

## Greece

### A new majority takes over

The economic recovery continues. Growth is accelerating and for the moment it has reached the lower range of expectations. After four and a half years in power, Alexis Tsipras passes on the helm to Kyriakos Mitsotakis, leader of the centre-right New Democracy party, which has led in the polls since 2016. The new Prime Minister is unlikely to call into question the prescribed public finance trajectory as the country exits the European financing programme.

#### ■ Greece recovers despite the European slowdown

The economic recovery continues, and at this stage is still in line with the scenario of the international institutions and creditors. Growth accelerated from 1.4% in 2017 to 1.9% in 2018, which is in the lower range of expectations (full-year growth of between 2% and 2.5% in the years following the exit from the European adjustment programme). Last year, economic growth was mainly driven by the rebound in exports of goods and services, as well as by the strong growth of private consumption. I

In late 2018 and early 2019, both of these growth engines slowed, however, bringing GDP growth to 1.3% q/q in Q1 2019. Survey data suggests that the business climate and confidence are still looking upbeat, although neither improved during the spring. It is probable, however, that household consumption will continue to support growth and could even strengthen in the quarters ahead. Strong job growth (2.1% y/y in March) and mild inflation (0.6% in May) are boosting household purchasing power. Over the next few quarters, household income will also get a lift from the minimum wage increase (10.9%) implemented in early 2019, even though the unemployment rate is still very high (18.1% in March). The Tsipras government also launched a series of measures in favour of households in early May, a few days before the European legislative elections.

Hampered by the European cyclical slowdown, foreign trade should make a somewhat smaller contribution to growth despite the strong performance expected in the tourism sector. Buoyed by powerful catching up effects, growth should hold above 2% on average in the years ahead. Our 2019 GDP growth forecast of 2.4%, however, clearly has downside risks.

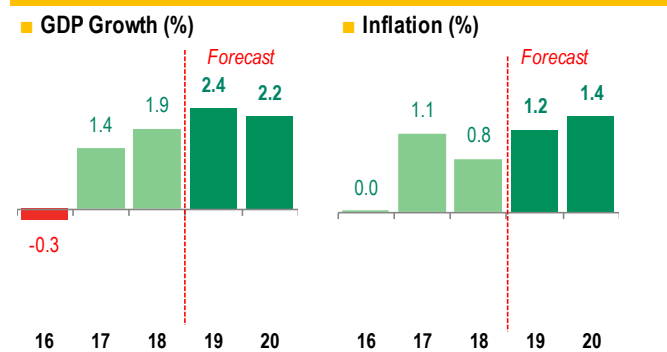
#### ■ Political alternation

Following his party's poor performance in the European and local elections<sup>1</sup>, Alexis Tsipras decided to call snap legislative elections on 7 July. As expected from the polls, the centre-right New Democracy (ND) party easily won the elections with just under 40% of the vote, versus almost 32% for Syriza<sup>2</sup>. Given the electoral bonus of 50 seats for the winning party, Kyriakos Mitsotakis will

<sup>1</sup> His government also lost its parliamentary majority in early 2019 after its coalition partner, the Independent Greek party, withdrew its support to protest the name change concluded with the Republic of North Macedonia.

<sup>2</sup> Provisional results on July 8<sup>th</sup> 2019.

#### 1- Growth and inflation



Source: National accounts, BNP Paribas

have an absolute majority in Parliament, and be able to form a government on its own.

In its Enhanced Surveillance Report, the European Commission expressed some concern about the size and composition of the fiscal package implemented by the previous government<sup>3</sup>, but the shortened pre-electoral period helped limit the pressure and risks of the campaign on public finances. The New Democracy's campaign platform focused on reducing red tape and tax cuts, but did not call into question the fiscal trajectory ironed out at the end of the financing programme, under pressure from creditors and the need for compliance.

Greece's fiscal surplus increased again in 2018 to 1.1% of GDP. At the same time, the public debt ratio peaked at 181.8% of GDP (EUR 334.6 bn) and should enter what promises to be a long narrowing trend starting in 2019. The Greek government is gradually returning to the capital market and has already made two 5 and 10-year issues for a total of EUR 5 bn. In a favourable environment of low European interest rates, yields on Greek 10-year government bonds were nearing 2.5% at the end of June, about 200 basis points lower than in early 2019.

Frédérique Cerisier

[frederique.cerisier@bnpparibas.com](mailto:frederique.cerisier@bnpparibas.com)

<sup>3</sup> The Greek government estimated the cost of the campaign on public finances at 0.6% of GDP, but the European Commission thinks the cost will be closer to 1%.

