Athens, 6th of October 2019

Assessment of the Macroeconomic Forecasts of the 2020 Draft Budget

The Hellenic Fiscal Council (HFC), as stipulated by law, provides an assessment of the macroeconomic forecasts used in the draft state budget and ascertains compliance with the fiscal limits set by the TSCG (The Fiscal Compact). The assessment compares the state budget forecasts with the forecasts provided by the Stability Programme (SP) 2019 while the adoption of the macroeconomic scenario depends on the outcome of the short and medium term projections models of the HFC, the recent forecasts of International Institutions and the recent economic developments in the Greek economy.

Table 1: Annual Growth Rate (%) - Figures in constant 2010 prices

	2019				2020		
	DRAFT BUDGET[1] (1)	SP[2] (2)	*D (1)-(2)*	ELSTAT[3] (1st SEMESTER)	DRAFT BUDGET[1] (1)	SP[2] (2)	*D (1)-(2)*
GDP	**+2,0**	**+2,3**	***-0,3***	+1,5	**+2,8**	**+2,3**	***+0,5***
Private Consumption	+0,6	+1,0	*-0,4*	-0,1	+1,8	+1,2	*+0,6*
Public Consumption	+1,6	+1,6	*0,0*	+1,9	+0,6	+0,6	*0,0*
Gross Fixed Capital Formation	+8,8	+3,9	*+4,9*	+1,2	+13,4	+12,9	*+0,5*
Exports	+4,9	+5,9	*-1,0*	+4,8	+5,1	+5,4	*-0,3*
Imports	+4,1	+3,5	*+0,6*	+6,7	+5,2	+5,7	*-0,5*
GDP Deflator	+0,9	+1,1	*-0,2*	+0,2	+1,0	+1,4	*-0,4*
Employment *(national accounts)*	+2,0	+1,6	*+0,4*	+2,0	+1,8	+1,2	*0,6*
Unemploymet *(LFS)*	17,4	17,8	*-0,4*	16,9	+15,6	16,5	*-0,9*

(1) Ministry of Finance. (October) 2019)
(2) 2019 Stability Programme 2019-2022
(3) HFC calculations: Average of 1st and 2nd semester on the basis of seasonally adjusted data

General Remarks

a. The 2019 growth rates are calculated using ELSTAT's data for the first two quarters and projections for the second semester. This forecast is subject to revision as new information becomes available. The 2.0 % GDP growth rate forecast by the Ministry of Finance (MoF) for 2019 is more ambitious than the central macroeconomic scenario of the Hellenic Fiscal Council which points to a growth rate of 1,8%

b. The forecasted growth rate for 2020 is far more ambitious that the targets set by the 2019-2022 Stability Programme. The forecast by the Ministry of Finance lies within the forecast bounds of the HFC, given no change in oil prices and without taking into account the effects of Brexit.
c. Furthermore, the above mentioned growth rate for 2020 significantly deviates upwards from the relevant macroeconomic forecasts by International Institutions (European Commission, OECD, IMF – See Table 2).
d. MoF estimates a structural surplus of 2,7% of potential GDP for 2019 and 1,8% of potential GDP for 2020 which are within the limits set by the Fiscal Compact.

Table 2: Growth Rate of macroeconomic(α) and fiscal(β) indicators forecast (2019-2020)

	Ministry of Finance		European Commission(1)		OECD(2)		IMF(3)	
	2019	2020	2019	2020	2019	2020	2019	2020
GDP	**2,0**	**2,8**	**2,2**	**2,2**	**2,1**	**2,0**	**2,4**	**2,2**
Private Consumption	0,6	1,8	1,3	1,2	1,0	1,5	1,2	0,8
Public Consumption	1,6	0,6	3,1	0,4	2,3	1,2	0,5	0,5
Gross Fixed Capital Formation	8,8	13,4	10,1	10,8	1,2	8,4	10,7	9,2
Exports	4,9	5,1	4,7	4,2	5,3	3,1	5,7	5,4
Imports	4,1	5,2	5,7	4,1	2,8	3,8	5,2	4,8
Structural Balance			1,9	0,8	4,6	3,9	0,8	0,4

Source: (1) Spring 2019 Economic Forecast, (2) OECD, Economic Outlook No 105 - May 2019, (3) IMF Country Report No. 19/73, March 2019
(α) 2010 constant prices, (β) Structural (cyclically adjusted) outcome as % of potential GDP

Specific Remarks for 2020:

1. **Private Consumption**: The projected increase of 1,8% is significantly higher than the projection in the SP. This revision is considered to be highly optimistic given the moderate drop (0,4%) in the first semester of 2019. However , the reduction in unemployment coupled with the boost in economic confidence, the increase in the minimum wage and the expansionary fiscal measures adopted in 2019 (provision of 13th pension , recalculation of widows' pensions, VAT rates reduction, property tax reductions) are expected to further support private

consumption, provided that no additional restrictive measures are taken concerning pensions or taxation.

Credit growth could be a decisive parameter for private consumption expansion but remains on negative grounds. Reducing the stock of NPLs would facilitate banks to increase credit flows, thus contributing positively to private consumption.

2. **Public Consumption**: The projection of 0.6% increase is considered to be plausible and is in line with the provisions of the SP. This component had been under full control during the recent years, in the context of the adjustment programs.

3. **Gross Formation of fixed capital**: The optimistic projection in the SP is further revised upwards. This revision is based on the contribution of the private sector (+15,8%) and concerns all types of investment (equipment, construction, housing etc.) while the public sector is rebounding with an increase in public investment by 7,6%. The MoF's scenario regarding the fixed capital is assessed by the HFC as optimistic though not implausible given the likelihood of better credit conditions, the reduction of economic uncertainty caused by the electoral cycle and the anticipated improvement in economic climate.

4. **Imports-Exports**: The SP scenario has been revised downwards for both exports (0,3 p.p.) and imports (0.5 p.p.). The revision in exports is assessed as realistic, even conservative, due to the anticipated reduction in demand within the Eurozone, the ongoing global trade war and the revival of competition in the tourism industry (e.g. Turkey). The revision in imports seems less realistic given the anticipated increase in income and the positive correlation between income increase and imports increase as well as the possible increase in oil prices. It is nevertheless a hard to materialize scenario without significant global competitive gains. Finally, the adverse impact stemming from Brexit should not be underestimated.

5. **Employment**: The improvement in the employment indicators of the first semester of 2019 led to a positive revision for both 2019 and 2020 in relation to the figures provided in the SP. Further improvement in the labour market conditions seems realistic under the assumption of no major distraction in labour relations and in broad economic developments.

Conclusion:

The growth rate target of 2% for 2019 is within HFC's forecasts interval and although being ambitious it can be attained. On this basis, the growth rate target of 2,8% for 2020 is equally ambitious and could be realized given that certain conditions are met. The two GDP components that will impact upon the 2020 growth rate are private consumption and investments. Due emphasis should be given to tackling the factors that inhibit credit growth and to enhancing public and private investment.

On the basis of the above and taking into consideration all available information as of today and under the assumption of no policy change, the Hellenic Fiscal Council endorses the macroeconomic forecasts of the 2020 draft state budget.

A more detailed assessment of the macroeconomic and fiscal developments will follow in the forthcoming biannual report by the HFS which will be published in November 2019.

On Behalf of the Board of the Hellenic Fiscal Council

The Chairman

Panagiotis Korliras