GREECE

Highlights

- **Modest economic growth has returned.** After marginally negative growth in 2016, the economy is on a modest upward path in 2017, boosted by strong performances in the industrial and export sectors and improved confidence following progress in the Economic Adjustment Programme and completion of the second review of the latter.
- **Privatisation and business-friendly reforms are advancing.** Several flagship privatisations have been achieved, a new privatisation fund has been established, and product and labour markets have been further liberalised.
- **Banking sector health is improving as non-performing loans (NPLs) are being tackled.** The level of NPLs remains exceptionally high but the systemic banks are implementing an action plan for their reduction, profitability has returned to the sector as a whole and banks are gradually regaining access to capital markets.

Key priorities for 2018

- **The authorities should ensure a strong commitment to completing the economic adjustment programme.** Remaining on course with the programme until its completion in August 2018 will help bolster investor confidence and remove lingering fears about a return to recession and possible delays in debt repayments.
- **Privatisation should be advanced.** Prompt sales of key assets could bring vital investment to the country and help exploit its potential as an energy and logistics hub.
- **The country's energy potential should be further exploited.** Substantial progress has been made in this area in recent years and further measures should proceed to develop renewable energy sources, promote energy efficiency and continue with implementation of important cross-border pipeline projects and development of liquefied natural gas (LNG) facilities.

Main macroeconomic indicators %

	2013	2014	2015	2016	2017 proj.
GDP growth	-3.2	0.7	-0.3	-0.2	2.0
Inflation (average)	-0.9	-1.4	-1.1	0.0	1.2
Government balance/GDP	-13.2	-3.6	-5.7	0.5	-1.7
Current account balance/GDP	-2.0	-1.6	0.1	-0.6	-0.2
Net FDI/GDP [neg. sign = inflows]	-1.5	0.1	0.5	-1.9	-1.6
External debt/GDP	244.9	221.3	246.1	233.8	n.a.
Gross reserves/GDP*	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	117.6	116.2	112.8	107.7	n.a.

*Greece is a member of the Euro area.

CONTINUES

Macroeconomic performance

The economy stagnated in 2016 but a modest upturn is under way in 2017. After a very difficult year in 2015, the economy shrank marginally in 2016 (growth of -0.2 per cent). Signs of a recovery have emerged in the first half of 2017. Growth in the first quarter was 0.5 per cent quarter-on-quarter (and 0.4 per cent year-on-year) and growth in the second quarter was 0.5 per cent quarter-on-quarter (and 0.8 per cent year-on-year), driven mainly by growing exports and strong industrial sector growth, especially in the electricity sector. Confidence indicators are edging upwards as a result of the improved economic performance and the completion (in June 2017) of the second review of the Economic Adjustment Programme (EAP). Prices were stable during 2016 but have been increasing gradually in 2017, with inflation reaching 1.0 per cent in September. Unemployment remains a major problem but is on a downward trend, reaching 21.0 per cent in July 2017.

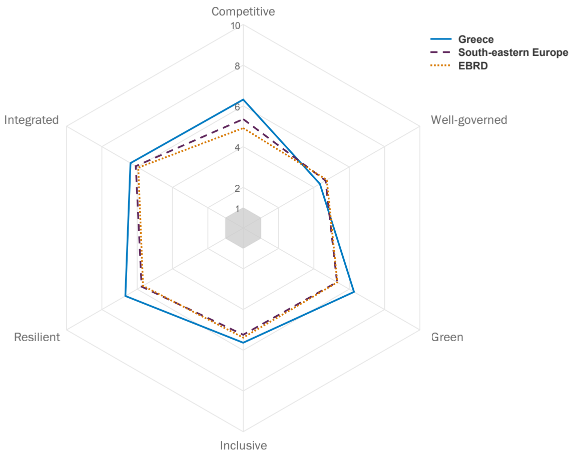
Fiscal targets have been exceeded. In 2016, the government achieved a primary surplus of 4.2 per cent of GDP, well above the target of 0.5 per cent agreed under the programme with creditors. The achievement reflects the impact of austerity measures introduced in recent years but also some one-off measures, including the liquidation of a number of state-owned enterprises. In July 2017, Greece exited EU's Excessive Deficit Procedure, as the government delivered a 0.5 per cent of GDP overall budget surplus in 2016 (in European System of Accounts 2010 terms). However, public sector arrears have been rising again, reaching around €7 billion by mid-2017. Achieving the annual primary surplus target of 3.5 per cent of GDP in the period 2018-21 will be a major challenge.

Public debt remains exceptionally high. Overall public debt is around 180 per cent of GDP and is judged by the IMF to be highly unsustainable. However, differences between the European institutions and the IMF on how to deal with Greece's debt have narrowed during 2017. The completion of the second review of the programme enabled a new disbursement from the European Stability Mechanism and allowed Greece to meet its large debt repayments in July 2017. In that month the IMF Executive Board approved "in principle" a €1.6 billion, 14-month, stand-by arrangement for Greece. The arrangement, which supports the authorities' economic adjustment programme, will become effective only after the Fund receives assurances from Greece's European creditors on further debt relief measures, and provided that Greece's economic adjustment programme remains on track. A second executive board decision is needed to make the arrangement effective. Meanwhile, the Eurogroup has committed in principle to a second set of medium-term debt relief measures (in addition to those agreed in May 2016) to be implemented at the end of the programme in August 2018, but only to ensure the annual gross financing needs (GFN) remain below 15 per cent of GDP in the medium term and below 20 per cent of GDP thereafter.

Positive growth is likely in the short term, but long-term prospects remain uncertain. Growth is expected to pick up in the second half of 2017, with overall growth of 2.0 per cent for the year, rising to 2.2 per cent in 2018. Major downside risks to the forecast remain. The economy remains in a very difficult position, with current levels of investment well below depreciation, implying a constant deterioration of the capital stock. Further short-term austerity measures are in the pipeline, including tax increases and pension cuts. Potential growth drivers in the short term included disbursement of EU structural funds, the reduction and eventual clearance of public arrears to the private sector, further progress in NPL resolution, and some resumption of private sector investment.

CONTINUES

Assessment of transition qualities (1-10)



Major structural reform developments

Fiscal reforms are advancing. Some important medium-term fiscal measures were introduced in mid-2017 in order to complete the second review of the programme, including pension cuts (1 per cent of GDP in net savings) and income tax reform (another 1 per cent of GDP in net savings) starting from 2019 and 2020, respectively. Other measures are being put in place to combat endemic tax evasion. In March 2017, the Finance Ministry announced the enforcement of a new informational system to aggregate taxpayers' deposit and income data speedily and cross-check those with tax returns to spot potential tax evasion. Taxpayer arrears to the state stood at €95.4 billion in June 2017, accounting for 53 per cent of GDP and up by €5.5 billion from the end of 2016.

Progress is occurring on privatisation. A new privatisation fund was established in 2016 and the appointment of the board of directors and supervisory board occurred in February 2017. Several important privatisations have been successfully carried out in the past year. A flagship deal in 2017 was the completion of the sale (by concession) of 14 regional airports to Fraport of Germany. Important sales have also taken place in the past couple of years in the port sector, with the latest being the acquisition in April 2017 by a DIEP-led consortium (Deutsche Invest Equity Partners) of a 67 per cent stake in the Thessaloniki port OLTH for €232 million. The government has relaunched a tender to sell a majority (66 per cent) stake in the natural gas grid operator DESFA. This time, six potential bidders have expressed an interest.

Greece is becoming an international energy hub. Important projects under way include the Trans-Adriatic Pipeline, which should be in operation by 2020, transferring 10 billion cubic metres of natural gas per year from Azerbaijan to Europe through Greece, Albania and Italy. The investment totals €5.6 billion, of which €2.3 billion is in Greece. Other projects under way include an LNG terminal in Alexandrouli by DEPA and Gastrade and the IGB pipe between Greece and Bulgaria. In addition, a number of wind energy parks are currently under construction, with a cumulative value of €1 billion.

Further business environment reforms have been introduced. A number of measures were legislated in May 2017 in order to complete the second review of the programme. These include the streamlining of bankruptcy procedures, a relaxation of procedures surrounding collective dismissals, and further liberalisation of trading hours and over-the-counter prices in line with OECD recommendations. However, Greece is ranked 67th out of 190 economies on the World Bank's *Doing Business 2018* report, lower than all other OECD countries.

CONTINUES

Non-performing loans are being tackled. The levels of NPLs and NPEs (non-performing exposures, which include restructured loans) are still exceptionally high by international standards, standing at €75.2 billion (36.7 per cent of total loans) and €103.9 billion (50.6 per cent of total exposures), respectively at the end of the first quarter of 2017. Banks are addressing the problem under an action plan agreed with the Bank of Greece (BoG). The target for NPEs was exceeded in the first quarter of 2017 whereas that for NPLs was marginally undershot. The BoG and the four systemic banks are targeting for NPEs to decrease to €66.7 billion (33.9 per cent NPE ratio), and NPLs to €40.2 billion (20.4 per cent NPL ratio) by the end of 2019, and coordinated work is under way among the four banks to speed up the process. The market for the sale of NPLs was improved following the amendments to the law on licensing and operation of banking receivables' servicing platform adopted in May 2017. To date, the BoG has granted four licences.

The government has further relaxed capital controls. Among other measures, as of September 2017, the monthly withdrawal limit for individuals has risen to €1,800 cumulatively per month, rather than a €840 limit per two weeks. Also, the government has relaxed the withdrawal limits for funds coming from abroad electronically to 50 per cent, up from the current 30 per cent withdrawal allowance. In May 2017, the government promised the full lifting of capital controls by year-end, but the exact timetable remains uncertain.