GREECE

Highlights

- **Economic indicators are improving slowly.** The economic recovery that began in 2017 has continued into 2018, but at a relatively modest rate. The unemployment rate has dropped below 20 per cent for the first time since September 2011.
- **Greece has exited its Economic Adjustment Programme (EAP).** The exit in August 2018 took place on schedule and followed a sustained period of reforms. Further debt relief measures have been granted to help ensure debt sustainability over the medium term.
- **Privatisation is proceeding slowly.** While some flagship deals have been completed, others are encountering delays, sometimes due to circumstances beyond the government's control.

Key priorities for 2019

- **Agreed fiscal targets should be adhered to in the post-programme period.** This is vital for maintaining a stable macroeconomic framework and for bolstering investor confidence in Greece's economic recovery.
- **Greece should enhance cross-border links in the region.** The government's new growth strategy rightly recognises Greece's potential to develop closer links with neighbouring countries, and it will be important to capitalise on the new momentum by advancing important cross-border infrastructure and energy projects and breaking down barriers to trade.
- **Privatisation should be speeded up.** The current programme has seen some successes but delays to the process have also been relatively common, thus holding back vital investment flows.

Main macroeconomic indicators %

	2014	2015	2016	2017	2018 proj.
GDP growth	0.7	-0.4	-0.2	1.5	2.2
Inflation (average)	-1.4	-1.1	0.0	1.1	0.7
Government balance/GDP	-3.6	-5.7	0.6	0.8	0.5
Current account balance/GDP	-1.6	-0.2	-1.1	-0.8	-0.8
Net FDI/GDP [neg. sign = inflows]	0.1	0.2	-2.4	-1.7	-1.7
External debt/GDP	220.4	245.5	236.1	238.8	n.a.
Gross reserves/GDP*	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	115.8	112.5	108.6	100.0	n.a.

*Greece is a member of the Euro area.

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Macroeconomic performance

Modest economic growth has continued in 2018. After marginally negative growth in 2016, the economy was boosted in 2017 by strong performances in the industrial sector, another excellent tourism season, and improved confidence following progress in the EAP, particularly after completion of the second review in June 2017. GDP growth in 2017 of 1.5 per cent has been followed by an acceleration in growth in the first half of 2018 to 2.2 per cent (year-on-year), with continued improvements in exports, the main driver of growth. Other economic indicators are also moving in a positive direction, including industrial production, employment, and consumer confidence, while unemployment (seasonally adjusted) has fallen to 19.0 per cent as of July 2018, the lowest level since mid-2011. Inflation has turned positive in 2018 but remains low at 1.1 per cent in September 2018 (year-on-year).

Investment is recovering from rock-bottom levels. By 2016, the level of gross fixed capital investment had fallen to just €20.5 billion, or a mere 12 per cent of GDP, versus €60.5 billion in 2007. Signs of a turnaround are apparent: there was a significant increase in gross fixed capital formation in 2017 by 9.6 per cent to €22.5 billion, due mainly to higher investment in transport and machinery equipment and weapons systems. However, net investment levels are still negative because of the ongoing depreciation of the existing capital stock. According to Eurostat estimates, between 2010, when net investment reached its peak, and 2017, the net capital stock of the country fell by 8.5 per cent in real terms, versus a rise of 7.2 per cent in the European Union (EU) as a whole.

Fiscal and external imbalances have been eliminated. Following Greece's exit from the EU's Excessive Deficit Procedure in July 2017, the government achieved a further primary surplus of 4.2 per cent of GDP in 2017, far exceeding the 1.75 per cent target agreed under the adjustment programme. Further short-term fiscal measures are in the pipeline, including reforms to pensions and personal income tax in 2019 and 2020, respectively, with both measures designed to yield savings of 1 per cent of GDP. The primary fiscal surplus is targeted at 3.5 per cent of GDP in 2018-22, as agreed with the European institutions, and at an average of 2.2 per cent for 2023-60. On the external side, there has also been a dramatic reduction in current account imbalances in recent years. The current account was in slight deficit in 2017 at -0.8 per cent of GDP. Exports of goods rose by 4.6 per cent (in real terms) in 2017, and there was a substantial increase in both travel receipts and receipts from shipping, of 10.5 per cent and 21.7 per cent, respectively.

Short-term growth is likely to continue. The improving trends in investment, employment and confidence are expected to strengthen through 2018 and 2019, leading to further growth of 2.2 per cent in 2018 and 2.3 per cent in 2019. Concerns about debt sustainability have been alleviated somewhat by debt relief measures announced in mid-2018 that reduce the payments schedule in the coming decade. However, the economic recovery is conditional on sustained reforms through the post-programme period, and any backtracking in reforms or increased uncertainty about the policy direction of the country could damage investor confidence and lower growth prospects.

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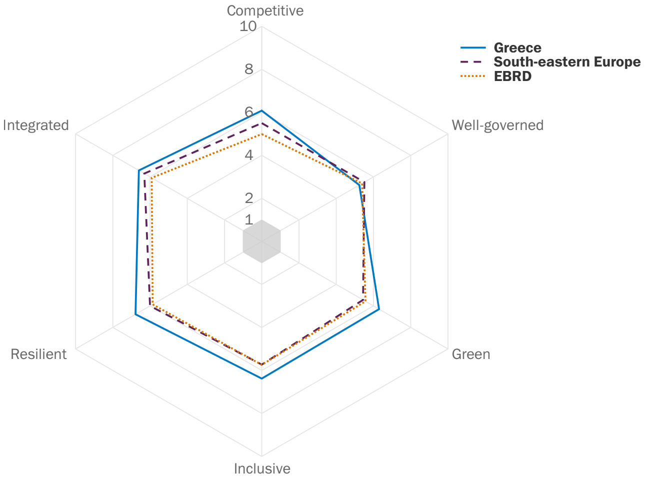
Assessment of transition qualities (1-10)



Major structural reform developments

Greece has exited its adjustment programme following significant reforms across the board. The exit from the three-year EAP, signed in August 2015, took place on schedule on 20 August 2018. Reform delivery stepped up once the third review of the programme was completed in early 2018. Discussions on the fourth and final review began in February 2018 concerning 88 key deliverables, starting with the adoption of the 2018-22 Medium Term Fiscal Strategy and including tax policy reforms, the full merger of social insurance funds, full implementation of pension reforms, healthcare expenditure rationalisation and centralisation, structural policies to support competitiveness and growth (including labour market reviews), and progress on the privatisation front. All 88 prior actions were successfully completed in time for the Eurogroup meeting on 21 June 2018. At this meeting, members agreed on the broad parameters of the post-programme framework which is one of "enhanced surveillance", and on further debt relief measures, some of which are conditional on positive reviews of reform implementation by the institutions during the post-programme period.

A new growth strategy has been adopted. The government first presented the strategy to international partners in April 2018. The strategy is wide-ranging, covering many policies designed to encourage inclusive growth, jobs and investment. The strategy also signals the authorities' intention to enhance Greece's role throughout the wider south-eastern European region by reducing barriers to trade and by developing cross-border infrastructure and energy projects.

Privatisation is advancing gradually. The privatisation strategy being implemented by the Privatisation and Investment Fund (the Hellenic Corporation of Assets and Participations) includes eight finalised privatisation projects and 22 ongoing projects. A significant deal under way in 2018 is the sale of 66 per cent of the gas transmission systems operator, DESFA. In April 2018, the preferred bidder was selected with an offer of €535 million. Other major projects in preparation and at an advanced stage include Egnatia motorway, the development of Hellenikon (site of the former Athens airport) and an extension of the concession agreement for Athens International Airport, but these and other projects have also met with significant delays, sometimes due to circumstances beyond the government's control.

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Financial sector stability is improving but asset quality remains a concern. The banking system is still burdened by an exceptionally high level of non-performing loans (NPLs), but all banks are addressing the problem using a variety of tools and according to targets agreed with the Bank of Greece. As of June 2018 the NPL ratio was 32.8 per cent of total loans, while the non-performing exposure (NPE) ratio – a broader measure of bad loans that also includes debts not expected to be paid in full without realisation of collateral – was 47.6 per cent. The volume of NPEs has dropped by more than 17 per cent since its peak in March 2016. In the second quarter of 2018 the reduction in NPEs was driven mainly by sales, while e-auctions are also increasingly being used following legislative changes introduced over the past year and the removal of legal and technical impediments to e-auctions of collateral backing NPLs.

Further improvements have been made to the business environment. Many of these reforms have been guided by the OECD's Toolkit recommendations and relate to the reduction or removal of regulatory barriers across a range of sectors. At the same time, Greece's ranking on the World Bank's ease of doing business assessment remains low by EU and OECD standards, at 72nd place out of 190 countries in the *Doing Business 2019* report, with persistently low rankings in registering property, enforcing contracts and getting credit.

Important governance reforms are being introduced. A key pillar of the three-year EAP was public administration reform and building a modern state. Important steps have been taken in the past year to improve the management of human resources in public institutions and the development of a more modern staff appraisal system.