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COMMISSION STAFF WORKING DOCUMENT

Analysis of the Draft Budgetary Plan of Greece

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of Greece

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1. INTRODUCTION

Greece submitted its Draft Budgetary Plan for 2020 on 15 October 2019 in compliance with Regulation (EU) No 473/2013. Greece is subject to the preventive arm of the Pact and should preserve a sound fiscal position which ensures compliance with the primary surplus target set by Decision (EU) 2017/1226 on 30 June 2017 of 3.5% of GDP for 2019 and over the medium term,[1] and with the medium-term budgetary objective from 2020.

The post-programme framework for Greece entails the activation of enhanced surveillance[2] together with Greece's integration to the European Semester framework of economic and social policy coordination, while maximising the synergies between the enhanced surveillance and European Semester processes.

Since Greece was exempt from submitting Stability Programmes while it was subject to a macroeconomic adjustment programme (‘the programme’), the Greek authorities have not established a medium-term budgetary objective for 2018 and 2019. The medium-term budgetary objective is normally set by Member States in their Stability or Convergence Programmes for the coming years, and for that reason Greece was not required to set an medium-term budgetary objective in the medium-term budgetary objective for 2019. In spring 2018, the Council issued no country-specific recommendation to Greece in the context of the European Semester because pursuant to Article 12 of Regulation (EU) No 472/2013[3] Greece was exempt from the monitoring and assessment under the European Semester at that time since it was under the programme. In spring 2019, the Council issued no fiscal country-specific recommendation to Greece. Under these specific circumstances, the assessment of year 2019 is conducted in the absence of a medium-term budgetary objective, taking into

[1] Council Implementing Decision (EU) 2017/1226 of 30 June 2017 amending Implementing Decision (EU) 2016/544 approving the macroeconomic adjustment programme of Greece (2015/1411), OJ L 174, 7.7.2017, p. 22.

[2] OJ L 211, 22.8.2018, Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece.

[3] Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L 140, 27.5.2013, p. 1.

account the factors mentioned above, and the primary surplus target recommended by the Council and monitored under the enhanced surveillance procedure.[4]

Greece established its medium-term budgetary objective for the following three years in the 2019 Stability Programme. The medium-term budgetary objective reflects the objectives of the Stability and Growth Pact, as the nominated medium-term budgetary objective of 0.25% of GDP is set at the level of the minimum medium-term budgetary objective that has been calculated on the basis of the commonly agreed methodology.

As the debt ratio was 178.5% of GDP in 2016 (the year in which Greece corrected its excessive deficit), exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit Greece is also subject to the transitional arrangements to make sufficient progress towards compliance with the debt reduction benchmark. As the debt ratio is projected to be 175.2% of GDP in 2019, exceeding the 60% of GDP reference value of the Treaty, Greece also needs to comply with the debt reduction benchmark as of 2020.

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission 2019 autumn forecast. Section 3 presents the recent and planned fiscal developments, according to the Draft Budgetary Plan, including an analysis of risks to their achievement based on the Commission 2019 autumn forecast. In particular, it also includes an assessment of the measures underpinning the Draft Budgetary Plan. Section 4 assesses the recent and planned fiscal developments in 2019-2020 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 5 provides an analysis of the implementation of fiscal-structural reforms, including those to reduce the tax wedge. Section 6 summarises the main conclusions of the present document.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The macroeconomic forecast underlying the Draft Budgetary Plan projects that the recovery will continue in 2019 and 2020. Growth in 2018 reached 1.9% and was mainly driven by net exports and gross capital formation. The Draft Budgetary Plan expects real GDP growth to reach 2% in 2019 and 2.8% in 2020. Domestic demand is expected to be the main driver of growth as the external environment becomes less favourable. Private consumption is forecast

[4] The primary surplus monitored under enhanced surveillance is defined as the general government balance (B.9) minus general government consolidated interest payable (D.41), in accordance with the rules specified in the European System of Accounts 2010 (ESA 2010), excluding (i) revenues from the sale or lease of real estate, (ii) general government migration-related expenditure, net of EU transfers to the Greek budget for migration-related costs, (iii) revenues and expenditures related to support of the banking system (except payments for deposit guarantee schemes), (iv) all transfers related to Eurogroup decisions regarding income of euro area national central banks (revenues from the Greek bonds purchased under the Agreement on Net Financial Assets and Securities Market Programme) stemming from their investment portfolio holdings of Greek government bonds, and (v) any payments from banks that would undermine their solvency or liquidity, unless the Bank of Greece confirms that such a payment would be compatible with preserving adequate capital buffers and liquidity going forward, including by verifying consistency with banks' business plans as included in the most recent stress test (except the capital concentration tax and the guarantee fee structures currently in place); plus a change of the stock of outstanding tax refunds claims without personal clearance certificate (Ατομικό Φύλλο Εκκαθάρισης, AFEK) older than 90 days, net of the amount of rejected tax refund claims that exceeds the normal annual rejection volume. See in Commission Opinion of 21.11.2018 on the Draft Budgetary Plan of Greece {SWD(2018) 516 final}.

to pick up in the second half of 2019, bringing its annual growth rate to 0.6%. The recovery in the labour market is expected to continue with the unemployment rate reaching 17.4% in 2019. After a substantial decline in 2018, the Draft Budgetary Plan assumes investment to pick up in 2019 and grow at 8.8%. Export growth is expected to continue, albeit at a slower pace than in 2018 as foreign demand decelerates. Inflation is expected to be lower than in 2018 due to lower oil prices and the VAT decrease in May 2019.

The high growth forecast for 2020 in the Draft Budgetary Plan is due to a strong expected effect of the 2020 tax package. The authorities expect that the tax reforms will have a positive impact of 0.5 percentage points on real GDP growth. Domestic demand is expected to be the main driver of higher growth at 2.8% in 2020, which in turn is expected to lead to import growth while positive developments in the export destinations of Greece will support exports and inflation slightly increases.

Box 1: The macroeconomic forecast underpinning the budget in Greece

The macroeconomic forecast underlying the Draft Budgetary Plan for 2020 was endorsed by the independent Hellenic Fiscal Council, which decision is indicated in the Draft Budgetary Plan as well. The assessment of the macroeconomic scenario was published in the form of a short analytical note on 6 October 2019.[5] The Hellenic Fiscal Council concluded that the Ministry of Finance's growth forecast for 2019 and 2020 is "ambitious and could be realized given that certain conditions are met." In particular, it was pointed out that the official projections for private consumption and private investments were contingent on a decisive improvements in credit conditions.

[5] Available at: https://www.hfisc.gr/en/ekfrasi-gnomis/assessment-macroeconomic-forecasts-2020

Table 1. Comparison of macroeconomic developments and forecasts

	2018	2019			2020		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	1.9	2.3	2.0	1.8	2.3	2.8	2.3
Private consumption (% change)	1.1	1.0	0.6	0.5	1.2	1.8	1.5
Gross fixed capital formation (% change)	-12.2	3.9	8.8	10.1	12.9	13.4	12.5
Exports of goods and services (% change)	8.7	5.9	4.9	4.3	5.4	5.1	3.4
Imports of goods and services (% change)	4.2	3.5	4.1	5.1	5.7	5.2	4.0
Contributions to real GDP growth:							
- Final domestic demand	-1.3	1.5	1.8	2.1	2.4	2.9	2.6
- Change in inventories	1.8	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	1.5	0.8	0.2	-0.3	-0.1	-0.1	-0.3
Output gap[1]	-6.7	-4.1	-4.6	-4.6	-2.1	-2.1	-2.2
Employment (% change)	1.7	1.6	2.0	2.2	1.2	1.8	2.2
Unemployment rate (%)	19.3	17.8	17.4	17.3	16.5	15.6	15.4
Labour productivity (% change)	0.2	0.6	-0.5	-0.4	1.1	0.9	0.1
HICP inflation (%)	0.8	0.9	0.6	0.5	1.3	0.7	0.6
GDP deflator (% change)	0.5	1.1	0.9	0.8	1.4	1.0	0.9
Comp. of employees (per head, % change)	1.3	2.4	0.6	0.4	2.0	1.2	1.1
Net lending/borrowing vis-à-vis the rest of	-0.1	1.3	0.5	0.5	1.8	1.0	0.3

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

In comparison with the Commission 2019 autumn forecast, the macroeconomic scenario underlying the Draft Budgetary Plan is plausible for 2019 and favourable for 2020. For 2019, the main difference is the contribution of net exports, where the Draft Budgetary Plan expects a positive growth contribution, whereas the Commission 2019 autumn forecast expects a negative impact on account of an economic slowdown in export markets and rising imports to feed the increased domestic demand. Downside risks to the outlook stem from a slowdown in foreign demand, as well as a persistent under-execution of the budget targeted for public investment. Upside risks are related to the marked improvement in business and consumer sentiment, which has yet to be translated into significant increases in spending. Improved access to finance and bank lending would also provide further upside lift to growth.

For 2020 the main differences are two-fold. First, the Draft Budgetary Plan assumes a higher growth already in the baseline (i.e. before taking into account the macroeconomic impact of the policy measures), on account of a higher contribution of the external sector. Second, the Draft Budgetary Plan expects higher macroeconomic impulse from the 2020 fiscal package. This is due to the higher multiplier effect of about 1 implicit in the Draft Budgetary Plan for the 2020 tax package. Economic literature[6] finds growth multipliers of such tax shifts to be at around 0.3–0.4, which is in line with the multiplier of 0.4 used in the 2019 autumn forecast.

3. Recent and planned fiscal developments

3.1. Deficit developments

The Draft Budgetary Plan projects the general government surplus to reach 1.4% of GDP in 2019, below the 1.6% of GDP target of the 2019 Stability Programme, and broadly aligned with the 1.3% of GDP predicted in the Commission 2019 autumn forecast. The Draft Budgetary Plan projects the achievement of the primary balance target of 3.5% monitored under the enhanced surveillance.

For 2020, the Draft Budgetary Plan targets a general government surplus of 1.0% of GDP, marginally below the 1.1% of GDP projected in the Stability Programme. The Draft Budgetary Plan factors in a fiscally broadly neutral package of growth-friendly measures worth of 0.6% of GDP. A detailed description of the package of measures is provided in section 3.3 below.

On the revenue side, the Draft Budgetary Plan projects total revenues at 46.1% of GDP in 2020, down from the forecast 47.5% of GDP for 2019, where the reduction is due to the denominator effect. In absolute terms, revenues are expected to moderately increase in 2020 in line with plausible revenue elasticities with respect to the underlying macroeconomic variables. The effect of the package of discretionary fiscal measures is broadly neutral on the revenue side, as they introduce a shift from distortionary taxes on labour and capital to less distortionary taxes such as the value added tax or the property tax. The Commission 2019 autumn forecast projects more modest growth in general government revenues in line with the more prudent macroeconomic assumptions.

Turning to the expenditure side, the Draft Budgetary Plan forecasts total expenditure to reach 45.0% of GDP in 2020, down from 46.1% projected for 2019. A similar pattern is forecast for the primary expenditure, which is set to decrease to 42.3% of GDP in 2020 from 43.1% in 2019. The dynamics are due to the denominator effect. In level terms, primary expenditure is set to grow in 2020, mainly on account of higher spending on gross fixed capital formation. Compared to 2019, social spending remains broadly unchanged and projected intermediate consumption declines in 2020 due to the adjustments in spending ceilings, while compensation of employees is set to increase in line with the hiring plans.

The Commission 2019 autumn forecast projects the general government surplus to drop to 1.0% of GDP in 2020, from 1.3% in 2019. This reflects a deterioration of the primary balance from 4.3% in 2019 to 3.7% of GDP in 2020, mostly due to the transfer of the revenues from the Greek bonds purchased under the Agreement on Net Financial Assets and under the Securities Market Programme, the so-called ANFA-SMP income equivalent amounts received

[6] See e.g. Bussière *et al*. (2017): Can Fiscal Budget-Neutral Reforms Stimulate Growth? Model-Based Results, Banque de France Working Paper No. 627., and the literature surveyed therein.

in 2019,[7] and also to the adjustment of expenditure ceilings in 2019. Interest expenditures are forecast to decrease to 2.7% of GDP in 2020 from 3.0% in 2019.

The primary balance monitored under the enhanced surveillance framework is expected to decrease from 3.8% of GDP projected for 2019 to 3.5% of GDP in 2020. The projection for 2019 is marginally higher than the authorities' forecast of 3.7% of GDP, while for 2020 it is marginally lower than the 3.6% of GDP targeted by the Draft Budgetary Plan. The reduction in the primary balance between 2019 and 2020 reflects to a great extent the permanent measures taken in May 2019, which are partly offset by adjustments in the expenditure ceilings for 2019. Greece's public finances continue to face important fiscal risks related to pensions and wages. While the Council of State has recently confirmed the constitutionality of the main pillars of the 2016 pension reform overall, some of its elements (including the provisions for supplementary pensions and accrual rates for long careers in the main pension) will need to be adjusted. The fiscal impact of addressing these aspects may still be significant; but the authorities have committed to sustain the possible additional fiscal costs within the budget ceiling of the Ministry of Labour for 2020. Moreover, the impact will be substantially limited by the fact that key parts of the 2016 pension reform were found constitutional and the Council of State has not granted a right for retrospective financial compensation. However, the pension rights of public sector officials are still under scrutiny of the Court of Auditors. Regarding wages, the increasing number of temporary staff and risks related to the broadening of the scope of exemptions from the unified wage grid remain a source of concern. The potential for overshooting the fiscal target of 3.5% of GDP through underspending in the public investment budget remains but has diminished .

On the basis of the information provided in the Draft Budgetary Plan, the structural balance[8] is estimated to decrease from 3.2% of GDP in 2019 to 1.9% of GDP in 2020. The decrease reflects a minor decrease in the primary balance monitored under enhanced surveillance, (while respecting the primary surplus targets of 3.5% of GDP agreed for these years) and the projected narrowing of the output gap. This trend is reflected also in the Commission 2019 autumn forecast. The assessment of compliance with the required structural adjustment follows in section 4.

In relation to the projection of interest payments, it is worth noting that over 76% of Greece's consolidated public debt is held by official creditors and has been granted at highly concessional rates. However, with its recent issuances, Greece also benefits from the historically low levels of euro area sovereign bond yields and reduced country-spreads, with 10-year rates in Greece currently standing at 1.2%.[9] Based on the information included in the Draft Budgetary Plan, interest expenditure in Greece is expected to fall from 3.0% of GDP in

[7] As part of the debt relief measures agreed at the Eurogroup in June 2018, Greece receives the income equivalents of the profits resulting from Greek bonds purchased under the Agreement on Net Financial Assets and under the Securities Market Programme if its post-programme commitments are respected. The compliance is assessed based on the quarterly enhanced surveillance reports, and the transfer is decided on a semi-annual basis up until 2022. For 2019, a transfer has already been made thereby improving the 2019 balance, but since the eventual transfers in 2020 are conditional on a future decision by the Eurogroup, the forecast ex ante does not take into account any future revenues from this.

[8] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

[9] 10-year bond yields as of 28 October 2019. Source: Bloomberg.

2019 to 2.7% in 2020, the lowest level recorded since 1995, in line with the Commission forecast.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2018	2019			2020			Change: 2018-2020
	COM	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**48.0**	**47.8**	***47.5***	**47.7**	**45.9**	***46.1***	**46.3**	**-1.9**
of which:								
- Taxes on production and imports	17.0	16.7	*16.8*	16.4	16.3	*16.6*	16.3	-0.4
- Current taxes on income, wealth,	10.1	9.6	*9.3*	9.7	9.4	*9.1*	9.5	-1.0
- Capital taxes	0.1	0.1	*0.1*	0.1	0.1	*0.1*	0.1	0.0
- Social contributions	14.2	13.8	*13.8*	14.0	13.5	*13.5*	13.6	-0.7
- Other (residual)	6.6	7.6	*7.5*	7.5	6.6	*6.8*	6.8	0.2
Expenditure	**47.0**	**46.2**	**46.1**	**46.4**	**44.8**	**45.0**	**45.3**	**-2.0**
of which:								
- Primary expenditure	43.7	43.1	43.1	43.5	41.9	42.3	42.6	-1.4
of which:								
Compensation of employees	11.8	11.6	11.6	11.6	11.3	11.4	11.5	-0.4
Intermediate consumption	4.6	4.7	4.7	5.0	4.6	4.4	4.8	-0.2
Social payments	20.7	19.6	20.2	20.5	18.8	19.4	19.9	-1.3
Subsidies	0.8	1.0	1.0	1.0	0.9	0.8	0.9	0.0
Gross fixed capital formation	3.0	3.9	3.8	3.5	4.1	4.3	3.8	1.3
Other (residual)	2.8	2.3	1.8	1.8	2.2	2.0	1.8	-0.8
- Interest expenditure	3.3	3.1	3.0	3.0	2.9	2.7	2.7	-0.6
General government balance (GGB)	**1.0**	**1.6**	**1.4**	**1.3**	**1.1**	**1.0**	**1.0**	**0.0**
Primary balance	**4.3**	**4.7**	**4.3**	**4.3**	**4.0**	**3.7**	**3.7**	**-0.6**
One-off and other temporary measures	-0.6	0.7	0.6	0.7	0.2	0.2	0.4	0.8
GGB excl. one-offs	**1.6**	**0.9**	**0.8**	**0.6**	**0.9**	**0.8**	**0.6**	**-0.8**
Output gap[1]	-6.7	-4.1	-4.6	-4.6	-2.1	-2.1	-2.2	4.6
Cyclically-adjusted balance[1]	4.5	3.8	3.8	3.7	2.2	2.1	2.2	-2.1
Structural balance (SB)[2]	**5.1**	**3.1**	**3.2**	**3.0**	**2.0**	**1.9**	**1.8**	**-2.9**
Structural primary balance[2]	8.4	6.2	6.2	6.0	4.9	4.6	4.5	-3.6

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

3.2. Debt developments

In 2018 general government debt increased to 181.2% of GDP on the back of the build-up of a considerable cash buffer amounting to EUR 15 billion financed by the final disbursement under the ESM programme in August 2018. Public debt is expected to decrease in 2019 to 173.3% of GDP according to the Draft Budgetary Plan. That level is below the forecast of the Commission, which expects the debt ratio to reach 175.2% of GDP in the same year. Debt is expected to drop further in 2020 to 167.8% of GDP in the assessment of the authorities, while the Commission 2019 autumn forecast projects the debt-to-GDP ratio to decline to 169.3%. The difference between the authorities and the Commission 2019 autumn forecast is partly due to a technical assumption underlying the Commission 2019 autumn forecast of keeping the cash buffer constant, which leads to a higher gross debt level. The remainder of the difference can be attributed to the higher growth assumptions in the Draft Budgetary Plan.[10]

Table 3. Debt developments

(% of GDP)	2018	2019			2020		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**181.2**	**170.6**	**173.3**	**175.2**	**163.9**	**167.8**	**169.3**
Change in the ratio	5.0	-10.6	-7.9	-6.0	-6.7	-5.5	-5.9
Contributions[2]:							
1. Primary balance	**-4.3**	**-4.7**	**-4.3**	**-4.3**	**-4.0**	**-3.7**	**-3.7**
2. "Snow-ball" effect	**-1.0**	**-2.8**	**-2.2**	**-1.6**	**-3.3**	**-3.6**	**-2.7**
Of which:							
Interest expenditure	3.3	3.1	3.0	3.0	2.9	2.7	2.7
Real growth effect	-3.3	-4.0	-3.5	-3.2	-3.8	-4.7	-3.9
Inflation effect	-0.9	-1.9	-1.6	-1.4	-2.4	-1.6	-1.5
3. Stock-flow adjustment	**10.3**	**-3.1**	**-1.4**	**-0.1**	**0.6**	**1.8**	**0.5**

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

3.3. Measures underpinning the Draft Budgetary Plan

Greece's fiscal policy is anchored by the nominal primary surplus target monitored under the enhanced surveillance framework. The concerns that surfaced earlier this year that the adoption of permanent balance-reducing measures worth 0.7% of GDP in May 2019 would pose a risk for the achievement of the primary surplus target have been dissipated. Shortly after the submission of the Stability Program, the previous government adopted a set of measures, which included: new instalment schemes (with 120 instalments) for debts on taxes and to social security funds and municipalities; a VAT reduction on a selection of items; the reintroduction of a 13th monthly pension payment; and a reversal of an earlier reform of survivors' pensions. These measures were confirmed and extended by the new administration, which took office in July 2019.

[10] The Commission 2019 autumn forecast, similarly to earlier forecast rounds assumes that Greece will exclusively use market financing to cover its financing needs after the programme. This way, the Commission forecast shows the endogenous evolution of the debt. The authorities' forecast, in contrast, assumes active debt management, i.e. some of the refinancing needs are covered by the cash buffer that is available for the Greek state mainly due to the final disbursement by the ESM in August 2018. Covering the refinancing needs through drawing from the cash buffer directly reduces gross government debt.

The Draft Budgetary Plan includes a package of new expansionary measures affecting the 2020 budget worth 0.6% of GDP in 2020 aimed to reduce distortionary taxes and to increase family-oriented social benefits. The main tax policy measures included in the package are: a reduction of the corporate income tax from 28% to 24% in 2019, a reform of the personal income tax, which *inter alia* reduces the tax rate from 22% to 9% for incomes up to EUR 10,000 and increases the tax-free threshold for taxpayers with children, a reduction in social security contributions to the employment fund by one percentage point for full-time salaried persons and a reduction of the dividend tax from 10% to 5%.[11] In addition, the package also includes a new childbirth allowance of EUR 2,000.

These measures are steps in the right direction to make public finances more growth friendly. The current tax system imposes a high burden on both labour and capital, with relatively narrow tax bases. The planned measures are important steps towards addressing these weaknesses. The reductions of the corporate income tax and the dividend tax decrease the overall tax burden on capital, and the personal income tax reform and the cut in social security contributions reduce the tax wedge on labour. On the other hand, the personal income tax reform further narrows the tax base for families with children. The expansionary package is projected to have a positive impact on the economy through increased investments, which in turn are likely to boost productivity, employment and wages, and consequently stimulate private consumption as well. As a result, the fiscal balance is expected to further improve by 0.1% of GDP.

To neutralise the fiscal impact of the expansionary measures, the authorities presented in the Draft Budgetary Plan a set of 'fiscal equivalent' measures mainly of parametric but also of administrative nature and of broadly comparable magnitude. These measures includes:

- *Increase in the share of electronic payments*: Taxpayers will be expected to spend a certain percentage of their income via card payments or bank transfers to businesses; in case of failure to reach this threshold, a tax will apply to the difference. This is a modification of a similar legislation already in place since 2017, with higher thresholds and stronger incentives. In line with the impacts of the earlier legislation, this measure is expected to help decrease VAT evasion and thus raise VAT and other tax revenues. The fiscal impact in the Draft Budgetary Plan is estimated at 0.3% of GDP.[12]
- *Increase in municipal levies*: revaluation of the base for municipal levies and an administrative measure imposing the collection of levies through the central tax system with a fiscal impact of 0.1% of GDP.
- *Adjustment of objective values for the Enfia property tax* taking into account the recent increase in real estate market prices. This measure is projected to lead to higher tax receipts from real estate taxes and other minor taxes (i.e. inheritance tax) by 0.1% of GDP and also improves the efficiency and fairness of the tax.

[11] The package also includes the suspension of VAT on new buildings for 3 years, the implementation of which creates a risk of compliance with EU regulations.
[12] The Commission estimates the impact of this particular measure at 0.2% of GDP, but the difference is bridged by a higher baseline estimated by the Commission. For the details, see COM(2019)930 for the Communication from the Commission on Enhanced Surveillance for Greece and SWD(2019)930 for the accompanying Staff Working Document.

- *Adjustment of spending ceilings of the Employment Fund to partially finance the reduction in social security contributions*: Given the persistent underspending in this category, the adjustment of the appropriations for employment programs by 0.1% of GDP is in reality an elimination of a buffer, which frees fiscal space for growth-friendly measures.

In addition to the aforementioned measures, the set of measures includes one-off measures improving the balance in 2020, such as a reduction of corporate income tax advances in 2019 ahead of the cut in corporate income tax rates in 2020, which will result in lower tax refunds in 2020, and a change in the schedule of the heating oil allowances for the upcoming heating season. These two measures have an aggregate impact of 0.1% of GDP.

The authorities' estimates of the budgetary impact of the main measures are closely aligned with that of the Commission, with minor, non-substantive differences. Table 4 reflects the classification by the authorities. In the Commission's assessment there is a negative 0.1% impact on social contributions. Most of the measures on both the expansionary side and on the revenue side can be regarded as permanent, with the exception of the smaller, budgetary less relevant items (e.g. speeding up of the procession of pending tax cases in Administrative Courts). The final bill introducing the fiscal package for 2020 as published for public consultation includes some minor additional measures that do not have an impact on the assessment of the fiscal policy for 2020.

Table 4. Main discretionary measures reported in the Draft Budgetary Plan

A. Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2019	**2020**
Taxes on production and imports	0.0	0.3
Current taxes on income, wealth, etc.	0.0	-0.3
Capital taxes		
Social contributions	0.0	0.0
Property Income		
Other		
Total	**0.0**	**0.0**

Note:

The budgetary impact in the table is the aggregated impact of measures as reported by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.

Source:

Draft Budgetary Plan for 2020

B. Discretionary measures taken by general Government- expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2019	**2020**
Compensation of employees		
Intermediate consumption	0.0	0.0
Social payments	0.0	0.0
Interest Expenditure		
Subsidies		
Gross fixed capital formation		
Capital transfers		
Other		
Total	**0.0**	**0.0**

Note:

The budgetary impact in the table is the aggregated impact of measures as reported by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.

Source:

Draft Budgetary Plan for 2020

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Following the completion of the programme, Greece is subject to the preventive arm of the Pact. As already mentioned, Greece is not expected to have a medium-term budgetary objective for 2019, while it should comply with its medium-term budgetary objective in 2020. The assessment of the Draft Budgetary Plan is therefore conducted in the absence of a medium-term budgetary objective for 2019. Greece has committed to a primary surplus target of 3.5% of GDP at the Eurogroup (see footnote 1).

4.1. Compliance with the debt criterion

After Greece corrected its excessive deficit in 2016, it is in the transition period for the following three years to make sufficient progress towards compliance with the debt reduction benchmark. This implies that, during this period, it is required to make sufficient progress (as defined by the minimum linear structural adjustment) towards compliance with the debt reduction benchmark at the end of the transition period. As the debt ratio is forecast to be above 60% of GDP in 2019, Greece needs to comply with the debt reduction benchmark as of 2020.

Table 5. Compliance with the debt criterion*

	2018	2019			2020		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio	**181.2**	**170.6**	**173.3**	**175.2**	**163.9**	**167.8**	**169.3**
Gap to the debt benchmark [1,2]							-1.2
Structural adjustment [3]	-0.1	-1.7	-1.8	-2.1			
To be compared to:							
Required adjustment [4]	-2.0	1.3	n.a.	-3.9			

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining minimum annual structural adjustment over the transition period which ensures that – if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

The Draft Budgetary Plan does not provide sufficient information to assess compliance with the transitional arrangements to make sufficient progress towards compliance with the debt reduction benchmark in 2019 nor to assess compliance with the debt reduction benchmark in 2020.

According to the Commission 2019 autumn forecast, the change in the structural balance (-2.1% of GDP) is above the required minimum linear structural adjustment for 2019 (-3.9% of GDP), thus, Greece is expected to make sufficient progress towards compliance with the debt reduction benchmark in 2019. Based on the Commission 2019 autumn forecast, the debt reduction benchmark is expected to be met in 2020 (with a negative gap of 1.2% of GDP).

4.2. Compliance with the medium-term budgetary objective

Greece does not have a medium-term budgetary objective for 2019, while in 2020 it is expected to meet its medium-term budgetary objective that was set in the 2019 Stability Programme at 0.25% of GDP. The structural balance reached 5.1% of GDP in 2018 and, on the basis of the information reported in the Draft Budgetary Plan, the (recalculated) structural surplus is projected to decrease to 3.2% of GDP in 2019 and 1.9% in 2020, remaining well above its medium-term budgetary objective. This is confirmed by the Commission 2019 autumn forecast, which expects the structural balance to reach 1.8% of GDP in 2020. The projected deterioration of the structural balances in both forecasts reflects a minor decrease in the primary balance monitored under enhanced surveillance and the narrowing output gap over the forecast horizon.

According to the Commission 2019 autumn forecast, Greece is projected to exceed the primary surplus target of 3.5% GDP (in the enhanced surveillance definition) in 2019 and meet it in 2020 as set by the Decision (EU) 2017/1226 on 30 June 2017.[13] For a detailed assessment of compliance with the targets monitored under the 4th enhanced surveillance framework, see the enhanced surveillance report for Greece.[14]

[13] Council Implementing Decision (EU) 2017/1226 of 30 June 2017 amending Implementing Decision (EU) 2016/544 approving the macroeconomic adjustment programme of Greece (2015/1411), OJ L 174, 7.7.2017, p. 22.

[14] See COM(2019)930 for the Communication from the Commission on Enhanced Surveillance for Greece and SWD(2019)930 for the accompanying Staff Working Document.

Table 6: Compliance with the requirements of the preventive arm

<table>
<tr><td>(% of GDP)</td><td>2018</td><td colspan="2">2019</td><td colspan="2">2020</td></tr>
<tr><td colspan="6">Initial position[1]</td></tr>
<tr><td>Medium-term budgetary objective (MTO)</td><td>macroeconomic adjustment programme</td><td colspan="2">-*</td><td colspan="2">0.25</td></tr>
<tr><td>Structural balance[2] (COM)</td><td>5.1</td><td colspan="2">3.0</td><td colspan="2">1.8</td></tr>
<tr><td>Structural balance based on freezing (COM)</td><td>4.0</td><td colspan="2">3.0</td><td colspan="2">-</td></tr>
<tr><td>Position vis-a -vis the MTO[3]</td><td>macroeconomic adjustment programme</td><td colspan="2">-*</td><td colspan="2">At or above the MTO</td></tr>
<tr><td rowspan="2">(% of GDP)</td><td>2018</td><td colspan="2">2019</td><td colspan="2">2020</td></tr>
<tr><td>COM</td><td>DBP</td><td>COM</td><td>DBP</td><td>COM</td></tr>
<tr><td colspan="6">Structural balance pillar</td></tr>
<tr><td>Required adjustment[4]
Required adjustment corrected[5]
Change in structural balance[6]
One-year deviation from the required adjustment [7]
Two-year average deviation from the required</td><td rowspan="3">macroeconomic adjustment programme</td><td colspan="4" rowspan="3">Compliance</td></tr>
<tr><td>Expenditure benchmark pillar</td></tr>
<tr><td>Applicable reference rate[8]
One-year deviation adjusted for one-offs [9]
Two-year average deviation adjusted for one-offs [9]</td></tr>
</table>

Notes

* Since Greece was exempt from submitting Stability Prgrammes while it was under the programme, the Greek authorities did not establish an MTO in 2019. In 2019, Greece is considered to comply with the 3.5% of GDP primary surplus target monitored under the enhanced surveillance framework.

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance corresponds to cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact ed. 2018, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations.

5. COMPOSITION OF PUBLIC FINANCES AND IMPLEMENTATION OF FISCAL STRUCTURAL REFORMS

Greece continues its efforts to repair its public finances. Public expenditure decreased from 53.6% of GDP in 2015 to 47.0% in 2018 which is equal to the euro area average. According to the Draft Budgetary Plan, the expenditure ratio is expected to fall further to 46.1% in 2019 and to 45.0% in 2020. General government revenues have been hovering around 48% of GDP since 2012, a level that is significantly higher than 40% which was the average between 1995 and 2011. The Draft Budgetary Plan expects the revenue ratio to moderate to 47.5% in 2019 and further to 46.1% in 2020, mainly due to the denominator effect.

The discretionary measures described in section 3.3 have implications on the quality of the fiscal mix of the government revenues, even if they do not affect the dynamics of the aggregate public revenues. The specific mix of measures included in the 2020 budget represents a growth-friendly tax shift from taxes on labour and capital to less distortionary taxes, such as the Enfia property tax, VAT, and municipal charges. [15]

Implementation of fiscal structural reforms is also progressing. The authorities have committed to initiate a substantial widening of the property tax base in 2020, to further strengthen the capacity of the Independent Public Revenue Agency and enhance its attractiveness to highly qualified candidates, and to implement a comprehensive action plan to clear the stock of government arrears. The implementation of the Treasury Single Account and the Unified Chart of Accounts continues.

Public investment is expected to increase substantially, from 3.0% of GDP in 2018 to 3.8% and 4.3% in 2019 and 2020, according to the Draft Budgetary Plan. The increase in 2019 reflects lower expected underspending in the public investment budget compared to 2018 and a higher drawing of the structural funds. A similar trend is confirmed by the Commission 2019 autumn forecast, even if the expected levels are somewhat lower, at 3.5% in 2019 and 3.8% in 2020.

6. OVERALL CONCLUSION

Based on the Commission 2019 autumn forecast, the structural improvement in 2019 is expected to be in line with the minimum linear structural adjustment to ensure sufficient progress towards compliance with the debt criterion, and in 2020 the debt reduction benchmark is expected to be respected.

The structural balance in the Commission 2019 autumn forecast is projected to reach a surplus of 3.0% of GDP and 1.8% of GDP in 2019 and 2020, respectively. Since Greece was under the stability support programme, Greece has not established medium-term budgetary objective (medium-term budgetary objective) for 2018 and 2019, while its medium-term budgetary objective for 2020 was set at 0.25% of GDP in the 2019 Stability Programme. Based on both the Draft Budgetary Plan and the Commission 2019 autumn forecast, Greece is projected to be above its medium-term budgetary objective in 2020, and it is also expected to reach the primary surplus target of 3.5% GDP both in 2019 and 2020 as set by the Decision (EU) 2017/1226 on 30 June 2017.

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[15] For a detailed assessment on the tax burden and on the structural issues see COM(2019)930 for the Communication from the Commission on Enhanced Surveillance for Greece and SWD(2019)930 for the accompanying Staff Working Document.