8. GREECE

A new chapter of growth ahead

Greece's economy grew by 1.4% last year, marking the first time that real GDP growth has exceeded 1% since 2007. The economic recovery is expected to accelerate assuming a successful completion of the stability support programme. Unemployment is expected to fall below 20% by 2019, for the first time since 2011. Having reached a fiscal surplus in 2017, for a second year in a row, Greece is on track to achieving the 3.5% of GDP primary surplus target in both 2018 and 2019.

Slowdown at the end of a good year

Greece's real GDP grew by 1.4% in 2017 although growth in last quarter of the year was a modest 0.1% q-o-q (in seasonally-adjusted terms), corresponding to a rise of 1.9% over the same period the year before. Although this figure was below forecast, this marks the first time since 2006 that Greece's economy grew in all four quarters of the year.

As regards the composition of GDP growth, investment increased by 9.6% with a significant surge in the last quarter, mainly due to corporate investment. Investment thereby became the main driver of growth, with a contribution of 1.1 pps. Private consumption added a meagre 0.1 pps. contribution, while public consumption detracted 0.2 pps from growth. The export sector benefitted from higher demand overseas, but the import content of exports and investments remained high, driving down the external sector contribution.

Gradual acceleration in the years ahead

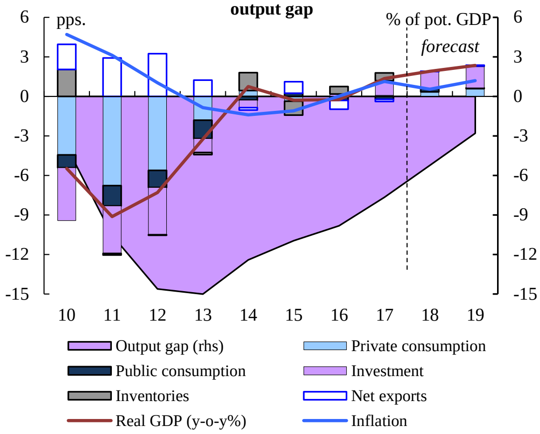
Real GDP is now forecast to grow by 1.9% in 2018 and 2.3% in 2019, revised down compared to the 2018 winter forecast. This reflects the considerably lower carry-over effect for 2018 resulting from the lower-than-expected growth in the last quarter of 2017. Furthermore, the lacklustre performance of private consumption suggests that households may be more financially stretched than previously assumed and that the considerable improvements in employment are taking longer to translate into consumption growth. Investment is expected to continue to grow dynamically in both years, supported by further improvements in economic sentiment and the ongoing privatisation programme. Additional liquidity should come from the government's effort to clear its arrears, foreign direct investment, and the support of international financial institutions.

Exports are expected to continue performing well. Based on pre-bookings, the tourism sector is looking at another very favourable season this year. Goods exports are expected to reach historical highs. However, import demand is also set to be strong as a result of investment growth. As a result, net exports are unlikely to contribute much to growth overall.

The labour market recovery looks set to continue in the coming years. Employment grew by 2.1% in 2017. Unemployment fell to 21.5% and is expected to drop below 20% by 2019.

Inflationary pressures are expected to remain subdued this year and next due to a larger than expected base effect from last year's tax measures, and a slow recovery in private consumption. Similarly, wages are expected to rise only slightly.

Graph II.8.1: **Greece - Real GDP growth and contributions, output gap**



The outlook is conditional upon the orderly completion of the fourth and final review and assumes the successful conclusion of Greece's stability support programme with the ESM. Downside risks to the forecast are more pronounced and are related to investment financing and regional geopolitical tensions.

On track to successful programme conclusion

Greece reached a general government surplus of 0.8% of GDP in 2017 and significantly – by about 2½% of GDP – over-performed its primary surplus target of 1.75% according to the ESM programme definition.[66] This result was supported by many measures, in particular the 2016 pension reform and the reform of indirect taxation. Nevertheless, the carryover impact of the over-performance is likely to be limited, as it was partly achieved through lower-than-expected spending and a number of temporary factors, including the payments of tax arrears through a voluntary disclosure initiative.

Greece is projected to achieve the ESM primary surplus target of 3.5% of GDP in 2018 and to maintain it in 2019, as agreed in the context of the second review of the programme. The forecast takes into account fiscal measures adopted over the course of the programme, including the post-programme package from May 2017. In view of the projected compliance with fiscal targets, the latter is assumed to be implemented in a budget-neutral fashion. The package includes a re-alignment of all pensions with the new pension formula, yielding 1% of GDP savings in 2019. The fiscal impact of this is expected to be offset by an increase in social and investment spending.

The forecast does not take into account the ongoing fiscal-structural reforms and the recurrent underspending vis-à-vis adopted budget targets, which is a considerable upside risk. Downside risks relate mainly to the recent decisions of the Council of State on certain past wage reforms, as the size and recording of the impacts are yet to be clarified; and the timely completion of ongoing reforms, including the reassessment of property values for the ENFIA property tax.

Overall, the general government surplus is expected to reach 0.4% of GDP in 2018 and 0.2% of GDP in 2019. In view of the projected narrowing of the output gap, the general government structural balance is set to decline from a surplus of about 2½% of GDP in 2018 to about 1½% of GDP in 2019. The debt-to-GDP ratio fell from 180.8% in 2016 to 178.6% in 2017 and is projected to decrease further on the back of high primary surpluses and faster nominal growth.

(66) 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.

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	0.5	0.7	-0.3	-0.2	**1.4**	**1.9**	**2.3**
Private Consumption		121.7	69.9	0.7	0.6	-0.5	0.0	**0.1**	**0.5**	**0.9**
Public Consumption		35.2	20.2	0.9	-1.4	1.2	-1.5	**-1.1**	**1.2**	**0.4**
Gross fixed capital formation		20.5	11.7	-1.9	-4.7	-0.3	1.6	**9.6**	**10.3**	**12.1**
of which: equipment		8.5	4.9	-0.4	29.3	7.9	-12.3	**28.9**	**11.8**	**13.4**
Exports (goods and services)		53.1	30.5	4.1	7.7	3.1	-1.8	**6.8**	**5.7**	**4.6**
Imports (goods and services)		54.3	31.2	2.4	7.7	0.4	0.3	**7.2**	**5.5**	**4.4**
GNI (GDP deflator)		175.1	100.5	0.4	1.5	-0.5	-0.2	**1.0**	**2.0**	**2.0**
Contribution to GDP growth:	Domestic demand			0.6	-0.4	-0.1	-0.2	**0.9**	**1.9**	**2.3**
	Inventories			-0.1	1.4	-1.1	0.6	**0.6**	**0.0**	**0.0**
	Net exports			0.1	-0.2	0.9	-0.7	**-0.2**	**0.0**	**0.0**
Employment				-0.2	0.9	0.7	0.5	**2.1**	**1.7**	**1.8**
Unemployment rate (a)				12.7	26.5	24.9	23.6	**21.5**	**20.1**	**18.4**
Compensation of employees / head				3.2	-2.0	-2.3	-0.9	**0.1**	**0.8**	**1.3**
Unit labour costs whole economy				2.5	-1.8	-1.3	-0.2	**0.9**	**0.6**	**0.8**
Real unit labour cost				0.1	0.0	-0.3	0.8	**0.2**	**-0.3**	**-0.5**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				2.4	-1.8	-1.0	-1.0	**0.7**	**0.9**	**1.3**
Harmonised index of consumer prices				2.9	-1.4	-1.1	0.0	**1.1**	**0.5**	**1.2**
Terms of trade goods				-0.2	1.1	0.6	-2.3	**0.7**	**0.3**	**0.0**
Trade balance (goods) (c)				-14.7	-10.8	-9.1	-9.5	**-10.5**	**-10.7**	**-10.8**
Current-account balance (c)				-9.6	-2.1	0.0	-0.7	**-0.9**	**-0.4**	**-0.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-8.0	-0.1	2.4	0.9	**1.0**	**1.5**	**1.3**
General government balance (c)				-8.2	-3.6	-5.7	0.6	**0.8**	**0.4**	**0.2**
Cyclically-adjusted budget balance (d)				-7.8	2.4	-0.4	5.4	**4.5**	**3.0**	**1.6**
Structural budget balance (d)				-	2.4	2.2	4.4	**4.0**	**2.5**	**1.6**
General government gross debt (c)				120.2	178.9	176.8	180.8	**178.6**	**177.8**	**170.3**

(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.