

Key messages:

- The 2019 fiscal target, under the enhanced surveillance framework (i.e., primary surplus of 3.5% of GDP) will be achieved, while marginal overshooting is likely.
- The 3.5% target for primary surplus in 2020 is achievable under certain preconditions, i.e. the materialization of the growth prospects, further combating tax evasion and the broadening of the tax base, possible retrospective payments due to court decisions to be fiscally manageable.
- The projections for GDP growth, based on MoF estimates, are 2% for 2019 and 2.8% for 2020.
- Structural primary balance projected to decrease amid output gap closing.

Macroeconomic outlook

Regarding macroeconomic developments, the growth rate target of 2% for 2019 is within the Hellenic Fiscal Council's forecasts interval and although being ambitious it can be achieved. The forecasts of the European Commission and other independent institutions converge to the view that GDP growth for 2020 will range between +1.8% and +2.3%. HFC is more optimistic due to the positive revision of GDP growth for 2019. Thus, the range of GDP growth according to HFC projections is 2.3%-2.9%. Consequently, the estimate of a 2.8% growth rate by the MoF, is assessed by the Council as optimistic though achievable, under the precondition that several downside risks (for instance a slump in EU's growth rate) will not occur. The main driving force behind GDP growth is projected to be domestic demand, with gross fixed capital formation (primarily) and private consumption (secondarily) being the components that are estimated to have the largest impact (Chart 1). The unemployment rate remains on a declining path and further improvement in the labour market conditions seems realistic under the assumption of no major distraction in labour relations and in broad economic developments.

Short-term fiscal outlook

During the first ten months of 2019, 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 agreed primary surplus target of 3.5% of GDP in 2019 will be overachieved, the fifth year in a row.

Medium-term fiscal outlook

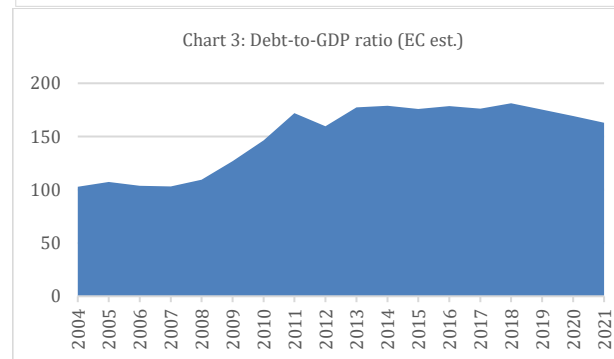
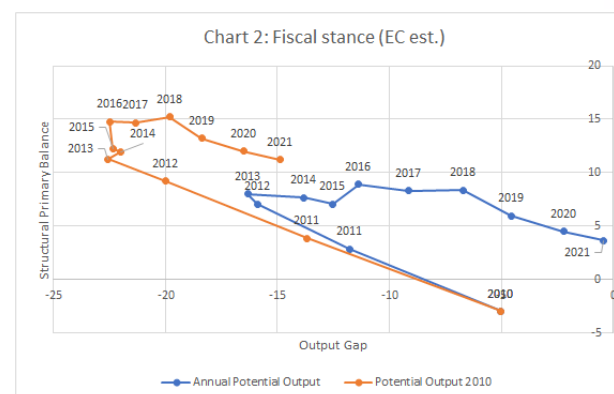
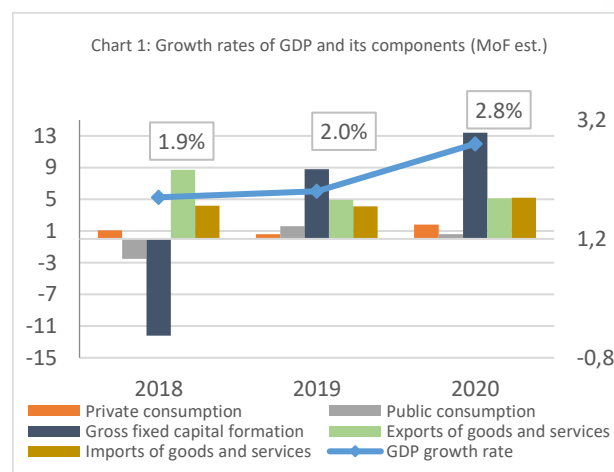
Structural primary balance projected to decrease amid output gap closing see (Chart 2). Based on the latest AMECO series, general government's structural primary balance is expected to fall from 8.4% in 2018 to 6.0% in 2019 and further to 4.5% in 2020. This partly reflects a gradual decline in the cyclically adjusted component of the balance, which is due to the closing of economy's negative output gap by more than 2 percentage points each year. These trends in output gap reflect more and more the projected strengthening of actual GDP growth, rather than further decreases in potential output. The latter was considered a major force driving early output gap movements at least since 2010. In fact, based on HFC calculations, keeping potential output constant at its 2010 levels, it turns out that the fall in output gap during the period 2010-2016 and the resulting fiscal effort (change in structural balance) were both much stronger.

Fiscal framework and national fiscal rules

The post-program framework for Greece was activated after the successful completion of the third adjustment programme in August 2018 and the country was placed under enhanced surveillance, according to which Greece is committed to a primary surplus target of 3.5% until 2022. At the same time Greece was fully integrated within the procedures and modalities of the European Semester and has committed itself to a Medium-Term Objective (MTO) that cannot be lower than a (structural) deficit of 0.5% of GDP. The minimum MTO for Greece for the period 2020-2022, is equal to a structural surplus of 0.25% of GDP which has already been reached. Greek public debt remains very high, though it is expected to follow a downward trajectory the coming years (Chart 3).

Key indicator forecast

		2018	2019 f	2020 f	2021 f	Source
Real GDP growth rate	[% y-to-y]	1.9	2.0	2.8	n.a.	1, 2
Output Gap	[% of p. GDP]	-6.7	-4.6	-2.2	-0.4	3
GG primary balance – target	[% of GDP]	3.5	3.5	3.5	3.5	1,3
GG primary balance – MoF est.	[% of GDP]	4.16	3.73	n.a.	n.a.	1
GG debt - MoF est.	[% of GDP]	181.2	173.3	167.0	n.a.	1
GG debt - EC est.	[% of GDP]	181.2	175.2	169.3	163.1	3
GG str. balance - EC est.	[% of p. GDP]	5.1	3	1.8	1.1	3
Adjusted real GG expenditure	[% of p. GDP]	43.3	43.9	44.1	44.1	3
Discr. revenue measures	[% of GDP]	0.2	-0.2	-0.9	-0.3	3



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

f – forecast, GG – general government