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Opinion on the Medium-Term Fiscal-Structural Plan 2024

September 2024

HELLENIC FISCAL COUNCIL

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Athens, 25th of September 2024

Opinion on the macroeconomic forecasts and the macroeconomic assumptions of the Medium-Term Fiscal-Structural Plan 2024

The Hellenic Fiscal Council (HIFSC) constituted as an independent fiscal authority under the law 4270/2014. HFISC submits its opinion on macroeconomic forecasts and the macroeconomic assumptions underpinning the multi-annual net expenditure path of the Medium-Term Fiscal-Structural Plan 2024 (MTP 2024) as stipulated in Regulations 2024/1263 (Art. 11 par. 2) and 473/2013 (Art. 4 par. 4) of the European Parliament and of the Council of the European Union (EU).[1]

This is the first Opinion within the new Economic Governance framework entered into force on April 30th, 2024 concerning Greek MTP.[2] The new framework is anchored in an analysis of country-specific risks ensuring the plausible and continuous reduction of debt to GDP ratio. Primary net expenditure will be the single operational variable, always in compliance with the rules of the EU Stability and Growth Pact concerning the 3% and 60% of GDP reference values for the deficit and debt respectively.

This assessment takes into account the following:

a) The MTP 2025 macroeconomic scenario and budgetary forecasts that have been forwarded by the Ministry of Economy and Finance (MinFin) to HFISC on 12 September 2024 and the technical dialogue between experts from MinFin and HFISC.

b) The most recent data published from the Hellenic Statistical Authority (ELSTAT) covering the first semester of 2024.[3]

c) The Stability Programme 2024 (SP 2024) projections as well as those of the State Budget 2024 (SB 2024).[4, 5]

d) The European Commission's (EC) 2024 Spring Forecasts, along with main economic indicators and macroeconomic forecasts of leading international and national institutions for the Greek economy.[6]

e) HFISC's own GDP growth forecasts based on in-house econometric estimations.

1. A comprehensive analysis of the macroeconomic and budgetary developments of the Greek economy will be included in the forthcoming HFISC bi-annual report.

2. Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L 2024/1263), Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024).

3. Hellenic Statistical Authority, press release, 6/9/2024.

4. Stability Programme 2024

5. State Budget 2024 (In Greek) – Ministry of Economy and Finance

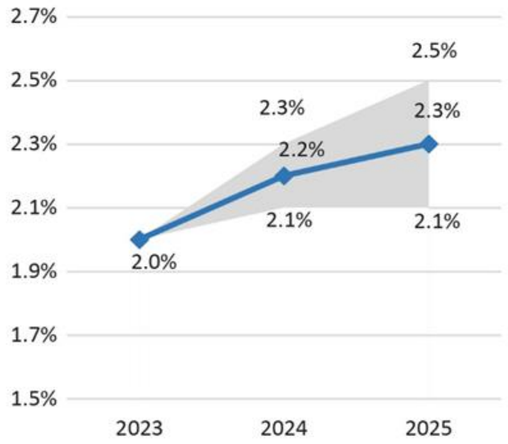
6. European Commission, Spring Economic Forecast for Greece

Macroeconomic forecasts

The MTP 2024 forecasts for 2024 (2.2%) and 2025 (2.3%) fall near the midpoint of HFISC's forecast range (see, Figure 1). It is worth noting that the HFISC's growth trajectory was revised downwards compared to the Opinion on SP 2024 (2.3% and 2.3% for 2024 and 2025, respectively, April 2024), mainly due to a lower-than-projected carry-over effect for 2024 (0.5% instead of 0.9%) and a slower-than-expected growth rate in EU economies.

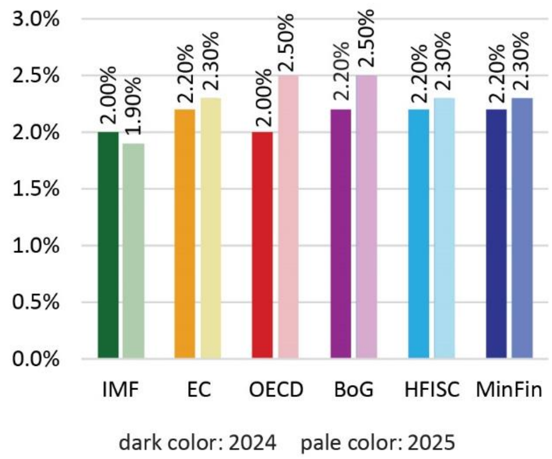
These growth projections are further supported by forecasts from international institutions (see, Figure 2). Even the IMF's most conservative projections are close to the MTP 2024, while the Bank of Greece (BoG) offers more optimistic forecasts, released in June 2024, that exceed MTP 2024 expectations. In the same direction there is evidence of robust performance of the economy in the first semester of 2024 (ELSTAT, 2.2% y-o-y), similar with the resent EC's Spring Forecast report for the whole year. Overall, forecasts from most institutions strongly support this outlook for the Greek economy over the next couple of years, with investments expected to be a key driver together with private consumption. However, it is worth noting that there are some uncertainties (notably related to external shocks) that, if materialized, will add to downward pressure on growth over the MTP period, emphasizing the necessity not to be complacent.

Figure 1: 2024 & 2025, HFISC real GDP growth rate projections



Source: Econometric forecasting models of HFISC.
Note: The grey color indicates the range of forecasts and the blue line the MinFin's projections.

Figure 2**:** 2024 & 2025, a comparison of GDP growth rate projections (y-o-y)



Sources: 1. IMF, World Economic Outlook (April 2024), 2. EC, European Economic Forecast (May 2024), 3. OECD Economic Outlook, Vol. 2023, No 115 (May 2024), 4. BoG, Monetary Policy Report 2022-2023 (June 2024), 5. HFISC (September 2024), 6. MinFin (September 2024).

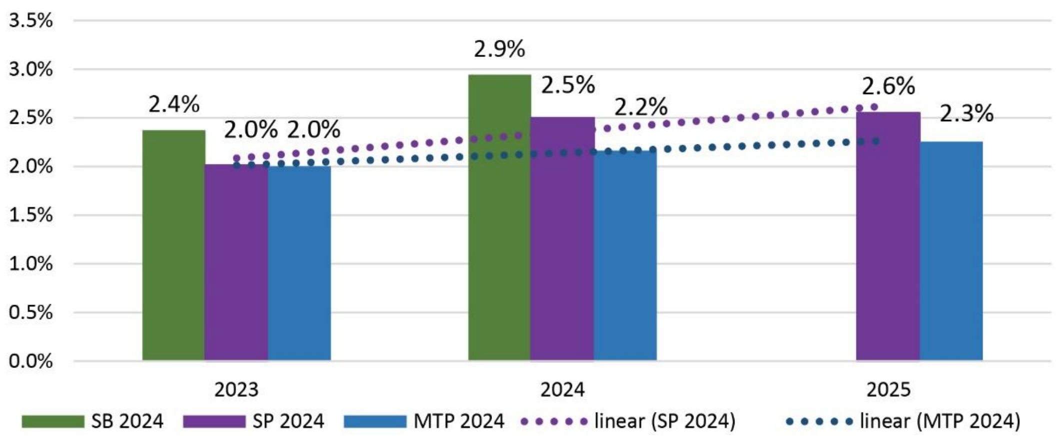
Similarly, the MinFin also downgrades its forecasts for the years 2024 and 2025. The MTP 2024 revises downwards the expected GDP growth rates (2.2% and 2.3%, respectively; see, Figure 3) compared to the SP 2024 (2.5% and 2.6%, respectively, April 2024) and to the SB 2024 (2.9% for 2024, November 2023).

This reflects a more prudent scenario regarding gross fixed capital formation and domestic demand developments. While inflation is stabilizing, energy, services, and food prices remain volatile. Higher prices can suppress consumer demand and reduce disposable income, further weighing on economic growth. In addition, the 2024 carry-over effect (based on the growth of the 2023 last quarter), was lower than anticipated. It is worth noting that the forecasts of MTP 2024 are based on estimations from the first two quarters of 2024 that consolidate information of weakening in the European economy (particularly in major trading partners such as Germany), adding to the uncertainty of the growth projections of Member States, including Greece. This has led to lower demand for Greek exports, such as tourism, shipping, and goods.

The downward growth revision, therefore, from 2.5% to 2.2% likely reflects a combination of these external and domestic factors. However, the Greek growth rate is expected to remain well above the Eurozone's average (according to the EC's Spring Forecast 2024 report, the euro area's growth rate is estimated to be 0.8%, with the performance of the 1st semester of 2024 slightly lower at 0.6% y-o-y).

Regarding the later years, the Greek economy is projected to experience a steady deceleration in growth, characterized by a slowdown in key indicators such as investment and consumption. Overall, for the period 2025-2028 slower growth is foreseen, which brings projections on the prudent side of the forecasting spectrum. Policymakers should take note of these trends of slower pace of economic growth in the period 2025 to 2028 and enhance efforts towards boosting investment through targeted structural supply side policies that would also improve productivity and facilitate more exports of goods in line with services.

Figure 3: 2023-2025, real GDP growth rate projections, MinFin

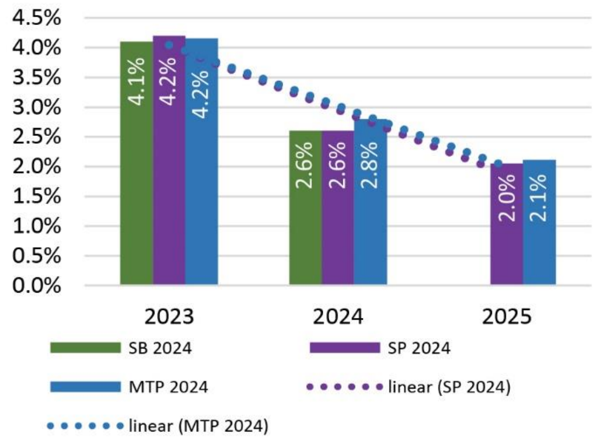


Sources: Ministry of Economy and Finance (MinFin): 1. State Budget 2024 (SB, November 2023) 2. Stability Programme (SP, April 2024) 3. Medium-Term Fiscal-Structural Plan 2024 (MTP, September 2024), HFISC data processing.

The fundamental assumption underpinning the MTP 2024 projections entails a continued decline in inflation, aiming to align with the ECB's target of 2.0%. In MTP 2024, inflation (Harmonized Index of Consumer Prices, HICP) for 2024 is projected to decline to 2.8% (see, Figure 4). More specifically, according to the most recent ELSTAT data, the average inflation slowed down to 3.0% in the first semester of 2024 from 5.1% in the first semester of 2023. For 2025, inflation is expected to keep on falling to 2.1% in line with what was forecasted in SP 2024. For next years until 2028, inflation is projected to stabilize at 2.2%–2.3%.

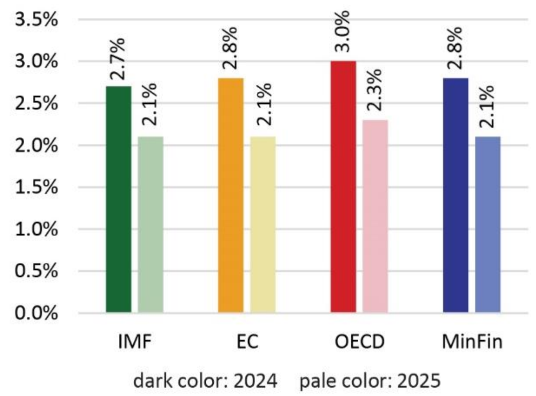
The above MTP 2024 forecasts for 2024 and 2025 are consistent with those of international organizations that fall in a range of 2.7%–3.0% for 2024 and 2.1%–2.3% for 2025 (see, Figure 5). However, HICP for 2024 (EC Spring Forecasts, May 2024) is projected higher in Greece (2.8%) than the Eurozone average (2.5%) and for 2025 at the same level (2.1%). Compared to the EU average, the Greek economy is going through a period of inflationary pressure. The challenge remains to combat possible persistency in Greek inflation vis-à-vis the EU. Targeted structural interventions that aim to enhance competition within the underlying market structure of various industries would alleviate pressures in inflation differentials with the EU average. This is of the utmost importance also in terms of the real competitiveness of the Greek economy, which warrants vigilance over the persistence divergence of inflation from the Eurozone average. On the positive side, at the European level, the downward trajectory of inflation would limit interest rate hikes with even further positive macroeconomic effects.

Figure 4: 2023-2025, Inflation (HICP) projections, MinFin



Sources: Ministry of Economy and Finance (MinFin): 1. State Budget 2024 (SB, November 2023) 2. Stability Programme (SP, April 2024) 3. Medium-Term Fiscal-Structural Plan 2024 (MTP, September 2024), HFISC data processing.

Figure 5**:** 2024 & 2025, Inflation (HICP) projections, MinFin and International Institutions



Sources: 1. IMF, World Economic Outlook (April 2024), 2. EC, European Economic Forecast (May 2024), 3. OECD Economic Outlook, Vol. 2023, No 115 (May 2024), 4. BoG, Monetary Policy Report 2022-2023 (June 2024), 5. HFISC (September 2024), 6. MinFin (September 2024).

According to the macroeconomic scenario that the MTP 2024 is based on, the main drivers of the GDP growth for 2024 and 2025 are from investment supported by the contribution of the funds of the National Recovery and Resilience Plan (NRRP) and from a sustained momentum in private consumption on the back of supportive labour market conditions.

In some detail, public consumption fell sharply by 4.4% in the first half of 2024, reflecting the withdrawal of most of the measures taken against the energy crisis. On the positive side, private consumption increased to 2.0% in the first semester and it is expected to maintain its dynamic trajectory with a growth rate of 1.6% for 2024 and 1.7% for 2025 (see, Table 1). Additionally, it is anticipated that the Recovery and Resilience Facility (RRF) funds will exert a notably positive influence on gross fixed capital formation, with a projected increase of 6.7% for 2024 and 8.4% for 2025, although in a more prudent path compared to SB 2024 projections (15.1% for 2024). Specifically, the amount of grants and loans disbursed so far under RRF to the Greek economy is €17.21 billion out of the €35.95 billion (16.32% as a share of GDP). In any case, the level of investment will play the crucial role in achieving the new scenario, with particular emphasis on those projects financed by the RRF. Timely and effective implementation of the NRRP is essential. The current account deficit is projected to continue narrowing slowly in 2024-2025, despite the observed deterioration in the first seven months of 2024 and remains one of the main concerns, jeopardizing the competitiveness of the Greek economy.

Table 1: 2024 & 2025, Key macroeconomic indicators forecasts (% change y-o-y, constant 2015 prices)

	State Budget 2024	Stability Programme 2024		Medium-Term Fiscal Structural Plan 2024		Actual 1st semester
Years	2024	2024	2025	2024	2025	2024
GDP	2.9%	2.5%	2.6%	2.2%	2.3%	2.2%
Private Consumption	1.3%	1.6%	1.6%	1.7%	1.6%	2.0%
Public Consumption	-1.6%	0.7%	-2.5%	0.4%	0.0%	-4.4%
Gross Fixed Capital Formation	15.1%	9.1%	14.4%	6.7%	8.4%	3.5%
Exports of Goods & Services	5.6%	3.7%	4.9%	4.2%	4.0%	-0.9%
Imports of Goods & Services	4.6%	3.5%	4.9%	3.8%	3.6%	6.4%

Sources: MinFin, ELSTAT and HFISC calculations.

The labour market for the medium-term horizon remains resilient, with increasing employment, albeit at a decelerating pace of 1.2% in 2024 and 0.8% in 2025, and declining unemployment (see, Figure 6). However, key sectors of the Greek economy, such as tourism, construction, and agriculture, have started reporting rising vacancies and labour shortages. Skills mismatch and low participation rates are preventing the utilisation of an apparent labour reserve. Despite the high level of unemployment and the good prospects for employment, there are signs that this path is likely to be persistently constrained by labour market segmentation. Nominal compensation of employees is expected to grow, though, at a less dynamic pace. It remains solid at a level exceeding the inflation, mainly due to a tight labour market and the increases of minimum wage and public sector wages (see, Figure 7).

Figure 6: Total employment, Unemployment

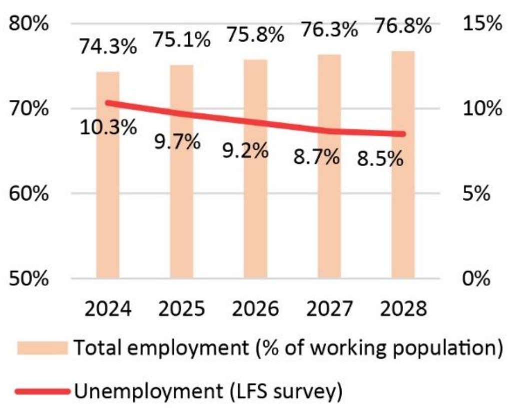
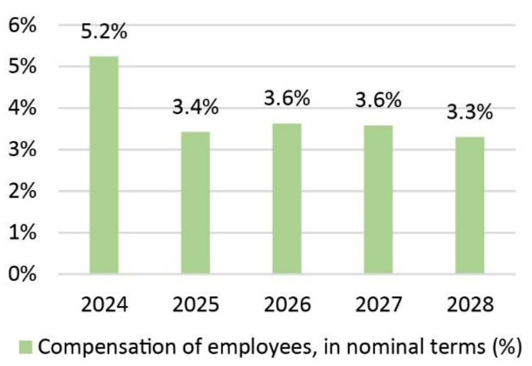


Figure 7: Compensation of employees



Source: MinFin (September 2024), HFISC data processing.

Risks – Uncertainties

At the European level, the downward trajectory of inflation is expected to lead to a declining path along with ECB's interest rates, lowering the cost of borrowing, increasing markets trust and help finally macroeconomic performance. The level of investment, particularly those financed by the NRRP, will continue to play a crucial role in achieving this new scenario.

Following the primary fiscal outcome in a surplus of 1.9% vis-à-vis a target of 1.1% in 2023 a prudent fiscal policy is expected for the coming years so as the declining debt trajectory to be ensured. Additionally, reforms to boost investment and tax efficiency, and the further upgrading of the Greek sovereign by the rating agencies are among the beneficial factors leading to sustainable GDP growth and debt reduction.

On the negative side, adverse shocks stemming from climate change, such as natural disasters often leading to unforeseen expenditures, could challenge the growth dynamism of the Greek economy in the coming years. Assessing their impact, designing and effectively implementing fiscal interventions for those in need without jeopardizing fiscal stability, remains a significant challenge. Speeding up the pace of announced reforms, aiming to reduce labour market segmentation and boost labour productivity so as to align with better wage prospects, remains a challenge. In addition, demographic figures show that the Greek economy would face two main uncertainties: the first is related to slower medium- to long- term growth projection, and the second is due to an anticipated increase in government expenditure due to the aging of the population. The demographic issue necessitates policy actions in a timely manner to reverence the current negative spiral.

In the external environment, the continuation of the geopolitical crisis and a potential slowdown in Northern European economies, which are Greece's major trading partners, would inhibit the external demand for goods and services. Thus, the ability of the country to finance any additional fiscal support measures, along with the existing current account deficits (even if reduced), would present another significant challenge.

Based on the above, the Hellenic Fiscal Council endorses the macroeconomic forecasts and the assumptions underpinning the multi-annual net expenditure path of the Medium-Term Fiscal-Structural Plan 2024. However, vigilance is warranted regarding external shocks and macroeconomic uncertainties so as to take action in a timely manner. Along these lines, it is advisable to pick up the pace of structural reforms in the market structure of goods and services and labour market. Action is also warranted to reverse strong negative demographic trends.

For the Hellenic Fiscal Council

The Chairperson

Anastasia Miaouli

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