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COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Greece

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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 for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) 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 presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING GREECE

3. On the basis of the Draft Budgetary Plan for 2019 submitted by Greece on 15 October 2018, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Greece is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with the primary surplus target set by Decision (EU) 2017/1226 on 30 June 2017 of 3.5% of GDP for 2018 and over the medium term.[1] In spring 2018, the Council issued no country-specific recommendation to Greece in the context of the European Semester because pursuant to Article 12 of Regulation (EU) No 472/2013[2] Greece was exempt from the monitoring and assessment under the European Semester at that time since it was subject to a macroeconomic adjustment programme (‘the programme’). The post-programme framework for Greece entails the activation of enhanced surveillance together with Greece's integration to the European Semester framework of economic and social policy coordination, while maximising the synergies between the enhanced surveillance and European Semester processes.

   Since Greece was exempt from submitting Stability Programmes while it was under the programme, the Greek authorities have not yet established a medium-term budgetary objective (MTO). The MTO 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 an MTO in the Draft Budgetary Plan for 2019. The new minimum MTOs for 2020-2022 will be made available in good time for

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

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

Member States to prepare their 2019 Stability and Convergence Programmes, where Greece will be expected to nominate its MTO.

As its public debt amounted to 178.5% of GDP in 2016, the year in which the excessive deficit was corrected, Greece needs to make sufficient progress towards compliance with the debt reduction benchmark.

5. Since at the time of the conclusion of the Commission 2018 autumn forecast the fiscal policy package for 2019 was still under discussion and was not specified in sufficient detail, the Commission 2018 autumn forecast was based on a no-policy-change assumption for 2019. On that basis, the Commission 2018 autumn forecast expected the Greek economy to grow by 2% in 2018 and 2019. The final package of discretionary measures for 2019 is expected to improve the Commission projection of real GDP growth in 2019 to 2.2%. The macroeconomic scenario underlying the Draft Budgetary Plan, which factors in already a comprehensive set of discretionary measures for 2019 with a surplus-reducing impact of around 0.6% of GDP, projects that recovery will accelerate in 2018 and 2019, with growth reaching 2.1% and 2.5%. In comparison to the Commission 2018 autumn forecast, including when considering the final package of measures for 2019, the macroeconomic scenario underlying the Draft Budgetary Plan is considered to be plausible for 2018 and somewhat favourable for 2019. The main point of difference lies in the Draft Budgetary Plan's more favourable assessment of private consumption and, to a lesser extent, in the outlook for investment. Greece complies with the requirement of Regulation (EU) No 473/2013, since the macroeconomic scenario has been endorsed by the independent Hellenic Fiscal Council, which nevertheless flagged in its assessment that it considers the 2.5% GDP growth for 2019 as ambitious but conditionally achievable.

6. The Draft Budgetary Plan projects the general government surplus in 2018 to reach 0.4% of GDP and 0.6% of GDP in 2019. That forecast implies that the structural balance[3] is expected to decrease from 3.8% of GDP projected for 2018 to 2.0% of GDP in 2019. The decrease largely reflects the fact that the Greek authorities are committed to maintaining a flat nominal primary surplus target of 3.5% of GDP[4] and the projected narrowing of the output gap.

The Commission 2018 autumn forecast projected that the general government surplus would reach 0.6% of GDP in 2018 and, on the no-policy-change basis, remain at the same level in 2019. For 2018, that level is higher than forecast by the Greek authorities by 0.2% of GDP, due to lower interest payments on the European Stability Mechanism ('ESM') loan projected in the Commission 2018 autumn forecast. On the no-policy-change basis, the primary surplus in the definition monitored under the enhanced surveillance framework[5] is expected to increase from

[3] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

[4] If not said otherwise, all references to the primary surplus and the primary surplus target refer to the definition monitored under the enhanced surveillance framework.

[5] The primary surplus monitored under enhanced surveillance is defined as the general government balance (B.9) minus general government consolidated interest payable (D.41), in accordance with the rules specified in the European System of Accounts 2010 (ESA 2010), excluding (i) revenues from the sale or lease of real estate, (ii) general government migration-related expenditure, net of EU transfers to the Greek budget for migration-related costs, (iii) revenues and expenditures related to support of the banking system (except payments for deposit guarantee schemes), (iv) all transfers related to Eurogroup decisions regarding income of euro area national central banks (SMP and ANFA revenue) stemming

3.7% of GDP projected for 2018 to 3.9% of GDP in 2019 and is expected to be supported by the ongoing closure of the output gap, with growth above potential spurring additional public revenues, and moderate expenditure dynamics anchored by ceilings on health care expenditure and on new hirings.

There are both upside and downside risks associated with the Draft Budgetary Plan and the Commission budgetary projections. Upside risks relate in particular to possible underspending, which has contributed to budgetary over performance in recent years. As regards downside risks one particular issue concerns a series of recent Court cases which have, or could potentially, render invalid some aspects of reforms enacted under the programme and give rise to fiscal liabilities. Additional pressures may also arise from new policy initiatives affecting the public wage bill. These risks should be monitored closely, with a view to taking action as needed to safeguard the fiscal targets.

7. Greece's fiscal policy is anchored by the nominal primary surplus target monitored under the enhanced surveillance framework. In view of the fiscal space emerging both in the authorities' and the Commission 2018 autumn forecast based on the no-policy-change scenario, the Draft Budgetary Plan proposed a package of discretionary measures making use of the fiscal space, while indicating that the quantification of the package will be finalised following consultations with the Commission. Specifically, the measures for 2019 include a reduction in the ENFIA property tax and social solidarity contributions paid by self-employed, a subsidy on employers' social security contribution for young employees under 24, an increase in the housing benefit and the hiring of 4,500 teachers to strengthen special education. In addition, the Draft Budgetary Plan package announced reductions in the corporate income tax and the dividend tax, which are expected to affect public finances only in 2020. Overall, the proposed package was expected to reduce the primary balance by 0.6% of GDP.

By letter of 20 November 2018, Greece sent the Commission a final outline of budgetary measures for 2019, including their full quantification. Compared with the Draft Budgetary Plan package of measures, the final package increases the new housing subsidy so as to better align it with the objectives of the reform and labour market incentives, and reduces the domestic component of the public investment budget. At the same time, the authorities clarified that the new subsidy reducing transport costs for passengers and companies residing on islands can be covered from the existing budget ceilings. Those measures are estimated to have a surplus-reducing effect of 0.4% of GDP in 2019. This package of discretionary measures differs from the fiscally neutral package of measures due to take effect on 1 January 2019 that were pre-legislated in mid-2017 but represents a balanced approach to meet agreed fiscal and economic goals in a manner that is also supportive of social inclusion.

from their investment portfolio holdings of Greek government bonds, and (v) any payments from banks that would undermine their solvency or liquidity, unless the Bank of Greece confirms that such a payment would be compatible with preserving adequate capital buffers and liquidity going forward, including by verifying consistency with banks’ business plans as included in the most recent stress test (except the capital concentration tax and the guarantee fee structures currently in place); plus a change of the stock of outstanding tax refunds claims without AFEK older than 90 days, net of the amount of rejected tax refund claims that exceeds the normal annual rejection volume.

A detailed assessment of fiscal structural reforms is included in the enhanced surveillance report for Greece.[6]

8. Taking into account the final package of discretionary measures for 2019, the primary surplus is expected to reach 3.7% of GDP in 2018 and 3.5% of GDP in 2019 and therefore complies with the primary surplus target agreed by the Eurogroup.

9. The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will decline from 183% in 2018 to 170.2% in 2019, below the Commission's projection of 174.9% (on the no-policy-change basis). The Draft Budgetary Plan does not cover the multiannual horizon and therefore does not include sufficient information that is necessary to assess compliance with the transitional arrangements to make sufficient progress towards compliance with the debt reduction benchmark. On the basis of the Commission 2018 autumn forecast, Greece is projected to make sufficient progress towards compliance with the debt reduction benchmark in 2018 and 2019, including when considering the final package of measures.

10. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Greece is compliant with the provisions of the Stability and Growth Pact. Greece is considered to comply with the 3.5% of GDP primary surplus target monitored under the enhanced surveillance framework. The Commission therefore invites the authorities to implement the 2019 budget.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission

[6] See COM(2018)808 for the Communication from the Commission on Enhanced Surveillance for Greece and SWD(2018)508 for the accompanying Staff Working Document.