Greece

Country note, January 2019

HELLENIC FISCAL COUNCIL

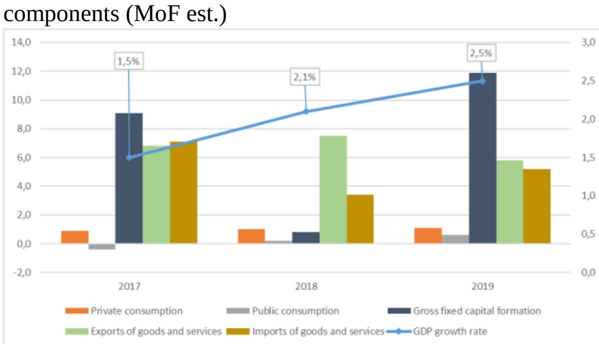
Key messages:

- **The 2018 fiscal target, under the enhanced surveillance framework (i.e., primary surplus of 3.5% of GDP) will be achieved.**
- **The 3.5% target for primary surplus in 2019 is demanding albeit achievable. However, it presupposes a further increase in economic activity.**
- **The projections for GDP growth, based on MoF estimates, are 2.1% for 2018 and 2.5% for 2019.**
- **For the current year, a reduction in net exports deficit is expected, while for 2019 the projections converge to a significant increase in fixed capital formation.**
- **The successful completion of the ESM program is a positive outcome, challenged though by the uncertainty in the European capital markets and the risks of possible destabilizing dynamics of the upcoming electoral cycle.**

Macroeconomic outlook

Regarding macroeconomic developments, the Greek real GDP recorded positive growth rates during the last three quarters of 2018, however further acceleration is necessary. The estimation by the Ministry of Finance for a GDP growth rate of +2.1% is considered achievable, being also in line with the baseline scenario of the Hellenic Fiscal Council's macroeconomic projections. Private investment is expected to become the driver of growth in 2019 (in contrast to 2018) (Chart 1). An accelerated credit expansion is necessary to boost investments and private consumption further, and reduce unemployment rates. Export growth is expected to remain robust. However, import demand is anticipated to increase on the back of strong investment activity. The Hellenic Fiscal Council along with the forecasts of the European Commission and other independent institutions converges to the view that GDP growth for 2019 will range between +2.0% and +2.5%. Consequently, the estimate of a 2.5% growth rate by the Ministry of Finance, is assessed by the Council as achievable, although certain risks (primarily external) remain. The main challenge in the post-program period is to ensure that economic growth strengthens even further and remains at sustainable levels.

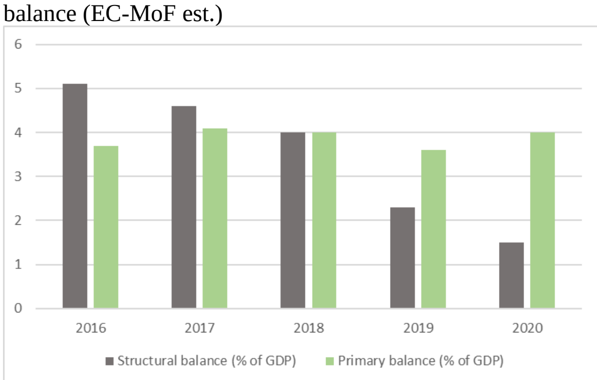
Chart 1: Growth rates of GDP and its components (MoF est.)



Short-term fiscal outlook

During the first nine months of 2018, fiscal policy posted a satisfactory performance being executed within the budgetary targets of the medium-term fiscal strategy (MTFS) 2019-2022. Both the current fiscal performance and the fiscal projections by the international institutions point to the estimation that the primary surplus target of 3.5% of GDP will be achieved and an over-performance is certain. Nevertheless, the sustainability of public finances is subject to certain challenges and risks, such as the risks of possible destabilizing dynamics of the upcoming electoral cycle and the outcome of the outstanding pension cases in courts.

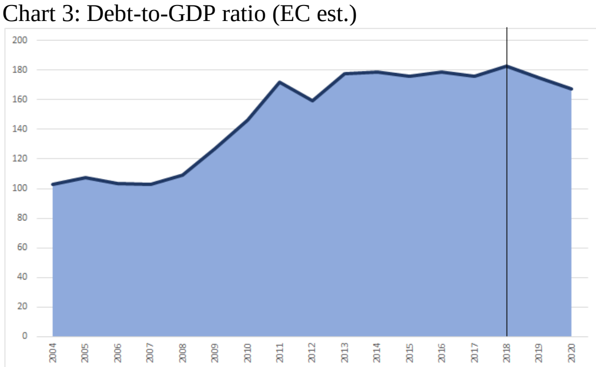
Chart 2: Structural balance and primary balance (EC-MoF est.)



Medium-term fiscal outlook

Greece's fiscal policy is anchored to the nominal primary surplus target monitored under the enhanced surveillance framework. Greece should comply with the primary surplus targets of 3.5% of GDP until 2022. Fiscal outcomes are expected to be supported by GDP growth, improvements in the credit conditions, as well as the proper reduction of NPLs and state arears.

Chart 3: Debt-to-GDP ratio (EC est.)



Fiscal framework and national fiscal rules

The post-program framework for Greece entails the activation of the enhanced surveillance framework. Since Greece was exempt from submitting Stability Programs, while it was under the program, the Greek authorities have not yet established a medium-term budgetary objective (MTO). Greece is expected to determine its MTO in the Stability and Convergence Program during 2019. The Hellenic Fiscal Council considers that the Greek economy is highly likely to meet the enhanced surveillance objectives (Chart 2). It is worth mentioning that the 2019 forecasts for primary surplus are in line with the threshold stipulated in the enhanced surveillance framework (i.e., primary balance ≥ 3.5 % of GDP). One major concern is the path of debt-to-GDP ratio, which followed an upward trajectory during 2018 (Chart 3). The debt built-up in 2018 is attributed to the increased accumulation of cash buffers through cash management actions. However, a considerable decrease of the debt-to-GDP ratio is expected in the coming years.

Key indicator forecast

		2017	2018 f	2019 f	2020 f	Source
Real GDP growth rate	[% y-to-y]	1.5	2.1	2.5	n.a.	1, 2
Output Gap	[% of p. GDP]	-8.6	-6.0	-3.8	-1.9	3
GG primary balance – targets based on Enhanced Surveillance programme	[% of GDP]	1.75	3.5	3.5	3.5	1,3
GG primary balance – MoF est.	[% of GDP]	4.1	4.0	3.6	n.a.	1
GG debt - MoF est.	[% of GDP]	176.1	180.4	167.8	n.a.	1
GG debt - EC est.	[% of GDP]	176.1	182.5	174.9	167.4	3
GG str. balance - EC est.	[% of p. GDP]	4.6	4.0	2.3	1.5	3
Adjusted real GG expenditure	[% of p. GDP]	45.9	47.0	46.1	45.7	3
Discr. revenue measures	[% of GDP]	0.4	0.3	0.0	-0.4	3

*Sources: **1.** Ministry of Finance (MoF) **2.** Hellenic Statistical Authority **3.** European Commission (EC), AMECO*

f – forecast, GG – general government