EUROPEAN
COMMISSION

Brussels, 26.11.2024
C(2024) 9053 final

COMMISSION OPINION

of 26.11.2024

on the Draft Budgetary Plan of Greece

{SWD(2024) 950 final}

(only the Greek text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the EU economic governance framework.

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

3. On 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives'). The Facility is expected to strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

CONSIDERATIONS CONCERNING GREECE

6. On 15 October 2024, Greece submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of Greece of 21 October 2024[3]. This opinion is adopted by the Commission together with the Commission Recommendation for a Council Recommendation setting the net expenditure path of Greece for the years 2025 to 2028[4], which the Commission expects the Council to act upon a timely manner.

7. On 21 October 2024, upon the Commission recommendation for Council Recommendation on the economic, social, employment, structural and budgetary policies of Greece of 19 June 2024[5], the Council recommended Greece, in line with the requirements of the reformed Stability and Growth Pact, to limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and maintaining the general government deficit below the 3% of GDP Treaty reference value.

8. On 7 October 2024, Greece submitted to the Commission its medium-term fiscal-structural plan in line with Regulation (EU) 2024/1263[6]. The plan commits to net expenditure growth not exceeding 3.7% in 2025, 3.6% in 2026, 3.1% in 2027 and 3.0% in 2028. The Commission has assessed the medium-term fiscal-structural plan of Greece and recommended to the Council to adopt a recommendation setting the net expenditure growth ceilings contained therein. The Draft Budgetary Plan for 2025 is the first step in the implementation of the medium-term fiscal-structural plan.

9. According to the Draft Budgetary Plan, Greece's real GDP is projected to grow by 2.3% in 2025 (2.2% in 2024), while inflation is forecast at 2.1% in 2025 (2.8% in 2024). According to the European Commission Autumn 2024 Forecast, Greece's real GDP is projected to grow by 2.3% in 2025 (2.1% in 2024), while inflation is forecast at 2.4% in 2025 (3.0% in 2024). The main differences between both sets of projections reflect marginally higher inflation projections in the Commission's forecast, which result from the assumption of slightly stronger inflationary pressures driven by tightening labour market conditions. Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission's forecast for 2025 and 2024. Greece complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently endorsed macroeconomic forecasts.

10. Based on the Commission's estimates, the fiscal stance[7] is projected to be expansionary at 0.6% of GDP in 2025, following a contractionary fiscal stance of

[3] Not yet published.

[4] Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Greece, 26.11.2024, COM(2024)714 final.

[5] Commission Recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of Greece, 19.06.2024, COM(2024)608 final.

[6] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

[7] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical

0.5% in 2024. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

11. According to the Draft Budgetary Plan, Greece's general government deficit is projected to decrease to 0.6% of GDP in 2025 (1.0% in 2024), while the general government debt-to-GDP ratio is set to decrease to 149.1% at the end of 2025 (153.7% at the end of 2024). According to the Draft Budgetary Plan, net expenditure is projected to grow by 2.6% in 2024 and 3.6% in 2025. The growth rate of net expenditure in 2025 according to the Draft Budgetary Plan is below the growth rate in the medium-term fiscal-structural plan submitted by Greece on 7 October 2024. In turn, according to the European Commission Autumn 2024 Forecast, Greece's general government deficit is projected to decrease to 0.1% of GDP in 2025 (0.6% in 2024), while the general government debt-to-GDP ratio is set to decrease to 146.8% at the end of 2025 (153.1% at the end of 2024). The decrease in the deficit is mostly driven by the decrease in interest expenditure on the back of declining short-term interest rates in 2025. According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 1.8% in 2024 and 3.1% in 2025. The main differences between both sets of projections for the government deficit reflect the higher revenues by 0.3% of GDP from social security contributions expected in the Commission's forecast, which are mainly driven by the overperformance of this year, and which are expected to continue also in 2025. In addition, the European Commission Autumn 2024 Forecast expects lower social welfare benefits by 0.3% of GDP compared to the Draft Budgetary Plan, incorporating to the next year forecast the persistent underspending observed in the past. On the contrary, the Draft Budgetary Plan does not carry over the under execution in this expenditure category to the next years. The risks underlying the fiscal objectives for 2025 set out in the Draft Budgetary Plan are balanced and mainly relate, on the downside, to pending legal cases, most notably the litigation cases against the Public Real Estate Company and, on the upside, to the government's measures to fight tax evasion and improve compliance through the digitalisation of payments and tax processes which could lead to higher-than-expected fiscal revenue.

12. The Draft Budgetary Plan assumes that expenditure amounting to 2.0% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 1.5% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Greece. The plan also assumes expenditure supported by loans from the Recovery and Resilience Facility, with a direct impact on general government debt, but not on the deficit as it will finance loans to the private sector, amounting to 1.9% of GDP in in 2025 compared to 1.0% of GDP in 2024.

13. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include the reduction of social security contributions rate by 1 p.p., the additional increase of the overnight tax for stays in hotels, tax incentives on mergers and acquisitions, the replacement of the existing

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unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

stamp duty tax with a new digital duty on specified legal transactions, the decrease of the taxation for overtime compensation of doctors in hospitals and the reduction of the tax on fiber connections. On the expenditure side, these measures include the increase of public sector wages to maintain the base salary in the public sector equal to the minimum wage. According to Commission estimates, the overall additional impact of the revenue measures increases the general government deficit by 0.4% of GDP in 2025.

14. According to the European Commission Autumn 2024 Forecast, Greece's net expenditure is projected to increase by 3.1% in 2025, which corresponds to a cumulative growth of 4.9% in 2024 and 2025 taken together. The Commission is of the view that these net expenditure growth rates are in line with the Council recommendation of 21 October 2024 to limit the growth in net expenditure in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and maintaining the general government deficit below the 3% of GDP Treaty reference value. Those net expenditure growth rates would be appropriate initial steps towards the implementation of the medium-term fiscal structural plan.

15. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to decrease to 2.5% of GDP in 2025 (from 3.0% of GDP in 2024). This decrease is due to the fact that nationally financed public investment in 2024 was higher than expected because projects initially included in the previous programming period of the EU structural funds (NSRF 2014-2020) ended up not being eligible for EU funding and therefore were financed by national resources within 2024. In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to increase to 3.7% of GDP in 2025 (from 3.1% of GDP in 2024).

16. Finally, the Council also recommended Greece to continue improving the investment friendliness of the taxation system by reinforcing its legal certainty and continue increasing the operational autonomy of the tax authority. Moreover, it recommended Greece to safeguard the efficiency of public administration while ensuring that it can attract the right skills and preserving consistency with the unified wage grid, and operationalising the multi-level governance framework., In addition, Greece was recommended to ensure that external balances continue on a steadily improving path by promoting balanced growth and supporting productive domestic investment as well as to pursue the ongoing reduction of the stock of non-performing loans held by banks and credit servicers, including by further improving the e-auction processes to reduce the ratio of unsuccessful auctions. The Draft Budgetary plan includes measures, most notably, the reduction of stamp duty on a series of transactions, the abolition of self-employed overhead tax, mergers and acquisitions incentives, the implementation of a new skill-based target-setting and evaluation system and of a performance bonus system for public servants on a pilot basis through a new reward and incentive system, reforms to facilitate entrepreneurship and simplify business regulation and the establishment of a unified institutional framework for business transformations and innovation.

17. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Greece is in line with the Council Recommendation of 21 October 2024. According to the European Commission Autumn 2024 Forecast, Greece's net expenditure growth in 2025 is consistent with what was recommended by the Council on 21 October 2024. The progress made with the implementation of the Council's country-specific

recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	DBP	COM	DBP	COM
1	Real GDP	% change	2.3	2.2	2.1	2.3	2.3
2	HICP inflation	% change	4.2	2.8	3.0	2.1	2.4
3	General government balance	% GDP	-1.3	-1.0	-0.6	-0.6	-0.1
4	Primary balance	% GDP	2.1	2.4	2.9	2.5	2.9
5	General government gross debt	% GDP	163.9	153.7	153.1	149.1	146.8
6	Fiscal stance (**)	% GDP	0.1		0.5		-0.6
7	Net expenditure growth (annual)	% change		2.6	1.8	3.6	3.1
8	Net expenditure growth (cumulative)	% change				6.3	4.9
			Commission Recommendation for a Council Recommendation setting the net expenditure path of Greece				
9	Maximum growth rates of net expenditure (*)	% change	Annual			**3.7**	
10		% change	Cumulative			**6.5**	

Notes :

* According to the Commission Recommendation for a Council Recommendation setting the net expenditure path of Greece for the years 2025 to 2028.

** The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of the Fiscal Statistical Tables.

Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
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