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Opinion on the Macroeconomic Forecasts of the Stability Programme 2024-2026

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Athens, April 28th, 2023

Opinion on the Macroeconomic Forecasts of the Stability Programme 2024-2026

The Hellenic Fiscal Council (HFISC), entrusted with the role of an independent fiscal institution, submits its opinion on the Stability Programme's 2024-2026 (SP 2024-2026) macroeconomic forecasts as stipulated in Regulation No 473/2013 of the European Parliament and of the Council of the European Union (EU).¹

This assessment takes into account the European Commission's fiscal policy guidance for the year 2024.² Accordingly, the new Stability Programmes should include their medium-term budgetary and structural plans as required by the new economic governance framework as of 2024, after the deactivation of the general escape clause. At the same time, the current Stability and Growth Pact (SGP) should be in line with the SGP's reference value of 3% of GDP deficit and ensure a plausible and continuously declining rate of public debt to sustainable levels throughout the reference period.³

The current assessment takes also into account the following:

(a) The SP 2024-2026 macroeconomic forecasts have been forwarded to the HFISC by the Ministry of Finance on 21.3.2023. The scenario extends up to 2027, so as the Medium-Term Fiscal Strategy Framework for the Greek economy to be constructed.

(b) The latest published data on the Greek GDP and its expenditure components by the Hellenic Statistical Authority (ELSTAT), covering the entire year 2022.⁴

(c) The forecasts of the State Budget (SB) for the year 2023, as well as those of the SP 2023-2025.^{5,6}

(d) European Commission's 2022 winter forecasts, as well as those by other international and domestic institutions regarding the key macroeconomic variables of the Greek economy, such as real GDP and the Harmonised Index of Consumer Prices (HICP).⁷

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

1. 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.

2. [COM_2023_141_1_EN_ACT_part1_v4.pdf \(europa.eu\)](#)

3. [com_2022_583_1_en.pdf \(europa.eu\)](#)

4. Hellenic Statistical Authority 7.3.2023: [Statistics - ELSTAT \(statistics.gr\)](#)

5. [State Budget Plan Budget - Ministry of Finance \(minfin.gr\)](#)

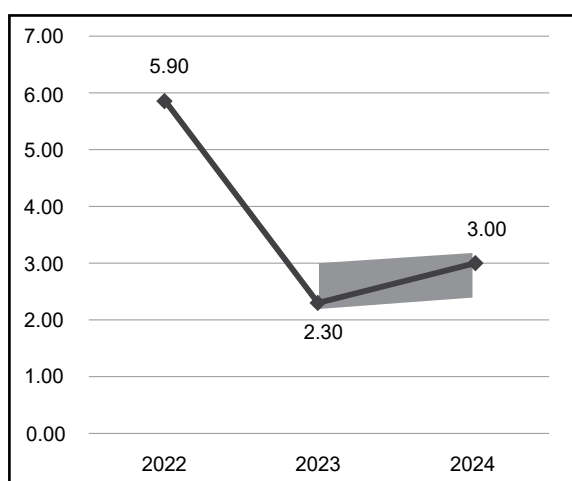
6. [Stability Programme \(europa.eu\)](#)

7. [Economic forecast for Greece \(europa.eu\)](#)

2023 Macroeconomic forecasts

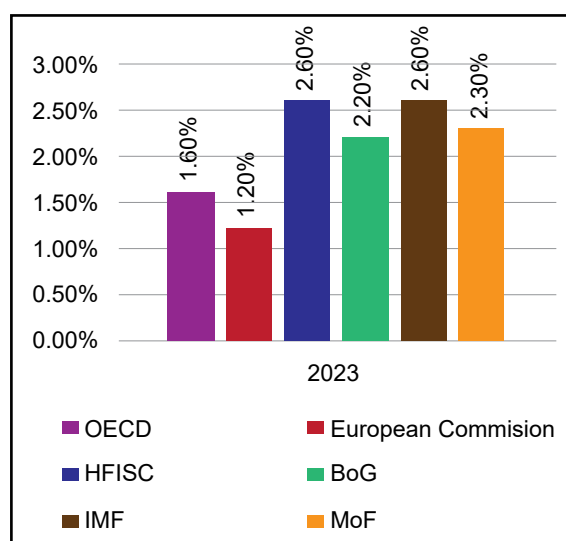
The forecast for the 2023 GDP growth rate from the Ministry of Finance is within the HFISC's range (2.2% - 3.0%) and in line with the recent estimates by the International Monetary Fund (IMF) (2.6%), as well as those of the Bank of Greece (2.2%) (see Charts 1 and 2). The European Commission and the OECD appear less optimistic, since their calculations have been mainly made before the announcement of the significant upward revision of Q3 2022 (4.4% from 2.1%, year-on-year), as well as the strong growth of Q4 quarter 2022 (5.2% year-on-year) from the ELSTAT in early March 2023.

Chart 1: Real GDP forecasts for 2023 & 2024.



Note: In the above chart we note that the Ministry of Finance (Stability Programme 2024-2026) forecasts are within the range of the HFISC forecasts. This is derived from 6 different groups of econometric models (Dynamic Factor Model, VECMs, MIDAS, AR, ARIMA & ARFIMA). The grey area indicates the range of the forecasts (2.2% to 3.0% for 2023 & 2.4% to 3.2% for 2024).

Chart 2: Comparison of GDP forecasts in 2023 (year-on-year rate of change).

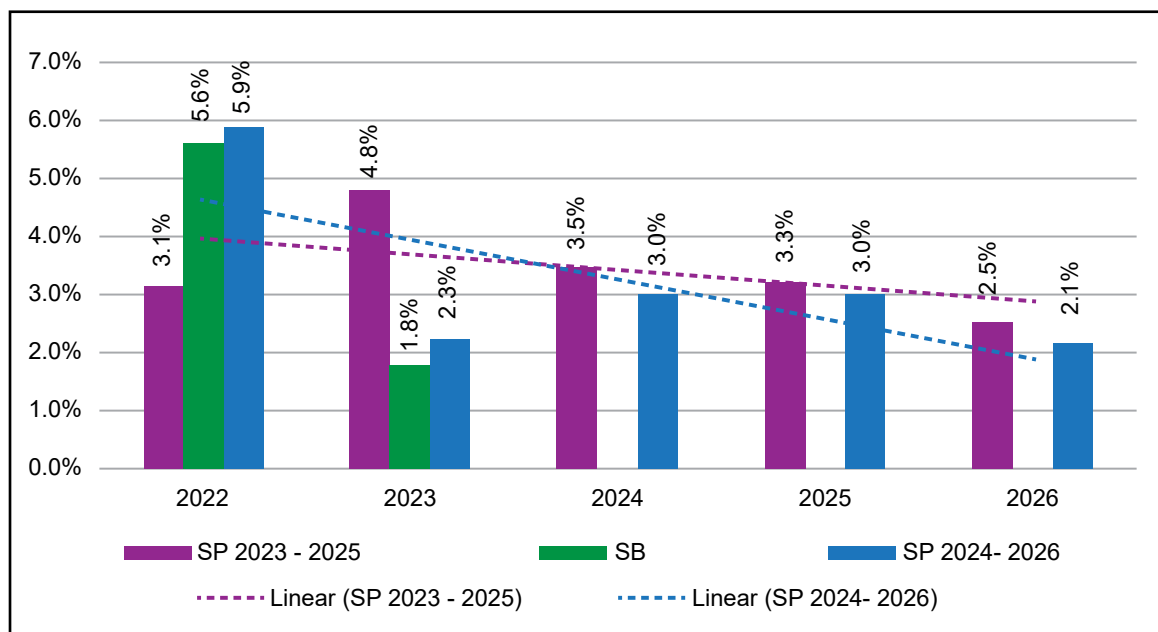


Sources:

- 1) [OECD Economic Outlook, Volume 2022 Issue 2, No 112, November 2022.](#)
- 2) [European Commission, European Economic Forecast, February 2023.](#)
- 3) HFISC, March 2023.
- 4) Bank of Greece, Governor's Annual Report, April 2023.
- 5) [IMF, World Economic Outlook, April 2023.](#)
- 6) Stability Programme 2024-2026, Ministry of Finance, April 2023.

The SP 2024-2026 macroeconomic scenario for 2023 revises upwards the expected GDP growth rate compared to the State Budget 2023 (November 2022), to 2.3% from 1.8% (see Chart 3). This optimistic revision is partly justified by the large statistical carry-over effect of the 2022 growth rate, estimated at 1.5%. Regarding the SP 2023-2025, there is a downward revision (to 2.3% from 4.8%) that could be attributed to the nearly double growth rate achieved by the Greek economy in 2022, compared to what was projected (5.9% from 3.1%).

Chart 3: Ministry of Finance, economic growth rates (2022 – 2026).



Sources: Ministry of Finance: 1) Stability Programme 2023-2025 (April 2022), 2) State Budget 2023 (November 2022), 3) Stability Programme 2024-2026 (April 2023) and HFISC workings.

The inflation forecasts (HICP) of the Ministry of Finance for the current year are in line with recent forecasts by IMF and the European Commission (see Table 1). This forecast has been revised to 4.5% from 5% estimated in the SB 2023 (see Chart 4). The downward revision is in line with the deceleration of inflation observed in the last six months (4.6% according to the latest data from ELSTAT in March 2023). However, it remains above the relevant forecast of the SP 2023-2025 (1.8%), and this is mainly due to the persistence of structural inflation at high levels (6.7%, March 2023).

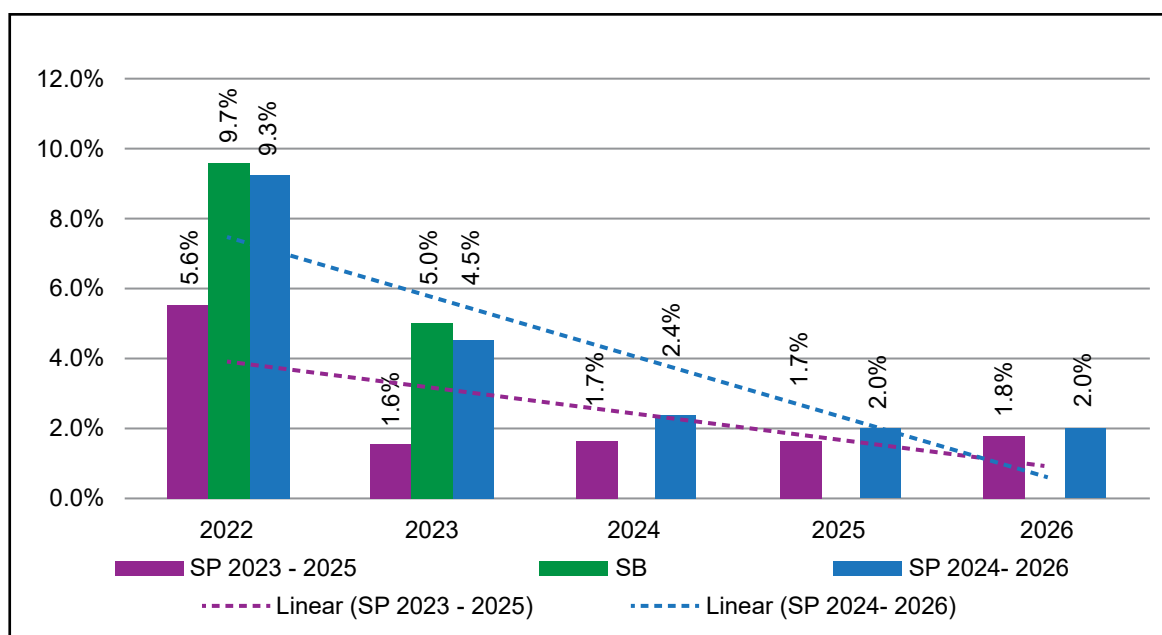
Table 1: Inflation (HICP) 2022-2026, Ministry of Finance and international organisations.

	Publication date	2022	2023	2024	2025	2026
OECD ¹	November 2022	10.9%	3.6%	2.6%	-	-
European Commission ²	February 2023	9.3%	4.5%	2.4%	-	-
IMF ³	April 2023	9.3%	4.0%	2.9%	2.3%	2.0%
MoF ⁴	April 2023	9.3%	4.5%	2.4%	2.0%	2.0%

Sources:

- 1) [OECD Economic Outlook, Volume 2022 Issue 2, No 112, November 2022.](#)
- 2) [European Commission, European Economic Forecast, February 2023.](#)
- 3) [IMF, World Economic Outlook, April 2023.](#)
- 4) [Stability Programme 2024-2026, Ministry of Finance, April 2023.](#)

Chart 4: Inflation (HICP), Ministry of Finance (2022 – 2026).



Sources: Ministry of Finance: 1) Stability Programme 2023-2025 (April 2022), 2) State Budget 2023 (November 2022), 3) Stability Programme 2024-2026 (April 2023) and HFISC workings.

For 2023, private consumption is projected to slightly improve from 1% in SB 2023 to 1.2%, but investment is expected to slow down from 15.5% to 13.2% (see Table 2). Labor market conditions are expected to continue improving in 2023, with employment (on national accounts basis) estimated to increase by 0.9% and accordingly, the LFS unemployment rate to further de-escalate to 11.8%. Possible adverse contingencies within this year would be the continuation of international uncertainty and geopolitical tensions, the energy crisis and high inflation throughout the year, as well as more aggressive tightening of monetary policy, resulting in difficulties for maintaining private consumption and investment at the levels estimated by the SP 2024-2026. Moreover, a possible recession in European Union countries, main trading partners of Greece, would negatively affect exports of goods and services (tourism receipts and goods excluding petroleum products), that are expected to increase by 2.3% in 2023 from 4.9% in 2022. Possible difficulties and delays in the formation of government could be further added to the adverse contingencies. On the other hand, an effective utilization of the Recovery and Resilience Facility (RRF) resources is expected to maintain investment momentum with gross fixed capital formation projected to increase by 13.2% in 2023 from 11.7% in 2022. In addition, the expected upgrade of the country’s credit rating to investment grade, within the medium term, will have a beneficial impact on investment as well as keeping the borrowing costs at normal levels.

Table 2: Forecasts of key macroeconomic variables, at constant prices 2015 (year-on-year percentage changes, unless otherwise stated).

	SP 2023 -2025			SB 2023	SP 2024 -2026				
	2023	2024	2025	2023	2022	2023	2024	2025	2026
GDP	4.8%	3.5%	3.3%	1.8%	5.9%	2.3%	3.0%	3.0%	2.1%
Private Consumption	2.9%	2.3%	2.0%	1.0%	7.8%	1.2%	2.0%	2.0%	1.3%
Public Consumption	-0.8%	0.3%	0.7%	-1.5%	-1.6%	-0.4%	-1.2%	-0.3%	0.0%
Gross fixed capital formation	21.5%	9.2%	8.6%	15.5%	11.7%	13.2%	9.7%	10.7%	7.2%
Public investment	-3.1%	7.8%	-3.6%	10.3%	59.3%	-9.9%	9.7%	-0.3%	-1.1%
Exports of goods & services	6.2%	5.6%	4.9%	1.0%	4.9%	2.3%	6.2%	5.3%	4.5%
Imports of goods & services	5.3%	4.0%	3.7%	2.6%	10.2%	2.6%	4.4%	4.8%	3.8%
External balance of goods & services (% GDP)	-4.0%	-3.4%	-2.9%	-6.3%	-7.4%	-7.6%	-7.0%	-7.0%	-6.8%
Inflation (HICP)	12.2%	11.2%	10.2%	5.0%	9.3%	4.5%	2.4%	2.0%	2.0%
Employment (national accounts basis)	1.8%	1.0%	1.0%	0.2%	3.8%	0.9%	1.0%	0.9%	0.2%
Unemployment rate*	10.4%	9.5%	8.6%	12.6%	12.4%	11.8%	10.9%	10.0%	9.8%

Sources: Ministry of Finance: 1) Stability Programme 2023-2025 (April 2022), 2) State Budget 2023 (November 2022), 3) Stability Programme 2024-2026 (April 2023) and HFISC.

*Note: As a percentage of the Labour Force, Labour Force Survey (LFS).

Medium-term growth prospects 2024-2026

Regarding 2024, the expected GDP growth rate from the HFISC estimations (2.8%), is in line with the macroeconomic scenario of the current SP (3.0%) (see Table 3) taking into account a significant carry-over effect from 2022. Thus, the GDP growth rate is expected to be at 3% compared to 3.5% forecast in the SP 2023-2025. The European Commission's and other international and domestic organisations' forecasts are within a more conservative range, compared with those of the current SP.

Table 3: Real GDP forecasts 2023-2026, Ministry of Finance, Domestic and international organizations.

	Publication date	2022	2023	2024	2025	2026
OECD ¹	November 2022	6.7%	1.6%	1.6%	-	-
European Commission ²	February 2023	5.5%	1.2%	2.2%	-	-
HFISC ³	March 2023	5.9%	2.6%	2.8%	-	-
BoG ⁴	April 2023	5.9%	2.2%	-	-	-
IMF ⁵	April 2023	5.9%	2.6%	1.5%	1.4%	1.4%
MoF ⁶	April 2023	5.9%	2.3%	3.0%	3.0%	2.1%

Sources:

- 1) OECD Economic Outlook, Volume 2022 Issue 2, No 112, November 2022.
- 2) European Commission, European Economic Forecast, February 2023.
- 3) HFISC, March 2023.
- 4) Bank of Greece, Governor's Annual Report, April 2023.
- 5) IMF, World Economic Outlook, April 2023.
- 6) Stability Programme 2024-2026, Ministry of Finance, April 2023.

The basic assumptions of the SP 2024-2026 projections for 2024, are the de-escalation of inflation to levels below 2.4%, the positive impact of RRF funds on investment expenditure (9.7%), the carry-on in the dynamic path of consumption (2%), as well as the significant increase in exports by 6.2% (see Table 2). Exports grow at a faster rate than imports, resulting at a slight improvement in the balance of goods and services from -7.6% in 2023 to -7.0% in 2024.

For the entire 2022-26 period, the current SP foresees a convergence in the average GDP growth rate with that of the SP 2023-25 (3.4% to 3.3%) (see Chart 3). The above convergence is justified on the basis that the recent adverse international developments would be temporary and thus could not damage the dynamic path of recovery in the Greek economy. In addition, at a European level, the downward trajectory of inflation would limit interest rate hikes with even further positive macroeconomic effects. In any case, the level of investment will play a crucial role in achieving the new scenario, with particular emphasis on those projects financed by the RRF. Indicatively, according to the SP 2024-2026 the cumulative GDP change in the period 2022-2026 without the RRF effect would be limited to 5.1% vis a vis 10.7% with the RRF effect. Timely and effective implementation of the Recovery and Resilience Plan is essential. It should be noted that the Greek economy had received so far (24.4.2023), €11.1 billion out of the €30.1 billion for financing the Greek economy with the remaining €19 billion in loans and grants until 2026. Finally, public consumption in the current SP is lower than the one in SP 2023-2025 (see Table 2), for the whole medium-term period, highlighting the expected adjustment of the Greek economy to the new fiscal framework following the deactivation of the general escape clause from 2024 onwards.

Summary - Conclusions

The SP 2024-2026 macroeconomic scenario is consistent with the one of the SP 2023-2025 as well as, the one presented in the SB 2023. The main driver for both, the expected 2023 and the 2024-2026 GDP growth, is the increase in gross fixed capital formation with a significant contribution from the RRF funds. In addition, the possible de-escalation of the energy crisis, the expected Greece's sovereign rating upgrade by foreign rating agencies, the completion of the consolidation of the banking system and the use of the high stock deposits, yield positive prospects for the success of the presented macroeconomic scenario.

On the other hand, uncertainties related to the persistence of inflationary pressures, the possibility of a prolonged election period, any exogenous shocks on the domestic financial system, and the recently introduced European fiscal governance framework may challenge the implementation of the SP 2024-2026 macroeconomic scenario. In the context of the above analysis, the Hellenic Fiscal Council endorses the macroeconomic forecasts of the Greek Stability Programme 2024-2026.

For the Hellenic Fiscal Council

The Chairperson

Anastasia Miaouli