

## 8. GREECE

### Economic recovery in sight

#### Strong tourism revival as Greece regains stability and competitiveness

The first half of 2013 was marked by an overall softening of the recession and the first signs of reaching the bottom of the cycle. For the last three quarters, real GDP has been contracting at a decelerating pace: by a -5.7% y-o-y in the final quarter of 2012 and -5.6% in the first quarter 2013 to -3.8% in the second quarter.

A strong revival of tourism has occurred over the summer. Greece has benefited from increased competitiveness against other popular holiday destinations. Following the sharp improvement of confidence and financial indicators (ESI, PMI, government bond spreads) in the first half of the year, and despite their temporary weakening in spring due to uncertainties over the Cypriot programme, tourism triggered the improvement in the second quarter of 2013 and should also support a good GDP reading in the next one. Despite a further concentration of tax payments in the last quarter of 2013, which is expected to weigh on consumption, real GDP growth has been revised upwards for 2013 and is now projected at -4.0%.

The repayment of government arrears and the faster absorption of the EU and EIB funds through the re-launch of major projects – such as motorway construction – is expected to help alleviate liquidity constraints and support investment in 2014. The bank recapitalisation process and economic stabilisation are also supportive. Led by exports and investment, real GDP is expected to expand in 2014 at an annual growth rate of 0.6%. In contrast, private consumption is expected to still decline, in line with aggregate disposable income.

In 2015, the recovery is forecast to gain strength, as investment becomes the main engine of the recovery. A rebound in exports in the context of the euro-area recovery should support a revival in goods export growth as well as stronger shipping and tourism revenues. With consumption no longer being a drag, real GDP growth is projected at 2.9%.

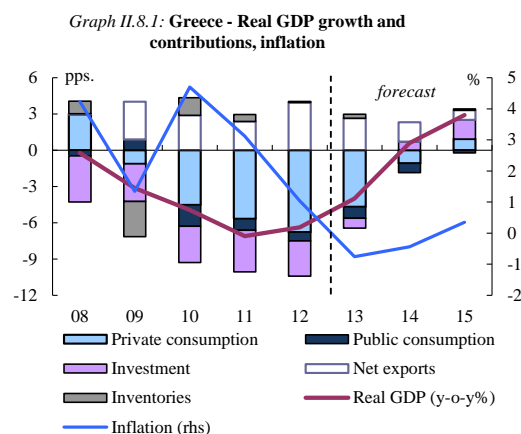
The unemployment rate is projected to reach 27.0% in 2013 owing to falling aggregate demand. However, wage setting reforms have already

contributed to a sharp improvement in cost competitiveness leading to a relatively strong projected decrease of unemployment to 26.0% in 2014 and 24.0% in 2015.

Consumer prices are expected to fall moderately by 0.8% in 2013 and 0.4% in 2014, reflecting weak domestic demand, falling unit labour costs and the implementation of product market reforms. As the economic recovery gains pace, prices are expected to increase weakly by 0.3% in 2015.

The current-account deficit is projected at -2.3% of GDP for 2013 and is expected to narrow to -1.9% in 2014 and -1.6% in 2015, as export and import growth pick up along with the economic recovery.

Risks, on the upside, are related to a faster return in confidence, more permanent spillovers by the positive tourism period and/or a stronger liquidity impact of the arrears clearance. On the downside, policy implementation slippages could undermine confidence, especially for 2014-15, affecting the extent and speed of investment and export recovery.



#### Budgetary situation continues to improve

In structural terms, the budgetary adjustment has been very large, leading to a projected structural surplus in 2013, up from a deficit of nearly 15% in 2009, reflecting a clear turnaround in the fiscal position compared to the beginning of the crisis. The headline general government deficit is now estimated to be 9% of GDP in 2012, one percentage point lower than estimated at the time

of the spring forecast, reflecting smaller one-off costs associated with the resolution of three banks.

The headline general government deficit in ESA95 terms is expected to stand at around 13.5% of GDP in 2013. This includes the bank recapitalisation costs (10.6% of GDP) increasing the deficit, the transfers received from Member States corresponding to profits on Greek bonds held by the Eurosystem Central Banks (about 1.5% of GDP) and other small factors. In programme terms, which exclude the factors above, the deficit is expected at around 4% of GDP.

In 2014, the headline deficit is expected to fall to 2% of GDP. If further bank recapitalisation costs have to be recorded in 2014, the headline deficit would increase beyond what is currently forecast. Current projections assume that any fiscal gaps for 2014 and 2015 are filled through measures to be discussed during the on-going review. In structural terms, the balance will remain more or less constant in 2014 compared with 2013. The

headline deficit is expected to reach about 1% of GDP in 2015 in line with the programme targets.

The ratio of government debt to GDP is expected to peak at some 176% in 2013. After a marginal reduction in 2014, the debt ratio will decline more markedly in 2015 and beyond the forecast horizon as the fiscal balance continues to improve and economic growth resumes.

Graph II.8.2: General Government Revenue, Expenditure and Balance

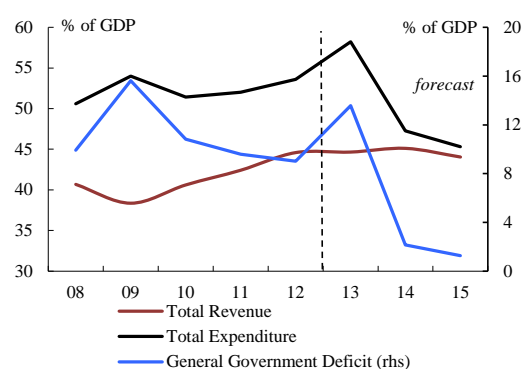


Table II.8.1:

### Main features of country forecast -GREECE

	2012			Annual percentage change						
	bn EUR	Curr. prices	% GDP	94-09	2010	2011	2012	2013	2014	2015
GDP	193.7	100.0	2.9	-4.9	-7.1	-6.4	-4.0	0.6	2.9	
Private Consumption	142.8	73.7	3.1	-6.2	-7.7	-9.1	-6.7	-1.6	1.4	
Public Consumption	34.4	17.8	3.1	-8.7	-5.2	-4.2	-4.9	-4.0	-1.2	
Gross fixed capital formation	25.5	13.1	4.3	-15.0	-19.6	-19.2	-5.9	5.3	11.3	
of which: equipment	10.5	5.4	8.6	-8.2	-18.1	-17.3	-2.1	8.9	13.0	
Exports (goods and services)	52.3	27.0	4.5	5.2	0.3	-2.4	2.5	4.6	5.5	
Imports (goods and services)	62.1	32.0	4.9	-6.2	-7.3	-13.8	-7.1	-1.3	2.7	
GNI (GDP deflator)	194.7	100.5	2.8	-5.3	-7.2	-3.1	-4.7	-0.3	2.3	
Contribution to GDP growth:										
Domestic demand			3.5	-8.5	-9.0	-10.2	-6.5	-1.2	2.3	
Inventories			-0.2	0.7	-0.4	0.0	0.3	0.0	0.1	
Net exports			-0.5	3.0	2.4	3.7	2.6	1.6	0.8	
Employment			1.2	-2.6	-5.6	-8.3	-3.5	0.6	2.6	
Unemployment rate (a)			9.8	12.6	17.7	24.3	27.0	26.0	24.0	
Compensation of employees / head			6.6	-2.6	-3.4	-4.2	-7.0	-1.5	0.0	
Unit labour costs whole economy			4.8	-0.1	-1.8	-6.2	-6.5	-1.5	-0.3	
Real unit labour cost			0.1	-1.3	-2.9	-5.5	-4.9	-1.0	-0.7	
Saving rate of households (b)			-	-	-	-	-	-	-	
GDP deflator			4.7	1.1	1.0	-0.8	-1.7	-0.5	0.4	
Harmonised index of consumer prices			-	4.7	3.1	1.0	-0.8	-0.4	0.3	
Terms of trade goods			0.0	1.8	0.6	-1.0	0.2	-0.1	0.3	
Trade balance (c)			-16.2	-14.3	-14.0	-11.3	-9.6	-8.7	-8.2	
Current-account balance (c)			-9.1	-12.8	-11.7	-5.3	-2.3	-1.9	-1.6	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-8.3	-11.0	-9.8	-2.9	-0.4	-0.1	0.2	
General government balance (c)			-6.7	-10.7	-9.5	-9.0	-13.5	-2.0	-1.1	
Cyclically-adjusted budget balance (c)			-7.0	-8.4	-5.2	-3.2	-7.5	2.6	0.9	
Structural budget balance (c)			-8.3	-8.9	-5.8	-1.0	1.2	1.0	-0.1	
General government gross debt (c)			103.8	148.3	170.3	156.9	176.2	175.9	170.9	

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.