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Evaluation of Macroeconomic Projections 2016

The Hellenic Fiscal Council (HFISC), according to Law 4270/14 (article 58, paragraph 2), evaluates the macroeconomic projections included in the Draft proposal for the 2017 State Budget. As the economy is an adjustment program agreed with the institutional creditors, this evaluation is objectively limited in scope. Furthermore, this evaluation is based on data and information provided to HFISC by the General Directorate of Economic Policy of the Ministry of Finance, as well as on its own estimates.

Table 1: Annual rates of change (%)

	2016	**2017**
Private Consumption	-0,6	+1,8
Public Consumption	-1,5	-0,3
Fixed Capital Formation	+3,3	+9,1
Exports of goods and services	-6,3	+5,3
Imports of goods and services	-2,6	+3,3
GDP at constant prices (2010)	-0,3	+2,7

Source: GDEP Ministry of Finance (Sept. 2016)

General comment

a. The 2016 rates of change are based on data referring to the A΄ semester of the year. When the 3rd quarter data will be available by the Hellenic Statistical Authority by November, these projections may be altered. For the whole year 2016, the independent HFISC projections, based again on the A΄ semester data, show a similar trend, near the -0,3%.
b. The rates of change for 2017 are target-estimates rather than projections, since for every GDP component a different methodology is used, while the percentage change of +2,7% for the year 2017 is clearly set as a target that has to be consistent with what is agreed with the institutions in the credit assistance program.
c. It must be noted that the forementioned rates of change largely converge – with minor secondary differences – with the so far published projections by the Bank of Greece (June 2016) and the spring projections of the European Commission.

Specific Comments for 2017:

1. Private consumption: According to our own estimates, it is expected to increase at a rate of at least 1% in 2017, while the 1,8% is considered as quite optimistic, given the decrease of disposable income due to the recent taxation measures. The increase in private consumption may be due to the gradual reversal of the economic sentiment and the reduction of the state's mature obligations to the private sector. We could even anticipate a further channeling of private savings towards consumption.
2. Public consumption: This is the main fiscal policy tool, thus fully controlled by the government, in the context of the current adjustment program.
3. Fixed capital formation: The estimate – target for 2017 relies on a significant increase in investment in equipment. There are indeed pre-conditions which may lead to a significant increase in both private and public investment expenditure. Such an optimism is based on reliable predictions – targets, with an improved investment climate due to announced investments in large projects, an improved business climate, the positive expectations concerning the implementation of the so-called "Juncker package", and the anticipated improvement in the domestic credit conditions with the participation in the QE program of the ECB.
4. Imports and exports: The recovery of both imports and exports is considered plausible, following significant decreases during the preceding 12-month due to specific reasons (capital controls, drop in freight fares, etc).

Conclusion:

For 2016 we consider as highly probable a significant slowdown of the recession, possibly with a final yearly outcome of 0%, if the 3rd quarter data testifies a positive trend, as anticipated. Under those circumstances, there will be a positive carry – over effect on GDP in 2017. The desirable acceleration of disbursements connected to the conclusion of the yearly Public Investments program, and the settlement of the state's overdue obligations in view of the second sub-tranche of the program, can indeed further improve the 2016 results, and have an additional positive affect on the 2017 prospects of the economy.

For 2017, the estimated increase in GDP at the rate 2,7% is evaluated as quite optimistic, and under conditions. A positive impact will have factors such as political stability, the gradual removal of the capital controls and others sources of uncertainty, the improvement of the liquidity conditions as well as of the expectations of households and businesses.