTAT)