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COMMISSION OPINION

of 24.11.2021

on the Draft Budgetary Plan of Greece

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(Only the Greek text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan by 15 October, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In that Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.[3]

4. On 3 March 2021, the Commission adopted a Communication providing further policy orientations to facilitate the coordination of fiscal policies.[4] In that Communication, the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken on the basis of an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative criterion. On 2 June 2021, on the basis of the Commission's 2021 spring forecast, the Commission considered that the conditions to continue to apply the general escape clause in 2022 and to deactivate it as of 2023 were met.[5] Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

5. Next Generation EU, including the Recovery and Resilience Facility, supports a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 established the

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[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

[3] https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

[4] Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

[5] Communication from the Commission on economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy, Brussels, 2.6.2021, COM(2021) 500 final.

Recovery and Resilience Facility[6] which provides financing support for the implementation of reforms and investments, notably to promote the green and digital transitions, thereby strengthening the economies' resilience and potential growth. Part of this support is in the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the EU budget. By contributing to economic recovery and to strengthening long-term growth, it supports public finances, growth and job creation in the medium and long term.

6. On 2 June 2021, the Commission emphasised in its communication that the coordination of national fiscal policies remains crucial to underpin the recovery. In this context, the Commission set out its view that the overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. Fiscal policy should remain agile and adjust to the evolving situation as warranted, and a premature withdrawal of fiscal support should be avoided. Once health risks diminish, fiscal measures should gradually pivot to more targeted measures that promote a resilient and sustainable recovery. Finally, with economic activity gradually normalising in 2021, Member States' fiscal policies should become more differentiated in 2022, taking into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. All Member States should preserve nationally financed investment. As the recovery takes hold, fiscal policy should prioritise higher public and private investment, supporting the transition towards a green and digital economy.

   In its recommendations on the 2021 Stability Programmes on 18 June 2021, the Council also recommended that, when economic conditions allow, Member States should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, investment should be enhanced to boost growth potential.

   The Council, on 13 July 2021, further recommended to euro area Member States[7] to take action, individually and collectively within the Eurogroup, in the period 2021–2022 to ensure a policy stance that supports the recovery from the COVID-19 crisis. When the epidemiological and economic conditions allow, emergency measures should be phased out while combatting the social and labour-market impact of the crisis. Recalling the need for prudent medium-term fiscal positions and debt sustainability, while enhancing investment, the Council also called for particular attention to the quality of budgetary measures.

   The recovery of the European economy has been strengthening, thanks to the improved health situation and easing of pandemic control restrictions. The volume of output in the euro area is expected to return to its pre-pandemic level by the end of the year. However, bottlenecks in global supply and rising energy and commodity prices have been increasingly weighing on activity in the EU. This together with production bottlenecks, due to the shortage of some input components and raw materials, and capacity constraints vis-à-vis booming demand both in the EU and internationally have been putting upward pressure on consumer prices.

7. On 18 June 2021, in its recommendations on the 2021 Stability Programmes, the Council highlighted that the established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current

[6] OJ L57, 18.2.2021, p.17.

[7] Council Recommendation of 13 July 2021 on the economic policy of the euro area, OJ C 283, 15.7.2021, p. 1.

circumstances. Specifically, the assessment of the overall fiscal stance at the current juncture should take into account the transfers from the EU budget (such as those from the Recovery and Resilience Facility). Furthermore, the assessment also needs to take into account the phasing-out of crisis-related temporary emergency measures that were designed to support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions, while their withdrawal is accompanied by the easing of lockdown restrictions that will support growth.

Accordingly, the fiscal stance in 2021 and 2022 is measured by the change in primary expenditure (net of discretionary revenue measures), excluding crisis-related temporary emergency measures but including expenditure financed by grants under the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth.[8] Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed primary current expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) and investment.

CONSIDERATIONS CONCERNING GREECE

8. On 15 October 2021, Greece submitted the Draft Budgetary Plan for 2022. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

9. On 18 June 2021, the Council recommended that in 2022 Greece[9] uses the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Moreover, it should preserve nationally financed investment.

The Council also recommended to pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery; to prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition; and to give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

On 2 June 2021, the Commission issued a report under Article 126(3) TFEU.[10] This report discussed the budgetary situation of Greece, as its general government deficit in 2020 exceeded the 3% of GDP Treaty reference value, while its general government debt exceeded the 60% of GDP Treaty reference value and did not respect the debt reduction benchmark. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

[8] The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and can boost Greece's potential growth.

[9] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Greece, OJ C 304, 29.7.2021, p. 33.

[10] Report from the Commission prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, Brussels, 2.6.2021, COM(2021) 529 final.

10. According to the Commission 2021 autumn forecast, the Greek economy is expected to grow by 7.1% in 2021 and by 5.2% in 2022, while inflation is forecast at 0.1% in 2021 and 1% in 2022. The Draft Budgetary Plan projects real GDP growth to be 6.1% in 2021 and 4.5% in 2022, while inflation is forecast to reach 0% in 2021 and 0.8% in 2022. According to the Draft Budgetary Plan, domestic demand is expected to be the main driver of the recovery, while net exports are also expected to recover, but at a slower pace. The Draft Budgetary Plan's lower growth projection vis-à-vis the Commission's forecast is mainly due to its lower projection for gross fixed capital formation and private consumption in 2021. As regards 2022, the Draft Budgetary Plan forecasts a weaker contribution to growth from external demand. Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are markedly cautious for 2021 and 2022.

Greece complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently endorsed macroeconomic forecasts. In its endorsement of the forecast, the Hellenic Fiscal Council mentioned that it considers the Draft Budgetary Plan's growth projections for 2021 and 2022 as realistic, although the growth profile deviates significantly from the estimates of international organizations.

11. Greece submitted its Recovery and Resilience Plan on 27 April 2021. The Council approved the assessment of Greece's Recovery and Resilience Plan on 13 July 2021. A pre-financing payment under the Recovery and Resilience Facility worth 1.3% of GDP was made to Greece in August 2021. The Draft Budgetary Plan assumes that expenditure amounting to 0.3% of GDP in 2021, 1.7% in 2022, 1.8% in 2023, 1.7% in 2024, 1.6% of GDP in 2025 and 1.6% of GDP in 2026 will be funded by non-repayable financial support (grants) from the Recovery and Resilience Facility. Expenditures financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government deficit and debt. The Recovery and Resilience Plan also assumes financing of private investments covered through loans from the Recovery and Resilience Facility, with a direct impact on the general government debt, while no impact on the deficit as it will finance loans to the private sector, amounting to 0.9% of GDP in 2021, 1.0% in 2022, 0.9% in 2023, 0.9% in 2024, 0.8% in 2025 and 1.7% in 2026. The Commission 2021 autumn forecast assumes a slightly lower expenditure financed by Recovery and Resilience Facility grants in 2022, offset by slightly higher spending thereafter, based on different assumptions for the spending profile of the actions under the Recovery and Resilience Plan than assumed in the Draft Budgetary Plan. The same backloaded profile in the Commission forecast also applies to the government loans to the private sector financed by Recovery and Resilience Facility loans. Simulations by the Commission services show that the Recovery and Resilience Plan, together with the rest of measures of the European Union Recovery Instrument, has the potential to increase the real GDP of Greece by 2.1 to 3.3 % by 2026, not including the possible positive impact of structural reforms, which can be substantial.[11]

12. In the 2022 Draft Budgetary Plan, Greece's general government deficit is planned to decrease from 9.9% of GDP in 2021 to 3.7% of GDP in 2022, mainly due to the ongoing recovery and the phasing-out of most of the emergency measures. These projections are in line with the Commission 2021 autumn forecast, which projects the

[11] These simulations reflect the overall impact of NGEU, which also includes funding for ReactEU, and increased funding for Horizon Europe, InvestEU, JTF, Rural Development and RescEU.

general government deficit to be 9.9% of GDP in 2021 and 3.9% of GDP in 2022. The close alignment of the fiscal projections reflects, on the one hand, a more dynamic economic recovery assumed in the Commission forecast, and, on the other hand, a somewhat lower growth of some expenditure items, including pensions, planned in the Draft Budgetary Plan. The general government debt ratio is planned to decrease from 197.9% of GDP in 2021 to 190.4% of GDP in 2022. These projections are lower compared to the Commission 2021 autumn forecast which, despite the higher growth, projects the government debt ratio to decrease from 202.9% of GDP in 2021 to 196.9% of GDP in 2022. The main difference between the two sets of projections stems from the stock-flow adjustment, in particular the assumption on planned pre-payment of official sector loans in 2021, which is not included in the Commission forecast on a no-policy-change basis, and the projections of the cash-accrual adjustments, where the Commission forecasts that the cash balance will be lower than the accrual balance, while the authorities assume no cash-accrual adjustment.

The outlook for public finances continues to be subject to the high uncertainty that surrounds the macroeconomic projections, including risks related to the evolution of the pandemic and possible scarring effects. The recent or planned financial policy arrangements, including the sale and lease-back scheme for properties owned by vulnerable debtors may entail a deficit- and debt-increasing impact depending on their final statistical classification. Pending legal cases pose additional risks to the forecast and include a case on the retroactive compensation for cuts in the supplementary pensions and seasonal bonuses and litigation cases against the Public Real Estate Company (ETAD).

13. Most of the pandemic-related measures are expected to be phased out by the end of 2021, but additional measures were taken to address the impact of the fire damages, and minor permanent measures were also adopted. The Draft Budgetary Plan assumes the budgetary impact of the support measures to reach 7.1% of GDP in 2021 and 1.5% of GDP in 2022. The measures, which will remain in place in 2022 aim primarily to support recovery by stimulating aggregate demand and employment but also to further support the healthcare system. Most of them are revenue-decreasing measures with an estimated impact of 1.1% of GDP in 2022. These measures include a reduced rate of social security contributions, a waiver of the social solidarity tax for the private sector and lower VAT rates for transport, beverages and cinema tickets until June 2022. The authorities also extended the recruitment subsidy programme to create 50 000 new jobs by subsidising social security contributions for six months for each new employment contract. Finally, the healthcare system is expected to incur increased costs partly linked to the vaccination campaign. The 2022 Draft Budget includes measures to address the impacts of the devastating fires in summer 2021, with an estimated cost of 0.3% of GDP in 2021 and 0.1% of GDP in 2022. Furthermore, it includes a number of minor measures to support the economy worth 0.1% of GDP, the cost of which is partly matched by the elimination of unused reserves in the social budget. Finally, in response to the recent increase in energy prices, Greece announced the introduction of a new electricity subsidy scheme and an increase in the heating allowance in order to counteract its economic and social impact. These measures are worth 0.2% of GDP for 2021 and will be fully matched with increased revenues of the emissions trading system account earmarked to energy-related spending. Based on the Commission's forecast, the crisis-related temporary emergency measures are expected to remain broadly stable at 7.8% in 2021 and decrease to 1.5% in 2022.

According to the Draft Budgetary Plan, gross fixed capital formation is expected to increase from 4.5% of GDP in 2021 to 6.2% of GDP in 2022. This increase can be mainly attributed to the investments financed by the Recovery and Resilience Plan as well as to increased deliveries of military equipment. Some of these measures, such as the improvement of energy efficiency of both public and private buildings, the digital transformation of small and medium sized companies and the digitisation of archives and related services are aimed at supporting the green and digital transition as recommended by the Council on 18 June 2021. These projections are higher compared to the Commission 2021 autumn forecast, mainly due to higher EU-funded expenditure justified by faster take-up planned in the Draft Budgetary Plan. A complete assessment of the fiscal-structural reforms implemented by Greece will be done in the context of the assessment of the implementation of the Recovery and Resilience Plans and the 2022 Country Report.

14. The fiscal stance, which excludes crisis-related temporary emergency measures while including the impact on aggregate demand from investment financed by both the national and the EU budgets, notably the Recovery and Resilience Facility, is projected in the Commission 2021 autumn forecast at -1.8% of GDP in 2022.[12] Greece is projected to use the Recovery and Resilience Facility in 2022 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.2 percentage points in 2022 compared to 2021. The decreased EU Funds due to the starting phase of the new programming period affect negatively the indicator, which is counter balanced by the expenditure financed by the Recovery and Resilience Facility grants, having an overall expansionary contribution to the fiscal stance. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.9 percentage points in 2022.[13] The growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 0.4 percentage points to the overall fiscal stance.

15. The Draft Budgetary Plan does not include budgetary projections beyond 2022.

16. In 2022, based on the Commission's forecast and including the information incorporated in Greece's Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive. As recommended by the Council, Greece plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Greece also plans to preserve nationally financed investment. Given the level of Greece's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supportive budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term.

The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. Most of the emergency support

[12] A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionary fiscal policy.

[13] Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.3 percentage points of GDP.

measures will be phased out in 2021 and the ones that are included in the 2022 Draft Budgetary Plan aim at stimulating aggregate demand and employment, which will support a sustainable and inclusive recovery. Furthermore, the investments and reforms funded by the Recovery and Resilience Facility will contribute significantly to the green and digital transition. Finally, undergoing fiscal structural reforms such as the spending reviews, the performance budgeting reform, the completion of functional classification and the development of a green budgeting framework are expected to improve the efficiency of public finances.

Taking into account the strength of the recovery, Greece is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

Done at Brussels, 24.11.2021

For the Commission
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