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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Delegations will find attached document C(2020) 8506 final.

EUROPEAN
COMMISSION

Brussels, 18.11.2020
C(2020) 8506 final

COMMISSION OPINION

of 18.11.2020

on the Draft Budgetary Plan of Greece

{SWD(2020) 856 final}

(Only the Greek text is authentic)

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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 by 15 October, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In its Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.[3] As indicated in the Annual Sustainable Growth Strategy 2021[4] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[5], Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

4. On 27 May 2020, the European Commission put forward its proposal for the creation of a new recovery instrument Next Generation EU[6], alongside the proposal for the reinforced long-term budget of the EU for 2021-2027.[7] This proposal includes the

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1 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

2 The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

3 https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

4 Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

5 https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

6 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe's moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020, COM(2020) 456 final.

7 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The EU budget powering the recovery plan for Europe, Brussels, 27.5.2020, COM(2020) 442 final.

establishment of a Recovery and Resilience Facility offering large-scale financial support for both public investments and reforms. By contributing to the economic recovery and by providing financial support to strengthen the economy's long-term growth, the Recovery and Resilience Facility will help public finances to return to more favourable positions in the near term and will contribute to strengthening their sustainability in the medium and long term.

CONSIDERATIONS CONCERNING GREECE

5. On 15 October 2020, Greece submitted its Draft Budgetary Plan for 2021. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

6. On 20 July 2020, the Council recommended Greece[8] to take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Greece to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

   On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Greece's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value and Greece did not make sufficient progress towards compliance with the debt reduction benchmark in 2019. The report concluded that, after the assessment of all relevant factors, the deficit criterion was not fulfilled while the debt criterion was complied with. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

7. According to the Commission 2020 autumn forecast, the Greek economy is expected to contract by 9% in 2020 and grow by 5% in 2021. Domestic demand is expected to be the main driver of the recovery in 2021 while net exports are expected to contribute to a lesser extent. The high importance of international tourism makes Greece particularly vulnerable to travel restrictions, with services exports forecast to only recover very gradually in 2021 due to low tourists arrivals. The Draft Budgetary Plan forecasts a contraction of 8.2% of real GDP in 2020 followed by a rebound of 7.5% in 2021. The drop in GDP growth in 2020is forecast to be driven by a contraction in both domestic and external demand due to the restrictions to contain the COVID-19 pandemic. In 2021, the recovery forecast in the Draft Budgetary Plan is expected to be broad-based and driven both by domestic and external demand. Overall, the macroeconomic projections underpinning the 2021 Draft Budgetary Plan are broadly in line with the Commission 2020 autumn forecast. The main difference between the Commission forecast and the Draft Budgetary Plan regarding 2021 is that the latter includes the economic impact of support received under the Recovery and Resilience Facility, while no impact from such funds is included in the Commission forecast.

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[8] Council Recommendation of 20 July 2020 on the national Reform Programme of Greece and delivering a Council opinion on the 2020 Stability Programme of Greece, OJ C 282, 26.8.2020, p 46.

Greece complies with the requirement of Regulation EU No 473/2013 since the draft budget is based on independently-endorsed macroeconomic forecasts. In its endorsement of the forecast, the Hellenic Fiscal Council nevertheless highlighted the optimistic assumptions behind the officially projected growth rebound of 7.5% for 2021.

8. For 2020, the Draft Budgetary Plan foresees the general government deficit to reach 8.6% of GDP. This deterioration in the headline balance by more than 10 percentage points compared to the preceding year results from both the normal working of automatic stabilisers, which led to a contraction in revenue and in an increase of cyclical expenditure, and from discretionary COVID-19-related measures. According to the 2021 Draft Budgetary Plan, the deficit ratio is expected to narrow to 3.9% of GDP in 2021, helped by the rebound in activity. The Commission forecast projects a deficit of 6.9% of GDP for 2020 and a deficit of 6.3% of GDP for 2021. The differences compared to the Draft Budgetary Plan are largely explained by the different statistical recording of some of the fiscal measures taken by the government. Moreover, the Draft Budgetary Plan assumes grants of 1.5% of GDP and expenditure of 1.5% of GDP under the Recovery and Resilience Facility. These are included in the revenue and expenditure projections. For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Greece, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 1.8 billion in 2021.[9] On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast.[10] The evolution of the deficit forecasted by the Commission for 2021 could turn out more favourable as a result of the higher growth from the implementation of measures financed by the Recovery and Resilience Facility. The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will decline slightly from 197.4% at the end of 2020 to 184.7% in 2021, while the Commission projects public debt to reach 207.1% of GDP and 200.7% of GDP in those years, respectively.

9. The Draft Budgetary Plan reports discretionary fiscal measures with a direct budgetary impact in 2020 in response to the COVID-19 outbreak and its related economic effects of 7.6% of GDP. These measures include business financing in the form of repayable advances, deferral of tax, tax advance and social security

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9 Indicative number based on the Council Presidency compromise proposal for the RRF Regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

10 The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). In line with the customary no policy-change assumption, the forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

obligations, special allowance for suspended workers and self-employed, waivers of social security contributions, measures strengthening healthcare services, and compensation of healthcare personnel. Further measures include income support for the unemployed and employment subsidies related to short-term employment schemes. Contrary to the Draft Budgetary Plan, the Commission follows the accrual accounting principles based on Eurostat's Draft note on statistical implications of some policy measures in the context of the COVID-19 pandemic with respect to measures that constitute only a temporary shift in revenues between years. The Commission expects the deficit to reach 6.9% of GDP in 2020 and 6.3% of GDP in 2021. Beyond the expenditure and revenue measures that have a direct impact on the deficit, the Draft Budgetary Plan also reports liquidity support measures worth 1.6% of GDP, in particular state guarantees provided by the Hellenic Development Bank. The take-up of the guarantees as of September 2020 is estimated at 57%, equivalent to slightly less than 1% of GDP. Overall, the measures taken by Greece in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

10. For 2021, the Draft Budgetary Plan presents a set of new measures aimed to support the recovery, amounting to 1.1% of GDP. Revenue measures imply a budgetary impact of 0.9% of GDP, including a temporary reduction in social security contributions for private sector wage earners and a temporary waiver of the social solidarity tax in the private sector. Expenditure measures imply a budgetary impact of 0.2% of GDP and include a new recruitment subsidy. These measures are temporary and are included in the Commission forecast as well.

11. The Commission is of the opinion that the Draft Budgetary Plan of Greece is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Greece are supporting economic activity against the background of considerable uncertainty. Given the level of Greece's government debt before the outbreak of the COVID-19 pandemic, it is important for Greece to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved. Greece is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

    It is anticipated that Greece will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Done at Brussels, 18.11.2020

For the Commission
Paolo GENTILONI
Member of the Commission