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COMMISSION OPINION

of 22.11.2022

on the Draft Budgetary Plan of Greece

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(Only the Greek text is authentic)

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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, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact 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 by 15 October, presenting the main aspects of the budgetary outlook of the general government and its subsectors for the forthcoming year.

3. The general escape clause of the Stability and Growth Pact has been active since March 2020.[1] On 23 May 2022, the Commission indicated, in its Communication on the European Semester,[2] that heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy prices hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023 and it considered that the conditions to deactivate it as of 2024 were met. The continued activation of the general escape clause in 2023 will provide the space for national fiscal policy to react promptly when needed, while ensuring a smooth transition from the broad-based support to the economy during the pandemic times towards an increasing focus on temporary and targeted measures and fiscal prudence required to ensure medium-term sustainability.[3]

4. The Recovery and Resilience Facility, as established by Regulation (EU) 2021/241, provides financial support for the implementation of reforms and investment, notably to promote the green and digital transitions, thereby strengthening the economies' resilience and potential growth. Part of this support is in 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 RRF is supporting a fair and inclusive recovery in the EU in line with the European Pillar of Social Rights. It also boosts growth and job creation in the medium and long term, and thereby strengthens sustainable public finances.. According to the Commission

1 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, COM(2020) 123 final of 20 March 2020.

2 COM(2022) 600 final.

3 On 17 June 2022, the Council agreed its recommendations on the 2022 National Reform Programmes and the opinions on the 2022 Stability and Convergence Programmes, which takes into account the continuation of the Stability and Growth Pact's general escape clause into 2023. (See: https://www.consilium.europa.eu/en/meetings/ecofin/2022/06/17/)

proposal of 18 May 2022,[4] the Facility should also aim at increasing the resilience of the Union energy system by reducing dependence on fossil fuels and diversifying energy supplies at Union level ('REPowerEU objectives').

5. On 12 July 2022, in the recommendations delivering Council opinions on the 2022 Stability Programmes,[5] the Council recalled that the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis), including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth.[6] Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is consistent with the green and digital transitions, energy security and ensuring social and economic resilience, attention is also paid to the evolution of nationally financed[7] primary current expenditure thereby strengthens sustainable public finances. and investment.

6. The shocks unleashed by the Russian invasion of Ukraine are impacting the EU economy both directly and indirectly, setting it on a path of lower growth and higher inflation. Intensifying and broadening inflationary pressures have been prompting faster normalisation of monetary policy in the euro area. Public spending on measures containing the social and economic impact of high energy costs, on security and defence and on humanitarian assistance to the displaced persons from Ukraine is weighing on public finances. The specific nature of the macroeconomic shock imparted by Russia's invasion of Ukraine, as well as its long-term implications for the EU's energy security needs, call for a careful design of fiscal policy in 2023. Public spending on security and defence, on humanitarian assistance to the displaced persons from Ukraine and on measures containing the social and economic impact of high energy costs is weighing on public finances. A broad-based fiscal impulse to the economy in 2023 does not appear warranted. The focus should instead be on protecting the vulnerable, allowing automatic stabilisers to operate and providing temporary and targeted measures to mitigate the impact of the energy crisis and to provide humanitarian assistance to people fleeing from Russia's invasion of Ukraine, while maintaining the agility to adjust, if needed. Fiscal policy should combine higher investment with controlling the growth in nationally financed primary current expenditure. Full and timely implementation of the Recovery and Resilience Plans is key to achieving higher levels of investment. Fiscal policies should aim at preserving debt sustainability as well as raising the growth potential in a sustainable manner, thus also facilitating the task of monetary policy to ensure the timely return of inflation to the ECB's 2% medium-term target. Fiscal plans for 2023 should be anchored by prudent medium-term adjustment paths reflecting fiscal sustainability challenges associated with high debt-to GDP levels that have increased further due to the pandemic as well as reforms and investment challenges associated with the twin transition, energy security and social and economic resilience..

[4] COM(2022) 231 final.

[5] Council Recommendation of 12 July 2022 on the National Reform Programme of Greece and delivering a Council opinion on the 2022 Stability Programme of Greece, OJ C 334, 1.9.2022, p. 60.

[6] The estimates on the fiscal stance and its components in this Opinion are Commission estimates based on the assumptions underlying the Commission 2022 autumn forecast. The Commission's estimates of medium-term potential growth do not include the full positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

[7] Not financed by grants under the Recovery and Resilience Facility or other Union funds.

7. Russia's war of aggression against Ukraine has resulted in substantial additional increases in and volatility of the prices of energy. The price shock in imported energy implies a substantial terms–of-trade loss to Member States' economies. In parallel, the exceptionally high temperatures in summer 2022 pushed up demand for electricity, while, at the same time, energy production from certain technologies has been significantly below historical levels due to technical and weather-dependant circumstances. All Member States have been negatively affected by the current energy crisis, albeit to a different extent, calling for a rapid and coordinated response.

8. Given that budgetary resources are limited and need to be used in the most efficient way, in order to manage a durable and equitable adjustment across society, the quality and design of the policy response is highly important. Therefore, also in line with the Council Regulation on an emergency intervention to address high energy prices adopted on 6 October 2022,[8] measures should focus on providing temporary support, targeted to households and firms most vulnerable to energy price increases, while maintaining the right incentives to reduce energy demand and increase energy efficiency, in line with the European Green Deal.[9] Policies should also help reducing the energy consumption and develop the energy autonomy of the Union.

CONSIDERATIONS CONCERNING GREECE

9. On 15 October 2022, Greece submitted the Draft Budgetary Plan for 2023. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

10. On 12 July 2022, the Council recommended that Greece[10] take action to ensure in 2023 a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth[11], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Greece should stand ready to adjust current spending to the evolving situation. Greece was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, Greece should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring credible and gradual debt reduction and fiscal sustainability in the medium term through gradual consolidation, investment and reforms.

11. On 23 May 2022, the Commission issued a report under Article 126(3) of the Treaty.[12] That report assesed the budgetary situation of Greece, as its general government deficit in 2021 exceeded the Treaty reference value of 3 % of GDP. The report concluded that the deficit criterion was not fulfilled.

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8 Council Regulation on an emergency intervention to address high energy prices, 6 October 2022

9 Communication from the Commission, the European Green Deal, COM(2019) 640 final.

10 Council Recommendation of 12 July 2022 on the National Reform Programme of Greece and delivering a Council opinion on the 2022 Stability Programme of Greece, OJ C 334, 1.9.2022, p. 60.

11 Based on the Commission 2022 autumn forecast, the medium-term (10-year average) potential output growth of Greece is estimated at 5.5% in 2023 in nominal terms. The Commission's estimates of medium-term potential growth do not include the full positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

12 Report from the Commission prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, Brussels, 23.5.2022, COM(2022) 630 final.

12. According to the Commission 2022 autumn forecast, the Greek economy is expected to grow by 6.0% in 2022 and by 1.0% in 2023, while inflation is forecast at 10.0% in 2022 and 6.0% in 2023.

According to the Draft Budgetary Plan, real GDP is expect to grow at 5.3% in 2022 and 2.1% in 2023. At the same time, the Draft Budgetary Plan projects inflation to reach 8.8% in 2022 and 3.0% in 2023. The Draft Budgetary Plan's real GDP growth projection is somewhat lower than the Commission's 2022 autumn forecast for 2022, while for 2023, it is higher. In both sets of projections, the GDP growth in 2022 is forecast to be driven by private consumption and net exports on the back of a strong tourist season. In 2023, growth is forecast to decrease considerably, due to the economic impact of the Russian invasion of Ukraine and the ensuing energy crisis and high inflation. The Commission's projection for higher growth in 2022 vis-a-vis the Draft Budgetary Plan reflects a stronger contribution from net trade and investment, which was partly offset by lower consumer spending.. As regards 2023, the Draft Budgetary Plan forecasts a stronger contribution from gross fixed capital formation, as the authorities' assumptions were based on a more favourable easing of international input prices, and a weaker impact of monetary policy in the financing conditions of domestic investments. Similarly, the Draft Budgetary Plan estimates stronger year-on-year growth in public consumption in 2023, partly due to different assumptions on the statistical classification of the a couple of support measures related to the energy crisis which were applied only for 2022. In Commission forecast, these measures which provide a stimulus towards public consumption in 2022, are deactiveted in 2023, hence the reduction in public consumtpion next year. In the Draft budgetary Plan, these measures, which are recorded as subsidies to households, do not have an impact on public consumption in 2022 and thus, on the year-on-year public consumption growth in 2023. The Commission expects higher inflation than the authorites in the Draft Budgetary Plan for both years. The difference between the inflation forecasts reflects the different assumptions for the development of global energy prices, and the diverging views with regard to the persistence of inflation throughout the forecast period.

Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are cautious in 2022 and favourable in 2023.

Greece complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently endorsed macroeconomic forecasts.

13. The Draft Budgetary Plan assumes that expenditure amounting to 1.5% of GDP in 2022, 1.6% in 2023 and 1.5% in 2024 will be financed by non-repayable financial support (grants) from the Recovery and Resilience Facility. Expenditures financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government deficit and debt of Greece. The plan also assumes expenditure funded through loans from the Recovery and Resilience Facility, with a direct impact on the general government debt, while no impact on the deficit as it will finance loans to the private sector, amounting to 1.8% of GDP in in 2022, 0.8% of GDP in 2023, 0.8% of GDP in 2024, 0.8% of GDP in 2025 and 0.7% of GDP in 2026. The Commission 2022 autumn forecast assumes a broadly similar amount of expenditures financed by Recovery and Resilience Facility grants in its budgetary projections. The profile of the government loans to the private sector financed by Recovery and Resilience Facility loans differs somewhat, as it reflects the use of more recent data by the

Commission, related to the total uptake of loans, that became available after the submissin of the Plan..

14. In its 2023 Draft Budgetary Plan, Greece's general government deficit is planned to decrease from 4.2% of GDP in 2022 to 2.1% of GDP in 2023, mainly due to the ongoing economic recovery, inflation and the reduction in the net fiscal cost of the energy measures. These projections are in line with the Commission 2022 autumn forecast, which expects the general government deficit to reach 4.1% of GDP in 2022 and 1.8% of GDP in 2023. The difference of 0.3 percentage points between the two sets of forecasts for 2023 stems mainly from the higher growth of the tax base on the back of higher inflation projected in the Commission forecast. However, some part is also explained by the different statistical recording of the revenues from the extraordinary levy on windfall profits of energy producers for the period October 2021-June 2022 which will be collected in 2023 - in the Commission forecast these revenues are accrued in 2022 while the Draft Budgetary Plan includes them as revenues in 2023. These lower tax revenues of 0.2% of GDP in Commission forecast are counter balanced by lower interest expenditures compared to Draft Budgetary Plan. The Draft Budgetary Plan plans the general government debt ratio to decrease from 169.1% of GDP in 2022 to 161.6% of GDP in 2023. These projections are in line with the Commission 2022 autumn forecast.

The outlook for public finances continues to be subject to the high uncertainty that surrounds the macroeconomic projections, including macroeconomic risks related to the Russian invasion of Ukraine, energy price hikes and continued supply chain disturbances. The recent or planned financial policy arrangements, including the sale-and lease-back scheme for properties owned by vulnerable debtors, may entail a deficit- and debt-increasing impact depending on their final statistical classification. Additional risks stem from pending legal cases, most notably the litigation cases against the Public Real Estate Company. Moreover, the Council of State published its decision on the retroactive compensation for cuts in the supplementary pensions and seasonal bonuses, which narrows the scope to pensioners who filed lawsuits before 31 July 2020, and thus the potential fiscal cost is expected to be limited. However, given that the exact amount to be paid is not yet confirmed, the fiscal cost is not included in the current forecast.

15. The Draft Budgetary Plan includes a package of new measures, most notably the permanent abolishment of the solidarity surcharge to public sector employees and pensioners, which is estimated to have a deficit-increasing fiscal impact of 0.3% of GDP in 2023. On the expenditure side, the Draft Budgetary Plan includes measures with an increasing impact on the public wage bill such as the reform on doctors' special wage regime and a rise in compensation for military personnel. Additional, smaller fiscal measures include the increase of the student allowance and the extension of the maternity allowance for empoyees in the private sector to the same duration as for public sector employees. Overall, these expenditure increasing measures are estimated to have a deficit-increasing fiscal impact of 0.1% of GDP.

The government deficit is impacted by the measures adopted to counter the economic and social impact of the exceptional increases in energy prices, which aggravated over the course of the summer.[13] The budgetary cost of these measures is projected

[13] Deficit developments in 2023 are also affected by the complete phasing out of COVID-19 emergency temporary measures, which are estimated in the Commission autumn 2022 forecast at 1.8% of GDP in 2022.

in the Commission 2022 autumn forecast to amount to 5.5% of GDP in 2022 and 5.8% of GDP in 2023. They consist of measures increasing expenditure, such as electricity and natural gas subsidies to all households and businesses, social transfers to poorer households, fuel subsidies and the increase of the heating allowance to vulnerable households and measures reducing government revenue, namely cuts to indirect taxes on transport services. The cost of these measures is partly offset by new taxes on windfall profits of energy producers: a cap on wholesale electricity prices whereby the electricity producers have to transfer their receipts exceeding the set cap to the general government (since July 2022) and the imposition of an extraordinary 90% levy on windfall revenues of the energy producers for the period from October 2021 to June 2022. Taking these revenues into account, the net budgetary cost of these measures in the Commission autumn 2022 forecast is estimated at 2.3% of GDP in 2022 and 0.5% of GDP in 2023.[14] Most measures have been announced as temporary, expiring by the end of 2023. Most measures do not appear targeted to vulnerable households or firms[15], and most of them do not fully preserve the price signal to reduce energy demand and increase energy efficiency.[16] As a result, the amount of temporary and targeted support to households and firms most vulnerable to energy price hikes, that can be taken into account in the assessment of compliance with the fiscal country-specific recommendation for 2023, is estimated in the Commission 2022 autumn forecast at 0.4% of GDP in 2022 and -0.1% of GDP in 2023.

The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 autumn forecast are projected at 0.03% of GDP in 2022 and 0.04% in 2023.

16. Based on the Commission 2022 autumn forecast and including the information incorporated in Greece’s 2023 Draft Budgetary Plan, gross fixed capital formation is expected to amount to 5.0% of GDP in 2022 and 4.4% of GDP in 2023, compared to 3.7% of GDP recorded in 2021. This includes investment for the green and digital transitions and for energy security (such as the energy renovation of residential and public buildings, solar panels for households and enterprises’ own consumption and a voucher scheme for the digitalisation of SMEs) funded by the Recovery and Resilience Facility and other EU funds.

17. In 2023, the fiscal stance is projected in the Commission 2022 autumn forecast to be contractionary (+2.2% of GDP[17]). This follows an expansionary fiscal stance in 2022 (-2.6% of GDP).

The growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 1.7 percentage points to the fiscal stance.[18] This includes the increased impact from the support measures adopted to counter the economic and social impact of the

[14] The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

[15] Targeted measures amount to 0.4% of GDP in 2022 and -0.1% of GDP in 2023, while untargeted measures amount to 5.1% of GDP in 2022 and 5.9% of GDP in 2023.

[16] Income measures amount to 0.6% of GDP in 2022 and 0.1% of GDP in 2023, while price measures amount to 4.9% of GDP in 2022 and 5.7% of GDP in 2023.

[17] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy. The fiscal stance includes the fiscal impulse funded by the Union.

[18] This follows an expansionary contribution from this component of 0.8 percentage points in 2022.

exceptional increases in energy prices by 0.3% of GDP[19], of which temporary and targeted support measures to households and firms most vulnerable to energy price hikes account for -0.5 % of GDP.

The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to decrease by 0.4 percentage points of GDP in 2023 compared to 2022, reflecting the starting phase of the new programming period for other Union funds. Nationally financed investment is projected to provide a expansionary contribution to the fiscal stance of 0.1 percentage points in 2023.[20]

18. The Draft Budgetary Plan does not include budgetary projections beyond 2023.

19. On 12 July 2022 the Council also recommended Greece to build on reforms undertaken as part of the recovery and resilience plan, improve the investment-friendliness of the taxation system by introducing a wider advance tax-ruling system and review the structure of the tax burden on the self-employed. Greece was also recommended to safeguard the efficiency of the public administration while ensuring that it can attract the right skills and preserving consistency with the unified wage grid. Greece adopted several measures to reduce the tax-wedge on the self-employed and introduced tax incentives for expenses targeting the green economy, energy and digitalisation. Greece also established a common skills framework which introduces a new staff evaluation system based on skills that evolve and improve through targeted and personalised development plans.

20. In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan, the growth of nationally-financed current expenditure is projected to be below the medium-term potential output growth. Therefore, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Greece plans to finance additional investment through the RRF and other EU funds and it plans to preserve nationally-financed investment. It plans to finance public investment for the green and digital transitions.

Overall, the Commission is of the opinion that the Draft Budgetary Plan for Greece is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022.

While Greece rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish.

The Commission is also of the opinion that Greece has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus

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[19] The budgetary impact of targeted price and income measures is projected to decrease by 0.2% and decrease by 0.3% of GDP respectively, while the budgetary impact of untargeted price and income measures is projected to increase by 1% and decrease by 0.2% of GDP respectively.

[20] Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.2 percentage points of GDP.

invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

Done at Brussels, 22.11.2022

For the Commission
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