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Analysis of the Draft Budgetary Plan of Greece

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of Greece

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EXECUTIVE SUMMARY

- After a real GDP growth of 1.9% in 2019, economic activity is set to contract sharply in 2020, by 8.2% according to the Draft Budgetary Plan and by 9% according to the Commission autumn forecast. For 2021, the Draft Budgetary Plan projects GDP to expand by 7.5%. The Commission projects GDP to grow by 5% in 2021.
- In the Draft Budgetary Plan, the headline balance is expected to deteriorate sharply in 2020 and to reach a deficit of 8.6% of GDP, before falling to 3.9% of GDP in 2021. For 2021, the Plan includes grants from the Recovery and Resilience Facility (RRF) of 1.5% of GDP, which are included in the revenue projections. According to the Commission, Greece is projected to reach a headline deficit of 6.9% of GDP in 2020 and 6.3% of GDP in 2021.
- Deficit-increasing measures adopted in 2020 to fight the pandemic and to assuage its adverse socio-economic effects are estimated to amount to 4.2% of GDP. They comprise, among others, extraordinary healthcare expenditure, income support for suspended employees, partial and targeted waiver of social security contributions, increased funding for the unemployment scheme and subsidies to support small and medium-sized enterprises. Liquidity measures and public guarantees aimed to support firms, amount to about 4.7% of GDP as calculated by the Commission and do not entail an immediate budgetary impact. Overall, the measures taken by Greece in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak
- The planned new measures to support the economy in 2021 amount to 1.1% of GDP and target the promotion of employment and income growth.
- Public debt stood at 180.5% of GDP at end of 2019. According to the Draft Budgetary Plan, it is planned to rise to 197.4% of GDP in 2020, before declining to 184.7% in 2021. In its autumn forecast, the Commission projects the public debt-to-GDP ratio to reach 207.1% of GDP in 2020, before declining to 200.7% in 2021.
- On 20 May 2020, the Commission has prepared a report under Article 126(3) TFEU analysing whether Greece was compliant with the deficit and debt criteria of the Treaty. Overall, the analysis suggested that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled while the debt criterion was complied with. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.
- Overall, most of the measures in the Draft Budgetary Plan of Greece are supporting economic activity against the background of considerable uncertainty. At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances. Moreover, given the

level of Greece's government debt before the outbreak of the COVID-19 pandemic, it is important for Greece to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plan of Greece (hereafter called the Plan), which was submitted on 15 October 2020 in compliance with Regulation (EU) No 473/2013.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance of EU Member States agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021[1] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[2], the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide targeted and temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements, including Greece's fiscal target under enhanced surveillance, that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. The RRF is envisaged to provide a total envelope of €672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States. The 2021 Draft Budgetary Plan of Greece takes into account the implementation of the reforms and investments, and their associated costs, envisaged under the RRF.

As the debt-to-GDP ratio stood at 180.8% of GDP at the end of 2016 (the year in which Greece corrected its excessive deficit), exceeding the 60% of GDP reference value, during the three years following the correction of excessive deficit Greece was subject to transitional arrangements until 2019 to make sufficient progress towards compliance with the debt reduction benchmark. Following the end of the transition period, Greece was expected to comply with the debt reduction benchmark.

On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Greece's general government deficit in 2020 was planned to exceed the 3% of GDP

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[1] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[2] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

Treaty reference value and Greece did not make sufficient progress towards compliance with the debt reduction benchmark in 2019. The report concluded that, after the assessment of all relevant factors, the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled while the debt criterion was complied with. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The Greek economy is deeply impacted by the COVID-19 pandemic. To contain it, the government introduced general lockdown measures on 23 March. Those measures were gradually relaxed starting on 4 May. The lockdown and the ensuing health protocols after the lifting of restrictions have entailed a large impact on economic activity. After a real GDP growth of 1.9% in 2019, the 2021 Draft Budgetary Plan forecasts a real GDP contraction of 8.2% in 2020. This projection represents a 3.5-percentage-point downward revision to the baseline scenario for GDP growth expected in the 2020 Stability Programme for Greece but is closely aligned with the adverse scenario of the Stability Programme. For 2021, the Plan projects GDP to expand by 7.5%. The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic.

The abrupt drop in economic activity in the second quarter of 2020 is expected to be followed by a recovery. According to the Plan, a gradual recovery of real GDP on a quarterly basis is expected from the third quarter in 2020, while the services sector and in particular tourism is expected to be strongly affected throughout the year. Domestic demand is forecast to decline strongly as employment and wages are negatively affected by the crisis. Private investment is expected to decline more strongly in the second half of 2020 due to high uncertainty. Exports are forecast to decline strongly in 2020 driven by a strong decline in services exports and a more moderate decline in goods exports. The recovery in 2021 is forecast to be broad based and driven both by domestic and external demand. The fiscal measures adopted by the government to mitigate firms' liquidity difficulties and to support households' income is expected to be key to support the rebound.

The Plan's forecast is broadly aligned with the Commission projection for 2020. For 2021, contrary to the Plan, the Commission forecast does not assume any spending related to the RRF as the related expenditure measures are not sufficiently detailed in the Plan and have not been credibly announced. This explains the difference of 2.5 percentage points in the growth projection for 2021 between the Plan and the Commission forecast. According to the Commission forecast, private consumption and investment are projected to be the main driver of the recovery in 2021, whereas net exports are expected to contribute to a lesser extent.

The macroeconomic forecast underpinning the Draft Budgetary Plan was endorsed by the independent Hellenic Fiscal Council in its assessment on 5 October 2020.[3] Nevertheless, the Council pointed out that the 2021 growth projection was on the optimistic side as it predicated on the full implementation of European and national support schemes and the gradual de-escalation of the pandemic.

Table 1. Comparison of macroeconomic developments and forecasts

	2019	2020			2021		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	1.9	-4.7	-8.2	-9.0	5.1	7.5	5.0
Private consumption (% change)	1.9	-4.1	-6.0	-5.5	4.2	5.8	4.0
Gross fixed capital formation (% change)	-4.6	-4.6	-10.9	-8.0	15.3	30.4	5.5
Exports of goods and services (% change)	4.8	-19.2	-24.8	-21.6	19.2	22.2	10.7
Imports of goods and services (% change)	3.0	-14.2	-15.1	-9.8	15.6	18.0	6.7
Contributions to real GDP growth:							
- Final domestic demand	1.0	-3.0	-5.0	-4.6	4.4	7.0	3.9
- Change in inventories	0.1	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.7	-1.7	-3.3	-4.6	0.7	0.5	0.8
Output gap[1]	-4.4	-7.8	-12.1	-12.3	-2.6	-5.7	-7.5
Employment (% change)	1.2	0.0	-4.7	-3.6	0.0	5.2	1.7
Unemployment rate (%)	17.3	0.0	18.6	18.0	0.0	16.5	17.5
Labour productivity (% change)	0.6	0.0	-3.7	-5.6	0.0	2.2	3.3
HICP inflation (%)	0.5	-0.3	-0.6	-1.3	0.6	0.6	0.9
GDP deflator (% change)	0.2	0.0	-0.8	-1.4	0.7	1.0	0.4
Comp. of employees (per head, % change)	1.0	0.0	-1.9	-1.0	0.0	1.5	0.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.6	0.0	-2.3	-4.8	0.0	0.0	-4.9

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3. Recent and planned fiscal developments

On 20 July 2020 the Council addressed recommendations to Greece in the context of the European Semester. In the area of public finances and in line with the general escape clause, the Council recommended Greece to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery, when economic conditions allow, Greece should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

[3] Assessment of the Macroeconomic Forecasts of the 2021 Draft Budget', available at: https://www.hfisc.gr/en/ekfrasi-gnomis/assessment-macroeconomic-forecasts-2021-draft-budget

3.1. Deficit developments

The Draft Budgetary Plan projects a headline deficit of 8.6% of GDP in 2020. This projection embeds a sizeable revision with respect to the Stability Programme of May 2020, where the deficit was planned at 4.7% of GDP. A major part, about 2 percentage points of the revision is due to the prolongation and extension of fiscal measures addressing the COVID-19 pandemic. The retroactive payment of pensions following the Court of State ruling of July 2020 explains an additional 0.8 percentage points. The remainder is primarily due to lower revenues triggered by the deeper GDP contraction than expected in spring. The forecast of the Plan implies a primary deficit monitored under enhance surveillance of 6.3% of GDP. The Commission 2020 autumn forecast projects a lower headline deficit, of 6.9% of GDP and a lower primary balance monitored under enhanced surveillance of 4.4% of GDP, with the difference largely explained by the different statistical recording of some of the fiscal measures taken by the government, especially the repayable advance payment on the expenditure side.[4]

The revenue-to-GDP ratio is accordingly lower than the one in the Commission forecast, as it accounts a larger loss in tax revenues despite the broadly aligned macroeconomic assessment. Another factor that contributes to the differences in fiscal figures when expressed as percentage of GDP is that the Plan uses a macroeconomic forecast that is based on the national accounts dating from before the benchmark revision published on 15 October 2020.

Both the Plan and the Commission forecast a deterioration in the structural balance.[5] The differences in the headline balance forecast affect also the structural balance, therefore the Plan projects a larger structural deterioration than the Commission.

For 2021, the Draft Budgetary Plan projects a deficit at 3.9% of GDP. This includes assumed RRF grants of 1.5% of GDP within the revenue projections as well as unspecified investment costs of the same magnitude on the expenditure side.[6] The improvement of the budget balance with respect to 2020 reflects the expected economic rebound and the phasing out of part of the temporary measures implemented to contain the economic effects of the pandemic. At the same time, it also includes recently announced fiscal measures that aim to support the recovery. The Plan projects the recalculated structural balance to improve by about 1½ percentage points. However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year

[4] In particular, in line with Eurostat's Draft note on statistical implications of some policy measures in the context of COVID-19 pandemic, the Commission applies accrual adjustment on the measures that constitute a temporary time-shift in revenues, such as the tax and social security deferrals, the reduction of advance payments for corporate income tax and considers the part of the repayable advance to companies estimated to be repaid as a financial transaction.

[5] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The estimates of the structural budget balance are affected by high uncertainty due to the economic consequences of the COVID-19 pandemic.

[6] The statistical treatment of the financial support provided by the RRF is subject to ongoing discussions between Eurostat and the Member States.

to the next affect the indicators used to assess the fiscal stance. Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.

The Commission 2020 autumn forecast projects a headline deficit of 6.3% of GDP for 2021, which is higher compared to the Plan by 2.4 percentage points. This mainly reflects the more conservative macroeconomic assumptions, as the Commission's forecast does not include any growth impact from the projects envisaged under the RRF as these investment expenditures are not sufficiently detailed in the Plan and no specific announcement was made about the underlying projects. A further difference is due to the difference in the statistical recording mentioned above. On the expenditure side, the Commission forecasts a more gradual implementation of the new defence programme, which adds to the difference. For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes, in the budgetary projection for 2021, the 10% pre-financing of RRF grants[7] as a financial transaction with no impact on the budget balance in 2021, but with a public debt-reducing impact. In the case of Greece, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 1.8 billion in 2021. On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast.[8]

The Plan expects the structural balance to improve by around 1½ percentage points in 2021, slightly below what was expected in the Stability Programme. The Commission however projects that the structural balance will deteriorate by 2½ percentage points. This difference mirrors the differences already present in the headline balance forecasts.

The main risk to the budgetary targets for 2021 stems from the extraordinarily high uncertainty associated with the macroeconomic scenario. Further risks relate to the litigation cases against the Public Real Estate Company (ETAD), remaining public service obligation claimed by the Hellenic Post, and potential additional costs related to health care expenditure of persons without health insurance. Regarding court rulings on pensions, uncertainty related to the full extent of the retroactive compensation to pensioners persists, as the 2020 Council of State ruling has not

[7] The amount of pre-financing is based on the Council Presidency compromise proposal for the RRF Regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

[8] The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). In line with the customary no policy-change assumption, the forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

been published yet. So far, only the cuts related to the 'main' pensions have been compensated. On the positive side, Greece is expected to benefit greatly from the RRF, which aims to support convergence and a sustainable economic recovery by providing large-scale financial support to reforms and investments.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2019		2020			2021			Change: 2019-2021
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**49.0**	**49.0**	**46.7**	***48.1***	**50.3**	**47.3**	***48.0***	**46.8**	**-1.0**
of which:									
- Taxes on production and	17.3	17.3	16.3	*15.9*	15.8	17.3	*16.7*	16.4	-0.6
- Current taxes on income,	9.7	9.7	9.2	*9.1*	10.1	9.0	*9.1*	8.7	-0.6
- Capital taxes	0.1	0.1	0.1	*0.1*	0.1	0.1	*0.1*	0.1	0.0
- Social contributions	14.6	14.6	13.7	*14.8*	15.5	14.1	*13.8*	14.5	-0.8
- Other (residual)	7.3	7.3	7.4	*8.2*	8.8	6.8	*8.3*	7.1	1.0
Expenditure	**47.5**	**47.5**	**51.4**	**56.7**	**57.2**	**47.5**	**51.9**	**53.0**	**4.4**
of which:									
- Primary expenditure	44.4	44.4	48.6	53.8	54.1	44.8	49.3	50.3	4.9
of which:									
Compensation of employees	11.9	11.9	12.6	13.1	13.5	11.9	12.2	13.1	0.3
Intermediate consumption	4.6	4.6	5.0	5.4	5.1	4.8	5.0	4.9	0.4
Social payments	21.2	21.2	21.6	23.0	25.9	20.3	21.5	23.1	0.3
Subsidies	1.0	1.0	0.9	1.6	1.9	0.9	0.9	1.2	-0.1
Gross fixed capital formation	2.5	2.5	3.1	3.6	3.2	4.8	6.6	4.1	4.1
Other (residual)	3.2	3.2	5.4	7.1	4.5	2.1	3.1	4.0	-0.1
- Interest expenditure	3.0	3.0	2.8	2.9	3.1	2.7	2.6	2.7	-0.4
General government balance (GGB)	**1.5**	**1.5**	**-4.7**	**-8.6**	**-6.9**	**-0.2**	**-3.9**	**-6.3**	**-5.4**
Primary balance	**4.5**	**4.5**	**-1.9**	**-5.7**	**-3.8**	**2.5**	**-1.3**	**-3.6**	**-5.8**
One-off and other temporary measures	1.0	1.0	0.4	0.0	-0.4	0.1	0.1	0.2	-0.9
GGB excl. one-offs	**0.5**	**0.5**	**-5.1**	**-8.6**	**-6.5**	**-0.3**	**-4.0**	**-6.5**	**-4.5**
Output gap[1]	-4.4	-4.7	-7.8	-12.1	-12.3	-2.6	-5.7	-7.5	-1.0
Cyclically-adjusted balance[1]	3.8	4.0	-0.6	-2.3	-0.4	1.2	-0.9	-2.4	-4.7
Structural balance (SB)[2]	**2.8**	**3.0**	**-1.0**	**-2.3**	**-0.1**	**1.1**	**-1.0**	**-2.6**	**-3.8**
Structural primary balance[2]	5.8	6.0	1.8	0.6	3.0	3.8	1.6	0.1	-4.2

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3.2. Debt developments

The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will decline from 197.4% at the end of 2020 to 184.7% in 2021, below to Commission's projection of 200.7%. Moreover, Greece has taken liquidity measures through state guarantees in 2020, which creates contingent liabilities.

In the Draft Budgetary Plan, the public debt-to-GDP ratio is planned to rise by 16.9 percentage points to reach 197.4% of GDP at the end of 2020. The debt-ratio will increase to a large extent due to the contraction of the GDP. The primary deficit will add 5.7 percentage points to the debt ratio, mostly due to the measures adopted to counter the impact of the COVID-19 pandemic. The stock-flow adjustments will mitigate the increase of the debt ratio, mainly as a result of covering part of the government financing needs by reducing the government's cash balances.

For 2021, the Draft Budgetary Plan projects the debt ratio to drop by 12.7 percentage points to 184.7%, below the Commission's projection of 200.7%. This improvement is driven primarily by the recovery of nominal GDP growth, while the primary balance is expected to remain in deficit, adding 1.3 percentage points to the debt ratio. The foreseen privatisation proceeds also contribute to the expected decrease in debt.

The debt projections in the Plan are somewhat higher than in the Stability Programme due to the higher primary deficits and the downward revision to the macroeconomic scenario in the Draft Budgetary Plan.

The Commission 2020 autumn forecast projects a higher debt ratio for both years. The main difference between the two sets of projections stems from the higher stock-flow adjustment and lower nominal GDP levels forecast by the Commission for 2020 and to the different macroeconomic and fiscal projections for 2021.

Table 3. Debt developments

(% of GDP)	2019	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**180.5**	**188.8**	**197.4**	**207.1**	**176.8**	**184.7**	**200.7**
Change in the ratio	-5.7	8.3	16.9	26.6	-12.0	-12.7	-6.4
Contributions[2]:							
1. Primary balance	**-4.5**	**1.9**	**5.7**	**3.8**	**-2.5**	**1.3**	**3.6**
2. "Snow-ball" effect	**-0.7**	**11.9**	**20.7**	**23.9**	**-7.7**	**-12.7**	**-8.0**
Of which:							
Interest expenditure	3.0	2.8	2.9	3.1	2.7	2.6	2.7
Real growth effect	-3.4	8.9	16.2	18.1	-9.1	-13.6	-9.9
Inflation effect	-0.3	0.2	1.5	2.7	-1.4	-1.7	-0.9
3. Stock-flow adjustment	**-0.5**	**-5.5**	**-9.3**	**-0.9**	**-1.7**	**-1.1**	**-2.0**
Of which:							
Cash/accruals difference		0.0	0.0		0.0	0.0	
Net accumulation of financial		0.0	-12.2		0.0	16.7	
of which privatisation		0.0	0.0		0.0	-0.8	
Valuation effect & residual		0.0	-12.2		0.0	17.4	

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:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Draft Budgetary Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020 and the measures planned to sustain the recovery in 2021. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the Greek national authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

4.1. Measures in 2020

In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Greece adopted in 2020 timely budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the Draft Budgetary Plan, those budgetary measures amount to 7.6% of GDP. They include business financing in the form of repayable advances, deferral of tax and social security obligations including changes in the level of advances on current taxes, special allowance for suspended workers and self-employed, waiver of social security contributions, measures strengthening healthcare services, and a higher compensation of healthcare personnel. Further measures include income support for the unemployed and employment subsidies related to short-term employment schemes.

The Commission agrees with the cost estimates of measures in cash terms, but follows the accrual accounting principles based on Eurostat's Draft note on statistical implications of some policy measures in the context of the COVID-19 pandemic.[9] This draft note clarifies the application of the accrual recording of revenues with respect to measures that constitute only a temporary shift in revenues between years. Accordingly, the Commission 2020 autumn forecast includes as 2020 revenue the tax and social contributions payments deferred and expected to be collected in the coming years. As regards the repayable advance, the Commission forecast accounts only for the amount that is expected not to be returned to have a budgetary impact, while the remaining amount is treated as a loan. In addition, the measure that allows companies to pay only a fraction of their corporate income tax advances in 2020 is assumed to be broadly balance-neutral in accrual terms as it introduces only a temporary time-shift in the tax receipts. By contrast, the Draft Budgetary Plan follows the 'time-adjusted cash' method for the above-mentioned measures reflecting a drop in revenue in 2020. The different statistical recording of these measures in the Commission 2020 autumn forecast has a balance-improving impact of 2.5% of GDP in 2020 and a balance-deteriorating impact of 0.9% of GDP in 2021.

In addition, Greece adopted measures to provide liquidity support to businesses, which the 2021 Draft Budgetary Plan estimates at 1.6% of GDP. These measure do not have a direct impact on the deficit. They consist of two measures: guarantees provided by the Hellenic Development Bank in the form of a cash collateral, and loans extended through the 'TEPIX 2' entrepreneurship fund. These measure are expected to leverage about 5% of GDP of bank loans for the private sector. According to the data in the Draft Budgetary Plan, the take-up of liquidity guarantees is estimated at 57% at the time of the submission of the Plan. The Commission calculates that the amount of liquidity measures is 4.7% of GDP. The difference is due to the different statistical treatment of certain measures.

Overall, the measures taken by Greece in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

[9] https://ec.europa.eu/eurostat/documents/1015035/2041357/Draft+note+on+statistical+implications+of+some+policy+measures+in+the+context+of+the+COVID-19+measures+-+09+April+2020/efc6d52f-39e0-fd92-c760-f27d90676ef0

4.2. Measures in 2021

For 2021, the Draft Budgetary Plan presents additional measures aimed to support the envisaged recovery. These measures are temporary, on the revenue side they amount to 0.9% of GDP and on the expenditure side they amount to 0.2% of GDP.

Some measures provide incentives for employment, including by increasing the employment chances of those unemployed and inactive workers, as well as to support the retention of workers by solvent businesses. In particular, the authorities decided to reduce social security contributions by three percentage points for private sector wage earners and to waive the social solidarity tax for private-sector wage earners and self-employed for 2021 aiming to reduce the high tax wedge. In addition, the authorities have introduced a new temporary recruitment subsidy programme that aims to create 100 000 new jobs by subsidizing the social security contributions for six months for each new employment contact.

All these measures are presented in sufficient detail in the Draft Budgetary Plan and thus included in the Commission forecast, with a shared assessment of their costing.

Furthermore, the Plan includes unspecified public investment expenditure worth 1.5% of GDP to be funded under the RRF. As the details of these expenditures or projects are yet to be revealed, the Commission does not consider them in its forecast.

Overall, based on the information presented in the Draft Budgetary Plan and taking into account the Commission 2020 autumn forecast, most of the measures planned by Greece in 2021 are supporting economic activity against the background of considerable uncertainty. Given the level of Greece's government debt before the outbreak of the COVID-19 pandemic, it is important for Greece to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved.

At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them to changing circumstances. It is anticipated that Greece will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Table 4.1.a. Main discretionary measures reported in the Draft Budgetary Plan

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year)		
					2020	2021
1	Business financing in the form of repayable advance payment	D29, D4, D5, D7, P52, P53, K2, D8	Adopted		2.3	-2.1
2	Deferral of tax and social security including tax advance payment obligations	D2, D5, D61	Adopted		1.6	-1.7
3	Special allow ance for suspended w orkers and self-employed in sectors directly affected by lock-dow n	D29, D4, D5, D7, P52, P53, K2, D8	Adopted		1.1	-1
4	Social security contribution coverage by the stat for affected sectors	D3	Adopted		0.5	-0.4
5	Suspension of solidarity tax in the private sector payable in 2021	D5	Credibly announced		0	0.4
6	Reduction of the social security contributions of w age earners in the private sector by 3 percentage points	D61	Credibly announced		0	0.4
				Total	**5.5**	**-4.4**

Table 4.1.b. Guarantees adopted/announced in response to COVID-19 outbreak

List of measures	Description	Adoption status	Maximum amount of contingent liability* (% of GDP)		Current take-up (actual contingent liability, % of GDP)
1	COVID-19 Fund (Hellenic Development Bank)	Adopted		1.2	0.6
2	Pan-European Guarantees' Fund (European Investment Bank)	Adopted		0.2	0.2
3	SURE Programme (job protection scheme)	Adopted		0.2	0.2
			Total	1.6	1.0

5. ANNEX: MANDATORY VARIABLES NOT INCLUDED IN THE DRAFT BUDGETARY PLAN

The Draft Budgetary Plans includes all mandatory variables for the basic assumptions allowing the Commission to assess the Draft Budgetary Plan based on the plan's assumptions.