

2.5. GREECE

Greece's GDP growth (year-on-year) decreased further in the first quarter of 2019 but policy measures are expected to provide a short-term boost to the economy.

According to provisional data, real GDP growth was 0.2% (quarter-on-quarter) in the first quarter of 2019 (in seasonally and working-day adjusted terms), which corresponds to a growth rate of 1.3% (year-on-year), down from 1.5% in the previous quarter. This slowdown highlights the fragile nature of Greece's recovery.

Growth in the first quarter was mainly driven by a rebound in investment, particularly in non-residential construction and equipment investment. Private consumption recovered its loss from the previous quarter thus adding modestly to domestic demand growth. The external sector, however, was a considerable drag on growth, and public consumption declined as well. Both factors suggest that some of the downside risks highlighted in the previous forecast have started to materialise.

Private consumption is expected to pick up in the rest of the year and thus compensate for some of the unfavourable developments in the external sector. In addition to the positive effect of the minimum wage increase to household disposable income, which may be more pronounced in the second quarter, fiscal measures legislated in May 2019 should provide further support to private consumption. Overall, real GDP growth is forecast to reach 2.1% in 2019 and accelerate slightly to 2.2% in 2020 as private investment picks up. Downside risks are related to the stronger-than-expected pass-through of the weakening external environment and under-execution of the budget.

Price pressures remain muted, with consumer price inflation at 0.6% in May, which corresponds to a 0.8% rise over the first five months of the year. Recent decreases in the VAT rate indicate downside risks to the inflation forecast, but the effect of the tax changes could be offset by the consumption stimulus.

