

# The NewsLine

June 4, 2019

▶ MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

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GREECE

## In the right direction

The Greek economy's return on a positive growth trajectory at the start of 2019 can largely be attributed to economic impulses coming from the domestic economy. Undoubtedly Greece has made a lot of progress in recent years and short-term growth prospects have brightened notably. Nevertheless this is just the beginning of a still timid economic recovery compared to the decade-long downturn and Greece still has a long road to recovery ahead of it. In that context the recent backtracking on reform achievements is a major concern. Overall, we continue to expect Greek GDP growth to come in at 2% in 2019.

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The GDP breakdown published today shows that the Greek economy's strong start to the year was primarily driven by positive impulses coming from the domestic economy. Private consumption expanded by a weak 0.2% in real terms. Capital expenditure on plant and equipment grew by a solid 8.1% following two negative quarters. Government consumption however declined significantly (-5.0%). Foreign trade meanwhile has likely weighed on GDP growth, thanks to a strong increase in imports (5%), while exports contracted (-2.1%).

Undoubtedly Greece has made a lot of progress in recent years and growth prospects have brightened notably. The twin deficits have been eliminated with the current account as well as the government budget largely in balance. Consumer confidence has risen back to levels last seen in 2009 with the unemployment rate – while still at an unacceptable high level – now firmly below 20%. Confidence in Greece's economic success story has risen in tandem with these improvements with the yield on Greek 10yr government bonds dipping below the 3% threshold for the first time ever.

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But Greece still has a long road to recovery ahead of it. After all compared to the decade long downturn Greece is only just seeing the beginning of a still timid recovery. In the short-term, growth prospects for the Greek economy are quite favorable, thanks to the large output gap and significant slack in the economy, particularly in the labor market. However, to ensure that Greece's economic recovery is robust and sustainable, investment – which remains around 70% below its 2009 level and close to levels recorded in the 1960s – will have to pick up notably. In this context, ensuring policy consistency and creating a favorable business environment that fosters dynamic and sustainable economic growth - i.e. lower corporate taxes and less red tape - will be key to maintain and strengthen investor confidence. Sticking to the reform course therefore remains absolutely essential and the recent backtracking by the government is a major concern in that context. The upcoming general election in fact provides an upside risk with the opposition promising to pursue a more business friendly policy mix including lower taxes.

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