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**Assessment of the 2019 Stability Programme for
Greece**

(Note prepared by DG ECFIN staff)

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EXECUTIVE SUMMARY

Following its successful completion of the financial assistance programme under the European Stability Mechanism, Greece is subject to an integrated post-programme surveillance framework. It is integrated into the European Semester and is also subject to enhanced surveillance in accordance with Regulation EC/472/2013.

Greece is therefore subject to the preventive arm of the Stability and Growth Pact (SGP). Since Greece's public debt is above the 60% of GDP reference value of the Treaty in 2016 (the year in which Greece corrected its excessive deficit), it also needs to comply with the debt reduction benchmark. In this respect, Greece is subject to the transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (transitional debt rule) in 2016. In this period, it should ensure sufficient progress towards compliance with the debt reduction benchmark. After the transition period, as of 2020, Greece will be subject to the debt reduction benchmark.

Together with compliance with the SGP requirement, Greece also has given commitments to its European partners regarding fiscal policies which are monitored under Enhanced Surveillance. In particular, Greece has committed to achieve a primary surplus target of 3.5% of GDP until 2022, and has also made general and specific commitments on the composition of public expenditures and taxes so that they are growth-friendly or supportive of social inclusion.

The Greek economy expanded by 1.9% in 2018 in real terms. The Stability Programme projects real GDP growth of 2.3% for both 2019 and 2020 and foresees a mild deceleration for 2021 and 2022. Growth is expected to be driven mostly by domestic demand. Employment growth is set to remain positive but decelerating to 0.7% by 2022, while unemployment is forecast to continue falling to 14.2% by 2022.

In 2018, the headline budget balance reached a surplus of 1.1% of GDP largely due to continued underexecution of spending ceiling, notably on public investment. In view of a still large output gap, the structural balance reached 5.0% of GDP in 2018. According to the Stability Programme, the Greek authorities project that the general government headline surplus is set to strengthen further to 1.6% of GDP in 2019, supported by one-off revenue related to the disbursement of the first tranche of post-programme debt relief measures agreed in April 2019, before decreasing to 1.1% of GDP in 2020. In line with the projected narrowing of the output gap, the recalculated structural balance in the Stability Programme is projected to decrease from 3.1% of GDP in 2019 to 1.3% of GDP in 2022.

According to the Commission 2019 spring forecast and thus excluding the new measures announced after its cut-off date, Greece is projected to achieve the primary surplus target of 3.5% of GDP in the definition monitored under enhanced surveillance in 2019 and meet the medium-term budgetary objective in 2020. Year 2019 is the the last year in the transition period to ensure progress towards compliance with the debt reduction benchmark. Excluding the new measures, Greece is expected to make sufficient progress as defined by the minimum linear structural adjustment (MLSA) because of the high structural balance achieved in 2018, and be compliant with the debt reduction benchmark.

However, the fiscal estimates in the Greek Stability Programme are outdated. On 15 May, a package of measures was adopted which, according to the Greek authorities, entails a fiscal cost of 0.6% of GDP in 2019 and 2020, whereas, according to the Commission, its potential fiscal cost exceeds 1% of GDP in 2019 and beyond. These measures were not announced in the Stability Programme. Neither were these measures included in the Commission forecast

because they were not announced before its cut-off date (24 April). In view of the size of the measures, they are included in the analysis contained in this note to provide a complete assessment of the authorities' budgetary plans.

According to the Commission's assessment which takes into account the new measures adopted on 15 May, the structural balance in 2020 is expected to deteriorate, raising concerns on the achievement of the medium-term budgetary objective in 2020. In this context, a re-assessment will be carried out in autumn 2019, including a revision of the applicable benchmark for net expenditure growth in 2020. While general government debt is forecast to remain on a downward path, some risks could be posed to compliance with the debt reduction benchmark in 2020. This will have to be reassessed in autumn as a result of these newly adopted measures.

As regards the additional fiscal commitments given to European partners, their monitoring is elucidated in the accompanying enhanced surveillance report. Taking into account the measures adopted on 15 May and given that the Commission 2019 spring forecast points to a primary balance of close to 3.5% of GDP up to 2021, the adoption of measures with a fiscal impact of this magnitude poses a risk for the achievement of the agreed primary surplus target, as monitored under the enhanced surveillance framework and set by the by Decision (EU) 2017/1226 of 30 June 2017. Moreover, the quality of the fiscal measures adopted on 15 May 2019 is of concern given the objective to make public finances more growth friendly and to direct a higher share of social spending towards groups who face the highest incidence of poverty.

Greece's public finances continue to face important fiscal risks with respect to ongoing court cases and the possible broadening of exemptions from the unified wage grid. Positive risks concern mainly the fact that spending targets presented in the Stability Programme were overstated, and that there may be significant under execution of the public investment budget and certain operational expenditures.

1. INTRODUCTION

On 30 April 2019, Greece submitted its 2019 Stability Programme, covering the period 2019-2022.

Greece is currently subject to the preventive arm of the Stability and Growth Pact (SGP) and should preserve a sound fiscal position which ensures compliance with the primary surplus target set by Decision (EU) 2017/1226 of 30 June 2017 of 3.5% of GDP for 2018 and over the medium term¹ and with the medium-term budgetary objective (MTO) from 2020 and onwards.

The post-programme framework for Greece, which entered into force at the conclusion of Greece's ESM stability support programme in August 2018, entails the activation of enhanced surveillance² together with Greece's integration into the European Semester framework of economic and social policy coordination, while maximising the synergies between the enhanced surveillance and European Semester processes.

¹ Council Implementing Decision (EU) 2017/1226 of 30 June 2017 amending Implementing Decision (EU) 2016/544 approving the macroeconomic adjustment programme of Greece (2015/1411), OJ L 174, 7.7.2017, p. 22.

² OJ L 211, 22.8.2018, Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece

Since Greece was exempt from submitting Stability Programmes while it was subject to a macroeconomic adjustment programme ('the programme'), the Greek authorities have not established a medium-term budgetary objective for the years 2018 and 2019. In spring 2018, the Council issued no country-specific recommendations to Greece in the context of the European Semester because pursuant to Article 12 of Regulation (EU) No 472/2013³ Greece was exempt from the monitoring and assessment under the European Semester at that time since it was under the programme. In light of these specific circumstances, the assessment of the years 2018 and 2019 is conducted in the absence of an MTO. In the 2019 Stability Programme, Greece set out its MTO for the years 2020-2022.

As the general government debt ratio was forecast at 178.5% of GDP in 2016 (the year in which Greece corrected its excessive deficit), exceeding the 60% of GDP reference value, Greece is also subject to transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (transitional debt rule). In this period, it should ensure sufficient progress towards compliance with the debt reduction benchmark. After the transition period, as of 2020, Greece is expected to comply with the debt reduction benchmark.

This document complements the Country Report published on 27 February 2019 and updates it with the information included in the Stability Programme.

On 15 May 2019, after the submission of the Stability Programme, the authorities adopted new permanent measures that will enter into force already in 2019. These measures were not included in either the Stability Programme or the Commission 2019 spring forecast. However, given their size and the fact that they have been legislated, they are included in the analysis in this note. The Greek authorities also announced their intentions to adopt additional expansionary measures in autumn 2019.

Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2019 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview on long-term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

Real GDP grew by 1.9% in 2018 supported mainly by the good performance of both the goods and services exports, which increased by 8.7% in real terms. Private consumption provided further support for growth, as it increased by 1.1% in 2018. Investment declined significantly, driven mostly by a drop in non-residential construction and transport equipment, which was partially related to the under-execution of the public investment budget. A large increase in the change of inventories mitigated the impact of this decline. Employment growth

³ Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L 140, 27.5.2013, p. 1.

remained robust and unemployment declined steadily, reaching 19.3% as an annual average. HICP inflation remained subdued, reaching 0.8% for the year as a whole.

The macroeconomic scenario presented by the authorities in the Stability Programme projects real GDP to grow by 2.3% in both 2019 and 2020, before a mild deceleration for 2021 and 2022. Private consumption is expected to edge down in 2019 but recover again in 2020, and keep the same growth rate of 1.2% afterwards. Public consumption is expected to rebound in 2019 and to decelerate afterwards. The scenario stipulates that investment will not recover significantly in 2019, but grow dynamically in the following years. Net exports are set to provide a significant contribution to growth in 2019 and close to zero afterwards, as demand for imports picks up. Employment growth is set to remain positive but declining to 0.7% by 2022. Unemployment is forecast to decline to 14.2% by 2022 and HICP inflation is expected to gradually increase and reach 1.7% by the same year.

**Table 1: Comparison of macroeconomic developments and forecasts
(excluding the measures adopted on 15 May 2019)**

	2018		2019		2020		2021	2022
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.9	1.9	2.2	2.3	2.2	2.3	2.1	2.0
Private consumption (% change)	1.1	1.1	1.3	1.0	1.2	1.2	1.2	1.2
Gross fixed capital formation (% change)	-12.2	-12.2	10.1	3.9	10.8	12.9	8.0	7.8
Exports of goods and services (% change)	8.7	8.7	4.7	5.9	4.2	5.4	3.8	3.3
Imports of goods and services (% change)	4.2	4.2	5.7	3.5	4.1	5.7	3.3	3.1
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	-1.3	-1.4	2.7	1.5	2.2	2.4	1.9	1.9
- Change in inventories	1.8	2.0	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	1.5	1.3	-0.4	0.8	0.0	-0.1	0.2	0.1
Output gap ¹	-6.4	-6.4	-4.0	-4.1	-1.9	-2.1	-0.5	0.8
Employment (% change)	1.7	1.7	1.5	1.6	1.3	1.2	1.0	0.7
Unemployment rate (%)	19.3	19.3	18.2	17.8	16.8	16.5	15.3	14.2
Labour productivity (% change)	0.2	0.2	0.7	0.6	0.9	1.1	1.1	1.3
HICP inflation (%)	0.8	0.8	0.8	0.9	0.8	1.3	1.5	1.7
GDP deflator (% change)	0.5	0.6	1.1	1.1	1.2	1.4	1.6	1.7
Comp. of employees (per head, % change)	1.3	1.3	2.4	2.4	1.7	2.0	2.3	2.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.1	0.0	0.5	1.3	0.9	1.8	1.9	2.5
<u>Note:</u>								
¹ In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.								
<u>Source:</u>								
Commission 2019 spring forecast (COM); Stability Programme (SP).								

The macroeconomic scenario underpinning the Stability Programme is broadly aligned with the Commission forecast as far as real growth rates of the main economic aggregates are concerned. However, according to the Commission forecast, price developments are expected to remain muted throughout 2019 and 2020, as inflation has recently been driven primarily by non-core items and increases in energy prices are expected to moderate in the rest of the year.

The still large slack in the economy is expected to provide headwinds against faster recovery of price growth and limit the inflationary effects of the recent minimum wage increase. Overall, the Stability Programme is based on favourable macroeconomic assumptions.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2018 AND 2019

The general government headline balance reached 1.1% of GDP in 2018, i.e. 0.7% of GDP higher than the projected balance of 0.4% of GDP in the 2019 Draft Budgetary Plan (DBP).

Compared to the DBP 2019 projections for 2018, both revenue and expenditure turned out lower than expected. However, the containment of expenditure was much bigger (-1.6% of GDP) than the shortfall in revenues (-0.9% of GDP). The main drivers of the over-performance were the under-execution of both investment and ordinary expenditure, whereby lower-than-expected drawing of EU funds explains most of the shortfall on the revenue side. The expenditure outturn of 2018 was negatively affected by refunds of wages to uniformed personnel and other public officials following a decision of the Council of State (materialisation of fiscal risks) and a payment of a means-tested cash transfer to low-income households ('social dividend') with a fiscal cost in gross terms of 1.2% of GDP in 2018.

For 2019, the Greek authorities in their Stability Programme project a headline surplus of 1.6% of GDP, i.e. 1.0% of GDP above the 0.6% of GDP projected in the 2019 DBP. The improvement derives mainly from a downward revision of expenditure by 0.8% of GDP which is accompanied by a more moderate increase on the revenue (0.2% of GDP). On the expenditure side, the downward revision by 0.8% of GDP is mainly due to the decrease of gross fixed capital formation, which reflects the authorities' re-allocation of the public investment budget between entities outside and inside general government. In operational terms, this change was implemented through a re-assignment of part of the expenditure previously foreseen for investment outside general government to grants to state-owned enterprises, without adjusting the spending ceilings of the investment budget. Since the authorities assume these grants will not be used by the state-owned enterprises for additional investment, this accounting operation has a balance-improving effect in their projections. On the revenue side, the upward revision reflects the one-off disbursement of debt relief measures agreed in April 2019, which partially offsets the negative carryover from the developments in taxes from 2018.

The headline surplus of 1.6% of GDP in the Stability Programme in 2019 compares to a projection of 0.5% in the Commission 2019 spring forecast. The difference of 1.1% of GDP is mostly related to the full execution of investment spending targets assumed in the Commission forecast, a less dynamic growth in the macro bases for taxes and social contributions, and a more prudent projection of military deliveries and second-round effects of certain revenue measures. The Greek authorities in their Stability Programme project a structural balance of 3.1% of GDP, i.e. 1.1% of GDP higher than the Commission 2019 spring forecast, mainly accounted for by the difference in the projected headline surplus. Net of the new measures, the Commission 2019 spring forecast projects that Greece will achieve a primary surplus of 3.6% of GDP per the definition monitored under enhanced surveillance, i.e. 0.1% of GDP above the target of 3.5% of GDP set by Council Implementing Decision (EU) 2017/1226.

Both the Stability Programme and the Commission 2019 spring forecast do not include the measures announced on 7 May 2019, which have since been legislated and entered into force.

According to the Commission's projections, the fiscal impact of the legislated set of measures (see Section 3.3. for details) is expected to exceed 1% of GDP in 2019 and beyond. Commission estimates are higher than the estimates of the Greek authorities which foresee a fiscal cost of some 0.6% of GDP. Given that the Commission 2019 spring forecast points to a primary balance of close to 3.5% of GDP up to 2021, the adoption of measures with a fiscal impact of this magnitude would pose a risk for the achievement of the agreed primary surplus target, as monitored under the enhanced surveillance framework.

3.2. MEDIUM-TERM STRATEGY AND TARGETS

Taking the 2019 headline surplus as a starting point, the medium-term budgetary strategy depicted in the Stability Programme aims at maintaining the headline surplus broadly stable until the end of the forecast period, though with a deterioration during the intermediate years. This deterioration reflects the one-off debt relief measures affecting 2019, the disbursement of which was agreed in April 2019 on the basis of the progress reached with implementing reforms to which Greece committed to in 2018.

The Greek authorities in their Stability Programme project the headline balance in 2020 to reach 1.1% of GDP and strengthen to 1.7% of GDP in 2022. The structural balance according to the authorities is estimated to reach 2.9% of GDP in 2019, and to remain around 2% of GDP in 2020-2022. The convergence of the headline and structural balances at the end of the forecast horizon is mainly explained by the gradual closure of the output gap.

The structural balance as recalculated by the Commission on the basis of the information provided in the Stability Programme and using the commonly agreed methodology is slightly different than that calculated by the authorities, due to a different assessment of the output gap. The recalculated structural balance is projected to decrease from 3.1% of GDP in 2019 to 1.3% of GDP in 2022. The Stability Programme, net of the impact of new measures, projects that the MTO is going to be achieved every year of the examined period. As mentioned previously, Greece establishes for the first time its MTO for the following 3 years in the 2019 Stability Programme. The MTO reflects the objectives of the Stability and Growth Pact, as the nominated MTO of 0.25% of GDP is set at the level of the minimum MTO that has been calculated on the basis of the commonly agreed methodology.

Compared to 2018, the Stability Programme foresees an improvement in the headline balance by 0.6% of GDP in the period until 2022, driven mainly by the gradually closing output gap, which provides an additional stimulus to revenue growth, persistent expenditure-reducing effects from pension reforms adopted in the past years, and policies constraining growth in wages and healthcare spending.

The latter factors explain the projected containment in primary expenditure in relation to GDP and specifically the large decreases in compensation of employees (-1.2% of GDP) and social payments (-2.6% of GDP) presented in the Stability Programme.

Also, revenue is projected to decrease in relation to GDP as most of the macroeconomic variables relevant for the main revenue categories are expected to grow slower than GDP. Additionally, factors explaining the decrease in revenue include measures, namely, the reduction in property tax by 10% in 2019 and the gradual reduction of corporate income tax from 29% to 25% have a cumulative fiscal impact of 0.4% of GDP in 2020 and a prudent forecast of non-tax revenues including dividends.

Neither the Stability Programme nor the Commission 2019 spring forecast factor in the impact of the measures legislated in May 2019. According to the Commission's projections, these measures are expected to significantly reduce the structural balance, which could raise concern on the achievement of the MTO in 2020 and in outer years. In this context, a re-assessment will be carried out in autumn, including a revision of the applicable benchmark for net expenditure growth in 2020.

**Table 2: Composition of the budgetary adjustment
(excluding the measures adopted on 15 May 2019)**

(% of GDP)	2018	2019		2020		2021	2022	Change: 2018-2022
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	47.8	47.2	47.8	45.5	45.9	45.1	44.2	-3.6
<i>of which:</i>								
- Taxes on production and imports	16.9	16.2	16.7	15.8	16.3	16.0	15.8	-1.1
- Current taxes on income, wealth, etc.	10.1	9.9	9.6	9.8	9.4	9.4	9.5	-0.6
- Social contributions	14.3	13.9	13.8	13.5	13.5	13.2	12.8	-1.5
- Other (residual)	6.6	7.2	7.7	6.4	6.7	6.5	6.1	-0.5
Expenditure	46.7	46.7	46.2	45.6	44.8	43.8	42.5	-4.2
<i>of which:</i>								
- Primary expenditure	43.4	43.1	43.1	41.9	41.9	40.9	39.6	-3.8
<i>of which:</i>								
Compensation of employees+Intermediate	16.1	16.3	16.3	16.0	15.9	15.5	14.9	-1.2
<i>Compensation of employees</i>	11.8	11.6	11.6	11.3	11.3	11.0	10.6	-1.2
<i>Intermediate consumption</i>	4.4	4.8	4.7	4.7	4.6	4.5	4.3	-0.1
Social payments	20.7	19.9	19.6	19.1	18.8	18.2	17.7	-3.0
Subsidies	0.8	1.0	1.0	0.9	0.9	0.9	0.9	0.1
Gross fixed capital formation	3.0	4.1	3.9	4.0	4.1	4.3	4.1	1.1
Other (residual)	2.7	1.9	2.3	1.9	2.2	2.0	2.0	-0.7
- Interest expenditure	3.3	3.5	3.1	3.7	2.9	2.9	2.9	-0.4
General government balance (GGB)	1.1	0.5	1.6	-0.1	1.1	1.3	1.7	0.6
Primary balance	4.4	4.0	4.7	3.6	4.0	4.2	4.6	0.2
One-off and other temporary	-0.6	0.7	0.7	0.1	0.2	0.1	0.0	0.6
GGB excl. one-offs	1.7	-0.2	0.9	-0.2	0.9	1.2	1.7	0.0
Output gap ¹	-6.4	-4.0	-4.1	-1.9	-2.1	-0.5	0.8	7.2
Cyclically-adjusted balance ¹	4.4	2.6	3.8	0.9	2.2	1.6	1.3	-3.2
Structural balance²	5.0	1.9	3.1	0.8	2.0	1.5	1.3	-3.7
Structural primary balance ²	8.3	5.5	6.2	4.5	2.9	4.4	4.2	-4.2
Notes:								
¹ Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.								
² Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.								
<i>Source:</i>								
Stability Programme (SP); Commission 2019 spring forecasts (COM); Commission calculations.								

3.3. MEASURES UNDERPINNING THE PROGRAMME

The Stability Programme builds on the measures already reported in the 2019 DBP. More specifically, it includes the measures presented in the DBP, i.e. a reduction of property tax by 10% and a gradual decrease of CIT from 29% to 25% in replacement of the measures which were part of the pre-legislated package of 2017 and were scheduled to enter into force in

2020. The Stability Programme does not provide a description of the measures underpinning the medium-term budgetary strategy.

The Stability Programme also confirmed the intention not to implement the tax package legislated in 2017, which included, on the consolidation side, a reduction in the personal income tax (PIT) non-taxable threshold, and on the expansionary side a decrease in the PIT rate from 22% to 20% and a reduction in the special solidarity contribution. This means not proceeding with measures that broaden the tax base and create fiscal space of 1% of GDP for growth-enhancing reforms of the tax system. In line with standard practice for all Member States, the announcement was reflected in the Commission 2019 spring forecast, even if the changes to the respective tax laws are not yet legislated. As the income tax credit package was fiscally broadly neutral, the announcement has only a strictly limited impact in the forecast.

The Commission 2019 spring forecast takes into account the measures adopted in the context of the 2019 Budget: reduction of the property tax by 10%, the gradual 4% corporate income tax (CIT) cut from 29% to 25% over 2019-2022, the reduction of social security contributions for self-employed, independent professionals and farmers, the subsidization of social security contributions for young employees up to 24 years, the reduction in the dividends tax by 5 percentage points, the VAT discount extension for 5 islands from January 2019 and the new primary residence protection scheme. The yields of interventions in the Commission forecast are closely aligned with those of the Stability Programme, with the exception of a more prudent Commission's assessment of the second-round effects mainly of the reduction in social security contributions.

Main budgetary measures included in the Stability Programme

Revenue	Expenditure
2018	
<ul style="list-style-type: none"> • Extension of Special Solidarity Contribution (0.2% of GDP) • Other one-off state revenue measures (-0.2% of GDP) 	
2019	
<ul style="list-style-type: none"> • Reduction of social security contributions for self-employed, independent professionals and farmers (-0.1% of GDP) • Reduction of ENFIA (Unified property tax) (-0.1% of GDP) 	
2020	
<ul style="list-style-type: none"> • Other permanent state revenue measures (-0.1% of GDP) 	
<p><u>Note:</u> The table refers to the main measures included in the 2019 Stability Programme that have an incremental budgetary impact over the programme period. The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.</p>	

The Stability Programme presents one-off measures of 0.7% of GDP in 2019, closely aligned with the Commission estimate, and 0.2% of GDP in 2020. The one-off measures for 2019 consist mainly of the first tranche of policy-contingent debt measures disbursed following the achievement of all Greece's reform commitments for end-2018 under the enhanced surveillance framework and revenue from concessions rights for Athens International Airport. Additional one-off measures affecting both 2019 and 2020 include profits from bonds purchased under the Agreement on Net Financial Assets (ANFA) and the Securities Market Programme (SMP) transferred by the Bank of Greece to the state budget and revenue from the sale of non-financial assets (real estate). Regarding 2020, the authorities consider an additional 0.1% of GDP as one-off measures but these are not specified in the Stability Programme.

As mentioned earlier, the Stability Programme does not reflect the impact of measures adopted or announced by the government shortly after its submission. For 2019, the authorities legislated on 15 May 2019: (a) the introduction of new settlement schemes for tax obligations, social contributions and debt to local governments with expected fiscal impact from 1.1% of GDP to 1.4% of GDP in 2019, (b) a reduction of VAT on restaurants, food and energy with a fiscal impact of 0.3% of GDP in 2019 and (c) pension measures regarding the provision of a 13th pension and reversals to the pension reform related to survivors' pensions which are expected to increase pension expenditure by 0.5% of GDP in 2019. Given that the measures are permanent, their implementation will have a negative fiscal impact to the whole examined period of the Stability Programme.

Main budgetary measures adopted after the submission of the Stability Programme

Revenue	Expenditure
2019	
<ul style="list-style-type: none"> • Instalment schemes for tax obligations, social security contributions and debt to local governments (from 0.1% of GDP to 0.7% of GDP) • Reduction of VAT for food products and services and electricity and gas (0.3% of GDP) 	<ul style="list-style-type: none"> • Increase in survivor's pensions and introduction of a 13th pension (0.5% of GDP)
<p>Note: The table refers to the measures adopted after the submission of the Stability Programme. These measures are included neither in the Stability Program nor in the Commission 2019 spring forecast. The authorities have not provided a complete set of estimates of the new measures, contrary to the obligation to include such estimates in the explanatory reports to new legislative proposals. The table above shows preliminary estimated yields based on Commission's assessment. The measures are permanent.</p>	

In addition to the measures outlined above, the Greek authorities announced their intention to adopt a set of additional measures for 2020. These are policy intentions to be enacted in autumn 2019 in the context of the 2020 budget and will not be legislated now. The measures for 2020 with the biggest possible fiscal impact concern the reduction of the special solidarity contribution, the VAT reduction from 13% to 11% for certain goods and services, the subsidization of social security contributions for young employees, a reduction of the cost of heating oil for mountain areas and a tax deduction on interest from mortgages. The authorities have provided only a partial estimate of the fiscal impact of these measures, totalling EUR 1.2

billion or 0.6% of GDP. An assessment on the quality of the measures and their impact on the achievement of the agreed fiscal targets would only be carried out if detailed proposals are actually tabled.

3.4. DEBT DEVELOPMENTS

Greece's gross general government debt ratio increased to 181.1% of GDP in 2018, from 176.2% in 2017. The reason for the increase was the disbursements during the ESM programme, which provided for the build-up of a sizeable cash-buffer by August 2018 when Greece exited the ESM programme.

**Table 3: Debt developments
(excluding the measures adopted on 15 May 2019)**

(% of GDP)	Average 2013-2017	2018	2019		2020		2021	2022
			COM	SP	COM	SP	SP	SP
Gross debt ratio¹	177.4	181.1	174.9	170.6	168.9	163.9	157.5	153.3
Change in the ratio	3.3	5.0	-6.2	-10.5	-6.1	-6.7	-6.4	-4.2
<i>Contributions²:</i>								
1. Primary balance	0.7	-4.4	-4.0	-4.7	-3.6	-4.0	-4.2	-4.6
2. "Snow-ball" effect	5.5	-0.9	-2.3	-2.8	-2.1	-3.3	-2.9	-2.7
<i>Of which:</i>								
Interest expenditure	3.5	3.3	3.5	3.1	3.7	2.9	2.9	2.9
Growth effect	0.5	-3.3	-3.9	-4.0	-3.7	-3.8	-3.3	-3.0
Inflation effect	1.5	-0.9	-1.9	-1.9	-2.1	-2.4	-2.5	-2.5
3. Stock-flow adjustment	-2.9	10.3	0.2	-3.0	-0.3	0.6	0.7	3.1
<i>Of which:</i>								
Cash/accruals diff.								
Acc. financial assets				9.0		5.6	5.1	2.5
<i>Privatisation</i>				-0.2		-0.5	-0.1	-0.1
Val. effect & residual				9.2		6.1	5.1	2.5

Notes:

¹ End of period.

² The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Commission 2019 spring forecast (COM); Stability Programme (SP), Commission calculations.

The Stability Programme projects the debt ratio to fall to 170.6% of GDP in 2019 and to 163.9% in 2020 against the Commission forecast of 174.9% in 2019 and 168.9% in 2020. Part of the difference is related to the more optimistic growth and headline balance assumptions presented in the Stability Programme. Another contributor to the difference is the treatment of a possible early repayment of part of the IMF loan by the Greek government. While the Stability Programme assumes this transaction to go forward, the Commission forecast did not take this into account as it had not been concluded by the cut-off date of the forecast (24 April). The largest part of the difference is however due to unspecified stock-flow adjustments.

Both the Stability Programme and the Commission forecast do not take into account the measures adopted after the submission of the Stability Programme. The newly adopted measures may have an impact to the debt ratio and their impact will be assessed in autumn.

3.5. RISK ASSESSMENT

Greece's public finances continue to face important fiscal risks with respect to ongoing court cases and the possible broadening of exemptions from the unified wage grid. There are uncertainties about the outcome of court rulings concerning the constitutionality of 2016 pension reform (recalibration of pensions, new replacement rates, retroactive application, etc.) which has been challenged at the Council of State (CoS) and the ruling is expected to be published in 2019. In case the challenge were to succeed, it may imply substantial retroactive and/or recurrent fiscal cost. Residual uncertainty concerns also the potential restoration of seasonal wage bonuses to public servants which were eliminated as of 2013. The Council of State is yet to publish its ruling on the constitutionality of the cuts in seasonal bonuses. Regarding the compensation of employees, the public wage bill could be additionally affected by the further broadening of the scope of exemptions of certain officials of Ministry of Finance and Ministry of Economy and Development from the unified wage grid. Although the estimated fiscal cost of the legislation is small, it increases the likelihood of legal challenges by other groups of public officials on reason of equal treatment and/or of a unilateral decision of other general government entities to extend these exemptions on an ad hoc basis.

Regarding the macroeconomic outlook, the forecast is heavily reliant on technical assumptions regarding the full execution of the budget ceilings for investment and ordinary spending. Vulnerabilities in the banking sector and increasing wage costs might pose further challenges for the recovery of domestic demand and in particular of investment. In case of a stronger-than-expected deterioration in the external environment, or a higher pass-through to Greece, the recovery may prove to be more sluggish.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

4.1. Compliance with the debt criterion

Following the correction of its excessive deficit in 2016, Greece is in the transition period for the following three years (until 2019) as regards compliance with the debt reduction benchmark. This implies that, during this period, it is required to make sufficient progress as defined by the minimum linear structural adjustment (MLSA) towards compliance with the debt reduction benchmark at the end of the transition period. As from 2020, since its public debt exceeds the 60% of GDP reference of the Treaty, Greece needs to comply with the debt reduction benchmark.

Net of the newly adopted measures, Greece is making sufficient progress towards compliance with the debt reduction benchmark in 2018 and 2019 according to the Commission 2019 spring forecast. In particular, the estimated change in the structural balance in 2018 was higher than the MLSA by 2.0% of GDP in 2018 and by 1.1% of GDP in 2019. According to the Stability Programme, the estimated change in the structural balance falls short from the MLSA by 3% of GDP. Based on the Stability Programme, Greece is expected to meet the debt reduction benchmark in 2020, as its debt-to-GDP ratio is expected to be below the debt benchmark, with a gap to the debt benchmark of -0.8% of GDP. Based on the Commission 2019 spring forecast, Greece is also expected to respect the benchmark in 2020 (with a gap to

the debt benchmark of -0.9 % of GDP). While general government debt is forecast to remain on a downward path, taking into account the newly adopted measures, some risks could be posed to compliance with the debt reduction benchmark in 2020. This will have to be reassessed in autumn as a result of these newly adopted measures.

**Table 4. Compliance with the debt criterion
(excluding the measures adopted on 15 May 2019)**

	2018	2019		2020	
		SP	COM	SP	COM
Gross debt ratio	181	170.6	174.9	163.9	168.9
Gap to the debt benchmark ^{1,2,3}				-0.8	-0.9
Structural adjustment ³	-0.1	-1.7	-3.1	-1.0	-1.2
<i>To be compared to:</i>					
Required adjustment ⁴	-2.1	1.3	-4.2		

Notes:

¹ Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

² Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

³ Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

⁴ Defines the remaining annual structural adjustment over the transition period which ensures that - if followed - Member State will comply with the debt reduction benchmark at the end of the transition

Source :

Commission 2019 spring forecast (COM); Stability Programme (SP), Commission calculations.

4.2. Compliance with the MTO

Greece is subject to the preventive arm of the Stability and Growth Pact and has to ensure compliance with the MTO. The assessment of years 2018 and 2019 is conducted in the absence of an MTO and is based on the primary surplus target recommended by the Council and monitored under enhanced surveillance.

Based on the outturn data, Greece's headline balance reached a surplus of 1.1% of GDP in 2018, corresponding to a primary balance of 4.3% of GDP in the definition monitored under enhanced surveillance, well above the target of 3.5% of GDP. Excluding the measures adopted on 15 May, both the Stability Programme and Commission 2019 spring forecast estimated compliance with the 3.5% of GDP primary surplus target would be complied with in 2019.

In 2020, according to the information provided in the Stability Programme, Greece is expected to be above its medium-term objective set at 0.25% of GDP, with the recalculated structural surplus projected at 2.0% of GDP. This is confirmed based on the Commission 2019 spring forecast, which excludes the new measures adopted after its cut-off date and projects the structural surplus at 0.8% of GDP in 2020. Therefore, Greece is projected to be

compliant with the requirements of the preventive arm of the Pact in 2020 on the basis of the Commission 2019 spring forecast.

However, the adoption of new permanent measures on 15 May 2019 is expected to have an impact on the projection of Greece's structural balance. As mentioned earlier, the projected fiscal impact of these new measures raises concerns on the achievement of the medium-term budgetary objective of 0.25% of GDP in 2020. As such, the expenditure benchmark set for 2020 would have to be re-assessed in autumn given that it would, as a result, be affected by the lower structural surplus in 2019.

**Table 5: Compliance with the requirements under the preventive arm
(excluding the measures adopted on 15 May 2019)**

(% of GDP)	2018	2019	2020							
Background budgetary indicators¹										
Medium-term objective (MTO)	macroeconomic adjustment programme	-*	0.3							
Structural balance ² (COM)	5.0	1.9	0.8							
Setting the required adjustment to the MTO										
Structural balance based on freezing (COM)	4.0	1.9	-							
Position vis-a-vis the MTO ³	At or above the MTO	At or above the MTO	At or above the MTO							
Required adjustment ⁴	macroeconomic adjustment programme	0.0	0.0							
Required adjustment corrected ⁵		-4.5	-1.7							
Corresponding expenditure benchmark ⁶		10.3	4.5							
Compliance with the required adjustment to the MTO										
	COM	SP	COM	SP	COM					
Structural balance pillar										
Change in structural balance ⁷	macroeconomic adjustment programme	Compliance								
One-year deviation from the required adjustment ⁸										
Two-year average deviation from the required adjustment ⁸										
Expenditure benchmark pillar										
Net public expenditure annual growth corrected for one-offs ⁹										
One-year deviation adjusted for one-offs ¹⁰										
Two-year deviation adjusted for one-offs ¹⁰										
Finding of the overall assessment										
Legend										
'Compliance' - the recommended structural adjustment or a higher adjustment is being observed.										
'Some deviation' - a deviation from the recommended structural adjustment is being observed, but it is below the threshold for a significant deviation.										
'Significant deviation' - a deviation which has reached or breached the threshold for a significant deviation (i.e. 0.5% of GDP over one year, 0.25% of GDP over two years on average).										
Notes										
¹ Since Greece was exempt from submitting Stability Programmes while it was under the programme, the Greek authorities did not establish a MTO in 2019. In 2019, Greece is considered to comply with the 3.5% of GDP primary surplus target monitored under the enhanced surveillance framework										
² The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.										
³ Structural balance = cyclically-adjusted government balance excluding one-off measures.										
⁴ Based on the relevant structural balance at year t-1.										
⁵ Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.). In case of a SDP, the requirement corresponds to the Council recommendation when available, otherwise it refers to the Commission recommendation to the Council.										
⁶ Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.										
⁷ Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.										
⁸ Change in the structural balance compared to year t-1. Ex post assessment (for 20XX-1) is carried out on the basis of Commission 20XX spring forecast.										
⁹ The difference of the change in the structural balance and the corrected required adjustment.										
¹⁰ Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal)										
¹¹ Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.										
Source: Stability Programme (SP); Commission 2019 spring forecast (COM); Commission calculations.										

5. DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

The assessment of Greece's long-term debt sustainability is provided in the third enhanced surveillance report published on 5 June 2019.

6. FISCAL FRAMEWORK

The national fiscal rules, which are closely aligned with the Stability and Growth Pact, are laid down in Organic Budget Law Framework⁴, containing in particular a structural budget balance rule (art. 35) with a corrective adjustment mechanism (art. 37), and a debt rule (art. 36). However, especially for 2018, the fiscal targets were set based on the provision of art. 41 of the aforementioned law, meaning that the fiscal targets were determined by the requirements of the stability support program. As to ex post compliance: according to the Stability Programme submitted by the authorities, Greece recorded a structural surplus of 4.6% of GDP in 2018 and is expected to reach 2.9% of GDP in 2019. Over the period 2020-2022, based on the Stability Programme's projections taken at face value, the structural balance is planned to remain in surplus averaging around 1.8% of GDP, significantly above its MTO of 0.25% of GDP. Regarding the debt rule, Greece is currently in the transition period (2017-2019). Based on the information provided in the Stability Programme, Greece achieved the minimum linear structural adjustment in 2018. In 2019, although the estimated change in the structural balance is projected by the authorities to fall short of the MLSA, Greece is compliant with the debt reduction benchmark. Similarly, in 2020, following the transition period, the debt reduction benchmark is expected to be met.

As a result, based on the information provided in the Stability Programme, the past, planned and forecast fiscal performance in Greece appears to comply with the requirements of the applicable national numerical fiscal rules. However, the newly adopted expansionary measures, announced after submission of the Stability Programme, might put at risk the compliance with the national fiscal rules.

The Stability Programme states that it should be considered as Greece's national medium-term fiscal plan of Article 4(1) of Regulation (EU) 473/2013 of the European Parliament and of the Council. Significant fiscal measures were legislated after the submission of the Stability Programme, thus undermining the role of the Programme as a tool for multilateral surveillance, as envisaged in Article 3 of regulation 1466/97. In addition, neither the Stability Programme nor the National Reform Programme include indications on the expected economic returns on non-defence public investment projects that have significant budgetary impact.

The macroeconomic forecasts underlying the Stability Programme had been endorsed by the Hellenic Fiscal Council (HFC) on 30 April 2019⁵. The HFC endorsed that the macroeconomic forecast underlying the Stability Programme since they were considered within acceptable range in the light of the information currently available. More specifically, as stated in the Stability Programme, the HFC concluded that the GDP growth projections were considered optimistic but achievable under certain conditions. The risks flagged in the HFC's assessment are mainly linked to the challenges faced by the banking sector and especially the high ratio

⁴ Law 4270/2014 (FEK 143/A/28-06-2014)

⁵ The opinion is available at (in English): https://www.hfisc.gr/sites/default/files/opinion_final_0.pdf

of non-performing loans, the unfavourable demographic developments and the potential deterioration of the external environment.

The HFC is an independent body established by Law 4270/2014. Its main responsibilities are (a) the assessment of the macroeconomic forecasts and the fiscal projections underlying the Medium Term Fiscal Strategy, the preliminary draft budget and the final budget; (b) the evaluation of the methodologies and assumptions used to prepare the forecasts and a regular ex post evaluation of past forecast performance; and (c) both ex ante and ex post monitoring of compliance with domestic fiscal rules. The HFC is required to publish semi-annual reports, explaining the conclusions of its assessments on macroeconomic and fiscal forecasts as well as of its opinions in relation to compliance with the numerical fiscal rules.

7. SUMMARY

Since Greece was under a stability support programme, it has not established an MTO for years 2018 and 2019. Therefore, the assessment of the Stability Programme for these years was conducted in the absence of an MTO and country-specific recommendations. Greece has achieved the primary surplus target in 2018 as set by the by Decision (EU) 2017/1226 of 30 June 2017.

Overall, based on the Commission 2019 spring forecast and thus excluding the new measures announced after its cut-off date, Greece is expected to achieve the primary surplus target of 3.5% of GDP monitored under enhanced surveillance in 2019 and to meet the MTO in 2020.

Neither the Stability Programme nor the Commission 2019 spring forecast includes the package of measures adopted on 15 May 2019, which is estimated to exceed 1% of GDP in 2019 and beyond. Given that the Commission 2019 spring forecast points to a primary balance of close to 3.5% of GDP up to 2021, the adoption of measures with a fiscal impact of this magnitude would pose a risk for the achievement of the primary surplus target, as monitored under the enhanced surveillance framework. Moreover, the adoption of these measures is projected to result in the deterioration of the structural balance, raising concerns on the achievement of the medium-term budgetary objective in 2020. In this context, a re-assessment will be carried out in autumn 2019, including a revision of the applicable benchmark for net expenditure growth in 2020.

8. ANNEXES

Table I. Macroeconomic indicators

	2001-2005	2006-2010	2011-2015	2016	2017	2018	2019	2020
Core indicators								
GDP growth rate	3.9	-0.2	-3.9	-0.2	1.5	1.9	2.2	2.2
Output gap ¹	1.8	1.7	-13.7	-11.0	-8.9	-6.4	-4.0	-1.9
HICP (annual % change)	3.5	3.3	0.2	0.0	1.1	0.8	0.8	0.8
Domestic demand (annual % change) ²	3.6	-0.1	-5.1	0.5	1.6	0.5	2.7	2.2
Unemployment rate (% of labour force) ³	10.3	9.5	24.3	23.6	21.5	19.3	18.2	16.8
Gross fixed capital formation (% of GDP)	23.8	22.4	12.6	12.1	12.9	11.1	12.0	13.2
Gross national saving (% of GDP)	15.6	9.1	8.5	10.3	11.4	11.7	13.0	14.3
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	-6.9	-9.8	-8.3	0.5	0.7	1.1	0.5	-0.1
Gross debt	104.7	117.8	172.8	178.5	176.2	181.1	174.9	168.9
Net financial assets	-89.7	-92.7	-117.3	-147.4	-148.6	n.a	n.a	n.a
Total revenue	39.4	40.1	46.9	49.4	48.1	47.8	47.2	45.5
Total expenditure	46.3	49.9	55.2	48.9	47.3	46.7	46.7	45.6
<i>of which: Interest</i>	5.2	4.9	4.8	3.2	3.1	3.3	3.5	3.7
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	4.9	5.1	11.6	6.5	6.1	6.2	7.9	7.6
Net financial assets; non-financial corporations	-68.8	-70.1	-67.9	-91.6	-101.4	n.a	n.a	n.a
Net financial assets; financial corporations	-8.4	-11.1	5.7	21.0	18.5	n.a	n.a	n.a
Gross capital formation	8.0	6.9	5.0	5.8	7.4	7.1	6.4	7.0
Gross operating surplus	18.8	18.6	19.1	18.2	18.4	18.3	19.4	19.7
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	-6.3	-7.0	-5.0	-6.7	-6.9	-6.6	-7.2	-5.9
Net financial assets	95.6	73.4	63.6	77.8	86.7	n.a	n.a	n.a
Gross wages and salaries	26.1	27.2	25.5	24.8	24.8	25.1	25.3	25.2
Net property income	5.8	4.5	3.9	2.5	2.5	1.9	2.2	2.4
Current transfers received	16.0	18.4	21.5	21.5	20.8	20.4	19.6	18.8
Gross saving	4.8	3.7	-1.7	-4.5	-4.6	-4.0	-2.8	-1.4
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	-8.3	-11.8	-1.7	0.4	0.0	-0.1	0.5	0.9
Net financial assets	71.3	100.4	116.0	140.2	144.9	n.a	n.a	n.a
Net exports of goods and services	-9.7	-10.8	-3.3	-0.7	-1.0	-0.3	-0.6	-0.3
Net primary income from the rest of the world	-0.2	-2.3	-0.3	0.0	0.2	-0.9	-0.6	-0.7
Net capital transactions	1.2	1.7	2.1	1.5	1.1	1.3	1.5	1.7
Tradable sector	43.9	39.7	38.7	39.7	40.9	41.6	n.a	n.a
Non tradable sector	45.7	48.9	49.6	47.5	46.5	45.4	n.a	n.a
<i>of which: Building and construction sector</i>	6.9	5.5	2.5	2.2	2.1	2.2	n.a	n.a
Real effective exchange rate (index, 2000=100)	87.9	97.9	89.4	80.9	82.1	83.3	82.2	80.9
Terms of trade goods and services (index, 2000=100)	100.9	100.5	100.8	105.6	105.1	103.1	103.2	103.9
Market performance of exports (index, 2000=100)	116.5	106.8	97.5	92.2	92.4	98.3	100.8	101.2
Notes:								
¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2010 market prices.								
² The indicator on domestic demand includes stocks.								
³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.								
Source:								
AMECO data, Commission 2019 spring forecast								

Mandatory variables not included in the Stability Programme

The Stability Programme contains all mandatory variables.