

Key messages:

- The projection for the upward trend in Greek GDP on average of 2.3% annually for 2017-2021 relies almost entirely on the increase of gross fixed capital formation and on private consumption.
- The target for primary fiscal surplus for 2017 is considered as “highly likely” taking into account that the strong fiscal performance of 2016 was based mostly to permanent fiscal measures.
- The target for general government primary surplus of 3.5% of GDP the upcoming years is “likely” achievable under particular circumstances.
- Significant risks still challenge both fiscal and macroeconomic performance

Macroeconomic outlook

The Hellenic Fiscal Council considers the forecast revision for real GDP growth in 2017 at 1,8% (compared to the original forecast for +2,7%) a more realistic target which is still optimistic, albeit achievable under certain conditions. In the medium term the economy is expected to accelerate on average rate of 2.3% annually. The medium term growth of the Greek economy relies almost entirely on the increase of gross fixed capital formation (i.e. public and private investments) and on private consumption. According to our projections, the medium term growth rates lies close to the upper bound thus risks of growth underperformance are present. Furthermore, the critically high unemployment rate (especially among the youngest part of population) is a problem remaining unsolved. Chart 2 shows that the projections of unemployment rate based on MTF5 are at the lowest bound (at 57.5% confidence interval), supporting the uncertainty and the possibility to be higher than projected.

Short-term fiscal outlook

Last year the general government primary surplus reached the 4.2% of GDP supporting the return of Greek economy on a “prudent” fiscal path. According to our estimations, the fiscal over-performance of 2016 was relied mainly on permanent fiscal measures than on one-off measures. Thus, the target for a primary surplus of 1.75% of GDP for 2017 is considered achievable.

Medium-term fiscal outlook

The medium-term objective for primary surplus of 3.5% of GDP places de facto serious restrictions on economic activity. It is considered achievable provided that the public expenditures will remain controllable and the public revenue will continue to over-perform. Prerequisites are the reduction of uncertainty in the Greek economy, the increase in electronic transactions and the continuation and intensification of tax audits in order to combat the tax evasion. Risks of underperformance are also present (Chart 3).

Key indicator forecast

	2016	2017 f	2018 f	2019 f	2020 f	2021 f
Real GDP growth rates [% y-o-y]	0.0	1.8	2.4	2.6	2.3	2.2
Primary balance of GG* [% GDP]	4.2	1.9	3.5	4.0	4.0	4.0
Primary balance of GG – targets* [% GDP]	0.5	1.75	3.5	3.5	3.5	3.5
GDP deflator [% y-to-y]	0.1	1.2	1.2	1.4	1.7	1.8
Unemployment [%]	23.5	22.8	21.6	20.1	18.9	18.1
GG gross debt [% GDP]	179	176.4	170.1	163.2	156.2	149.6
Total GG revenues* [% y-to-y]	5.5	0.2	2.2	2.4	0.9	0.6
Total GG expenditures* [% y-to-y]	-3.6	5.6	-1.2	1.0	0.7	0.4
primary GG expenditures* [% y-to-y]	-3.0	5.6	-1.8	1.0	0.5	0.2
Total GG revenues* [% GDP]	45.8	44.6	44.0	43.3	42.0	40.6
Total GG expenditures* [% GDP]	44.9	46.0	43.9	42.6	41.2	39.8
Primary GG expenditures* [% GDP]	41.7	42.7	40.4	39.3	38.0	36.6
Potential GDP (p. GDP) [bil. euros]	205	204	204	203	202	202
Output gap (pr. function) [% p. GDP]	-9.8	-7.6	-5.2	-3.5	-1.7	n.a.
Structural balance of GG [% p. GDP]	5.5	2.5	3.1	n.a.	n.a.	n.a.

Fiscal framework and national fiscal rules

Fiscal framework and national fiscal rules for Greece have been set by EC, ECB, ESM and IMF via the sign of sMoU. Thus, the Greek economy until the end of the program (August 2018) is exempted from the rules of Fiscal Compact and follows the sMoU's targets. Moreover, these targets are not taking into account the economic cycle (i.e., they are not expressed in structural terms). It is worth to mention that the 2017 and 2018 forecasts for structural balance exceed the threshold of Fiscal Compact by far (i.e. structural balance -0.5%). In other words, the Greek economy is highly likely to meet Fiscal Compact objectives.

Chart 1: economic growth rates (% chg.)

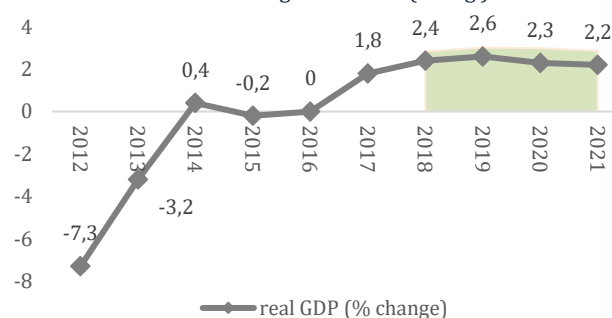


Chart 2: unemployment (% of active population)

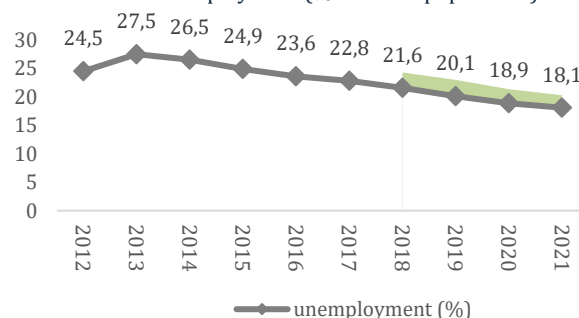
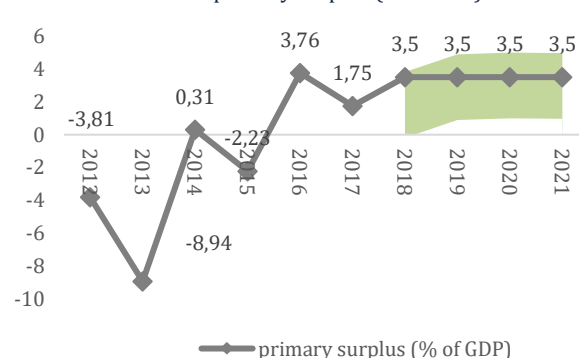


Chart 3: primary surplus (% of GDP)



Sources: European Commission, Eurostat, Medium Term Fiscal Strategy (MTFS) for Greece 2018-2021, and HFISC calculations.

* In program terms

f – forecast of MTF5 2018-2021, sMoU – supplementary Memorandum of Understanding (signed at 5 July 2017), GG – general government