

2.8. GREECE: GROWING AGAIN

Greece’s economy is growing again with real GDP expected to have reached 1.6% in 2017. The recovery is expected to strengthen in the coming years providing further support for employment growth. Sustained commitment to structural reforms remains vital to the continued expansion.

According to provisional data, real GDP in Greece grew by 0.3% (q-o-q) in the third quarter of 2017 (in seasonally-and working-day adjusted terms) corresponding to a growth of 1.1% (y-o-y) for the first three quarters of 2017. This marks the first time since 2006 that the Greek economy has grown for three consecutive quarters.

Net exports took over as the main driver of growth in the second and third quarters, signalling that Greece is also benefiting from the wider recovery in Europe and the improvements in the country’s competitiveness achieved by structural reforms. Private consumption growth was broadly flat during the first three quarters of 2017, which somewhat narrowed the savings gap. The decline in investment was likely linked to adverse effects resulting from the delayed closure of the second review of the European Stability Support Programme in the third quarter.

Real GDP is forecast to reach 2.5% in both 2018 and 2019. Sustained improvement in the labour market and in consumer sentiment is set to fuel private consumption growth. The business climate in Greece is also expected to improve further, although financing conditions may ease only gradually, leading to moderate investment growth. In 2019 investment is projected to grow more dynamically and is set to become an important positive contributor to growth. Robust foreign demand should provide a boost to net exports, which are projected to become an important growth-engine in 2018, supporting the economy’s re-orientation towards the tradable sector.

The labour market continues to improve, with the unemployment rate having fallen to 20.7% in October 2017, down 2.7 pps. since the end of 2016. The improvement was driven by the increase in employment, as the size of the labour force was broadly stable. According to quarterly national accounts data, employment rose by 1.8% (y-o-y) in the first three quarters of 2017. Employment is expected to continue growing, in line with the economic recovery.

Consumer price inflation reached 1.1% in 2017, driven by the rebound in energy prices and increases in indirect taxation. Headline inflation is expected to decrease in 2018, as core inflation looks unlikely to fully compensate for fading base effects linked to energy prices.

