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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Subject:	COMMISSION OPINION of 20.11.2019 on the Draft Budgetary Plan of Greece
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Delegations will find attached document C(2019) 9106 final.

EUROPEAN
COMMISSION

Brussels, 20.11.2019
C(2019) 9106 final

COMMISSION OPINION

of 20.11.2019

on the Draft Budgetary Plan of Greece

{SWD(2019) 916 final}

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COMMISSION OPINION

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on the Draft Budgetary Plan of Greece

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING GREECE

3. On 15 October 2019, Greece submitted the Draft Budgetary Plan for 2020. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Greece is subject to the preventive arm of the Stability and Growth 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] and with its medium-term budgetary objective of 0.25% of GDP.

   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 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 a medium-term budgetary objective 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[2] Greece was exempt from the monitoring and assessment under the European Semester at that time since it was under the programme. The Council issued no Stability and Growth Pact-related country-specific recommendation in 2019 to Greece. Under these specific circumstances, the assessment of year 2019 is conducted in the absence of a medium-term budgetary objective, taking into account the factors mentioned above, the primary surplus target recommended by the Council and monitored under the enhanced surveillance

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[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] 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.

procedure as well as the structural budget balance that Greece is forecast to achieve for 2019.

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 its public debt amounted to 178.5% of GDP in 2016, the year in which it corrected its excessive deficit, Greece also needs to make sufficient progress towards compliance with the debt reduction benchmark in 2019 and since 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 in 2020.

5. According to the Commission 2019 autumn forecast, the Greek economy is expected to grow by 1.8% in 2019 and 2.3% in 2020. The Draft Budgetary Plan projects real GDP growth to be 2% in 2019 and to reach 2.8% in 2020. According to the Draft Budgetary Plan, domestic demand is expected to be the main driver for growth as the external environment decelerates. In comparison to the Commission 2019 autumn forecast, the macroeconomic scenario underlying the Draft Budgetary Plan is considered to be plausible for 2019 and favourable for 2020. The main point of difference lies in the Draft Budgetary Plan's more favourable assessment of net exports in 2019 and the assessment of the macroeconomic impact of the 2020 fiscal policy measures. Greece complies with the requirement of Regulation (EU) No 473/2013, since the macroeconomic scenario has been endorsed by the independent Hellenic Fiscal Council, which nevertheless flagged in its assessment that it considers the 2% GDP growth for 2019 and 2.8% for 2020 as "ambitious" but conditionally achievable.

6. The Draft Budgetary Plan projects the general government surplus in 2019 to reach 1.4% of GDP and 1.0% of GDP in 2020. That forecast implies that the structural balance[3] is expected to decrease from 3.2% of GDP projected for 2019 to 1.9% of GDP in 2020. The decrease largely reflects a minor decrease in the primary balance monitored under enhanced surveillance,[4] and the projected narrowing of the output gap.

The Commission 2019 autumn forecast projected that the general government surplus would reach 1.3% of GDP in 2019 and to drop to 1% of GDP in 2020. The projection is close to the forecast by the Greek authorities. The primary surplus, per the definition monitored under enhanced surveillance, is expected to decrease from 3.8% of GDP in 2019 to 3.5% of GDP in 2020. The reduction reflects to a great extent the permanent measures taken in May 2019, which are partly offset by one-off 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

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

[4] See Commission Opinion of 21.11.2018 on the Draft Budgetary Plan of Greece {SWD(2018) 516 final} for the definition.

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 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 by 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.

7. Greece's fiscal policy is anchored by the nominal primary surplus target monitored under the enhanced surveillance framework. The fiscal stance in 2020 is expansionary, as reflected by the decrease in the structural surplus projected by the Draft Budgetary Plan and by the Commission autumn forecast. The concerns that surfaced earlier this year that the adoption of permanent balance-reducing measures in May 2019 would pose a risk for the achievement of the primary surplus target have been dissipated. These measures were maintained by the new administration, which took office in July 2019. The Draft Budgetary Plan presents a package of growth-friendly measures for 2020 worth 0.6% of GDP. The main tax policy measures included in the package are: a reduction in the corporate tax from 28% to 24%, a reform of the personal income tax, a reduction in social security contributions to the employment fund by one percentage point for full-time employees and a reduction in the dividend tax from 10% to 5%. In addition, the package also includes a new childbirth allowance. To ensure broad budget neutrality, the authorities have presented in the Draft Budgetary Plan a a set of ‘fiscal equivalent’ measures mainly of parametric but also of administrative nature and of a similar magnitude. These measures aim to increase the yield of indirect taxes, update the tax base for the property tax and further reduce spending targets that have not been used in the previous years. While the package is broadly budgetary neutral, it is expected to improve the quality of public finances and boost growth in 2020. 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.

Implementation of fiscal structural reforms is 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. A detailed assessment of fiscal structural reforms is included in the enhanced surveillance report for Greece.[5]

8. According to the Commission 2019 autumn forecast, the primary surplus as monitored under the enhanced surveillance is expected to reach 3.8% of GDP in

[5] 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.

2019 and 3.5% of GDP in 2020 and therefore complies with the primary surplus target. Based on both the Draft Budgetary Plan and the Commission 2019 autumn forecast, Greece's structural balance is expected to reach 1.9% of GDP in 2019 and 1.8% of GDP in 2020, which is above its medium-term budgetary objective of 0.25% of GDP set for that year. Therefore, Greece is expected to be compliant with the requirements under the preventive arm of the Stability and Growth Pact in 2020.

9. The Draft Budgetary Plan indicates that government debt-to-GDP ratio will decline from 173.3% in 2019 to 167.8% in 2020, somewhat below the Commission's projection of 175.2% in 2019 and 169.3% in 2020. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional debt rule in 2019 and with the debt reduction benchmark in 2020. Based on the Commission 2019 autumn forecast, Greece is projected to make sufficient progress towards compliance with the debt reduction benchmark in 2019 and the debt reduction benchmark is projected to be met in 2020.

10. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Greece is compliant with the provisions of the Stability and Growth Pact. In 2020, Greece is expected to meet its medium-term budgetary objective. Greece is also considered to comply with the 3.5% of GDP primary surplus target monitored under the enhanced surveillance. The Commission therefore invites the authorities to implement the 2020 budget.

    In July 2019 Greece received a Council Recommendation[6] to "achieve a sustainable economic recovery and tackle the excessive macroeconomic imbalances by continuing and completing reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018." The implementation of this recommendation is monitored under the enhanced surveillance framework.

Done at Brussels, 20.11.2019

For the Commission
Pierre MOSCOVICI
Member of the Commission

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6 Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Greece and delivering a Council opinion on the 2019 Stability Programme of Greece, OJ C 301, 5.9.2019, p. 42.