



## The Hellenic Fiscal Council's Opinion on the Macroeconomic Forecasts of the Stability Program 2019-2022

EU Regulation no. 473/2013 Article 4(1), requires that the macroeconomic forecasts on which the Stability Program is based, have been endorsed by an independent national institution. The Hellenic Fiscal Council (hereafter - the Council) provides an evaluation based on three elements: a comparison between the Ministry of Finance's (hereafter - MoF) macroeconomic forecasts and the Council's short term and medium term macroeconomic projections; consideration of the latest available forecasts from a number of domestic and international institutions; estimates of the overall performance of the Greek economy in the coming years.

**The Council endorses the set of macroeconomic forecasts since they are within an acceptable range in the light of the information currently available.**

**Table 1:** Macroeconomic forecast indicators endorsed by the Council (at constant 2010 prices)

GDP and its components (%, y-o-y)	2019	2020	2021	2022
Gross domestic product	2.3%	2.3%	2.1%	2.0%
Private consumption	1.0%	1.2%	1.2%	1.2%
Public consumption	1.6%	0.6%	0.4%	0.4%
Gross fixed capital formation	3.9%	12.9%	8.0%	7.9%
Exports of goods and services	5.9%	5.4%	3.8%	3.3%
Imports of goods and services	3.5%	5.7%	3.3%	3.1%

Source: Stability Program of Greece, April 2019.

During the last two years, Greek economy recovered from a deep recession where the GDP recorded a contraction of approximately 26% (2007-2016). There are indications that the positive momentum will be maintained and the economy may expand at a similar modest pace in the coming years. The international markets seem to adopt a positive outlook for the Greek economy, a fact that is reflected on the significant reduction of the Greek government bond yields.

The MoF baseline scenario for GDP growth during the period 2019-2022 is within acceptable limits. Furthermore, the MoF macroeconomic forecasts are largely in line with the forecasts provided by the European Commission and other institutions (IMF, OECD, Bank of Greece) for 2019 and 2020 (see table 2).

**Table 2:Forecasts of key macroeconomic indicators by domestic and international institutions**

Macroeconomic Forecasts	2019	2020	2021	2022
<b>Real GDP growth (%, y-o-y)</b>				
<b>MoF (Apr. 2019)</b>	2.3	2.3	2.1	2.0
BoG (Apr. 2019)	1.9	n.a.	n.a.	n.a.
EC (Feb. 2019)	2.2	2.3	n.a.	n.a.
IMF (Apr. 2019)	2.4	2.2	1.6	1.2
OECD (Nov. 2018)	2.2	2.1	n.a.	n.a.
EBRD (Nov. 2018)	2.3	n.a.	n.a.	n.a.
<b>Nominal GDP growth (%, y-o-y)</b>				
<b>MoF (Apr. 2019)</b>	3.4	3.8	3.7	3.7
EC (Nov. 2018)	3.2	3.3	n.a.	n.a.
IMF (Apr. 2019)	3.4	3.5	3.3	2.8
OECD (Nov. 2018)	3.0	3.1	n.a.	n.a.
<b>Inflation / HIPC (%, y-o-y)</b>				
<b>MoF (Apr. 2019)</b>	0.9	1.3	1.5	1.7
BoG (Dec. 2018)	1.1	0.9	n.a.	n.a.
EC (Nov. 2018)	1.2	1.0	n.a.	n.a.
IMF (Apr. 2019)	1.1	1.4	1.7	1.7
OECD (Nov. 2018)	1.0	1.1	n.a.	n.a.
<b>Unemployment rate (as a % of labor force)</b>				
<b>MoF (Apr. 2019)</b>	17.8	16.5	15.3	14.2
BoG (Dec. 2018)	18.2	16.8	n.a.	n.a.
EC (Nov. 2018)	18.2	16.9	n.a.	n.a.
IMF (Apr. 2019)	18.5	17.5	16.2	15.0
OECD (Nov. 2018)	18.1	17.0	n.a.	n.a.

Sources: 1) MoF: Stability Program of Greece, April 2018. 2) BoG: a) Report of the Governor for 2018, April 2019 & b) Monetary Policy, Interim Report 2018, December 2018. 3) EC: a) Winter forecasts, 2019 - Greece, 7 February 2019 & b) Autumn forecasts, 2018 - Greece, 8 November 2018. 4) IMF: World Economic Outlook Database, April 2019. 5) OECD: Economic Outlook, No 104, November 2018. 6) EBRD: Regional Economic Prospects, November 2018.

The forecasts for **GDP growth** are in line with the upper bound of the Council's projections for 2019-2020. These forecasts are assessed by the Council as optimistic, albeit achievable under certain conditions. The ease of the economy's expansion pace after 2020 is considered by the Council as more plausible.

**Private consumption** is estimated to grow on average rate at approx. 1.2% during the 2019-2022 period. The Council considers the aforementioned growth rate as highly likely propelled by the decline of unemployment and the expectation of higher consumer confidence. The significant rise in the minimum wage may further support household spending in the coming years.

The Council supports the downward revision of the rate of growth in **investments** (Gross Fixed Capital Formation) for 2019 (+3.9%) compared to the targets of MTFS 2019-2022 (+12.1%) as a more realistic scenario and likely achievable. However, the pick-up of fixed investments at a rate of 12.9% in 2020 is regarded as optimistic as it relies heavily on factors such as increased bank lending to firms. The constraint of government spending on public investments is also a factor that will negatively affect fixed investments. The moderate increase of investments during the period 2021-2022 is considered as feasible.

As far as the **external balance of goods and services** is concerned, the scenario of the MoF for a growth in exports of 4.2% on the average during the period 2019-2022 is deemed feasible. During the last years the Greek economy has become more export-oriented thus the scenario for further export growth seems quite realistic. However, the scenario of a moderate growth in imports is considered as somewhat favorable considering the high marginal propensity to import of the Greek economy.

The MoF projections for a modest annually increase in **Public Consumption** is highly likely since government spending will remain sustained in order to fulfill the ambitious targets for high primary budget surpluses for the next years.

The trajectory of macroeconomic developments as forecast by the MoF scenario is subject to **uncertainty and to a range of risks** that may result in outcomes across a spectrum of metrics that may be materially different from the projections.

Specifically:

- The possible slowdown of the European economies, which may negatively affect the Greek exports of goods to the European countries and may ease the tourism revenue growth.
- The risk of an escalation of the protectionist stance present in major economies with adverse impacts on world trade.
- The risk of increased financial instability in Europe due to a “no-deal Brexit” withdrawal of the United Kingdom from the European Union.
- The high ratio of non-performing loans in the domestic banking system, which on the one hand negatively affects the banks' capital adequacy and profitability and on the other hand, restrains the amount of credit that can be channeled to Greek firms and households.
- In the long run, unfavorable demographic developments and the migration flows of the Greek citizens abroad (the so-called “brain drain”) may have negative repercussions on the evolution of labor force and unemployment in Greece, as well as on the evolution of the share of labor to total output. These factors may also affect the contribution of labor to the formation of the Greek potential output.

A more extended assessment will be published in the Council's forthcoming opinion about macroeconomic and fiscal forecasts of the MTFS 2020-2023, in May 2019. A detailed discussion of the endorsement process and an assessment of the macroeconomic projections will be provided in the Council's forthcoming Semi-Annual Report, which is scheduled for publication at the end of May 2019.

The President of the Board of Directors

Prof. Panagiotis Korliras