

HELLENIC FISCAL COUNCIL

Executive Summary of Autumn 2017 Report

In the first nine months of 2017, the Government Budget recorded a satisfactory performance, being executed within the budgetary targets of the Medium-Term Fiscal Strategy 2018-2021 (MTFS). The satisfactory fiscal performance can be attributed to: a) the increase, albeit moderate, of labor income due to the decrease of unemployment, b) the slight recovery of private consumption (+ 0.8% in the first half of 2017), c) the improved performance of the newly implemented fiscal measures, d) the intensification of tax audits, e) the increased collection rates of tax arrears, and (f) the continuous increase in electronic transactions, which may have restricted tax evasion. However, the accumulation of new tax arrears in conjunction with the underperformance of personal income tax against the target of the MTFS requires considerable analysis and surveillance, as they constitute serious indications of fiscal fatigue. **Nevertheless, the sustainability of public finances presupposes the strong recovery of economic activity.**

Based on recent data and the recent forecasts of international organizations, **the fiscal target for 2017 (primary surplus of 1.75% of GDP) is achievable and an over-performance is highly likely.** The magnitude of the fiscal over-performance and thus the distribution of the "social dividend" in 2017 will depend on the performance of Social Security Organizations (SSO).

The primary surplus target of 3.5% set for 2018 is a very demanding target. It depends mainly on the achievement of a high growth rate to the order of 2.4%. The improved fiscal performance compared to 2017 is estimated as an outcome of both expenditure savings and revenues over-performance. The over-performance of tax revenues and insurance contributions will depend on the macroeconomic developments, since new fiscal measures for 2018 are very limited. Consequently, the fiscal target for 2018 depends mainly on a strong macroeconomic performance. **As long as the target for real GDP growth of 2.4% is being approached, the primary surplus target is considered more achievable.**

Regarding the macroeconomic forecasts of the Annual Government Budget Draft Report, the Fiscal Council considers that the path of the Greek economy during the first semester of 2017 allows two interpretations. On the one hand, the increase of the real GDP by 0.6% in the first two quarters signals the return of the Greek economy to a growth path within 2017. On the other hand, the Fiscal Council

considers the target of real GDP growth of 1.8% in the current year as difficult to achieve, since it implies a demanding average growth rate of 3.1% for the last two quarters.

The target of the Annual Government Budget Draft Report that estimates a real GDP growth of 1.8% for 2017 is assessed by the Council as optimistic, albeit achievable under certain conditions. Even though the +1.8% of real GDP growth lies within the upper bound range of the Hellenic Fiscal Council forecasts, our baseline scenario is less optimistic.

The forecasts for the upward trend of Greek GDP for 2017 relies on the increase of employment (which supports private consumption), **on the acceleration of investments** through privatizations and on the **EU funding** for public investments. The commitment of our European partners for a full support of the Greek economy has a beneficial impact on the creditability of Greece and further assists the attraction of foreign investments.

Regarding the Annual Government Budget Draft Report forecast of real GDP growth by 2.4% for 2018, the Hellenic Fiscal Council and other international institutions converge to a forecasting range from 2 to 2.6%. Thus, the target is assessed as achievable, under certain conditions.

The macroeconomic forecasts are subject to certain risks, which should be taken into account. The main sources of these risks reflect positive or negative outcomes in the development of the following issues:

- ✓ the timely completion of the third review of the Greek Economy,
- ✓ the settlement of the NPLs' issue,
- ✓ the outcome of the forthcoming stress tests for the Greek banks,
- ✓ the gradual lifting of capital controls,
- ✓ the uncertainty for the outcome of Britain's withdrawal process from the EU,
- ✓ the volatility of the global financial sector and the delays in strengthening its regulatory and supervisory framework.

The main risk for the Greek economy is still the possibility of entering a state of quasi-stagnation, with a prolonged period of low growth rates. Such a possibility will seriously undermine the unobstructed funding of the Greek economy from international capital markets, due to the modest improvement or even the deterioration of the government debt to GDP ratio. Additionally, it will prevent the timely and effective utilization of productive capacity (high output gaps) in order to

enhance the competitiveness and the exports-orientation of the Greek economy. According to this pessimistic scenario, the consequent shrinkage of potential output, combined with the observed brain drain of the last years and the aging of the population, undermines the long-term sustainable growth of the economy and intensifies the risks for fiscal sustainability.

The President of the Board of Directors

Panagiotis Korliras

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