



Assessment of the Macroeconomic Forecasts of the 2021 Draft Budget

The Hellenic Fiscal Council (HFC), as stipulated by law, provides an assessment of the macroeconomic forecasts used in the draft state budget and ascertains compliance with the fiscal limits set by the TSCG (Fiscal Compact).

The Hellenic Fiscal Council recognizes that the basic macroeconomic assumptions adopted by the Ministry of Finance (MoF) for 2020 and 2021 are subject to a high degree of uncertainty due to the ongoing pandemic but also due to the geopolitical tensions affecting the Country. The rates of change for 2020 are based on ELSTAT data for the 1st semester and thus do not take into account the slump in tourism receipts. Moreover, the MoF's scenario assumes that no further pandemic related restrictive measures will come into effect either in local or national level and that the general feeling of uncertainty will be reversed soon.

As regards 2021, the main source of uncertainty originates from the developments regarding the pandemic while the geopolitical tension may also play a role. The main assumption of the draft budget suggests that the pandemic will gradually fade out and no further measures restricting social and economic life will be needed, particularly after April. In this respect, the realization of the 2020 and 2021 forecasts will greatly depend on the pandemic dynamics.

Table 1: Annual Growth Rate (%) 2020-2021 (Chain linked volumes 2010)

	DRAFT BUDGET 2021 ⁽¹⁾		STABILITY PROGRAMME ⁽²⁾		ELSTAT ⁽³⁾
	2020	2021	2020	2021	2020 (1 st & 2 nd quarter.)
GDP	-8,2	+7,5	-4,7	+5,1	-7,9
Private Consumption	-6,0	+5,8	-4,1	+4,2	-6,1
Public Consumption	+1,7	-1,8	+1,0	-0,9	-0,9
Gross fixed capital formations	-10,9	+30,4	-4,6	+15,3	-8,3
Exports	-24,8	+22,2	-19,2	+19,2	-14,8
Imports	-15,1	+18,0	-14,2	+15,6	-9,2
GDP Deflator	-0,8	+1,0	0,0	+0,7	-1,8
Employment (national accounts)	-4,7	+5,2	-3,6	+3,8	-4,4
Unemployment (LFS)	18,6	16,5	19,9	16,4	18,3

(1) Ministry of Finance. (September 2020)

(2) 2020 Stability Programme

(3) ELSTAT Data and HFC calculations



General Assessment

- a. The 2020 GDP change rate adopted in the draft budget has been revised with a view to appear more realistic compared to the forecast included in the Stability Programme while the variation between the MoF's forecast and those provided by international institutions is limited (table 2).
- b. The growth rate forecast for 2021 (+7,5%) stipulates that much of what was lost during 2020 will be subsequently recovered (V shape recovery) and GDP in constant terms will reach 191,6 bil. euros compared to 194,4 bil euros in 2019. This projection is optimistic and based on favorable assumptions regarding the evolution of private consumption, gross fixed capital formation, exports, GDP deflator as well as the disbursement of investment funds from the EU Recovery Fund and the supporting fiscal measures. Moreover, the MoF's macroeconomic forecast is significantly higher compared to the forecasts by OECD and IMF which in any case were formulated before the finalization of the European support programme (Recovery Fund). On the contrary, there seems to be greater convergence with the Commission's forecasts. (Table 2). Consequently, although a strong growth scenario for 2021 can not be ruled out, this necessitates the successful completion of targeted national and European policies to support the economy and the gradual de-escalation of the impact of the pandemic.
- c. As far as the "Fiscal Compact" is concerned an assessment of its provisions against the 2021 draft budget targets deems unnecessary at this juncture since the activation of the general escape clause for 2020 will also apply in 2021.

Table 2: GDP Growth Rate, 2020 -2021 (Chain linked volumes 2010)

	MoF ⁽¹⁾		European Commission ⁽²⁾		OECD ⁽³⁾		IMF ⁽⁴⁾	
	2020	2021	2020	2021	2020	2021	2020	2021
GDP	-8,2	+7,5	-9,0	+6,0	-8,0	+4,5	-10,0	+5,1

Sources: (1) Ministry of Finance, (2) Summer 2020, Economic Forecast, July 2020 & AMECO (3) OECD, Economic Outlook No 107 - June 2020, (Single- hit scenario) (4) IMF, World Economic Outlook: The Great Lockdown, April 2020

Remarks on GDP components:

1. **Private Consumption:** The main source of concern for 2020 is related to the evolution of wages (-7%) which, according to the MoF, is expected to be lower than the GDP drop. The 2021 draft budget forecast regarding private consumption is in line with the historical performance of the Greek economy. This forecast depends on favorable assumptions, namely the positive impact of the supporting measures on employment and wages.
2. **Public Consumption:** Comparing the 2020 forecast in the draft budget (+1,7% on an annual basis) with ELSTAT data (-0,9% in the first semester), it is evident that the vast volume of public expenditure is expected to take place in the second semester of 2020. Given the importance of public consumption on the

evolution of GDP, it is of paramount importance that this expectation is fulfilled. The 2021 public consumption projection that foresees a drop by 1,8% seems realistic given the government's statement that the supporting measures for 2021 will only slightly affect public consumption.

3. **Gross Formation of fixed capital:** The Government projects that fixed investments will increase by 30,4% in 2021 which is the most ambitious assumption in the whole draft budget. This increase is expected to originate from construction (36,5% change compared to 2020 and 48,3% change compared to 2019) and is based on the belief that the direct and indirect economic impact of the Recovery Fund will be as high as 4,8 bil. euros. However, according to AMECO data, such development has not been seen in Greece since 1960. In any case the decisive factors for the investments boost are expected to be: a. the state of maturity of existing investment plans in the private sector, b. the required time to shape the necessary legislative framework, c. the prompt conclusion of the necessary auditing procedures required for an investment plan to become eligible and d. the improvement of the administrative capacity of the Greek State
4. **Imports-Exports:** The drop that is projected for 2020 is milder than the trend observed during the first semester. However, the recovery in exports and imports requires the decline of the pandemic on global basis.
5. **Employment - unemployment - wages:** The evolution of employment and wages for 2020 is important when it comes to 2021 projections. The draft budget foresees a much more optimistic trend for these variables in 2020 compared to the HFC's projections which however have been formulated without taking into account the positive impact of the measures adopted by the Government. Coming to 2021, the downside risk is related to the possibility of ending up with a median wage well below the 2019 level. Such a development will adversely affect growth in 2021.

Conclusion:

The Hellenic Fiscal Council is of the opinion that the growth GDP target of 7,5% for 2021 is particularly optimistic amid a rather uncertain economic environment but recognizes that such positive development cannot be excluded, provided that the assumptions on which it is based are met. In this respect emphasis should be placed upon:

- a) The 2020 economic performance
- b) The gradual decline of the negative consequences of the Covid-19 pandemic
- c) The successful operationalization of the investments support planning and the best possible use of the funds provided by the Recovery Fund
- d) The private consumption and deflator developments
- e) The evolution of employment and wages
- f) The multiplier effect of the fiscal stimulus.

On the basis of the above and under the highly uncertain environment in particular, the Hellenic Fiscal Council endorses the macroeconomic forecasts of the 2021 draft state budget.

On Behalf of the Board of the Hellenic Fiscal Council

The Chairman

Panagiotis Korliras