GREECE

GDP growth is projected to edge up to 2.2% in 2019, before moderating slightly in 2020. The large contribution of exports to growth will decline, but the recovery of household consumption and investment will gain traction with rising confidence. Continued implementation of the government's reform programme will support the recovery. Unemployment, while still high, will continue to fall.

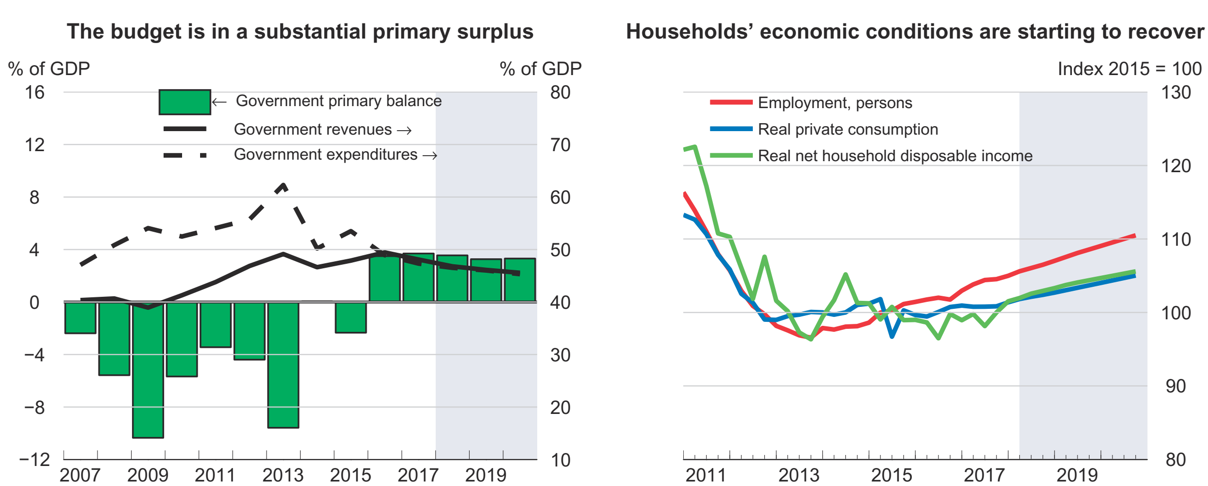
The budget is projected to reach the authorities' medium-term primary surplus targets. Fiscal policy is becoming supportive with reductions in corporate income, dividend and property taxes and in social security contributions. The debt relief and policy measures recently agreed with European partners cap Greece's gross public financing needs, reintegrate Greece into the European Semester framework and establish regular policy monitoring. The accumulated government cash buffer provides security against external volatility.

The recovery continues

Exports have grown strongly, led by tourism and non-oil goods. Industrial production has picked up, and confidence indicators have improved. Employment growth, while solid, has moderated, but unemployment continues to fall and a rising share of new jobs are full-time. Wages are rising and private consumption is growing after prolonged stagnation. Nonetheless, unemployment and spare capacity remain high.

Insufficient financing remains a large constraint on capital spending and progress has been slow in attracting new foreign direct investment and in privatising state-owned assets. Bank lending to the more dynamic sectors, such as tourism and trade, has stabilised, but overall lending is still declining. Deposits are gradually returning as capital controls are eased. Emergency liquidity assistance to banks has been nearly eliminated. Banks are achieving their non-performing loan reduction targets, mostly through sales or write-offs. Non-performing business and consumer loans are being resolved faster than

Greece



Source: OECD Economic Outlook 104 database.

StatLink http://dx.doi.org/10.1787/888933876727

Greece: **Demand, output and prices**

	2015	2016	2017	2018	2019	2020
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	177.3	-0.2	1.5	2.1	2.2	2.1
Private consumption	123.1	0.0	0.9	1.1	1.2	1.3
Government consumption	36.0	-0.7	-0.4	0.5	1.2	1.2
Gross fixed capital formation	20.5	4.7	9.1	2.4	8.8	7.6
Final domestic demand	179.5	0.6	1.6	1.5	2.3	2.2
Stockbuilding[1,2]	- 2.4	0.1	0.0	-0.3	0.0	0.0
Total domestic demand	177.2	0.4	2.0	0.9	2.3	2.2
Exports of goods and services	55.9	-1.8	6.8	7.7	4.7	2.7
Imports of goods and services	55.8	0.3	7.1	3.5	5.0	3.0
Net exports[1]	0.1	-0.7	-0.1	1.4	-0.1	-0.1
Memorandum items						
GDP deflator	_	-0.2	0.6	0.5	0.8	0.9
Harmonised index of consumer prices	_	0.0	1.1	0.8	1.3	1.5
Harmonised index of core inflation[3]	_	0.6	0.3	0.3	1.0	1.5
Unemployment rate (% of labour force)	_	23.5	21.5	19.5	18.1	17.0
Household saving ratio, net (% of disposable income)	_	-17.1	-17.1	-14.1	-13.7	-13.8
General government financial balance[4] (% of GDP)	_	0.5	0.8	0.3	0.1	0.3
General government gross debt (% of GDP)	_	188.2	190.9	187.6	183.7	179.2
General government debt, Maastricht definition (% of GDP)	_	178.5	176.1	172.8	168.9	164.5
Current account balance[5] (% of GDP)	_	-1.2	-1.0	-0.7	-0.5	-0.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statiscal discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. National Accounts basis. Data also include Eurosystem profits on Greek government bonds remitted back to Greece. For 2015-2019, data include the estimated government support to financial institutions and privatisation proceeds.
5. On settlement basis.

Source: OECD Economic Outlook 104 database.

StatLink http://dx.doi.org/10.1787/888933877734

mortgages, as the latter have greater legal protection. Banks' equity prices remain volatile on concerns over their ability to raise new funds if needed.

Continuing reforms and improving the spending mix support the stability of the public finances

The government expects to exceed the 3.5% of GDP primary surplus target in 2018, as revenues grow faster than spending. The 2019 draft budget projects meeting this target while supporting activity and social inclusion. Policy measures include: lowering corporate income, dividend and property tax rates; lowering social security contribution rates for some self-employed and youth; introducing additional social welfare measures; and halting the reduction in the number of civil servants. If slower growth jeopardises fiscal targets or if the budget balance outperforms targets, the government should prioritise targeted social and infrastructure investments and keep broadening the tax base.

Greece has agreed with its European partners on the arrangements to follow the conclusion of the third Stability Support Programme. Further debt measures that extend loan maturity and defer interest payments improve Greece's debt sustainability into the medium term, and cap Greece's gross financing needs below 20% of GDP at least until 2032. A EUR 24 billion cash buffer can cover medium-term financing needs. Greece has agreed to maintain a primary surplus above 3.5% of GDP until 2022 and 2.2% of GDP on average afterwards. Greece has also agreed on regular policy monitoring and continuing structural reforms in many areas. Following the agreement, ratings agencies upgraded Greek government debt ratings and bond yields have kept trading in a range well below the levels of recent years.

Sustaining Greece's recovery requires stronger investment

GDP growth is projected to edge up in 2019 as the recovery in private consumption and investment gains traction, before moderating somewhat with softer external conditions in 2020. A budget surplus at the level of the medium-term target will support domestic demand in 2019, as well as supporting household incomes and confidence.

While recent growth is encouraging, the recovery remains fragile. Investment remains a key uncertainty for a sustained recovery. The scale of banks' non-performing loans remains a vulnerability. Deteriorating financial market and external conditions, due in part to developments in Italy and Turkey, may limit new investment. While public debt remains high, servicing costs are now capped and cash buffers provide an additional cushion. By maintaining sustainable fiscal policy and the reform momentum, Greece can contain new risks to public finances and growth. Continued improvements in relations with Greece's northern neighbours could further strengthen the investment and trade recovery. Deeper reforms to improve product markets, professional services and competitiveness, and pro-growth public investments and social transfers would strengthen Greece's economic outlook and inclusiveness.