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Assessment of the 2020 Stability Programme for

Greece

(Note prepared by DG ECFIN staff)

CONTENTS

Executive Summary

- On 6 April 2020, the Commission provided guidelines to the Economic and Financial Committee on how the format and content of the 2020 Stability and Convergence Programmes can be streamlined in light of the exceptional circumstances related to the Covid-19 pandemic. This assessment takes into account the severe constraints that Member States faced in providing the information usually required in their Programmes. The assessment focuses on the near term in light of the high uncertainty attached to the projections.
- The Stability Programme projects that the outbreak of the pandemic would lead to a downturn of 4.7% in 2020, followed by a swift rebound of 5.1% in 2021. The Commission 2020 spring forecast expects an even stronger decline in economic activity in 2020, also followed by a swift yet incomplete recovery in 2021.
- The general government surplus reached 1.5% of GDP in 2019. For the following years, the Stability Programme projects a deficit of 4.7% of GDP in 2020 and 0.2% of GDP in 2021. The Commission projects higher deficits largely due to the deeper recession expected in its 2020 spring forecast. The downward revision of both the Stability Programme and the Commission 2020 spring forecast compared to 2020 Draft Budgetary Plan and the Commission 2019 autumn forecast can be largely attributed to the deteriorated macroeconomic environment and the significant cost of measures adopted in response to the COVID-19 outbreak.
- The Stability Programme includes a set of measures which consists of 5.4% of GDP of budgetary measures and 1.1% of GDP of measures adopted to provide households and businesses temporary liquidity support. According to the Stability Programme, the latter could mobilize up to 2.8% of GDP of additional loans. The measures underpinning the Stability Programme are broadly aligned with the measures included in the Commission 2020 spring forecast. However, the Commission 2020 spring forecast considers all tax deferrals as liquidity measures, i.e. without a negative budgetary impact in 2020.The adopted measures are expected to provide support to about 2 million persons and 800,000 companies until the end of May.
- Both the Stability Programme and the Commission 2020 spring forecast expect the gross debt ratio to increase in 2020, before resuming its downward part in 2021. However, the projections in the Stability Programme project a smaller increase of the debt ratio for both years mainly due to higher growth projections and lower general government deficits.
- The fiscal projections of the Stability Programme face significant risks, as the macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2020 Stability Programme[1] of Greece covering the period 2019-2021, which was submitted on 30 April 2020[2]. The note also assesses Greece's compliance with the preventive arm of the Stability and Growth Pact in 2019.

Greece is currently subject to the preventive arm of the Stability and Growth Pact (SGP) and should ensure compliance with the primary surplus target of 3.5% of GDP in 2019 and over the medium term[3]. As the debt-to-GDP 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.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact. 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. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit the activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. 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 that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Greece is among those Member States who have triggered national escape clauses to suspend budgetary constraints set by their national fiscal rules, as part of the effort to accommodate the budgetary implications of the outbreak.

2. MACROECONOMIC DEVELOPMENTS

The Greek government started implementing measures aimed at containing the spread of the virus at the end of February. After a period of initial localised measures,

[1] The Stability Programme submitted by Greece states that it also constitutes the national medium-term fiscal plan required under Article 4(1) of Regulation (EU) 473/2013.

[2] The Stability Programme contains only short-term budgetary projections, in line with the guidelines for a streamlined format of the 2020 Stability and Convergence Programmes in light of the COVID-19 outbreak, provided by the Commission services on 6 April 2020.

[3] 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.

schools were closed on 11 March. On 23 March, Greece banned all non-essential movement, with only business deemed essential remaining open such as supermarkets, bakeries, pharmacies and private health services. The containment measures are being gradually lifted starting from 4 May.

In the Stability Programme, two macroeconomic forecast scenarios are considered: one with a comparatively mild impact and another one, an adverse scenario, with a stronger impact of the Coronavirus pandemic. Both scenarios assume that the strong negative impact of the pandemic on economic growth in 2020 will be followed by a swift rebound in 2021. The main macroeconomic channels considered in the Stability Programme are the following: (i) the containment measures will impact domestic demand, in particular private consumption and investment, (ii) the declining foreign demand will put a drag external sector, especially tourism and shipping (iii) labour markets will deteriorate in 2020 but it will fully recover by 2021 (iv) there will be a downward pressure on consumer prices largely due to the low oil prices. The impact of the measures implemented by the government to cushion the impact of the Coronavirus pandemic are assessed to have a strong positive impact on domestic demand, the labour market and economic growth.

The Commission 2020 spring forecast also projects a strong negative impact of the Coronavirus pandemic on economic growth in 2020, followed by a swift yet incomplete rebound in 2021. Domestic demand is expected to be affected strongly by the limited consumption possibilities during the period of containment measures, the fallout in income and high uncertainty. The external sector is expected to be strongly affected as Greece's main export markets have been also strongly affected by the Coronavirus outbreak and the large share of service exports (tourism and shipping). The relative importance of services and the high number of micro and small enterprises in the Greek economy makes it particularly strongly affected. The high concentration of the tourism revenues to the main summer months is another factor aggravating the negative impact.

The macroeconomic forecast presented in the Stability Programme was endorsed by the independent Hellenic Fiscal Council, "[…] conditional upon the exceptionally high uncertainty that surrounds the macroeconomic environment in the current juncture."[4]

[4] The opinion of the Hellenic Fiscal Council is published at: https://www.hfisc.gr/sites/default/files/sgp_hfc_opinion_en_1.pdf

Table 1: Comparison of macroeconomic developments and forecasts

	2019	2020		2021		2022	2023
	COM	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.9	-9.7	-4.7	7.9	5.1	n.a	n.a
Private consumption (% change)	0.8	-9.0	-4.1	7.6	4.2	n.a	n.a
Gross fixed capital formation (% change)	4.7	-30.0	-4.6	33.0	15.3	n.a	n.a
Exports of goods and services (% change)	4.8	-21.4	-19.2	17.9	19.2	n.a	n.a
Imports of goods and services (% change)	2.5	-18.0	-14.2	15.8	15.6	n.a	n.a
Contributions to real GDP growth:							
- Final domestic demand	1.5	-8.6	-3.0	7.6	4.4	n.a	n.a
- Change in inventories	-0.4	0.0	0.0	0.0	0.0	n.a	n.a
- Net exports	0.8	-1.5	-1.7	0.7	0.7	n.a	n.a
Output gap[1]	-4.4	-13.0	-7.8	-6.0	-2.6	n.a	n.a
Employment (% change)	2.0	-3.7	n.a	3.8	n.a	n.a	n.a
Unemployment rate (%)	17.3	19.9	n.a	16.8	n.a	n.a	n.a
Labour productivity (% change)	-0.1	-6.3	n.a	4.0	n.a	n.a	n.a
HICP inflation (%)	0.5	-0.6	-0.3	0.5	0.6	n.a	n.a
GDP deflator (% change)	-0.4	-0.1	0.0	0.6	0.7	n.a	n.a
Comp. of employees (per head, % change)	1.1	-3.6	n.a	3.2	n.a	n.a	n.a
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.8	1.6	n.a	0.3	n.a	n.a	n.a

Note:

[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.

Source :

Commission 2020 spring forecast (COM); Stability Programme (SP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments and Medium-term strategy and targets[5]

The general government surplus reached 1.5% of GDP in 2019, which is close to what was projected in 2020 Draft Budgetary Plan (1.4% of GDP) and the Commission 2019 autumn forecast (1.3% of GDP). Compared to the earlier projections, the outturn was affected by two broadly offsetting factors. First, it includes the receipt of transfers of equivalent amounts to the income earned by euro-area national central banks on Greek government bonds held under the Agreement on Net Financial Assets (ANFA) and the Securities Market Programme (SMP) in 2019 which, as a contingent revenue, was not taken into account in the DBP or Commission forecast. This was partly compensated by the cost of a merger of the private supplementary pension fund (LEPETE) with the public supplementary pension fund worth 0.3% of GDP in accrual terms.

In their Stability Programme, the Greek authorities project a headline deficit of 4.7% of GDP for 2020, which is by 5.7% of GDP lower compared to what was foreseen in the 2020 DBP. This decline can be mainly attributed to the deterioration of the macroeconomic outlook and the operations of automatic stabilisers amid the deep recession caused by the pandemic. In addition, the Stability Programme factors in a significant package of measures adopted in response to the COVID-19 outbreak. The package includes increased funding to the healthcare system and a broad range of budgetary measures aiming to support households and businesses as well as liquidity to the private sector. A detailed description of the measures is provided in section 3.2 below.

On the revenue side, the Stability Programme projects total revenues at 46.7% of GDP in 2020, down from the 47.7% of GDP in 2019, where the reduction is mainly due to the deteriorated macroeconomic environment and the incorporation of the measures taken by the Greek government to tackle the COVID-19 outbreak, notably the tax deferrals. Turning to the expenditure side, the Stability Programme forecasts total expenditure to increase from 46.3% of GDP in 2019 to 51.4% of GDP in 2020. The biggest increase is again due to the extraordinary support measures. The general government deficit of 4.7% of GDP projected for 2020 in the Stability Programme is lower than the projection of 6.4% deficit in the Commission 2020 spring forecast. The difference is mostly related to the smaller impact of COVID-19 pandemic on the macro bases for taxes and social contributions, which is partially compensated by different assumptions and recording of the tax deferrals (more details are provided in section 3.2 below).

The fiscal projections in the Stability Programme for 2021 represent projections under a no-policy-change scenario. The Greek authorities expect the deficit to decrease from 4.7% of GDP in 2020 to 0.2% of GDP in 2021. The improvement in the deficit is mainly driven by the higher growth projections and relies on the assumption that the COVID-19 outbreak and its negative impact on the economy and on public finances

[5] In light of the activation of the general escape clause, the measures taken in response to the coronavirus outbreak in 2020 are not treated as one-off and are thus not excluded from the estimation of the structural budget balance.

will be limited within 2020. The Commission 2020 spring forecast projects a deficit of 2.1% of GDP in 2021, which is by 1.9% of GDP lower compared to the authorities' forecast. The difference is mostly due to the deeper projected economic downturn in 2020 and the slower expected recovery of the economy in 2021, and the different recording of the tax deferrals measure (more details are provided in section 3.2 below).

Table 2: General government budgetary position

(% of GDP)	2019	2020		2021		2022	2023	Change: 2019-2023
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**47.7**	**48.8**	**46.7**	**46.9**	**47.3**	**n.a.**	**n.a.**	**n.a.**
of which:								
- Taxes on production and imports	17.0	16.8	16.3	16.9	17.3	n.a.	n.a.	**n.a.**
- Current taxes on income, wealth, etc.	9.5	9.4	9.2	8.8	9.0	n.a.	n.a.	**n.a.**
- Social contributions	14.3	15.1	13.7	14.4	14.1	n.a.	n.a.	**n.a.**
- Other (residual)	7.0	7.5	7.5	6.8	6.9	n.a.	n.a.	**n.a.**
Expenditure	**46.3**	**55.2**	**51.4**	**49.0**	**47.5**	**n.a.**	**n.a.**	**n.a.**
of which:								
- Primary expenditure	43.3	52.2	48.6	46.2	44.8	n.a.	n.a.	**n.a.**
of which:								
Compensation of employees+Intermediate consumption	16.2	18.8	17.6	17.6	16.7	n.a.	n.a.	**n.a.**
Compensation of employees	11.7	13.2	12.6	12.3	11.9	n.a.	n.a.	**n.a.**
Intermediate consumption	4.5	5.6	5.0	5.3	4.8	n.a.	n.a.	**n.a.**
Social payments	20.7	24.4	21.6	20.9	20.3	n.a.	n.a.	**n.a.**
Subsidies	1.1	2.6	0.9	1.1	0.9	n.a.	n.a.	**n.a.**
Gross fixed capital formation	2.2	2.1	3.1	3.6	4.8	n.a.	n.a.	**n.a.**
Other (residual)	3.1	4.4	5.4	3.0	2.1	n.a.	n.a.	**n.a.**
- Interest expenditure	2.9	3.0	2.8	2.7	2.7	n.a.	n.a.	**n.a.**
General government balance (GGB)	**1.5**	**-6.4**	**-4.7**	**-2.1**	**-0.2**	**n.a.**	**n.a.**	**n.a.**
Primary balance	**4.4**	**-3.4**	**-1.9**	**0.6**	**2.5**	**n.a.**	**n.a.**	**n.a.**
One-off and other temporary measures	1.0	0.5	0.4	0.2	0.1	n.a.	n.a.	**n.a.**
GGB excl. one-offs	**0.5**	**-6.9**	**-5.1**	**-2.3**	**-0.3**	**n.a.**	**n.a.**	**n.a.**
Output gap[1]	-4.4	-13.0	-7.8	-6.0	-2.6	n.a.	n.a.	**n.a.**
Cyclically-adjusted balance[1]	3.8	0.4	-0.9	1.0	1.1	n.a.	n.a.	**n.a.**
Structural balance[2]	**2.8**	**-0.1**	**-1.3**	**0.8**	**1.0**	**n.a.**	**n.a.**	**n.a.**
Structural primary balance[2]	5.7	2.9	1.5	3.5	3.7	n.a.	n.a.	**n.a.**
Gross debt ratio	**176.6**	**196.4**	**188.8**	**182.6**	**176.8**	**n.a.**	**n.a.**	**n.a.**

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.

Source :

Stability Programme (SP); Commission 2020 spring forecasts (COM); Commission calculations.

3.2. Measures underpinning the programme

The Stability Programme includes a set of income support and liquidity measures of a large scale. To mitigate the economic and social impact, a broad range of measures were undertaken aiming to support households and businesses while additional measures were adopted to provide liquidity to companies affected by the COVID-19 outbreak. These measures consist of 5.4% of GDP of budgetary measures, and 1.1% of GDP of measures providing households and businesses temporary liquidity support. According to the Stability Programme, the latter could mobilize up to 2.8% of GDP of additional loans. According to the Stability Programme, the net impact of these measures on the deficit is estimated at 4.1% of GDP in 2020, as part of the measures will be fiscally neutral. They will be financed by the Coronavirus Response Investment Initiative or through a re-allocation of expenditure from the public investment budget, or would be recovered during the year.

Overall, the measures taken by Greece are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak.[6] Those measures appear to constitute a timely, temporary and targeted response to cushion the shock induced by the COVID-19 pandemic. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term. Greece's timely response and enforcement of restrictions seems to be an efficient course of action, judging from the rather low number of confirmed infections so far. The majority of the measures aim to support companies and their employees who are affected by the COVID-19 outbreak either through a direct suspension of the companies' operation or the general deterioration of economic activity due to the containment measures. The adopted measures are expected to provide support to around 2 million persons and 800,000 companies until the end of May. For June, the benefits will be granted only to companies and their employees which will remain closed under State order. In addition, the liquidity measures are expected to have a sizable positive impact on the economy due to the mitigating effects regarding liquidity constraints for the corporate sector and the support for investment after the relaxation of containment measures.

In terms of their size, the most important budgetary measures underpinning the Stability Program include a temporary economic support to wage earners, self-employed, individual businesses and certain liberal professions affected by the pandemic (1.3% of GDP), payment of repayable advances to companies with decreased turnover (1.1% of GDP), payment of social security contributions for employees whose labour contacts have been suspended (0.8% of GDP), tax deferrals (0.7% of GDP), an interest subsidy on loans to small and medium-sized enterprises (0.5% of GDP) and higher health care expenditure (0.2% of GDP). Other fiscal measures include a suspension of settlement of debts on social security contributions (0.2% of GDP), discounts for a timely payment of tax obligations (0.1% of GDP) and support of the primary sector of the economy (0.1% of GDP).

[6] https://ec.europa.eu/info/sites/info/files/communication-coordinated-economic-response-covid19-march-2020_en.pdf

The Greek authorities also adopted a number of measures to support liquidity of households and businesses. Most notably, it provided a cash collateral of EUR 2.0 billion to support bank lending, distributed through the Hellenic Development Bank. The loans will be provided by the commercial banks to all companies.

The Commission 2020 spring forecast takes into account all the measures adopted or announced by the authorities by 23 of April in response to the COVID-19 outbreak, as they were available in time and sufficiently detailed. According to the estimates of the Commission, the overall size of the measures is 10.5% of GDP, of which 5% of GDP are budgetary measures, and an additional 1.9% of GDP are liquidity measures. The liquidity measures consist of 0.6% of tax deferrals and 1.3% of GDP of other measures aiming to provide households and businesses temporary liquidity support. The latter set of measures is expected to provide up to 3.6% of GDP of additional loans. According to the Commission, the net impact of these measures on the deficit is estimated at 3.7% of GDP, which is slightly lower than reported in the Stability Programme notably because of a different convention used for the recording of tax deferrals (see below).

The measures underpinning Stability Programme are broadly aligned with the measures included in the Commission 2020 spring forecast. The most important difference, both in terms of recording and in terms of deferred amount, relates to the deferral of taxes and social security contributions for three months. In the Commission forecast, the size of the deferral is estimated at 0.6% of GDP while in the Stability Programme it amounts to 1.1% of GDP[7]. The reason for the difference is that the Commission expects that there will be a drop in tax liabilities to be potentially deferred, on account of the shrinking tax base. Another source of the difference is the recording of the tax deferrals. While in the Commission 2020 spring forecast all tax deferrals are considered as liquidity measures without a negative budgetary impact in 2020, in line with the accrual accounting principle, in the Stability Programme, the deferred amount is assumed to follow the 'time-adjusted cash' method. Its recording in the Stability Programme therefore reflects the timeline of its envisaged repayment in 24 instalments starting from the second half of 2020. This results in a deterioration of the fiscal balance by 0.7% of GDP in 2020 and an improvement by 0.5% of GDP in 2021 in the Stability Programme.

Table 3: Discretionary measures adopted/announced in response to COVID-19 outbreak

List of measures	Description	ESA Code	Adoption status	Budgetary impact (% of GDP - change from previous year)		
					2020	2021

[7] In the Stability Programme, the total amount of the deferred taxes is estimated at 1.1% of GDP, part of which is assumed to be received in 2020 which decreases the fiscal impact to 0.7% of GDP in 2020.

1	Suspension of VAT payments for businesses, self-employed persons and sole proprietorships affected by the coronavirus crisis based on specific NACE codes.	D.2	Already adopted		-0.47	0.71
2	Suspension of tax obligation payments for businesses, self-employed persons and sole proprietorships affected by the coronavirus crisis based on specific NACE codes.	D.5	Already adopted		-0.21	0.33
3	Suspension of Social Security Contributions (SSC) payments for businesses, self-employed persons and sole proprietorships affected by the coronavirus crisis based on specific NACE codes.	D.61	Already adopted		-0.03	0.05
4	3-month extension of the deadline for the payment of scheduled instalment, in the context of a debt settlement scheme.	D.61	Already adopted		-0.16	0.15
5	25% discount on tax and SSC instalment schemes for April, in case they are paid on time, for employees of halted firms as well as for self-employed, freelancers and firms affected by the coronavirus crisis.	D.2, D.5, D.61	Already adopted		-0.04	0.04
6	25% of the VAT paid on time discounted from future tax obligations.	D.2	Already adopted		-0.02	0.02
7	Immediate repayment of all pending tax refund claims up to 30,000 euros that are under audit. The measure refers to tax refunds for CIT and VAT and has no fiscal impact.		Already adopted		0.00	0.00
8	Special allowance for self-employed, freelancers and individual businesses affected by the coronavirus crisis based on specific NACE codes.	Other expenditure	Already adopted		-0.32	0.30
9	Special allowance for employees of firms affected by the coronavirus crisis, whose labour contract has been suspended based on specific NACE codes.	Other expenditure	Already adopted		-0.90	0.85
10	Special allowance for employers (with up to 20 employees) affected by the coronavirus crisis	Other expenditure	Already adopted		-0.04	0.04

	based on specific NACE codes.				
11	Special allowance for six scientific sectors (economists/accountants, engineers, lawyers, doctors, teachers and researchers).	Other expenditure	Already adopted	-0.06	0.06
12	The SSC of employees of firms affected by the coronavirus crisis, whose labour contracts have been suspended are covered by the state.	D.61	Already adopted	-0.76	0.72
13	Business financing in the form of a refundable advance payment.	Other expenditure	Already adopted	-1.12	1.06
14	40% reduction in commercial rent, for March and April (May), paid by firms affected by the coronavirus crisis based on specific NACE codes	Other revenue	Already adopted	0.00	0.00
15	40% reduction in primary and student residence rent, for March and April (May), for employees of firms affected by the coronavirus crisis based on specific NACE codes	D.5	Already adopted	0.00	-0.02
16	VAT reduction to 6%, from 24%, for sanitary products (masks, gloves etc.). Fiscal cost is estimated to be negligible.		Already adopted	0.00	0.00
17	Suspension of performing loan repayments (for the principal amount) until September for firms affected by the coronavirus crisis.		Already adopted	0.00	0.00
18	Public servants working in hospitals, National Emergency Aid Centre, National Organisation of Public Health and Civil Protection receive an (extraordinary) Easter bonus.	D.1	Already adopted	-0.03	0.03
19	The part of the Easter bonus (for private sector employees) that corresponds to the time period of their labour contract suspension will be covered by the state budget.	Other expenditure	Already adopted	-0.10	0.10
20	Support of the primary sector of the economy with 150 million to the Ministry of Rural Development and Food.	D.9	Already adopted	-0.08	0.08

21	Introduction of special purpose leave only for workers with children attending to schools (while schools are closed), the cost of which will be shared between the state, the firm and the employee.	Other expenditure	Already adopted		-0.01	0.01
22	Each employee can be employed at least for 2 weeks per month. The measure covers at least 50% of all employees within a firm. Firings are prohibited for employers that will adopt this measure.		Already adopted		0.00	0.00
23	Extension of the regular unemployment benefit payment, as well as extension of the long-term unemployment benefit.	D.62	Already adopted		-0.13	0.12
24	Reduction of clawback to hospitals.	Other expenditure	Already adopted		-0.01	0.01
25	Compensation of passenger ships.	Other expenditure	Already adopted		-0.01	0.01
26	COVID Healthcare expenditures.	D.1 , P.2, Other expenditure	Already adopted		-0.15	0.14
27	COVID expenditures of other ministries.	P.2, Other expenditure	Already adopted		-0.05	0.05
28	The interest payment on performing loans of SMEs affected by the coronavirus crisis is paid by the state conditional to firms maintaining their job positions.	Other expenditure	Already adopted		-0.45	0.42
29	Delayed payment (by 75 days) of checks of the enterprises in the nace codes affected by the crisis.		Already adopted		0.00	0.00
30	Postponement of the recalculation of objective values.	D.2	Already adopted		-0.07	0.07
31	Abolishment of LG levy's for enterprises closed because of COVID on public order.	D.5	Already adopted		-0.06	0.06
32	Unemployment benefit (400 €) to 155.000 natural persons that became long-term unemployed since April 2019.	D.62	Already adopted		-0.04	0.03
33	Suspension of tax payment obligations for property owners that receive reduced rent.	D.2	Already adopted		-0.01	0.02

34	Ministry of Culture compensation for cultural projects in sectors hit by COVID.	Other expenditure	Already adopted		-0.01	0.01
				TOTAL	**-5.35**	**5.46**

Source: Stability Programme

Table 4: Guarantees adopted/announced in response to COVID-19 outbreak

List of measures	Description	Adoption status	Maximum amount of contingent liability (% of GDP)
1	Hellenic Development Bank guarantees	Already adopted	1.12

Source: Stability Programme

3.3. Debt developments

Greece's gross general government debt ratio decreased to 176.6% of GDP in 2019, from 181.2% in 2018, on account of the high primary surplus and nominal GDP growth in 2019.

The Stability Programme projects the debt ratio to increase to 188.8% of GDP in 2020 and to moderate to 176.8% in 2021. The Commission forecast projects a higher increase of the debt ratio in 2020 (to 196.4%), followed by a decrease to 182.6% in 2021. Most of the difference is related to the more optimistic growth and general government balance assumptions presented in the Stability Programme. These differences are partly compensated by the assumptions on stock-flow adjustments.

Table 5: Debt developments

(% of GDP)	Average 2014-2018	2019	2020		2021		2022	2023
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**178.1**	**176.6**	**196.4**	**188.8**	**182.6**	**176.8**	**n.a.**	**n.a.**
Change in the ratio	0.8	-4.6	19.8	12.2	-13.9	-12.0	n.a.	n.a.
Contributions [2] *:*								
1. Primary balance	**-2.0**	**-4.4**	**3.4**	**1.9**	**-0.6**	**-2.5**	**n.a.**	**n.a.**
2. "Snow-ball" effect	**2.7**	**0.3**	**22.4**	**11.7**	**-12.6**	**-7.7**	**n.a.**	**n.a.**
Of which:								
Interest expenditure	3.4	2.9	3.0	2.8	2.7	2.7	n.a.	n.a.
Growth effect	-1.2	-3.3	19.1	8.7	-14.3	-9.1	n.a.	n.a.
Inflation effect	0.5	0.7	0.3	0.2	-1.1	-1.4	n.a.	n.a.
3. Stock-flow adjustment	**0.1**	**-0.5**	**-5.9**	**-1.4**	**-0.6**	**-1.7**	**n.a.**	**n.a.**

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 2020 spring forecast (COM); Stability Programme (SP), Commission calculations.

3.4. Risk assessment

The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic. The pandemic could become more severe and last longer than assumed, requiring more stringent and longer lasting containment measures. This would result in worse economic and fiscal outcomes. It could also require further fiscal policy measures. That would result in worse fiscal outcomes but help to mitigate the economic impact. An additional risk stems from the considerable size of public guarantees issued in response to the crisis. Public finances face further risks in respect to ongoing court cases and public service obligations. The Council of State is expected to issue a milestone ruling on retroactive payments to pensioners deriving from the 2012 pension cuts and the 2016 pension reform. An additional fiscal risk stems from the cases against the Public Real Estate Company, where the question of the validity of recent arbitral awards is pending before a Court of Appeal. Further fiscal risks concern the restructuring cost of the Hellenic Post including a possible payment of the remaining public service obligation for 2013-2020.

4. Compliance with the provisions of the Stability and Growth Pact

4.1. Compliance with the deficit criterion

According to the Stability Programme, Greece's general government deficit is expected to reach 4.7% of GDP in 2020, thereby exceeding the Treaty reference value of 3% of GDP. This provides *prima facie* evidence of the existence of an excessive deficit in Greece for the purposes of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU, which analyses Greece's compliance with the deficit criterion of the Treaty.

Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

4.2. Compliance with the debt criterion

Following the correction of its excessive deficit in 2016, Greece was 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 was 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.

According to the data notified by the Greek authorities on 22 April 2020 and subsequently validated by Eurostat, the government debt-to-GDP ratio breached the reference value of 60% of GDP and is not sufficiently diminishing and approaching the reference value at a satisfactory pace. In particular, the structural balance is estimated to have deteriorated by -2.2% of GDP in 2019, compared with the applicable MLSA of 0.8% of GDP. This provides evidence that there appears to be prima facie a risk of the existence of an excessive deficit in Greece in the sense of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU analysing whether or not Greece is compliant with the debt criterion of the Treaty". Overall, the analysis suggests that the debt criterion is complied with.

Based on the Commission 2020 spring forecast, the debt benchmark is expected not to be met in 2020 (with a gap to the debt benchmark of 2.5% of GDP), and to be respected in 2021.

4.3. Compliance with the medium-term budgetary objective[8]

Greece is subject to the preventive arm of the Stability and Growth Pact and should ensure compliance with its medium-term budgetary objective. However, the Greek authorities have not established a medium-term budgetary objective for 2019 since Greece was exempt from submitting Stability Programmes while it was subject to a macroeconomic adjustment programme. The medium-term budgetary objective is normally set by Member States in their Stability or Convergence Programmes for the coming years and, for that reason, Greece was not required to set a medium-term budgetary objective for 2019. Thus, the assessment of 2019 is conducted in the absence of a medium-term budgetary objective and is based on the primary surplus target recommended by the Council and monitored under enhanced surveillance procedure.

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[8] The possible retroactive impact on output gap estimates as a result of the recession induced by the COVID-19 outbreak and the possibility of abnormal responses of government revenues to major swings in economic activity underline that compared to the structural balance the expenditure benchmark is likely to provide a more reliable and predictable indicator in times of severe economic downturn.

Based on the outturn data and the Commission 2020 spring forecast, Greece’s general government balance reached a surplus of 1.5% of GDP in 2019, corresponding to a primary balance of 3.5% of GDP in the definition monitored under enhanced surveillance which complies with the primary surplus target recommended by the Council.

Table 6: Compliance with the requirements under the preventive arm

	(% of GDP)	2019	2020		2021	
	Background budgetary indicators[1]					
(1)	Medium-term objective (MTO)	-*	0.3		0.3	
(2)	Structural balance[2] (COM)	2.8	-0.1		0.8	
	Setting the required adjustment to the MTO					
(3)	Structural balance based on freezing (COM)	3.0				
(4) = (1) - (3)	Position vis-a -vis the MTO[3]	-*				
(5)	Required adjustment[4]					
(6)	Required adjustment corrected[5]					
(8)	Corresponding expenditure benchmark[6]					
	Compliance with the required adjustment to the MTO					
		COM	**COM**	**SP**	**COM**	**SP**
	Structural balance pillar					
(8) = Δ (2)	Change in structural balance[7]					
(9) = (8) - (6)	*One-year deviation from the required adjustment*[8]					
	Two-year average deviation from the required adjustment[8]					
	Expenditure benchmark pillar	Compliance				
(10)	Net public expenditure annual growth corrected for one-offs[9]					
(11) = (10) - (8)	One-year deviation adjusted for one-offs[10]					
	Two-year deviation adjusted for one-offs[10]					
	Finding of the overall assessment					
	Compliance with the debt criterion					
	Transition period					
	Required structural adjustment (MLSA)[11]	0.8				
	Structural adjustment[12]	-2.2				
	After transistion period					
	Gap to the debt benchmark [13,14]		2.5	n.a.	-1.0	n.a.

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

* 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.

[1] 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.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] 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.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] 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.

[7] Change in the structural balance compared to year t-1. Ex post assessment (for 2019) is carried out on the basis of Commission 2020 spring forecast.

[8] The difference of the change in the structural balance and the corrected required adjustment.

[9] Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal)

[10] 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.

[11] 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 period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

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

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

[14] 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.

Source:
Stability Programme (SP); Commission 2020 spring forecast (COM); Commission calculations.