Greece

Country note, July 2018

HELLENIC FISCAL COUNCIL

Key messages:

- **For the period 2018-2022, Greek GDP is projected to grow on average 2.16% per year supported by healthy growth in gross fixed capital formation.**
- **The target for a primary surplus of 3.5% of GDP throughout the MTFS 2019-2022 period is rather demanding, yet achievable.**
- **The sequence of primary surpluses projected in the aforementioned period can create sufficient "fiscal space" to be used for tax relief measures.**
- **Significant risks still challenge both fiscal and macroeconomic performance.**

Macroeconomic outlook

The baseline macroeconomic scenario of the Medium-Term Fiscal Strategy 2019-2022 (see Chart 1) is considered optimistic, yet achievable under the following conditions: i) a smooth exit from the economic adjustment program in August 2018, ii) an agreement for front-loaded measures regarding the Greek debt and iii) the adoption of a clear growth plan for the Greek economy.

In the medium term, the Greek economy is expected to grow on average 2.16% per year. As for the first quarter of 2018, the economy grew 2.3% y-o-y, the fastest pace of growth since the first quarter of 2008. Gross fixed capital formation and private consumption are estimated to propel economic growth for the 2019-2022 period.

However, several domestic and external risks should be considered. The main domestic macroeconomic risk is the adverse impact of high taxation and social security contributions on household income and private consumption. External risks include the political turmoil in Italy and Spain, the outcome of Brexit negotiations, the geopolitical tensions in the Middle East, the possible increase in oil prices and the consequences of the US decision to escalate the trade protectionism measures.

Given current uncertainties, the baseline scenario for the unemployment rate (Chart 2) is considered optimistic.

Short-term fiscal outlook

In the last two years the general government primary surplus exceeded the targets and reached 3.9% and 4.2% of GDP respectively, supporting the return of the Greek economy to a more "prudent" fiscal path. In our view, the strong fiscal performance has been the result of the introduction of *permanent* fiscal measures rather than *one-off* measures. The strong tax revenue performance coupled with tight spending controls suggest that the target for a primary surplus of 3.5% of GDP in 2018 is achievable.

Medium-term fiscal outlook

The highly demanding medium-term objective for a primary surplus of 3.5% of GDP throughout the 2019-2022 period is considered achievable, on the basis that a number of macroeconomic risks would not be materialised. Given that new budgetary measures for the next year are estimated to be rather limited, the attainment of the budgetary target for 2018 is a direct function of the economy's rate of growth. Furthermore, the increase in electronic transactions and the continuation and intensification of tax audits in order to combat tax evasion are prerequisites for the fiscal over-performance (Chart 3).

Fiscal framework and national fiscal rules

The fiscal framework and the national fiscal rules for Greece have been specified in the relevant agreements (sMoUs) co-signed by Greece's official creditors (i.e. the EC, ECB, ESM and the IMF). The Hellenic Fiscal Council considers that the Greek economy is quite likely to meet both the Fiscal Compact and sMoU objectives. It is worthy of mention that the 2018 and 2019 forecasts for the *structural balance* exceed by far the threshold stipulated in the Fiscal Compact (i.e., structural balance -0.5%). Furthermore, the debt-to-GDP ratio is projected to follow a downward path throughout the 2019-2022 period, mainly due to the moderate increase in GDP. However, an agreement for a debt relief roadmap for Greece is considered *sine qua non*. Specifically, 2018 will be a 'turning point' for the Greek public debt, as debt relief measures are expected to be finalized -following consultations with the official creditors- and the country is set to regain full access to the international capital markets.

Key indicator forecast

		2018f	2019 f	2020 f	2021 f	2022 f	Source
Real GDP growth rate	[% y-to-y]	2.0	2.4	2.3	2.1	1.8	1
Output Gap	[% of p. GDP]	-5.2	-2.8	n.a.	n.a.	n.a.	2
GG pr. balance – targets	[% of GDP]	3.5	3.5	3.5	3.5	3.5	3
GG pr. balance - MoF	[% of GDP]	3.6	4.0	4.1	4.5	5.2	1
GG debt - MoF	[% of GDP]	183.1	170.4	161.4	153.1	150.3	1
GG debt - EC	[% of GDP]	177.8	170.3	n.a.	n.a.	n.a.	2
GG str. balance - EC	[% of p. GDP]	2.5	1.6	n.a.	n.a.	n.a.	2
Adjusted real GG expenditure growth	[% y-to-y]	3.0	-1.0	n.a.	n.a.	n.a.	2
Discr. revenue measures	[% of GDP]	0.0	-0.2	n.a.	n.a.	n.a.	2

Chart 1: Growth rates of GDP 2019-2022 (% chg.)

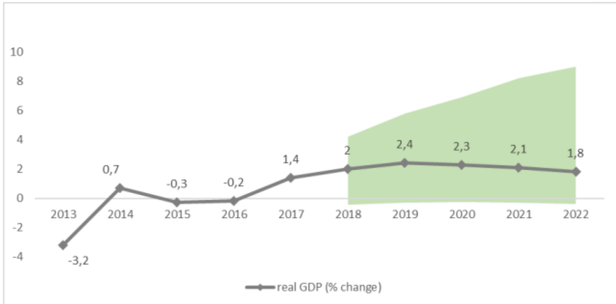


Chart 2: unemployment (% of active population, LFS survey)

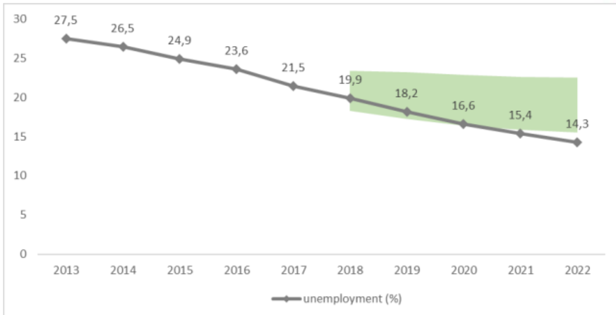
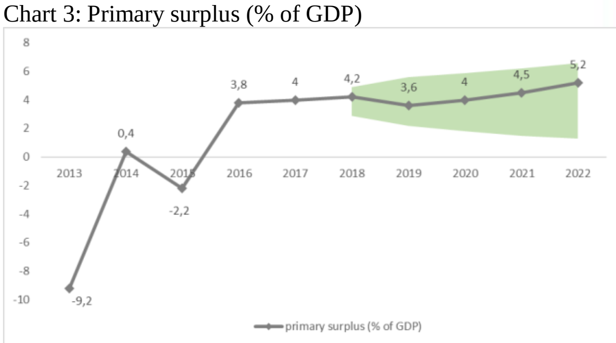


Chart 3: Primary surplus (% of GDP)



Sources:

1. MTFS 2019-2022, June 2018, MoF 2. European Commission, AMECO 3. Supplementary Memorandum of Understanding – sMoU (signed at 5 July 2017)

f – forecast, GG – general government

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