

## Key messages:

- For the period 2019-2022, Greek GDP is projected to grow on average 2.2% annually. The GDP growth is estimated to be supported by an acceleration of fixed investments and private consumption.
- For a fourth successive year a fiscal budget over performance was recorded. The prudent fiscal policy during last years restores fiscal credibility and underlies the significant decline of the 10-year Greek government bond yield.
- The target for a primary surplus of 3.5% of GDP throughout the period 2019-2022 is rather demanding, yet achievable.
- Domestic and external risks will challenge both fiscal and macroeconomic performance.

## Macroeconomic outlook

The baseline macroeconomic scenario of the Stability Programme 2019-2022 (see Chart 1) is considered optimistic, albeit achievable. Among others, the following conditions must be met: i) a sustainable solution for the high-ratio of non-performing loans of the banking sector and ii) increase of banking credit that can be channelled to Greek firms and households.

During 2018, the economy grew 1.9% y-o-y, slightly weaker than anticipated. In the medium term the Greek economy is expected to grow on average approx. by 2.2% per year. Gross fixed capital formation and private consumption are expected to be the components with the most significant positive impact on economic activity in the 2020-2022 period.

However, several domestic and external risks should be considered. The main domestic macroeconomic risk is the high ratio of non-performing loans in the domestic banking system which on the one hand affects negatively the banks' capital adequacy and profitability and on the other hand restrains the amount of credit that can be channelled to Greek firms and households. External risks include the ongoing slowdown of the European economies, the escalation of protectionist attitudes and the outcome of the Brexit negotiations. In the long run, the unfavourable demographics may adversely affect real economic growth.

## Short-term fiscal outlook

The last four years the primary balance target has been over-achieved, restoring fiscal credibility, which drove the major decline in the 10-year Greek government bond yields. The ensuing fiscal space was used mainly for social benefits to the most vulnerable segments of the Greek society. Despite continued improvements on tax debt collection, there are significant downside risks, such as the pending court decisions about retroactive payments to retired employees. For 2019 the general government primary balance is expected to marginally reach the target of 3.5% of GDP, given that the fiscal space of 0.6% of GDP -projected in the Greek Stability Program- will be used on discretionary spending measures following last May's government decision. These measures include mainly the payment of a 13<sup>th</sup> pension to retired employees (a partial restoration of the pension cuts during the fiscal consolidation of the previous years) and a decrease of the VAT rates in various categories of products.

## Medium-term fiscal outlook

The highly demanding medium-term objective for a primary surplus of 3.5% of GDP throughout the 2020-2022 period is considered achievable, given that a number of macroeconomic and fiscal risks would not be materialised (Chart 2). The budget overperformance in the previous years, signals Greece's willingness to continue on a fiscally disciplined path.

## Fiscal framework and national fiscal rules

After the successful conclusion of the economic adjustment program in August 2018, the fiscal framework for Greece follows the fiscal rules described on the Enhanced Surveillance Program. The Hellenic Fiscal Council believes that the Greek economy is quite likely to meet the Enhanced Surveillance Program objectives. It is worth mentioning that during the 2019-2022 period, the *structural surplus* is projected to follow a declining path, yet remaining considerably above the MTO (i.e., 0.25% of GDP). Furthermore, the debt-to-GDP ratio is projected to follow a downward trajectory throughout the 2019-2022 period, mainly due to denominator effects and the early partial repayment loans to the IMF in 2019. The MoF, European Commission and IMF's projections converge to a significant debt-to-GDP reduction over the medium-term horizon (Chart 3).

## Key indicator forecast

		2018	2019 f	2020 f	2021 f	2022 f	Source
Real GDP growth rate	[% y-to-y]	1.9	2.3	2.3	2.1	2.0	1
Output Gap	[% of p. GDP]	-6.0	-3.8	-1.9	-1.3	-0.6	1
GG pr. balance – target	[% of GDP]	3.5	3.5	3.5	3.5	3.5	1
GG pr. balance - MoF	[% of GDP]	4.3	4.1	3.9	4.1	4.6	1, 6
GG debt - MoF	[% of GDP]	181.1	170.6	163.9	157.5	153.3	1
GG debt - EC	[% of GDP]	181.1	174.9	168.9	n.a.	n.a.	2
GG str. balance - EC	[% of p. GDP]	5.0	1.9	0.8	n.a.	n.a.	2
Adjusted real GG expenditure growth	[% y-to-y]	0.7	2.0	-0.1	n.a.	n.a.	2
Discr. revenue measures	[% of GDP]	0.2	0.2	-0.6	n.a.	n.a.	2

Chart 1: Growth rates of GDP (% chg.)

Sources: 1 & 5

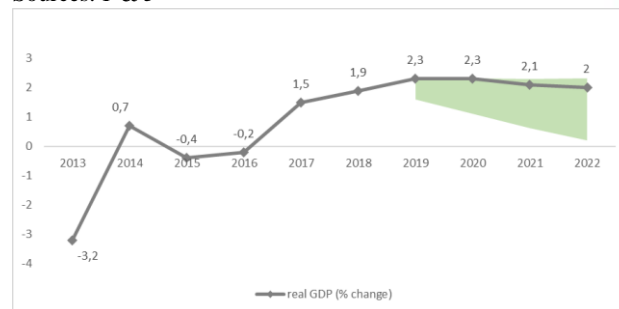


Chart 2: Primary surplus (% of GDP)

Sources: 1, 5 & 6

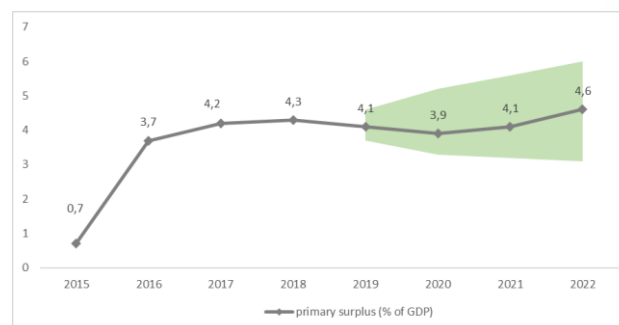
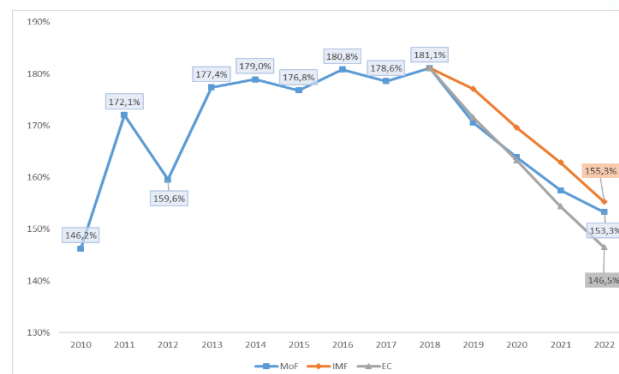


Chart 3: GG debt (% of GDP)

Sources: 1, 3 & 4



### Sources:

1. Stability Programme 2019 -2022, April 2019, MoF
2. European Commission, AMECO (7 May 2019)
3. IMF Country Report No. 18/248
4. European Commission-Enhanced Surveillance Report (November 2018)
5. HFC's estimates (green area)
6. The expansionary fiscal measures taken after the SP 2019-2022 may alter significantly the estimated GG primary balance

f – forecast, GG – general government