



The Hellenic Fiscal Council's opinion on the macroeconomic projections of the 2020-2021 Stability Programme

According to the EU regulation 473/2013 Article 4(4), the macroeconomic projections on which the medium-term budgetary plans are based should have been endorsed by an independent institution.

The Hellenic Fiscal Council (hereafter HFC) assesses the macroeconomic projections on the basis of its own evaluation of the development and trends in the Greek economy in the current circumstances that are dominated by an extreme and adverse shock due to the COVID-19 pandemic.

The Stability Programme is in line with the Commission's recent guidelines which allow enhanced adaptability, taking into consideration the uncertainty that the pandemic is causing to the economies of the Member States. At the same time, the fiscal targets stemming from the EU's fiscal framework as well as the 3,5% primary surplus target for Greece have been suspended given the activation of the general escape clause of the Stability and Growth Pact along with the recent Eurogroup decision.

In this context, the HFC endorses the macroeconomic projections of the Stability Programme conditional upon the exceptionally high uncertainty that surrounds the macroeconomic environment in the current juncture.

Table 1: Macroeconomic Indicators Projections (% , annual change in 2010 current prices)

| GDP and components (% , annual change) | 2020 | 2021 |
|--|-------|------|
| Gross Domestic Product | -4.7 | 5.1 |
| Private Consumption | -4.1 | 4.2 |
| Public Consumption | 1.0 | -0.9 |
| Gross Fixed Capital Formation | -4.6 | 15.3 |
| Exports of goods and services | -19.2 | 19.2 |
| Imports of goods and services | -14.2 | 15.6 |

Source: Ministry of Finance



For 2020 in particular, the Ministry of Finance foresees a reduction of real GDP by 4.7%. This is deemed as highly optimistic given that most international institutions are less optimistic on the depth of the crisis. Consequently, given the high degree of uncertainty regarding the evolution of the pandemic we can not exclude a much deeper recession. Looking at the individual GDP components, these clearly depict the likely 2020 negative trend, again with a high degree of uncertainty in relation to how deep the impact will be on private consumption, investments, imports and exports. However, public consumption is expected to increase thanks to the fiscal measures taken.

For 2021 the Ministry of Finance foresees a growth of GDP by 5,1% in real terms, which would then reach 195 bil. Euros, almost as high as in 2019. This scenario presumes that the COVID-19 crisis only temporarily affected the positive dynamics of the Greek economy and that all losses will be recovered in 2021 (a V shape recovery). However, the materialization of this scenario depends on how the pandemic will evolve and on the expectation that the crisis did not have a long-lasting structural impact on the economy so an immediate restart is feasible.

On the basis of the above, the HFC highlights two risks that can hinder the future recovery of the economy. The first one is associated with the possibility that wages reduction become permanent and thus private consumption will not be restored to the pre-crisis levels. The second risk is related to the intensity and direction of the fiscal measures in the sense that in the current adverse situation restarting the economy is the primary target, taking into consideration the available fiscal space. Under these circumstances, the decisions taken at a European Level for securing the necessary additional resources to deal with recessionary impact of the crisis will be of great importance.

A more comprehensive analysis of the macroeconomic projections will be part of the HFC's bi-annual report that is scheduled to be published at the end of May.

The Chairman of the Board

Panagiotis Korliras