

## 8. GREECE

### Return to growth

*Greece's economy is growing again, and the recovery is expected to strengthen as investment rebounds and consumption growth rises. The labour market is recovering fast and unemployment is expected to decline further, although average wages may increase only gradually. Public finances remain on track to meet the primary surplus targets agreed under the ESM programme.*

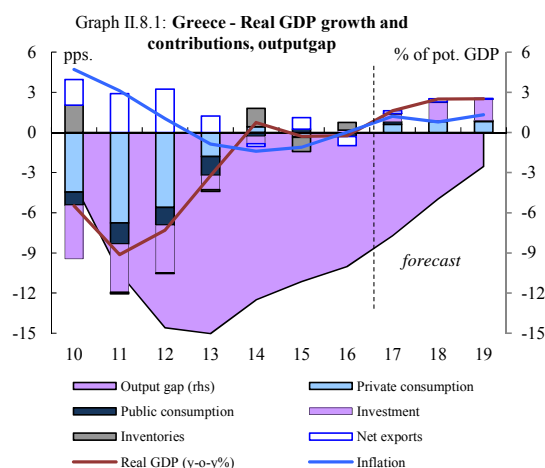
#### The economy is on a growth path

Real GDP in Greece grew by 0.5% (q-o-q) in both the first and second quarters of this year (in seasonally-adjusted terms), corresponding to a rise of 0.6% (y-o-y) for the first half of 2017. Compared to the same quarter of the previous year, equipment investment increased remarkably in the first quarter, as companies made their preparations for the tourist season, while in the second quarter public consumption and net exports fuelled growth. Private consumption increased less than expected in the first half of 2017, whereas investments in residential and non-residential buildings have declined compared to their levels at the end of 2016. Boosted by stronger demand overseas, international trade intensified with both exports and imports growing faster than expected.

#### Growth to gain pace in the 2<sup>nd</sup> half of the year

The closure of the second review in June 2017, together with the stronger-than-expected growth in the euro area and a favourable tourist season, are expected to boost the economy in the remainder of the year. In the third quarter of 2017, sentiment indicators rose to levels not seen in a number of years confirming that the closure of the second review was well received by households and companies alike.

Real GDP is expected to grow by 1.6% in 2017 and 2.5% in both 2018 and 2019. The forecast revision for 2017 reflects mainly the weaker-than-expected performance of private consumption in the first half of the year. On the back of a marked improvement in business and consumer sentiment and an improving labour market, both private consumption and investment activity are forecast to be robust in the second half of the year, and to continue to perform well in 2018. A benign external environment is expected to boost net exports, which should thereby contribute to growth this year and the next. This positive outlook is expected to benefit the current-account balance, with moderate surpluses forecast for the coming years.



The labour market performed better than expected, with the unemployment rate falling to 21% in July, down from an annual average of 23.6% in 2016. According to quarterly national accounts data, employment rose by 1.5% y-o-y in the first half of 2017, suggesting that the labour market continues to improve faster than the economy as a whole.

Consumer price inflation is expected to reach 1.2% in 2017, mainly as a result of the rebound in energy prices, increases in indirect taxation and with average wages recovering moderately. Headline inflation is expected to decelerate in 2018 as the base effects from taxation and energy price increases fade away and are not fully compensated by an increase in core inflation.

The forecast assumes a smooth completion of the third programme review and an orderly closure of the ESM stability support programme in 2018. Any delay in this process would be harmful for the recovery. Furthermore, there is a risk of a possible under-execution of the public investment budget in 2018, which would hinder overall investment growth as well.

#### The ESM programme is back on track

The effective stabilisation of the economic and policy environment brought about by the conclusion of the second review has strengthened

the fiscal policy outlook for this year and over the medium term. Monthly government statistics to date suggest that the 2017 general government primary balance target (1.75% of GDP in terms of the ESM programme definition) will be met, with the balance of risks tilted to the upside.<sup>(116)</sup> While income tax revenue has been somewhat below monthly targets, the collection of tax arrears and social contributions has been strong, reflecting improvements in the public revenue administration and the progress in harmonising contribution rates. For the most part, positive risks for 2017 derive from a likely lower-than-budgeted execution of adopted spending targets.

Greece is also projected to achieve the ESM primary surplus target of 3.5% of GDP in 2018 and to maintain it in 2019, as agreed in June this year in the context of the second review of the programme. The forecast takes into account fiscal measures adopted in 2015 and 2016 amounting to 4.5% of GDP, the roll-out of the Social Solidarity Income scheme that started this year, and a post-programme package adopted in May 2017. The latter includes a re-alignment of all pensions with a

<sup>(116)</sup> The programme definition of the primary balance excludes the one-off cost of bank recapitalisation, SMP and ANFA revenues and part of the privatisation proceeds.

new pension formula, yielding 1% of GDP savings in 2019. In view of the projected compliance with fiscal targets in that year, the forecast also factors in the implementation of the conditional package of offsetting social and investment spending.

Downside risks relate to the assumption of a full implementation of the programme commitments, particularly in 2018, and the adherence to the expenditure ceilings agreed in the Medium Term Fiscal Strategy from May 2017.

Overall, the general government balance is expected to reach -1.2% of GDP in 2017 before stabilising around 0.9% of GDP over the forecast horizon. In view of the projected narrowing of the output gap, the general government structural balance is forecast to be close to 3% of GDP in 2018, before declining to around 2% of GDP in 2019.

Greece's debt-to-GDP ratio is expected to decline to 179.6% in 2017 and is projected to decline further to 177.8% in 2018 on account of economic growth and the general government surplus forecast for that year. The debt-to-GDP ratio is projected to continue on a downward path reaching 170.1% in 2019.

Table II.8.1:

**Main features of country forecast - GREECE**

|  | 2016   |                 |       | Annual percentage change |       |       |       |       |       |       |
|--|--------|-----------------|-------|--------------------------|-------|-------|-------|-------|-------|-------|
|  | bn EUR | Curr. prices    | % GDP | 98-13                    | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  |
| GDP  | 174.2  | 100.0           | 100.0 | 0.5                      | 0.7   | -0.3  | -0.2  | 1.6   | 2.5   | 2.5   |
| Private Consumption                                | 121.7  | 69.9            | 69.9  | 0.7                      | 0.6   | -0.5  | 0.0   | 0.9   | 1.2   | 1.2   |
| Public Consumption                                 | 35.2   | 20.2            | 20.2  | 0.9                      | -1.4  | 1.2   | -1.5  | 0.9   | 0.2   | 0.4   |
| Gross fixed capital formation                      | 20.5   | 11.7            | 11.7  | -1.9                     | -4.7  | -0.3  | 1.6   | 5.1   | 11.5  | 12.1  |
| of which: equipment                                | 8.5    | 4.9             | 4.9   | -0.4                     | 29.3  | 7.9   | -12.3 | 18.0  | 13.4  | 13.4  |
| Exports (goods and services)                       | 53.1   | 30.5            | 30.5  | 4.1                      | 7.7   | 3.1   | -1.8  | 6.8   | 4.6   | 4.4   |
| Imports (goods and services)                       | 54.3   | 31.2            | 31.2  | 2.4                      | 7.7   | 0.4   | 0.3   | 6.0   | 3.8   | 4.2   |
| GNI (GDP deflator)                                 | 175.3  | 100.6           | 100.6 | 0.4                      | 1.1   | -0.2  | 0.0   | 1.2   | 2.6   | 2.7   |
| Contribution to GDP growth:                        |        | Domestic demand |       | 0.6                      | -0.4  | -0.1  | -0.2  | 1.4   | 2.2   | 2.5   |
|  |        | Inventories     |       | -0.1                     | 1.4   | -1.1  | 0.6   | 0.0   | 0.0   | 0.0   |
|  |        | Net exports     |       | 0.1                      | -0.2  | 0.9   | -0.7  | 0.2   | 0.2   | 0.0   |
| Employment   |        |                 |       | -0.2                     | 0.9   | 0.7   | 0.5   | 1.9   | 1.7   | 1.8   |
| Unemployment rate (a)                              |        |                 |       | 12.7                     | 26.5  | 24.9  | 23.6  | 21.8  | 20.4  | 18.7  |
| Compensation of employees / head                   |        |                 |       | 3.2                      | -2.0  | -2.3  | -0.9  | 0.8   | 1.5   | 1.8   |
| Unit labour costs whole economy                    |        |                 |       | 2.5                      | -1.8  | -1.3  | -0.2  | 1.1   | 0.7   | 1.1   |
| Real unit labour cost                              |        |                 |       | 0.1                      | 0.0   | -0.3  | 0.8   | 0.2   | -0.3  | -0.4  |
| Saving rate of households (b)                      |        |                 |       | -                        | -     | -     | -     | -     | -     | -     |
| GDP deflator                                       |        |                 |       | 2.4                      | -1.8  | -1.0  | -1.0  | 0.9   | 0.9   | 1.6   |
| Harmonised index of consumer prices                |        |                 |       | 2.9                      | -1.4  | -1.1  | 0.0   | 1.2   | 0.8   | 1.3   |
| Terms of trade goods                               |        |                 |       | -0.2                     | 1.1   | 0.6   | -2.3  | 0.6   | 0.2   | 1.2   |
| Trade balance (goods) (c)                          |        |                 |       | -14.7                    | -10.8 | -9.1  | -9.5  | -10.0 | -9.7  | -9.6  |
| Current-account balance (c)                        |        |                 |       | -9.6                     | -2.4  | 0.0   | -0.6  | -0.2  | 0.4   | 1.0   |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) |        |                 |       | -8.0                     | -0.4  | 3.0   | 1.5   | 1.7   | 2.3   | 2.8   |
| General government balance (c)                     |        |                 |       | -8.2                     | -3.6  | -5.7  | 0.5   | -1.2  | 0.9   | 0.8   |
| Cyclically-adjusted budget balance (d)             |        |                 |       | -7.8                     | 2.5   | -0.3  | 5.3   | 2.5   | 3.3   | 2.0   |
| Structural budget balance (d)                      |        |                 |       | -                        | 2.5   | 2.1   | 5.3   | 2.5   | 3.3   | 2.0   |
| General government gross debt (c)                  |        |                 |       | 120.2                    | 179.0 | 176.8 | 180.8 | 179.6 | 177.8 | 170.1 |

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.