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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 2019 on 15 October 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 2018 and over the medium term.[1]

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 yet established a medium-term budgetary objective (MTO). The MTO 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 MTO in the Draft Budgetary Plan 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. Under these specific circumstances, the assessment of years 2018 and 2019 is conducted in the absence of an MTO, taking into account the factors mentioned above, the primary surplus target recommended by the Council and monitored under the enhanced surveillance procedure as well as the structural budget balance that Greece is forecast to achieve for 2018 and 2019. The new minimum MTOs for 2020-2022

[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.

will be made available in good time for Member States to prepare their 2019 Stability and Convergence Programmes, where Greece will be expected to nominate its MTO.

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.

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission 2018 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 2018 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 2018-2019 (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 scenario underlying the Draft Budgetary Plan projects that recovery will accelerate in 2018 and 2019. Greece recorded over 1% growth for the first time in 2017 after almost a decade of crisis. Growth in 2017 was led primarily by investment and private consumption. The Draft Budgetary Plan forecast shows a moderate recovery, with headline growth reaching 2.1% in 2018 and 2.5% in 2019. Private consumption is expected to be a strong contributor to growth in both years, while net exports may contribute to growth only in 2018. After a weak performance in 2018, investment is projected to grow by over 10% in 2019 according to the authorities' forecast. The labour market is also expected to continue its recovery, with the unemployment rate reaching around 18% in 2019. The growth of average wages would outpace nominal labour productivity in 2018, while in 2019 nominal productivity would grow faster thereby reducing unit labour costs. The authorities expect inflation to be moderate in 2018 and to accelerate somewhat in 2019.

In comparison to the Commission 2018 autumn forecast, the macroeconomic scenario underlying the Draft Budgetary Plan is plausible for 2018 and somewhat favourable for 2019. However, it is important to stress that the Commission 2018 autumn forecast is based on a no-policy-change fiscal scenario for 2019-2020 with implications for the macroeconomic outlook, and is therefore not directly comparable with the authorities' forecasts. With the final package of measures leading to a primary surplus of 3.5% of GDP for 2019 (in the enhanced surveillance definition[4]), the Commission expects that real growth rates could reach 2.2% of GDP in 2019.

For 2018, the main point of difference between the authorities' and the Commission 2018 autumn forecast lies in the assessment of private consumption, and to a lesser extent, in the outlook for investment. While the authorities' forecast assumes that the dynamic growth of

[4] See the Staff Working Document (SWD(2018)508) accompanying the Communication from the Commission on Enhanced Surveillance for Greece (COM(2018)808).

private consumption observed in the first half of 2018 is of a permanent nature, the Commission is expecting some correction in the second half of the year. The Commission also forecasts lower growth in consumption for 2019, which is only partly due to the no-policy-change fiscal assumption underlying the Commission 2018 autumn forecast. As for investment, both forecasts assume a strong recovery in the last quarters of 2018, and a good performance in 2019. While the authorities' scenario assumes a stronger rebound in the second half of 2018, the Commission forecasts a more dynamic growth in 2019.

Box 1: The macro-economic forecast underpinning the budget in Greece

The macroeconomic forecast underlying the Draft Budgetary Plan for 2019 was assessed by the Hellenic Fiscal Council (HFC). The HFC concluded that the Ministry of Finance's forecast is within reach for 2018 and considered the 2019 official growth projection as ambitious but conditionally achievable. The assessment of the macroeconomic scenario was published in the form of a short analytical note on 1 October 2018.[5]

The HFC is an independent body established by Law 4270/2014. All entities in the public sector are obliged by Law to provide information and to assist the Council. The HFC assesses the government's macro-fiscal forecasts and monitors domestic fiscal rules. More specifically, its main responsibilities are (a) the assessment of the macroeconomic forecasts and the fiscal projections underlying the Medium Term Fiscal Strategy, the preliminary draft budget and the final budget; (b) the evaluation of the methodologies and assumptions used to prepare the forecasts and a regular ex post evaluation of past forecast performance; and (c) both ex ante and ex post monitoring of compliance with domestic fiscal rules. The Council is required to publish semi-annual reports, explaining the conclusions of its assessments on the macroeconomic and fiscal forecasts as well as of its opinions in relation to compliance with the numerical fiscal rules.

[5] Available in Greek at: https://www.hfisc.gr/ekfrasi-gnomis/axiologisi-ton-makrooikonomikon-provlepseon-oktovrios-2018

Table 1. Comparison of macroeconomic developments and forecasts

	2017	2018			2019		
	COM	SP	DBP	COM[2]	SP	DBP	COM[2]
Real GDP (% change)	1.5		2.1	2.0		2.5	2.0
Private consumption (% change)	0.9		1.1	0.8		1.2	0.4
Gross fixed capital formation (% change)	9.1		0.8	-2.1		11.9	14.6
Exports of goods and services (% change)	6.8		7.5	8.4		5.8	5.7
Imports of goods and services (% change)	7.1		3.4	3.6		5.2	6.1
Contributions to real GDP growth:							
- Final domestic demand	1.6		0.9	0.5		2.4	2.1
- Change in inventories	0.0		0.0	0.0		0.0	0.0
- Net exports	-0.1		1.2	1.4		0.1	-0.2
Output gap[1]	-8.6	0.0	-6.2	-6.0	0.0	-3.7	-3.8
Employment (% change)	1.5		1.7	1.8		1.8	1.6
Unemployment rate (%)	21.5		19.9	19.6		18.2	18.2
Labour productivity (% change)	0.0		0.2	0.2		0.4	0.4
HICP inflation (%)	1.1		0.6	0.8		1.2	1.2
GDP deflator (% change)	0.6		0.9	0.5		1.3	1.1
Comp. of employees (per head, % change)	0.5		1.2	0.9		1.4	1.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.1		0.6	1.0		1.1	1.0

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.

[2]The projections are based on a no policy change scenario.

Source:

Stability Programme 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments

The Draft Budgetary Plan projects the general government surplus to reach 0.4% of GDP in 2018, below the 0.6% of GDP predicted in the Commission 2018 autumn forecast. The difference compared to the Commission 2018 autumn forecast reflects largely different assumptions on accrual interest payments on the European Stabilisation Mechanism ('ESM') loan. The projections of ESA2010 primary surpluses in 2018 are closely aligned at 3.9% of GDP in both the Draft Budgetary Plan and the Commission 2018 autumn forecast.

For 2019, the Draft Budgetary Plan targets a general government surplus of 0.6% of GDP. It factors in a comprehensive package of discretionary measures with a surplus-reducing impact of around 0.6% of GDP. The new measures consist mainly of a reduction in the ENFIA property tax and social solidarity contributions paid by self-employed and youth, and an increase in the housing benefit. The Greek authorities indicated in their Draft Budgetary Plan that the quantification of the policy measures proposed for 2019 will be finalised following consultations with the Commission.

Since at the time of the conclusion of the Commission 2018 autumn forecast the Draft Budgetary Plan package was still under discussion and was not specified in sufficient detail, the Commission 2018 autumn forecast was based on a no-policy-change assumption. The authorities have reiterated in the Draft Budgetary Plan their commitment to achieving the 3.5% of GDP fiscal target agreed by the Eurogoup in June 2018 and by letter of 20November 2018, Greece sent the Commission a final outline of budgetary measures for 2019, including their full quantification. 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 47.6% of GDP in 2019, down from 48.7% of GDP predicted for 2018, where the reduction is largely due to the denominator effect. In level terms, revenues are projected to grow moderately in 2019 in line with plausible revenues elasticities with respect to the underlying macroeconomic variables. This effect is partly offset by the announced cuts in the property tax and social contributions for the self-employed. In relation to the no-policy-change scenario included in the Draft Budgetary Plan, the Commission 2018 autumn forecast projects significantly lower growth in general government revenues on account of considering the revenue losses following from the 2019 pension cuts, somewhat less dynamic macroeconomic scenario and lower quantification of measures included in the baseline. It also takes a more prudent view on the collection of social contributions debts.

Turning to the expenditure side, the Draft Budgetary Plan projects total expenditure to reach 47.0% of GDP in 2019, down from 48.3% of GDP expected for 2018. A similar dynamics is foreseen for primary expenditure, as interest expenditure in terms of a share in GDP remain broadly constant in the Draft Budgetary Plan. In level terms, primary expenditure are set to grow largely on account of the Draft Budgetary Plan policy package, while continued savings from past reforms and ceilings on healthcare spending and on new hirings help sustain an overall moderate expenditure dynamics. The Commission 2018 autumn forecast of primary expenditure on a no-policy-change basis is closely aligned with the Draft Budgetary Plan but projects a somewhat higher expenditure growth due to the assumption of full utilisation of budget ceilings including in the investment budget.

The Commission 2018 autumn forecast projects the general government surplus to remain stable at 0.6% of GDP in 2019 on a no-policy-change basis. This reflects an underlying improvement in the primary balance, which is expected to be offset by higher interest expenditure in 2019. Taking into account the final package of measures for 2019, the general government surplus would decrease to 0.2% of GDP.

On a no-policy-change basis, the primary balance monitored under the enhanced surveillance framework is expected to increase from 3.7% of GDP projected for 2018 to 3.9% of GDP in 2019. With the final package of measures, the primary balance is projected to reach 3.5% of GDP, in line with the authorities' primary surplus target. There are both upside and downside risks associated with the Draft Budgetary Plan and the Commission budgetary projections. Upside risks relate to possible underspending, which has contributed to budgetary over performance in recent years. As regards downside risks, one particular issue concerns a series of recent Court cases which have, or could potentially, render invalid some aspects of reforms enacted under the programme and give rise to fiscal liabilities. Additional pressures may also arise from new policy initiatives affecting the public wage bill. These risks would need to be monitored closely, with a view to taking action as needed to safeguard the fiscal targets.

On the basis of the information provided in the Draft Budgetary Plan, the structural balance[6] is estimated to decrease from 3.8% of GDP in 2018 to 2.0% of GDP in 2019. The decrease largely reflects the fact that the Greek authorities are committed to maintaining a flat nominal primary surplus target of 3.5% of GDP and the projected narrowing of the output gap. This trend is reflected also in the Commission 2018 autumn forecast but is somewhat less pronounced in view of the no-policy-change assumption.

In relation to the projection of interest payments, it is worth noting that over 73% of Greece's consolidated public debt is held by international partners and has been granted at highly concessional rates. Based on the information included in the Draft Budgetary Plan, interest expenditure in Greece is expected to increase from 3.1% of GDP in 2017 to 3.5% in 2018 and to edge down to 3.4% of GDP in 2019, well below the 5.8% recorded in 2012 at the peak of the euro area sovereign debt crisis. The Commission expects that the interest expenditure will increase only to 3.2% in 2018 on account of lower interest payments projected on the ESM loan, while for 2019 the two forecasts are closely aligned. In line with the principle to only account for the impact of measures that have already been adopted, neither the Draft Budgetary Plan nor the Commission projections take into account the implementation of the policy-contingent debt measures. For the interest payments this implies that the waiver of the step-up margin on one of the EFSF loan tranches is not taken into account. If implemented, this measure could lower interest expenditure by around 0.1% of GDP.

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

Table 2. Composition of the budgetary adjustment

(% of GDP)	2017	2018			2019			Change: 2017-2019
	COM	SP	DBP	COM[3]	SP	DBP	COM[3]	DBP
Revenue	**48.1**		***48.7***	**48.3**		***47.6***	**46.8**	**-0.5**
of which:								
- Taxes on production and imports	17.1		*17.3*	17.3		*17.0*	16.9	-0.1
- Current taxes on income, wealth, etc.	10.0		*10.0*	9.8		*9.8*	9.4	-0.2
- Capital taxes	0.1		*0.1*	0.1		*0.1*	0.1	0.0
- Social contributions	14.4		*14.1*	13.9		*13.7*	13.4	-0.7
- Other (residual)	6.5	n.a.	*7.2*	7.2	n.a.	*7.0*	7.0	0.5
Expenditure	**47.3**		**48.3**	**47.6**		**47.0**	**46.2**	**-0.3**
of which:								
- Primary expenditure	44.2	n.a.	44.8	44.4	n.a.	43.6	42.7	-0.6
of which:								
Compensation of employees	11.9		11.9	12.0		11.7	11.9	-0.2
Intermediate consumption	5.0		4.9	5.2		4.8	5.1	-0.2
Social payments	21.3		20.4	20.5		19.5	18.9	-1.8
Subsidies	0.9		1.0	1.0		1.1	1.0	0.2
Gross fixed capital formation	4.4		4.0	3.5		4.6	4.1	0.2
Other (residual)	0.7	n.a.	2.6	2.3	n.a.	1.9	1.7	1.2
- Interest expenditure	3.1		3.5	3.2		3.4	3.5	0.3
General government balance (GGB)	**0.8**		**0.4**	**0.6**		**0.6**	**0.6**	**-0.2**
Primary balance	**3.9**		**3.9**	**3.9**		**3.9**	**4.1**	**0.0**
One-off and other temporary measures	0.3	n.a.	-0.4	-0.5	n.a.	0.4	0.2	0.1
GGB excl. one-offs	**0.5**	**n.a.**	**0.8**	**1.1**	**n.a.**	**0.2**	**0.5**	**-0.3**
Output gap[1]	-8.6	n.a.	-6.2	-6.0	n.a.	-3.7	-3.8	5.1
Cyclically-adjusted balance[1]	4.9	n.a.	3.4	3.6	n.a.	2.4	2.5	-2.6
Structural balance (SB)[2]	**4.6**	**n.a.**	**3.8**	**4.0**	**n.a.**	**2.0**	**2.3**	**-2.7**
Structural primary balance[2]	7.7	n.a.	7.3	7.2	n.a.	5.4	5.8	-2.4

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 = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[3]The projections are based on a no policy change scenario.

Source:

Stability Programme 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations

3.2. Debt developments

In 2017 public debt declined to 176.1% of GDP on the back of high primary surplus and 2.1% nominal GDP growth. Public debt is expected to increase in 2018 to 183.0% of GDP according to the Draft Budgetary Plan. That level is very close to the forecast of the Commission, which foresees the debt ratio to reach 182.5% of GDP in the same year. Gross debt will increase despite the high primary surplus and accelerating nominal growth, because of the large ESM disbursement in August 2018, amounting to EUR 15 billion, which financed the build-up of a considerable cash buffer. Debt is expected to drop significantly in 2019 to 170.2% of GDP in the assessment of the authorities. Note that the Commission 2018 autumn forecast for 2019 is based on a no-policy-change fiscal assumption, which affects also the level of the nominal GDP forecast and therefore the debt-to-GDP ratio. Under the no-policy-change assumption, the 2019 debt-to-GDP ratio is expected to decline to 174.9%.Although the difference between the authorities and the Commission 2018 autumn forecast seems large, it is due to a technical assumption underlying the Commission 2018 autumn forecast, which stipulates no draw-down of the cash buffer, which leads to a higher gross debt level.[7]

[7] The Commission 2018 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.

Table 3. Debt developments

(% of GDP)	2017	2018			2019		
		SP	DBP	COM[3]	SP	DBP	COM[3]
Gross debt ratio[1]	**176.1**		**183.0**	**182.5**		**170.2**	**174.9**
Change in the ratio	-2.4	n.a.	6.9	6.4	n.a.	-12.8	-7.6
Contributions[2] :							
1. Primary balance	**-3.9**	**n.a.**	**-3.9**	**-3.9**	**n.a.**	**-3.9**	**-4.1**
2. “Snow-ball” effect	**-0.6**	**n.a.**	**-1.6**	**-1.2**	**n.a.**	**-3.3**	**-2.1**
Of which:							
Interest expenditure	3.1		3.5	3.2		3.4	3.5
Growth effect	-2.6	n.a.	-3.6	-3.5	n.a.	-4.4	-3.6
Inflation effect	-1.0	n.a.	-1.5	-0.9	n.a.	-2.2	-2.0
3. Stock-flow adjustment	**2.1**	**n.a.**	**12.4**	**11.5**	**n.a.**	**-5.5**	**-1.4**
Of which:							
Cash/accruals difference							
Net accumulation of financial							
of which privatisation proceeds							
Valuation effect & residual							

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

[3]The projections are based on a no policy change scenario.

Source:

Stability Programme 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations

3.3. Measures underpinning the Draft Budgetary Plan

The authorities have proposed a package of policy measures in the Draft Budgetary Plan and indicated that the package will be finalised following consultations with the Commission.

The Draft Budgetary Plan package consists of two parts. Firstly, the authorities indicated that they would pursue a different approach to the implementation of the pension recalibration and the corresponding offsetting expansionary measures pre-legislated in 2017 to enter into force on 1 January 2019. Regarding pensions, the authorities intend to only partially implement the pre-legislated measures through the freezing of all pensions until 2023.

Secondly, in view of the fiscal space projected in the Draft Budgetary Plan, the authorities proposed a set of expansionary measures consisting of: a reduction of the tax on real estate; reduction of social security contributions for self-employed, independent professionals and farmers; subsidisation of employers' social security contributions for young professionals up to 24 years; housing benefits reform; strengthening of special education through hiring teachers and other specialised personnel; and finally, reductions in the corporate income tax and the dividend tax, which are expected to affect public finances only in 2020. By letter of 20 November 2018, Greece sent the Commission a final quantification of the measures. Compared with the Draft Budgetary Plan package, the final package increases the new housing subsidy so as to better align it with the objectives of the reform and labour market incentives, and reduces the domestic component of the public investment budget. At the same time, the authorities clarified that the new subsidy reducing transport costs for passengers and companies residing on islands can be covered from the existing budget ceilings. There are no remaining differences in terms of assessment of the yield of the measures between the Commission and the authorities' quantifications. Overall, the size of the final package is 0.4% of GDP in 2019. The final package of discretionary measures differs from the fiscally neutral package of measures due to take effect on 1 January 2019 that were pre-legislated in mid-2017 but represents a balanced approach to meet agreed fiscal and economic goals in a manner that is also supportive of social inclusion.

The Draft Budgetary Plan presents one-off measures of -0.4% of GDP in 2018 and 0.4% of GDP in 2019. The one-off measures for 2018 are closely aligned with the Commission estimate and consist mainly of a sizeable payment of refunds of wages to uniformed officers and other public officials based on the ruling of the Council of State. Regarding 2019, the one-off measures included in the Commission 2018 autumn forecast are mainly revenues from ANFA/SMP profits paid by the Bank of Greece to the State Budget and revenues from the sale of non-financial assets (real estates). The authorities consider additional 0.2% of GDP as one-off measures but these are not specified in the Draft Budgetary Plan.

Table 4. Main discretionary measures reported in the DBP

A. Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the	
	2018	**2019**
Taxes on production and	0	-0.1
Current taxes on income,		
Capital taxes		
Social contributions	0	-0.1
Property Income		
Other		
Total	0	-0.2

Note:
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.
Source: Draft Budgetary Plan for 2019

B. Discretionary measures taken by general Government- expenditure side

Components	Budgetary impact (% GDP) (as reported by the	
	2018	**2019**
Compensation of employees	0	0.0
Intermediate consumption		
Social payments	0	0.9
Interest Expenditure		
Subsidies	0	0.1
Gross fixed capital formation	0	-0.2
Capital transfers		
Other		
Total	0	0.8

Note:
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.
Source: Draft Budgetary Plan for 2019

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 an MTO at this point. In addition, no country-specific recommendations were issued for Greece in spring 2018. The assessment of the Draft Budgetary Plan is therefore conducted in the absence of an MTO. Greece has also committed to a primary surplus target of 3.5% of GDP at the Eurogroup (see footnote 1).

The (recalculated) structural balance reached 4.6% of GDP in 2017 and, on the basis of the information reported in the Draft Budgetary Plan, it is projected to decrease to 3.8% of GDP in 2018 and 2.0% of GDP in 2019. The Commission 2018 autumn forecast, conditioned on the no-policy-change assumption, points to a similar but somewhat more favourable development and expects the structural balance to reach 2.3% of GDP in 2019. Taking into account the final package of measures for 2019, which reduced the primary balance monitored under the enhanced surveillance framework by 0.4 percentage points, the structural balances projected by the Draft Budgetary Plan and the Commission would be closely aligned. The projected deterioration of the structural balances in both forecasts is largely due to the narrowing output gap over the forecast horizon and partly due to the trends in the general government balance adjusted for one-off and other temporary measures.

According to the no-policy-change Commission 2018 autumn forecast, Greece is projected to reach a primary surplus (in the enhanced surveillance definition) of 3.7% of GDP in 2018 and 3.9% of GDP in 2019. Considering the final policy package, the primary surplus is expected to reach 3.5% of GDP in 2019 and therefore meet the primary surplus target agreed by the Eurogroup. For a detailed assessment of compliance with the targets monitored under the enhanced surveillance framework, see the enhanced surveillance report for Greece.[8]

4.1. Compliance with the debt criterion

After Greece corrected its excessive deficit in 2016, Greece 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, MLSA) towards compliance with the debt reduction benchmark at the end of the transition period.

Greece's Draft Budgetary Plan does not cover the multiannual horizon and therefore does not include sufficient information that is necessary to assess compliance with the transitional arrangements to make sufficient progress towards compliance with the debt reduction benchmark. According to the Commission 2018 autumn forecast which was based on the assumption of no policy change, the change in the structural balance is expected to exceed the required MLSA in both 2018 (projected change of -0.6% of GDP vs. required change of -1.7% of GDP) and 2019 (projected change of -1.7% of GDP vs. required change of -2.7% of GDP). Therefore, Greece is expected to make sufficient progress towards compliance with the debt criterion in both 2018 and 2019. This assessment remains valid including when considering the final package of measures.

[8] See COM(2018)808 for the Communication from the Commission on Enhanced Surveillance for Greece and SWD(2018)508 for the accompanying Staff Working Document.

Table 5. Compliance with the debt criterion

	2017	2018			2019		
		SP	DBP	COM[5]	SP	DBP	COM[5]
Gross debt ratio	176.1		183.0	182.5		170.2	174.9
Gap to the debt benchmark [1,2]							
Structural adjustment [3]	-0.4	n.a.	-0.9	-0.6	n.a.	-1.8	-1.7
To be compared to:							
Required adjustment [4]	-1.3	n.a.		-1.7	n.a.		-2.7

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.

[5]The projections are based on a no policy change scenario.

Source:
Stability Programme 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations

5. Composition of Public Finances and Implementation of Fiscal Structural Reforms

Greece has implemented an unprecedented effort to repair its public finances and reform its economy since the time when the Greek authorities first requested financial assistance in 2010. These efforts are now paying off. To recall, the general government balance, which recorded a deficit of 15.1% of GDP in 2009, turned to a surplus in 2016, while the primary balance in the programme definition reached a surplus already in 2013 and improved to a staggering 4.1% of GDP in 2017.

The fiscal adjustment since 2010 was achieved thanks to sizeable savings on the expenditure side and reforms strengthening the revenue side. Public expenditure, which was high above the euro area average before and during the financial crisis, is projected to fall below the level of other euro area Member States in 2018 (even when assessed relative to nominal GDP, which is still substantially below potential) and are projected to decline further on a no-policy-change basis. General government revenue exceeded the euro area average already in 2015 and is projected to remain above the average in 2019. According to the Commission 2018 autumn forecast, the revenue-to-GDP ratio is set to decrease substantially in 2019, which reflects the negative revenue effects of the recalibration of pensions factored in for 2019 on the no-policy-change basis, as well as the fact that growth in 2019 is forecast to be driven largely by investments rather than by other, more tax-rich drivers. Public investment remains high compared to other Member States but relatively low compared to Greece's historical standards. It is set to increase in 2019 in line with the expected implementation of the current programming period for EU funds. For a detailed assessment of fiscal structural reforms see the enhanced surveillance report for Greece.

6. OVERALL CONCLUSION

Based on the Commission 2018 autumn forecast, the structural adjustment in 2018 and 2019 is expected to be in line with the minimum linear structural adjustment to ensure sufficient progress towards compliance with the debt criterion. This assessment remains valid including when considering the final package of measures.

The structural balance in the Commission 2018 autumn forecast is projected to reach a surplus of 4.0% of GDP and 2.3% of GDP in 2018 and 2019, respectively. Since Greece was under the stability support programme, Greece has not established yet its medium-term budgetary objective (MTO). Therefore, the assessment of the Draft Budgetary Plan was conducted in the absence of an MTO and country-specific recommendations. Greece is expected to reach the primary surplus target of 3.5% GDP in 2018 as set by the Decision (EU) 2017/1226 on 30 June 2017.[9]

On the basis of the final specification of the fiscal policy package to be included in the 2019 budget, Greece is also expected to reach the primary surplus target of 3.5% of GDP in 2019.

Greece can therefore be considered as currently complying with the preventive arm of the SGP in both years.

[9] 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.