News Analysis: Greece' primary surplus beats forecasts, but analysts warn of double-edged sword

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Greece's statistical authority ELSTAT announced that Greece had beat previous forecasts, bailout targets, and achieved an impressive primary surplus of 3.9 percent of gross domestic product (GDP) in 2016, according to preliminary data.

The Greek government sees the improved fiscal data as a significant boost in ongoing negotiations with international lenders to close the second review of the Greek bailout without more austerity measures and agree on the next steps to restore stability and growth.

Meanwhile, local analysts and media commentators warn that the high primary surplus could be a double-edged sword, as it may deprive the real economy of much-needed capital to support development.

Under Greece's third bailout program sealed in the summer of 2015, a target of 0.5 percent of GDP primary surplus was agreed for 2016. In autumn 2016, the International Monetary Fund (IMF) forecast a 0.1-percent of GDP primary surplus. Earlier this week, it revised its projections to 3.3 percent.

The IMF's revised estimations prove that its "reservations over Greece's fiscal performance, which delayed the conclusion of the first and the second program reviews, were unjustified," government spokesman Dimitris Tzanakopoulos said on Thursday during a press briefing in Athens.

The government's position is the lowest possible surpluses so that the Greek economy achieves high growth rates, he added.

ELSTAT's announcement came as finance ministers and central bankers gathered in Washington for meetings of the World Bank and IMF during which Greek officials hope that an initial compromise between IMF and European creditors on the debt sustainability and relief issue can be reached on the sidelines of talks.

In spite of the adjusted projections for 2016, IMF insists on supplementary measures, expressing doubts as to whether the improved performance of 2016 will continue in the coming months or if Greece will post the 3.5 percent of GDP primary surplus agreed in 2018.

The primary surplus issue has been a critical issue in discussions over the past year regarding the terms of IMF's participation in the third Greek bailout. Under the fund's rules, the sustainability of the program and Greece's debt load should be ensured before IMF gets fully on board.

Greek economist Miranda Xafa, a former IMF official, commented in an article on her blog that impressive primary surplus data alone are not a reason for big celebrations, as the path to economic recovery is still long and tough.

"Lenders and the Greek government must remove Greece's debt roadblocks together," she stressed.

First, the troika of creditors must return to Athens to finalize the review and present it to EuroGroup ministers by June at the latest, she explained. Once it has agreed on terms, Greece needs to legislate the agreed measures to ensure that, notwithstanding outstanding debt, tax income exceeds spending by 3.5 percent of GDP annually (what is known as a primary surplus) at least until 2020.

Greek Prime Minister Alexis Tsipras has said he would not submit the measures to a vote in parliament without an agreement on debt relief. Creditors, on the other hand, say that debt relief will not be discussed before the measures are voted on, and the review is completed.

Once a staff-level agreement is reached, the IMF needs to decide whether it will participate in the Greek program with financing. Some euro area creditors, notably Germany and the Netherlands, have made it clear they will not approve further assistance to Greece without IMF participation.

The IMF believes the Greek debt is "highly unsustainable" at 180 percent of GDP, and has said it would only present a program to its executive board if it receives "satisfactory assurances on a credible strategy to restore debt sustainability," Xafa stressed.

Titles of articles posted on Greek media on the over performance regarding the primary surplus also reflected skepticism that it may strengthen Athens' stance in negotiations temporarily, but has a big cost on the real economy.

"The surplus is a double-edged sword, as it emerged from increased taxation and spending cuts... These capitals could be invested in the real economy to support growth which was anemic in 2016," financial analyst Yorgos Papageorghiou said to Greek national broadcaster ERT.