

Key messages:

- The fiscal target for 2017 (primary surplus of 1.75% of GDP) is achievable and an over-performance is highly likely.
- The primary surplus target of 3.5% set for 2018 is very demanding. Its realization depends mainly on the achievement of a high growth rate of 2.5%.
- The projection for GDP growth of 1.6% and 2.5% for 2017 and 2018 respectively, relies mostly on the increase of gross fixed capital formation.
- The successful closure of the third review has created positive expectations, as reflected in the substantial reduction of the yields on government bonds.
- The public debt to GDP ratio is expected to rise during 2018. Thus, rigorous surveillance of the evolution of public debt is necessary.

Macroeconomic outlook

The target for GDP growth of 1.6% for 2017 is assessed by the Hellenic Fiscal Council as achievable albeit under certain conditions. Even though the +1.6% of real GDP growth lies within the bounds of the Council's forecasts, our baseline scenario is less optimistic. The forecasts for the upward trend of Greek GDP for 2018 (+2.5%) relies mostly on the acceleration of private investments and on the EU funding for public investments. Furthermore, the steady decline of unemployment will support private consumption (Chart 1). The reduced uncertainty, the fiscal discipline, the pick-up in economic activity and the commitment of our European partners for a full support of the Greek economy has a beneficial impact on the credibility of Greece and further assists the attraction of foreign investments. The main risk for the Greek economy is the possible adverse effect on the rate of economic growth due to the demanding targets for primary fiscal surpluses.

Short-term fiscal outlook

In the first nine months of 2017, the General Government Budget recorded a satisfactory performance, being executed within the budgetary targets of the Medium-Term Fiscal Strategy 2018-2021 (MTFS). A fiscal over-performance for 2017 (GG primary surplus of more than 1.75% of GDP) is highly likely. The aforementioned result can be attributed, among other factors, to the improved results of the Social Security Organizations' (SSO). However, the accumulation of new tax arrears in conjunction with the under-performance of income taxes against the target of the MTFS requires thorough analysis and close surveillance. Nevertheless, the sustainability of public finances presupposes the strong recovery of economic activity.

Medium-term fiscal outlook

The fiscal target of 3.5% primary surplus in the following years is highly demanding. It relies on the efficient control of public expenditures and on the strong performance of tax revenues and social security contributions. Since there are very few new fiscal measures in 2018, the assumed over-performance depends highly on the macroeconomic environment. Thus, the fiscal target for 2018 (i.e., primary surplus of 3.5% of GDP) depends mostly on strong macroeconomic performance.

Fiscal framework and national fiscal rules

The fiscal framework and the national fiscal rules for Greece have been set by EC, ECB, ESM and IMF in the sMoU agreement. The Hellenic Fiscal Council considers that the Greek economy is highly likely to meet both the Fiscal Compact and sMoU objectives (Chart 2). It is worth highlighting that the 2018-2019 forecasts for structural balance exceed the threshold of Fiscal Compact by far (i.e. structural balance -0.5%). One major concern however, is the path of debt-to-GDP ratio, which is expected to follow an upward trajectory during 2018 (Chart 3). The debt built-up in 2018 is attributed to the increased accumulation of cash buffers through new bond issues and other cash management actions. Through these actions, the Greek government is aiming at a smooth exit from the program without the need for a preventive credit line from the official creditors.

Key indicator forecast

| | 2015 | 2016 | 2017 f | 2018 f | 2019 f | Source |
|----------------------------------|---------------|-------|--------|--------|--------|-----------|
| Real GDP growth rate | [% y-to-y] | -0.3 | -0.2 | 1.6 | 2.5 | n.a. 1, 2 |
| Output Gap | [% of p. GDP] | -11.1 | -10.0 | -7.7 | -5 | -2.5 3 |
| GG primary balance – targets | [% of GDP] | n.a. | 0.5 | 1.75 | 3.5 | 3.5 4 |
| GG primary balance – EC-MoF est. | [% of GDP] | -2.1 | 3.8 | 2.4 | 3.8 | 3.7 1, 3 |
| GG debt - MoF est. | [% of GDP] | 176.8 | 180.8 | 178.2 | 179.8 | n.a. 1 |
| GG debt - EC est. | [% of GDP] | 176.8 | 180.8 | 179.6 | 177.8 | 170.1 3 |
| GG str. balance - EC est. | [% of p. GDP] | 2.1 | 5.3 | 2.5 | 3.3 | 2.0 3 |
| Adjusted real GG expenditure | [% of p. GDP] | 48.2 | 44.6 | 46.5 | 44.9 | 45.1 3 |
| Discr. revenue measures | [% of GDP] | 0.5 | 0.7 | 0.7 | 0.1 | 0.0 3 |

Chart 1: Real GDP and components growth (MoF est.)

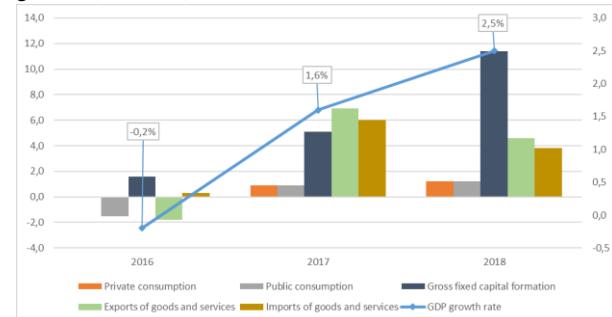


Chart 2: Structural balance and primary balance (EC-MoF est.)

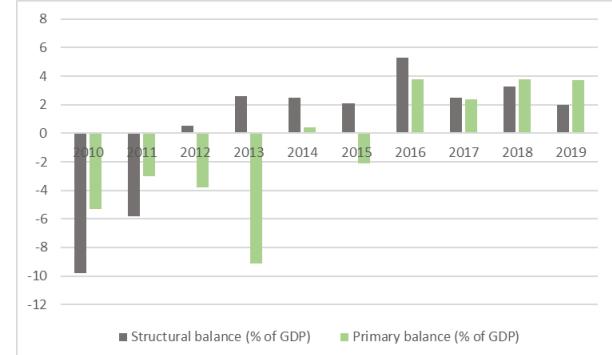
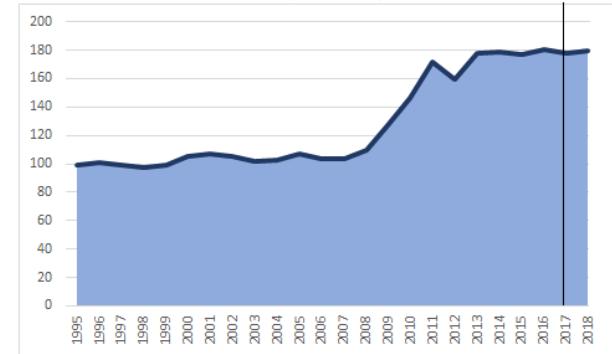


Chart 3: Debt-to-GDP ratio (MoF est.)



Sources: 1. Ministry of Finance (MoF) 2. Hellenic Statistical Authority 3. European Commission (EC), AMECO 4. sMoU - Supplementary Memorandum of Understanding (signed on July 5, 2017)

f – forecast, GG – general government