HELLENIC REPUBLIC
Ministry of Finance
Council of Economic Advisors

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Economic Bulletin

Executive Summary

The 2019 Budget was voted on December 18. The Budget projects a general government primary surplus of 3.6% of GDP, under the enhanced surveillance definition[1], fully in line with the fiscal target of 3.5%. It also includes a package of discretionary fiscal interventions of 0.5% of GDP to be implemented in 2019. These measures aim at shifting the policy mix towards more growth-friendly and socially inclusive policies and include reductions in taxes and social security contributions as well as targeted social spending. The Budget also foresees the non-implementation of the 2017 pre-legislated fiscal package, including the pre-legislated pension cuts.

On November 21, the European Commission (EC) published its opinion on Greece's Draft Budgetary Plan (DBP) for 2019, confirming that the DBP is fully compliant with the provisions of the Stability and Growth Pact (SGP) and that Greece is projected to meet the 3.5% of GDP primary surplus target.

In its first quarterly report on Greece in the context of the enhanced surveillance, the EC noted that the envisaged fiscal interventions for 2019 constitute a balanced approach to meet the agreed fiscal and economic targets while fostering social inclusion. It also stressed that the implementation of the pre-legislated pension cuts is not necessary, neither to reach nor to sustain a primary surplus of 3.5% of GDP over the medium term.

The economic recovery retained its positive momentum with GDP expanding at an accelerating pace by 2.2% year on year (yoy) in Q3, from 1.7% yoy in Q2, mainly led by a rebound in household consumption and continued growth in exports. Overall, the Greek economy recovered by 2.1% in the 9-month period.

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 general government primary surplus (under the enhanced surveillance definition) is expected to reach 3.6% of GDP in 2019. The Budget also envisages the implementation of a package of expansionary fiscal interventions of 0.5% of GDP in 2019.

The Budget foresees the non-implementation of the pre-legislated pension cuts. As also noted by the EC, the measure is not necessary, neither to reach nor to sustain a primary surplus target of 3.5% of GDP over the medium term. At the same time, the cuts do not constitute a structural measure and, therefore, will not contribute to the long-term sustainability of the pension system, which is ensured by the comprehensive pension reform introduced in 2016.

The EC opinion on Greece's DBP confirmed that it is compliant with the provisions of the SGP and with the 3.5% of GDP primary surplus target. The first enhanced surveillance quarterly report concluded that the pace of implementation of a significant number of reforms is broadly on track, while in some reforms there are delays that need to be addressed.

GDP grew by 2.2% yoy in Q3 with the 9-month figure pointing to an economic expansion of 2.1%.

On November 22, the BoD of the EFSF approved the implementation of the medium-term debt relief measures, which are expected to ensure debt sustainability.

In its latest Economic Outlook, the OECD forecasts an economic expansion of at least 2% per annum in 2018-2020 led by a recovery of household consumption and investment coupled with strong export growth.

ELSTAT slightly revised upwards the GDP growth in 2017 to 1.5% from 1.4%, largely due to higher household consumption to 0.9% to 0.1%. Household consumption growth remained robust in the first three quarters of 2018 and is expected to be one of the key drivers of growth going forward.

According to ELSTAT, the general government primary surplus, according to the programme definition, stood at 4.14% of GDP in 2017 with the debt-to-GDP ratio settling at 176.1%.

Exports retained their positive momentum increasing at a double-digit pace by 17.6% in the 10-month period.

Travel receipts rose by 9.1% to EUR 14.21 billion in the 9-month period reflecting a similar increase in foreign arrivals.

The MoF proceeded to further easing of capital controls as of October 1, abolishing the cash withdrawal limit in Greece and increasing the limit for cash withdrawal and money transfer abroad. Moody's assessed that this is credit positive for banks.

Economic Analysis

Parliament votes 2019 Budget

The 2019 Budget was tabled in Parliament on November 21 and voted on December 18.

The solid fiscal outcome in 2015-2018 and the improved macroeconomic outlook allow for a shift towards a new fiscal policy mix aiming at enhancing households' disposable income, supporting sustainable growth and improving social protection.

Therefore, the MoF included in the 2019 Budget a number of fiscal interventions for 2019, which are fully consistent with the agreed fiscal targets.

Those interventions incorporate the non-implementation of the pension reductions (EUR 2.07 billion) and the counterbalancing measures (excluding family allowances, which have already been implemented) of EUR 1.73 billion that were pre-legislated in 2017. They also envisage a change in the fiscal policy mix through a fiscal package of 0.5% of GDP, including the implementation of some of the counterbalancing measures.

The revenue interventions include the reduction of: (i) the corporate income tax rate from 29% to 25% over a four-year period starting from 2019, (ii) the tax rate on dividends from 15% to 10%, (iii) the ENFIA property tax by 10% on average and (iv) the social security contributions (SSC) for the self-employed and farmers by 1/3.

On the expenditure side, the interventions include the introduction of a well-targeted housing allowance, a subsidy of young employees' SSC and the strengthening of the Special Education and Help at Home programs.

Taking into account the above interventions, the general government primary surplus (under the enhanced surveillance definition) is projected at 3.6% of GDP in 2019 above the fiscal target of 3.5% of GDP.

Following a temporary pickup in 2018, due to the creation of a sizeable cash buffer, the general government debt is estimated to drop by almost 13 percentage points to 167.8% of GDP in 2019 from 180.4% in 2018.

Pension system on a sustainable path, curtailing existing pensions neither structurally nor fiscally necessary

The pension reform implemented in 2016 ensures the long-term sustainability of the pension system and delivers savings of 2.8% of GDP by 2020.

In May 2017 and in the context of the second review of the ESM programme, the Greek Parliament adopted a pre-legislated fiscal package to be implemented in 2019. This included pension reductions that would deliver net annual savings of 1% of GDP in 2019-2022 and targeted spending measures matching the yield from the pension cuts. The implementation of the latter was contingent on the achievement of the fiscal targets.

The objective of the pre-legislated pension cuts was to safeguard the achievement of the fiscal targets in the medium term, also taking into account the fact that, at that time, the IMF projected a primary surplus of only 1.5% of GDP for 2019-2022.

Contrary to the comprehensive pension reform, the pre-legislated pension cuts did not constitute a structural measure, as these would have applied only to pensioners that retired before 2017 and would have delivered average gross annual savings of less than 1% of GDP in the medium-term, falling below 0.1% of GDP before 2040.

Taking into account its strong track record, characterized by a significant over-performance relative to its fiscal targets in 2015-2018, as well as its macroeconomic and fiscal outlook, Greece is on track to meet its medium-term fiscal targets without further fiscal consolidation.

EC publishes its opinion on DBP and its first quarterly enhanced surveillance report

On November 21, the EC published its opinion on the Greek DBP stressing that it “is compliant with the provisions of the Stability and Growth Pact”. EC also added that “Greece is considered to comply with the 3.5% of GDP primary surplus target monitored under the enhanced surveillance framework”.

On the same day, the EC also published its first quarterly report on Greece in the context of the enhanced surveillance, following a joint mission by the institutions to Athens in mid-September.

The report highlights that the final package, including a number of discretionary measures, incorporated in the DBP is a “balanced approach to meet agreed fiscal and economic goals in a manner that is also supportive of social inclusion”. It also stressed that the implementation of the pre-legislated pension cuts “is not needed, neither to reach nor to sustain a primary surplus target of 3.5% of GDP over the medium-term”.

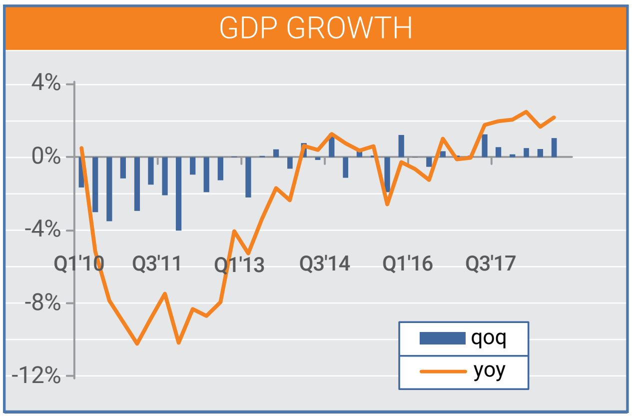
Real GDP growth is forecast to strengthen to 2.2% in 2019 and to 2.3% in 2020 up from the previous projections of 2% in both years included in EC’s autumn economic forecasts, which were based on a no-policy change assumption.

The EC concludes that the pace of implementation of the 16 specific reform commitments to be achieved by the end of the year are progressing, despite some delays.

The report also outlines that a technical update of June 2018 Debt Sustainability Analysis (DSA) shows that the sustainability of Greece’s debt has remained broadly unchanged with gross financing needs (GFN) hovering around 10% of GDP until 2032 increasing thereafter up to 17.7% of GDP in 2060.

GDP expands at an accelerating pace by 2.2% in Q3

The economic recovery accelerated in Q3 with GDP expanding by 2.2% yoy, from a rise of 1.7% yoy in Q2, mainly led by a recovery in household consumption (+0.7%) and strong exports (+7.6%).



Source: ELSTAT

At the same time, gross fixed capital formation dropped by 23.2% yoy entirely due to a decline in ‘other buildings and structures’ attributed to a high base effect, while most of the other investment categories posted a double-digit increase.

Overall, GDP grew by 2.1% in the 9-month period, largely on the back of a rise in household consumption by 0.8% and an increase in exports by 8.4%.

GDP components	Q3 2018		9M 2018
	q-o-q	y-o-y	y-o-y
Final Consumption	-0.2%	-0.3%	0.1%
Households	-0.1%	0.7%	0.8%
General Government	2.4%	-4.1%	-3.0%
Gross Capital Formation	15.6%	42.2%	1.5%
Gross Fixed CF	-14.5%	-23.2%	-6.2%
Exports	2.8%	7.6%	8.3%
Goods	1.0%	7.9%	8.6%
Services	3.8%	8.0%	8.3%
Imports	7.5%	15.0%	3.1%
Goods	8.3%	15.0%	0.6%
Services	2.2%	16.0%	14.6%
GDP	**1.0%**	**2.2%**	**2.1%**

Source: ELSTAT

EFSF approves medium-term debt relief measures

On November 22, the BoD of the EFSF approved the implementation of the medium-term debt relief measures endorsed by the Eurogroup of June 22.

The measures include the further deferral of interest and amortisation by 10 years of the EFSF loans (EUR 96.4 billion), the extension of the maximum weighted average maturity of the above-mentioned loans by 10 years and the conditional abolition of the step-up interest rate margin related to the debt buy-back instalment from 2018 onwards.

As a result, Greece will start repaying most of its EFSF loans after 2033 and the new weighted average loan maturity will be 42.5 years.

OECD forecasts, yoy (%)	2018	2019	2020
GDP	2.1	2.2	2.1
Private consumption	1.1	1.2	1.3
Gov't consumption	0.5	1.2	1.2
Investment	2.4	8.8	7.6
Exports	7.7	4.7	2.7
Imports	3.5	5.0	3.0
Unemployment (%)	19.5	18.1	17.0
GG balance (% of GDP)	0.3	0.1	0.3
Debt (% of GDP)	172.8	168.9	164.5

Source: OECD

OECD updated estimates point to continued recovery

In its latest Economic Outlook on Greece published on November 21, OECD noted that the recovery continues led by strong growth in exports, while the recovery of household consumption and investment will gather pace and increase their contribution to growth.

OECD expects an economic expansion of at least 2.1% per annum in 2018-2020. Specifically, GDP is projected to increase by 2.1% in 2018, by 2.2% in 2019 and by 2.1% in 2020.

OECD also stressed that the reductions in the corporate, dividend and property taxes as well as in SSC are resulting in a more supportive fiscal policy. Furthermore, the continued implementation of the government's reform programme and the improvement in the spending mix are expected to support the recovery and the stability of public finances.

ELSTAT revises upward 2017 GDP growth, keeps 2017 primary surplus broadly unchanged

Real GDP growth in 2017 was revised upwards to 1.5% in the 2nd estimate of the Annual National Accounts published by ELSTAT on October 17 compared to its initial estimate of 1.4% released in March.

The upward revision of 2017 output growth largely reflects significantly higher household consumption than previously thought (0.9% from 0.1%). Household consumption growth remained robust in the first three quarters of 2018 and is expected to be one of the key drivers of growth going forward.

The primary surplus (under ESA-2010, excluding bank support) in 2017 remained broadly unchanged at EUR 6.96 billion or 3.9% of GDP, according to ELSTAT/Eurostat 2nd notification data. The new figure is 0.1 percentage point (pp) lower than the figure released in April, fully due to the upward revision of the denominator (GDP).

According to the programme definition the primary surplus stood at 4.14% of GDP in 2017.

Furthermore, although 2017 general government debt remained stable at EUR 317.41 billion, the debt-to-GDP ratio was lowered by 2.5 pp (compared to the April figure) to 176.1%, the decline being entirely attributed to the GDP revision.

Exports rise at double-digit pace by 17.6% in 10-month period

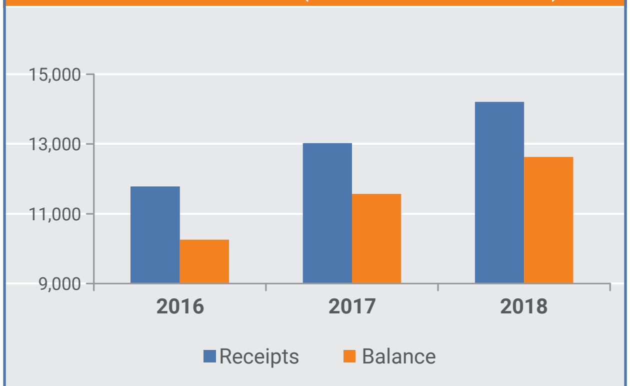
Exports retained their strong momentum increasing by 24% yoy in October. In the 10-month period, exports also grew at a double-digit rate by 17.6% and outpaced imports (+10.5%).

Most sectors posted a solid rise in the 10-month period with the most significant increases in animal and vegetable oils and fats (+40.3%), fuels (+31.6%), manufactured goods (+14.6%), machinery and transport equipment (+13.9%) and chemical products (+13.2%).

Travel receipts increase by 9.1% in 9-month period

Travel receipts recorded a solid growth rising by 9.1% to EUR 14.21 billion in the 9-month period.

Travel services (9-month, EUR m)



Source: BoG

This strong increase reflects a double-digit rise in foreign arrivals by 10.3% to almost 26 million. The highest growth rates were posted by visitors from Germany (+25.1%) and the US (+19%).

Taking into account the change in travel payments, the travel surplus grew by 9.1% to EUR 12.62 billion in the January to September period supporting economic recovery.

MoF further eases capital controls

Following a previous decision announced at the end of May, the MoF proceeded to further relaxation of capital controls on September 27 by abolishing the monthly cash withdrawal ceiling (previously at EUR 5,000), allowing cash withdrawals abroad up to EUR 5,000 per month and increasing the limit for cash transfer abroad to EUR 10,000 (from EUR 3,000 before) per individual, per trip.

Furthermore, legal entities or self-employed may transfer up to EUR 100,000 (from EUR 40,000 previously) for each transaction per customer every day, while foreign capital profits and dividends that are invested in Greece are allowed to be transferred abroad.

On October 4, Moody's assessed the full abolition of cash withdrawal restrictions as credit positive for Greek banks.

Greece's "improving economic prospects and an increase in private sector deposits in recent months allowed for the easing of capital controls, which will likely strengthen depositors' confidence and help banks further improve their funding profiles", the rating agency stressed.

Appendix

Selected Economic Indicators (annual)	2014	2015	2016	2017	2018e
GDP (%, change)	0.7	-0.4	-0.2	1.5	2.1
GDP at current prices (€ million)	178,656	177,258	176,488	180,218	185,658
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	-0.2	-1.1	-0.8	na
CPI (%, average change)	-1.3	-1.7	-0.8	1.1	na
HICP (%, average change)	-1.4	-1.1	0.0	1.1	0.8
Unemployment rate (%, average)	26.5	24.9	23.5	21.5	19.6
Bank credit to private sector (%, change)	-3.1	-2.0	-1.5	-0.9	na

Notes: 1: Primary Balance and Overall Balance under ESA-2010 excluding bank support cost
2: 2018 figures are MoF estimates according to 2019 Budget

Source: ELSTAT, 2019 Budget

Selected Economic Indicators (latest)	yoy (%)	Period
GDP	2.2	Q3 2018
	2.1	9M 2018
CPI	1.0	Nov 2018
	0.6	12m moving average
Industrial Production Index	-1.1	Oct 2018
	0.7	Jan-Oct 2018
Turnover Index in Industry	14.3	Sep 2018
	10.8	12m moving average
Building Activity (permits)	6.6	Sep 2018
	9.0	Jan-Sep 2018
Turnover Index in Retail Trade	4.9	Sep 2018
	2.6	Jan-Sep 2018
Motor Vehicle Circulation Licences	12.3	Nov 2018
	23.7	Jan-Nov 2018
Residential Property Prices	2.5	Q3 2018
Unemployment (%)	18.6	Sep 2018
Confidence Indicators	**pts**	**Period**
Economic Sentiment	101.8	Nov 2018
Consumer Confidence	-35.8	Nov 2018
Industry Confidence	-3.2	Nov 2018
Services Confidence	11.1	Nov 2018
PMI	54.0	Nov 2018

Source: BoG, ELSTAT, EC, Markit

Upcoming Statistical Releases

Dec 31
Turnover Index in Retail Trade
October (ELSTAT)

Jan 3
Bank Credit and Deposits
November (BoG)

Jan 8
Economic Sentiment and Business Indicators
December (EC)

Jan 9
Commercial Transactions
November (ELSTAT)

Jan 9
Industrial Production
November (ELSTAT)

Jan 10
Unemployment
October (ELSTAT)

Jan 10
Motor Vehicle Registration Licences
December (ELSTAT)

Jan 11
CPI
December (ELSTAT)

Jan 15
Building Activity
October (ELSTAT)

Jan 18
Turnover Index in Industry
November (ELSTAT)

Jan 21
Balance of Payments
November (BoG)

Jan 22
Travel Balance
November (BoG)

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