Athens, 29 April 2022

Opinion on the Macroeconomic Forecasts of the Stability Programme 2023-2025

The Hellenic Fiscal Council (HFISC), as an independent fiscal body, delivers its opinion on the macroeconomic forecasts of the Stability Programme (SP) for the period 2023-2025 within the context of endorsement as stipulated in Regulation No 473/2013 of the European Parliament and the Council of the European Union (EU).

This assessment adopts European Commission's fiscal policy guidance[1] for the year 2023. The guidance highlights the serious consequences of the Russian invasion of Ukraine on global security and stability. Specifically, it underlines the high level of uncertainty surrounding the current international economic situation, due to the Russian invasion of Ukraine, which was not factored in the European Commission's 2022 winter forecast. In this context, the European Commission will reassess the potential of deactivation of the 'general escape clause' from the rules of the Stability and Growth Pact, for the year 2023.

This assessment also takes into account the following:

(a) The macroeconomic scenario of the SP for the period 2022-2025.

(b) The latest published data on GDP of the Greek economy and its expenditure components by the Hellenic Statistical Authority, covering the whole year 2021.

(c) The forecasts of the SP 2022-2024, as well as the forecasts of the State Budget (SB) for the year 2022.

(d) European Commission's 2022 winter forecasts as well as forecasts by other international and domestic institutions for the path of the key macroeconomic variables of the Greek economy, including real GDP and its deflator.

(e) HFISC's internal projections for GDP from in-house econometric models.

The HFISC endorses the macroeconomic forecasts of the SP 2023-2025, with the following remarks:

(a) The SP estimate of Greek economy growth rate for the current year (2022) lies within the range of the forecasts of the HFISC, the European Commission and other

[1] COM (2022) 85 final (2 March 2022).

domestic and international organizations, which have been taken into account. On the one hand, the SP scenario maintains the hypothesis of the positive dynamics of the Greek economy, as developed during its recovery phase from the pandemic crisis in 2021, which is reflected in the data of the Hellenic Statistical Authority. On the other hand, it keeps the level of GDP for 2022 down to the level of the SB (downgrading the annual growth rate for 2022 in relation to the SB), taking into account the current adverse international developments. These are expected to negatively affect the Greek economy through increased prices of energy products and other commodities, imported inflation, shortages and disruptions in the international production and transport chain, as well as decline in country's external trade volume in goods and services.

(b) The current SP acknowledges the exceptionally high level of uncertainty surrounding the scenario for the year 2022, especially as regards balancing the negative consequences of the war in Ukraine with positive potential counter-effects. Possible growth enhancing factors constitute the immediate end of the war in Ukraine and a subsequent de-escalation of the international geopolitical crisis. Such a favorable scenario could lead to a further boost in activity of the Greek tourism industry and exports, while the accompanying energy prices and inflation de-escalation could further provide support to domestic demand. Alleviating international tensions, reducing uncertainty and restoring confidence would also favor investments (gross fixed capital formation) to step up above the level currently set in the SP, which is lower than the SB. This could be supported by speeding up implementation of the National Resilience and Recovery Plan (NRRP) and mobilizing more private resources available in the economy. Additional upside risks to the SP scenario could rise from the positive effects of the newly adopted economic policy measures on supporting income and stimulating private consumption. By contrast, adverse developments for 2022 would include a prolonged period of international uncertainty and intensity, with energy crisis and high inflation persisting throughout the year; this could challenge materialization of the expected levels of private consumption and investment under the SP scenario. Additional downside risks to the SP scenario constitute delays in the transition to the post-pandemic period with possible resurgence of the pandemic phenomenon within the current year.

(c) For the period 2023-2025, this year's SP foresees annual GDP growth rates surpassing, in 2023, and then converging to those of last year's SP. GDP growth forecasts for the year 2023 is forecasted by the HFISC, the European Commission and other international and domestic institutions to lie within a more conservative area than the current SP forecasts. These forecasts are mostly based on data available up to the previous year (2021) without fully taking the effects of the war in Ukraine and the current energy crisis into account. Key assumptions underlying the SP projections are the rapid de-escalation of inflation to levels below two per cent, the large positive effect of the new measures adopted in 2022 providing support to private consumption and the large positive impact of the NRRP on investment expenditure.

(d) The sources of uncertainty surrounding the medium-term scenario after the current year largely reflect those of the base year (2022). Convergence of medium-term growth rates to previous year's SP is justified to the extent that the recent adverse international developments are seen as temporary and with limited ability to halt the potential of the Greek economy to recover in the medium term. Similarly, the course of the pandemic phenomenon is more likely to smooth out over time, leaving only long-lasting effects on the Greek economy. Further boost in investments over the medium term can come from maturing NRRP investment plans as well accumulating experience in NRRP implementation. A possible upgrade of the country's credit rating to an investment grade within the medium term could also have a beneficial effect on country's liquidity and borrowing capacity. Finally, the upcoming revision of the European economic governance framework could help national fiscal policy be more flexible and effective in promoting economic growth targets, especially after the deactivation of the general escape clause from the rules of the Stability and Growth Pact.

(e) On the other hand, the macroeconomic scenario, which the SP is based upon, points out to some specific challenges regarding the medium-term developments in the Greek economy. According to the scenario, even if inflation reverts to levels below two percent in 2023, the general price level is not expected to de-escalate in the rest of the medium-term period. This poses threats to real incomes and domestic demand and, if accompanied with rising production costs, it can inevitably harm Greek firms' international competitiveness. The medium term scheduled public consumption and investments path reflect some additional profound challenges; Public consumption appears elevated compared to last year's SP, in line with the SB, for the whole medium term period. This indicates potential fiscal risks, especially taking into consideration that the current level of public debt is exceptionally high and not feasible to fall in the near future, due to the adverse prevailing economic and geopolitical conditions. Moreover, the plan for public investments is substantially differentiated compared to last year's SP and in particular with respect to the expected impact of investments funded by the NRRP. This exposes the public investment program to significant NRRP implementation risks. Finally, the SP is projecting a deficit in the external balance, which although diminishing over time, will eventually be higher in the end of the medium-term period compared to last year's SP projections. Furthermore, the related impact of the NRRP is expected to be negative mainly due to the increase in investment-related imports. The above remarks, coupled with the existing fiscal challenges driven by the current energy crisis underline the risk of persistent twin deficits re-emerging in the Greek economy, which could further limit the country's public financing capabilities.

A comprehensive analysis of the macroeconomic developments of the Greek economy along with a substantiated argumentation on the specific views presented in this opinion will be included in the forthcoming HFISC's bi-annual report.

For the Hellenic Fiscal Council

The Chairperson

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