GREECE

After a prolonged depression, the economy stabilised in 2016 and GDP is projected to grow by 1.1% in 2017 and 2.5% in 2018. The labour market is improving, supporting private consumption, and higher demand from abroad is boosting exports. Investment has started to recover from very low levels and should gather pace. The consumption tax increase in early 2017 and recent energy price increases will raise consumer price inflation, even though core inflation will remain moderate, as ample spare capacity persists.

In 2016, the primary budget surplus was 3.8% of GDP, exceeding expectations and the 0.5% target. Further progress in combatting tax evasion, broadening the personal income tax base and controlling pension spending are key to cementing the significant fiscal achievements of recent years, while freeing up resources for much needed social assistance programmes. Public debt has stabilised but remains very high, aggravating economic vulnerabilities and calling for additional debt relief to ensure medium to long-term fiscal sustainability.

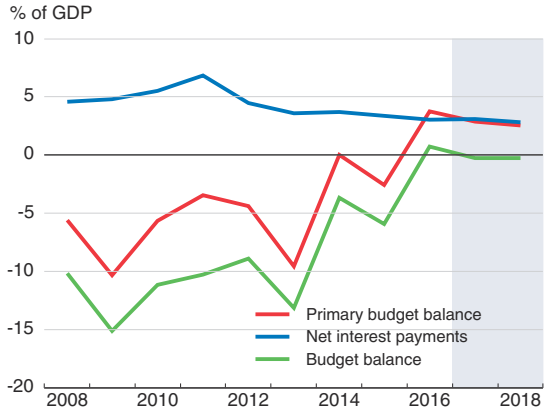
Continuing the implementation of structural reforms would increase productivity and, through intensified participation in global value chains, exports. Developing and implementing effective job-search and training policies, linked to unemployment benefits, and enhancing life-long learning would strengthen workers' skills, accelerate the shift towards tradable sectors and improve people's prospects of getting good jobs.

The economy is starting to recover

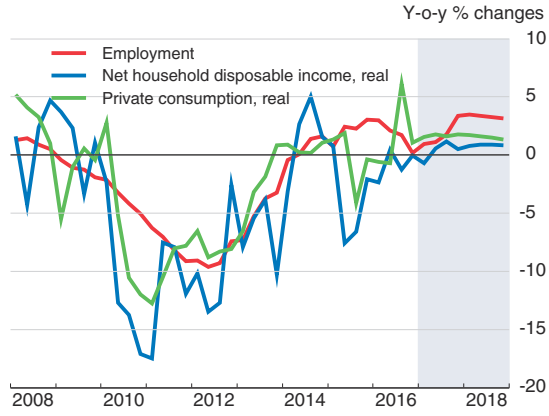
The delay in the conclusion of the second review of official creditors has undermined consumer and business confidence and kept government bond yield spreads high. However, the preliminary agreement on the second review reached in May has already improved prospects for a reversal in economic sentiment and lowered bond yield spreads. This projection assumes a satisfactory and timely resolution of this issue. Despite, the

Greece

The budget balance has improved



Employment growth is supporting real household disposable income and private consumption



Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933503168

Greece: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	180.5	0.4	-0.3	-0.1	1.1	2.5
Private consumption	127.7	0.6	-0.3	1.4	1.7	1.5
Government consumption	37.2	-1.2	0.0	-2.1	1.0	1.8
Gross fixed capital formation	22.0	-4.4	-0.2	0.0	7.7	5.3
Final domestic demand	187.0	-0.3	-0.2	0.7	2.2	2.0
Stockbuilding[1,2]	- 1.4	1.0	-1.0	-0.1	-1.7	0.1
Total domestic demand	185.6	0.7	-1.0	0.4	0.7	2.1
Exports of goods and services	54.7	7.7	3.1	-1.5	7.1	4.5
Imports of goods and services	59.8	7.6	0.3	0.5	5.3	3.5
Net exports[1]	- 5.1	-0.2	0.9	-0.7	0.5	0.3
Memorandum items						
GDP deflator	_	-1.9	-1.1	0.1	2.3	0.8
Harmonised index of consumer prices	_	-1.4	-1.1	0.0	1.4	0.8
Private consumption deflator	_	-2.7	-1.5	-0.4	0.9	1.0
Unemployment rate	_	26.5	24.9	23.5	22.2	20.1
General government financial balance[3,4]	_	-3.7	-5.9	0.7	-0.2	-0.2
General government gross debt[5]	_	182.8	183.9	183.0	178.4	174.1
General government debt, Maastricht definition[3]	_	179.8	177.7	179.4	174.7	170.5
Current account balance[6]	_	-1.6	0.1	-0.6	-1.9	-2.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. National Accounts basis, as a percentage of GDP.
4. Data for 2013 include total government support to financial institutions. Data also include Eurosystem profits on Greek government bonds remitted back to Greece. For 2015-2018, data include the estimated government support to financial institutions and privatisation proceeds.
5. As a percentage of GDP.
6. On settlement basis, as a percentage of GDP.

Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933505847

gradual but steady easing of capital controls, financing conditions remain tight. Greek banks continue to rely, though to a lesser extent, on the Emergency Liquidity Assistance of the Bank of Greece. The large stock of non-performing loans is weighing on banks' balance sheets, restricting credit supply, especially to SMEs and households, though a new resolution framework, including quantitative targets, is now in place for the orderly reduction of non-performing loans. However, the number of building permits is rising and construction has bottomed out. The production of capital goods is recovering, pointing towards rising investment. Helped by the recent labour market reforms, employment is increasing, supporting private consumption. Unemployment is declining but remains high, especially among the young, contributing to high poverty.

The fiscal target has been surpassed but the structural reform process has been uneven

In 2016, the primary budget surplus was 3.8% of GDP, well above the 0.5% target, and the overall budget is now essentially in balance. Public spending control, including an undershooting of the public investment target, and buoyant tax receipts, due to

improvements in tax compliance but also to one-offs relating to tax arrears, contributed to this achievement. Over the projection period, the primary surplus is projected to decline but remain high, above 2.5% of GDP.

Public debt is projected to decline in relation to GDP, but will remain high for some time. Debt relief, including extending maturities and additional grace periods would reduce vulnerabilities, increase growth and strengthen Greece's ability to handle its debt burden. Debt relief would pave the way to entering the ECB asset purchase programme and, in combination with further progress on structural reforms and tax compliance, would allow for lower tax rates and more public spending on high quality investment projects, as envisaged by the Medium-Term Fiscal Strategy 2018-21.

The ongoing spending review can shift priorities, thereby providing room to increase needed social support programmes, such as anti-poverty and job-search and training programmes. This shift would raise equity and growth. Enhancing the guaranteed minimum income scheme, targeted school meals and housing assistance programmes would relieve poverty. Easing regulations in energy, communications and transportation would raise competitiveness and enhance product and service quality. Extending the use of regulatory impact assessments would result in better regulation and help to reduce administrative burdens. Accelerating the privatisation programme is crucial to bring private-sector finance and expertise to key economic sectors, in addition to yielding significant revenues and raising the value of the state's assets. Continuing to improve tax administration and broadening the tax base are paramount to raise tax revenues.

Growth will finally return but large uncertainties persist

GDP is projected to grow 1.1% in 2017 and 2.5% in 2018. Rising employment will continue to support households' disposable income and consumption. The unemployment rate will decline gradually as the economy expands and more people join the labour market. Investment is projected to rebound, from a very low base, as domestic consumption and exports recover. Improving growth in Greece's export markets and competitiveness gains will support exports. Rising domestic demand will result in higher imports.

Further progress on structural reforms, especially in product markets, and a faster resolution of non-performing loans would lead to higher investment and exports than projected. Government consumption and public investment could rise more than projected, boosting growth without jeopardising public finances. The expansion of exports depends largely on the pace of world trade growth. Delays in reform implementation and reaching an agreement on debt relief would weigh on confidence, hampering investment. Geopolitical tensions among Greece's neighbours and a renewed large influx of refugees would pose additional risks.