HELLENIC REPUBLIC
Ministry of Finance
Council of Economic Advisors

ISSUE 3 | JULY 10, 2018

Economic Bulletin

Executive Summary

On June 22, the Eurogroup ratified the completion of all prior actions related to the fourth and final programme review and approved the disbursement of the fifth tranche amounting to EUR 15 billion earmarked for debt servicing and building up of the cash buffer. The Eurogroup also agreed on the implementation of significant medium and long-term debt relief measures to safeguard the sustainability of the Greek debt.

On June 25, S&P upgraded Greece's rating by one notch to 'B+' with a stable outlook on reduced sovereign debt servicing needs in the aftermath of the Eurogroup decisions. On similar grounds, on June 29, DBRS upped Greece's rating to B (high) and maintained the positive trend.

The Greek economy expanded at a faster pace by 2.3% year on year (yoy) in Q1, which is the highest reading since Q1 2008. Furthermore, GDP grew quarter on quarter (qoq) for a fifth consecutive quarter by 0.8%.

The general government primary surplus in 2017 climbed to 4.24% of GDP, under the programme definition[1], 2.5 percentage points (pp) above the programme target of 1.75% of GDP. As the largest portion of the over-performance is of permanent nature, it is expected to also support the fiscal outturn in 2018 and beyond.

On a "no policy change" basis, the Medium-Term Fiscal Strategy (MTFS) 2019-2022 forecasts that the primary surplus will exceed the programme target of 3.5% of GDP throughout the period and climb up to 5.2% by 2022. The resulting fiscal space (i.e. over-performance against targets) will be used for permanent reduction in taxes and an increase in targeted social expenditure.

1. The programme 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 Eurogroup of June 22 ratified the completion of the fourth review prior actions and approved the disbursement of the fifth tranche amounting to EUR 15 billion for debt servicing and building up of cash buffer. The Eurogroup also endorsed the implementation of significant medium and long-term debt relief measures.

On June 25 and 29 respectively, S&P and DBRS upgraded Greece's rating by one notch following the Eurogroup decisions.

The Greek GDP grew at an accelerated pace by 2.3% yoy and by 0.8% qoq in Q1 mainly due to a strong rise of exports.

The over-performance of the general government primary surplus in 2017 reflects mainly an increase in revenues from social security contributions due to higher than anticipated employment growth, an increase in tax compliance as a result of non-cash payments as well as an under-execution of the Public Investment Budget (PIB).

The MTFS 2019-2022 projects a primary surplus of 3.56% of GDP in 2018 increasing thereafter up to 5.19% by 2022. The debt ratio is expected to drop by almost 33 percentage points to 150.3% in 2022.

The new OECD Economic Survey of Greece stresses that economic recovery is gaining traction, fiscal credibility has improved and well-targeted social programmes will enhance social inclusion.

The latest Parliamentary Budget Office (PBO) quarterly report highlights the positive prospects and challenges ahead, while also underscores the need for a long-term strategic plan on fiscal stability to be put in public debate to ensure a minimum consensus.

The continued improvement in employment resulted in an increase of 22.9% yoy in net jobs to a new record high of 264,551 for the 5-month period of 2018.

The state budget primary surplus stood at EUR 1.53 billion in the 5-month period overshooting the target by EUR 1.35 billion, mainly on the back of higher ordinary budget and PIB revenues.

Deposits in Greek banks increased by EUR 919 million in May, mostly reflecting a positive flow from non-financial corporations.

The 10-year Greek government bond (GGB) yield hovers at around 4%.

Economic Analysis

Eurogroup ratifies completion of fourth review prior actions, approves fifth tranche disbursement and decides significant debt relief measures

The Eurogroup held on June 21-22 ratified the completion of all prior actions related to the fourth and final programme review and approved the disbursement of the fifth tranche amounting to EUR 15 billion, paving the way for the successful conclusion of the programme in August.

Out of this amount, EUR 5.5 billion are earmarked for debt servicing and the remaining EUR 9.5 billion will be used to build up cash buffers allowing Greece to manage its debt profile over the coming years. As a result, the total cash buffer will reach EUR 24.1 billion covering Greece's financial needs for around 22 months after the end of the programme in August.

In addition, the Eurogroup agreed on the implementation of a number of medium and long-term debt relief measures to safeguard Greece's debt sustainability. For the medium term, those measures include a 10-year deferral of interest and amortisation and a 10-year maturity extension of the outstanding EFSF loans (EUR 96.9 billion), the abolition of the step-up interest rate margin on the debt buy-back tranche of the second programme as of 2018 and the return to Greece of the SMP and ANFA profits (about EUR 5.8 billion) on a semi-annual basis starting in 2018.

According to the Public Debt Management Agency (PDMA), the agreed measures are expected to result in a decline of the debt/GDP ratio to 128% in 2032, while the overall reduction is estimated at 30 pp in 2060.

Furthermore, Gross Financing Needs (GFN) are projected to be reduced by 2.7 pp of GDP to 10.6% of GDP on average over the 2018-2032 period.

The Eurogroup will review at the end of EFSF grace period in 2032, whether additional debt measures are needed to ensure the respect of the agreed GFN targets and take appropriate actions, if needed.

It is noted that earlier, on June 14, the BoD of the ESM approved the disbursement of the second sub-tranche of the fourth tranche worth EUR 1 billion for arrears' clearance. The disbursement was subject to a positive assessment by the European institutions of net arrears clearance and effectiveness of the e-auctions system.

S&P and DBRS upgrade Greece's rating by one notch

In an unexpected move, as the scheduled rating review was due on July 20, S&P upgraded on June 25 Greece's rating by one notch to 'B+' from 'B' with a stable outlook on reduced debt servicing risks in view of the Eurogroup decisions.

The rating agency highlighted the substantial cash buffer approved by the Eurogroup, which reduces the government's refinancing needs and increases the possibility of market access at more favourable terms, also for the banking sector.

Following the sovereign rating upgrade, S&P also upped on July 3 the four Greek systemic banks' short- and long-term ratings by one notch to 'B-/B' with stable outlooks.

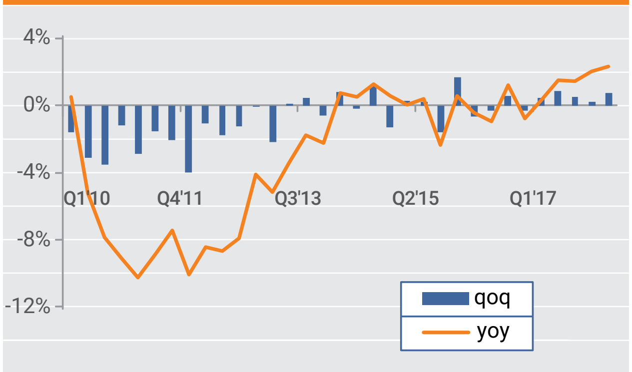
DBRS also proceeded to an extraordinary review on June 29 upgrading Greece's rating by one notch to B (high) from B and maintained the positive trend.

The upward revision was underpinned by Eurogroup's decisions on the debt relief measures and the clarification on the size of the liquidity backstop.

GDP grows at an accelerated pace by 2.3% yoy in Q1

GDP rose at an accelerated pace by 2.3% yoy in Q1 following an upward revised growth rate of 2% in Q4 2017. The headline figure for Q1 is the highest reading since Q1 2008.

GDP GROWTH



Source: ELSTAT

The economic expansion is largely due to a strong rise of exports by 7.6% and a decline of imports by 2.8%.

Moreover, GDP grew for a fifth successive quarter by 0.8% qoq in Q1, at a faster rate compared to the upward revised increase by 0.2% in the previous quarter.

The continued qoq improvement reflects a rebound of exports (+1.4%) and household consumption (+0.3%).

Drivers of 2017 primary surplus over-performance

According to the programme definition, the general government primary surplus reached EUR 7.53 billion or 4.24% of GDP, well above the programme target of 1.75%. The fiscal outturn confirmed that 2017 was another year of credible fiscal management.

The fiscal over-performance of 2017 is to a large extent the result of permanent factors and to a lesser extent the result of one-off factors. Among the permanent factors, it stems from an increase in revenues from social security contributions due to higher than expected employment growth and an increase in tax compliance as a result of non-cash payments.

Specifically, social contributions increased by 4.9% yoy to EUR 20.84 billion, mostly on the back of a solid growth in employment (+2.1% yoy) with a positive contribution to the social security funds' surplus of EUR 2.94 billion. Furthermore, increased tax compliance and non-cash payments led the transaction taxes (mainly VAT) up by 5.9% yoy to EUR 16.39 billion.

MTFS 2019-2022

The MTFS 2019-2022, voted by Parliament on June 14, forecasts that, with no further policy changes, the primary surplus will exceed the programme target in 2018, while a stronger over-performance is expected in each of the following years up to 2022.

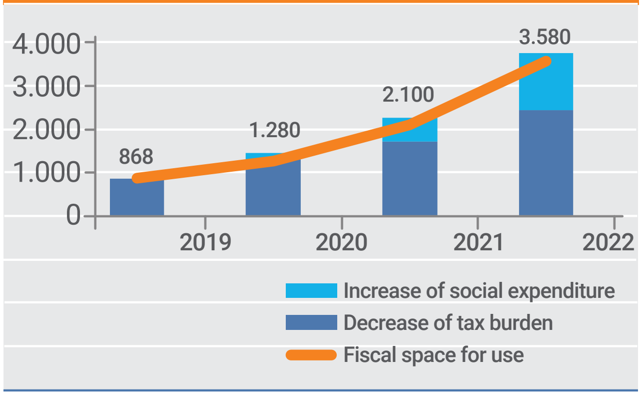
Specifically, the primary surplus is projected at 3.56% of GDP in 2018 gradually increasing to 3.96% in 2019, 4.15% in 2020, 4.53% in 2021 and 5.19% in 2022.

Year	Primary surplus	Fiscal space	Debt
2018	3.56	0.06	183.1
2019	3.96	0.46	170.4
2020	4.15	0.65	161.4
2021	4.53	1.03	153.1
2022	5.19	1.69	150.3

Note: All figures as % of GDP
Source: MTFS

The resulting fiscal space (i.e. over-performance against targets) stands at EUR 868 million in 2019 expanding to EUR 1.28 billion in 2020 and further to EUR 2.1 billion in 2021 and to EUR 3.58 billion (1.69% of GDP) in 2022.

Use of Fiscal Space (EUR m)



Source: MTFS

Policy intention is to use the available fiscal space for the adoption of permanent tax reduction, aiming to increase households' disposable income and strengthen the companies' competitiveness, as well as of targeted increase in primary expenditure aiming to a sustainable reduction in unemployment, tackling of child poverty and investing in human capital.

Specifically, EUR 868 million of the fiscal space in 2019 and 75% of the incremental fiscal space in 2020 will be used for tax reduction with the remaining 25% allocated to social spending. The incremental fiscal space in the next two years (2021-2022) will be equally split between tax reduction and increase in social expenditure.

The MTFS also forecasts a sharp drop in the debt-to-GDP ratio to 150.3% in 2022, down by around 33 pp from its peak of 183.1% in 2018.

According to the updated macroeconomic forecasts included in the MTFS, the Greek economy is expected to recover by 2% in 2018 with real GDP growth accelerating to 2.4% in 2019 and to 2.3% in 2020 bolstered by a rebound in private consumption, a boost in investment and positive net exports.

OECD upbeat on Greek economic prospects

Economic recovery is gaining traction, fiscal credibility has improved, while well-targeted social programmes will enhance social inclusion and intergenerational equity according to the key messages included in the latest OECD Economic Survey on Greece.

Specifically, OECD stresses that the impressive fiscal policy track record has rebuilt fiscal credibility, dispelled uncertainty and contributed to a significant decline of the government bond yields. Structural and social policy reforms, on the other hand, have improved growth prospects and better support for low-income households, while labour and product market reforms are restoring competitiveness and generating jobs.

The report also highlights a number of challenges such as keeping the reform momentum and strengthening the reform ownership, improving debt sustainability through pro-growth reforms and appropriate debt restructuring, reducing poverty among families with children as well as boosting investment and tackling non-performing loans.

Following a rebound by 1.4% in 2017, OECD projects real GDP growth to accelerate to 2% in 2018 and further to 2.3% in 2019, on the back of an improvement in business investment, increased competitiveness and expanding employment.

yoy (%)	2017	2018	2019
GDP	1.3	2.0	2.3
Private consumption	0.1	0.4	1.5
Gov't consumption	-1.2	0.7	1.5
Investment	9.7	7.9	8.1
Exports	6.9	5.9	4.4
Imports	7.5	4.1	4.6
Unemployment (%)	21.5	20.4	19.4
GG balance (% of GDP)	0.8	0.5	0.4
Debt (% of GDP)	175.8	172.5	168.3

Source: OECD

PBO highlights positive prospects and challenges ahead, calls for long-term plan with minimum consensus

The positive economic and fiscal prospects along with a number of risks and challenges are highlighted in the latest PBO quarterly report.

The PBO expects GDP growth to accelerate close to 2% in 2018 and estimates that the fiscal target is within reach.

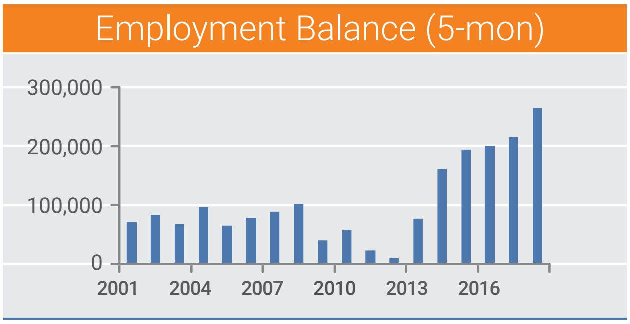
With regards to the post-programme surveillance framework the PBO stressed that strict conditionality must be avoided as it would undermine market access.

The report also underscores the need for a long-term strategic plan to be put into public debate to ensure a minimum consensus with the goal to maintain fiscal stability with the maximum attention, responsibility and transparency in the management of public finances.

Employment balance reaches new record high in 5-month

The employment balance (hirings minus exits) remained positive in the 5-month period, according to ERGANI database. Moreover, net jobs increased by 22.9% yoy to 264,551, which represents a new high for this period since 2001 and a significant improvement compared to the previous record of 2017.

In May in particular, net jobs rose by 21.4% yoy to 108,725, while the biggest contribution to employment was recorded in the sectors of accommodation, catering and retail trade.



Source: ERGANI

The unemployment rate fell markedly by 0.5 pp from the previous month (mom) and by 2 pp yoy to 20.1% in March, which is the lowest reading since September 2011.

State budget primary surplus significantly overshoots target in 5-month

According to the state budget execution data the primary surplus (on a modified cash basis) reached EUR 1.53 billion in the 5-month period, over-performing the target by EUR 1.35 billion.

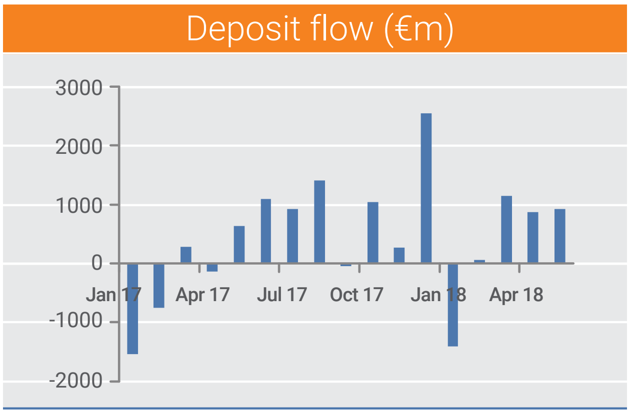
The better than expected outturn reflects higher ordinary budget and PIB revenues.

Specifically, tax revenues rebounded by 2.5% yoy to EUR 16.15 billion, EUR 198 million higher than the target, while primary expenditure stayed almost flat yoy at EUR 16.1 billion in line with the target.

Deposit inflows of EUR 919 million in May

The private-sector deposits at Greek banks rose for a fourth successive month by EUR 919 million in May after increasing by EUR 870 million in April.

The positive flow in May mainly stemmed from non-financial corporations (EUR 747 million) also supported by households (EUR 283 million), while insurance companies recorded outflows of EUR 221 million.



Source: BoG

Since the end of 2016, deposits have risen by EUR 7.32 billion on the back of improved depositor sentiment and largely reflected a positive flow from households (EUR 4.36 billion) and to a lesser extent from non-financial corporations (EUR 2.35 billion).

10-year GGB yield hovers at around 4%

Volatility has prevailed in the European bond markets over the past weeks, while this trend is expected to continue in the near future.

Despite the volatile market conditions, the 10-year GGB yield hovers at around 4%, while the 5-year yield stands close to 3%.

Appendix

Selected Economic Indicators (annual)	2013	2014	2015	2016	2017
GDP (%, change)	-3.2	0.7	-0.3	-0.2	1.4
GDP at current prices (€ million)	180,654	178,656	176,312	174,199	177,735
Primary Balance (€ million)	2,947	502	1,104	6,358	7,029
(as % of GDP)	1.6%	0.3%	0.6%	3.6%	4.0%
Overall Balance (€ million)	-4,328	-6,596	-5,148	743	1,403
(as % of GDP)	-2.4%	-3.7%	-2.9%	0.4%	0.8%
Gross Debt (€ million)	320,509	319,629	311,724	315,009	317,407
(as % of GDP)	177.4%	178.9%	176.8%	180.8%	178.6%
Current Account Balance (% of GDP)	-2.0	-1.6	-0.2	-1.1	-0.8
CPI (%, average change)	-0.9	-1.3	-1.7	-0.8	1.1
HICP (%, average change)	-0.9	-1.4	-1.1	0.0	1.1
Unemployment rate (%, average)	27.5	26.5	24.9	23.5	21.5
Bank credit to private sector (%, change)	-3.9	-3.1	-2.0	-1.5	-0.9

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

Source: ELSTAT

Selected Economic Indicators (latest)	yoy (%)	Period
GDP	2.3	Q1 2018
	1.4	2017
CPI	0.6	May 2018
	0.6	12m moving average
Industrial Production Index	1.9	Apr 2018
	0.0	Jan-Apr 2018
Turnover Index in Industry	6.7	Apr 2018
	7.6	12m moving average
Building Activity (permits)	-2.3	Mar 2018
	6.5	Jan-Mar 2018
Turnover Index in Retail Trade	0.8	Apr 2018
	0.3	Jan-Apr 2018
Motor Vehicle Circulation Licences	18.7	May 2018
	28.9	Jan-May 2018
Residential Property Prices	-0.2	Q1 2018
Unemployment (%)	20.1	Mar 2018
Confidence Indicators	**pts**	**Period**
Economic Sentiment	102.5	Jun 2018
Consumer Confidence	-52.4	Jun 2018
Industry Confidence	-1.6	Jun 2018
Services Confidence	21.0	Jun 2018
PMI	53.5	Jun 2018

Source: BoG, ELSTAT, EC, Markit

Upcoming Statistical Releases

Jul 10
Industrial Production
May (ELSTAT)

Jul 10
Motor Vehicle Registration Licences
June (ELSTAT)

Jul 10
CPI
June (ELSTAT)

Jul 12
Building Activity
April (ELSTAT)

Jul 12
Unemployment
April (ELSTAT)

Jul 16
Budget Execution (preliminary)
June (MoF)

Jul 20
Turnover Index in Industry
May (ELSTAT)

Jul 21
Balance of Payments
May (BoG)

Jul 22
Travel Balance
May (BoG)

Jul 24
Budget Execution
June (MoF)

Jul 25
Bank Credit and Deposits
June (BoG)

Jul 30
Economic Sentiment and Business Indicators
July (EC)

Jul 31
Turnover Index in Retail Trade
May (ELSTAT)

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