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Opinion on the Annual State Budget for 2024

November 2023

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Athens, 21 November 2023

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The Hellenic Fiscal Council (HIFSC) was constituted as an independent fiscal authority by the law 4270/2014. HFISC assesses for endorsement (article 2, par. 4 and 5 and article 42, par.4, law 4270/2014), the macroeconomic and budgetary forecasts on which the annual State Budget (SB) for the year 2024 is based (as stipulated in par. 6 article 4 Directive 2011/85/EU) and verifies the compliance with the EU budgetary framework.[1]

This assessment takes into account the following:

1. The SB 2024 macroeconomic scenario that has been forwarded by the Ministry of Economy and Finance (MinFin) to HFISC on 26 October 2023, and the budgetary forecasts forwarded on 16 November 2023.

2. The SB 2023 projections for 2022-2023 (November 2022), the Stability Programme (SP) 2023 projections for 2024-2026 (April 2023), as well as those of the Preliminary Draft Budget (PDB) 2024 for 2023-2024 (October 2023).[2.,3,4]

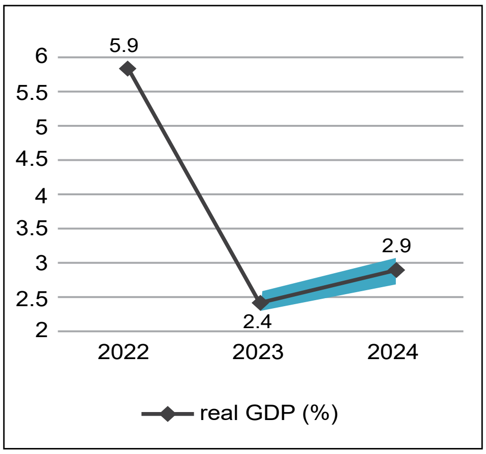
3. The most recent macroeconomic and budgetary data published from Hellenic Statistical Authority (ELSTAT, first semester of 2023, October 2023).[5]

4. The Autumn 2023 economic forecast by European Commission (November 2023) along with the main indicators and economic forecasts of leading international and national organizations for the Greek economy.[6]

5. HFISC's own GDP growth forecasts based on in-house econometric estimations (September 2023).

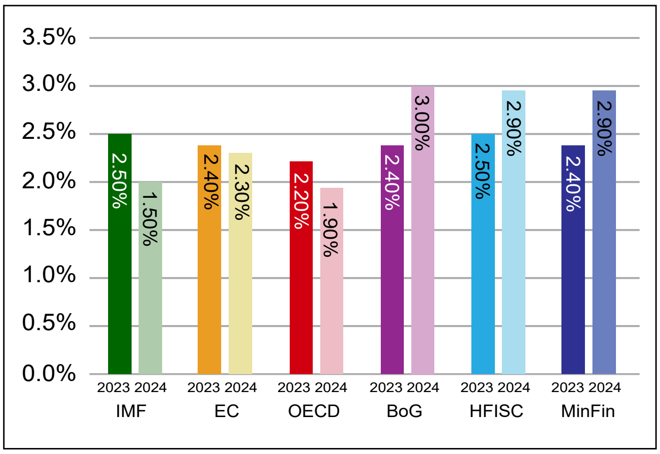
1. A comprehensive analysis of the macroeconomic and budgetary developments of the Greek economy will be included in the forthcoming HFISC bi-annual report (December 2023).
2. State Budget 2023 (In Greek) – Ministry of Economy and Finance (MinFin.gr)
3. Stability Programme 2023
4. Preliminary Draft Budget 2024 (In Greek)
5. ELSTAT, press release, Quarterly National Accounts, 2nd Quarter 2023, 6/9/2023 and Quarterly Non-Financial Accounts of General Government, 2nd Quarter 2023, 23/10/2023.
6. Economic forecast for Greece (europa.eu)

Figure 1: 2023 & 2024, HFISC projections for real GDP growth rates



Note: Six different groups of econometric models (Dynamic Factor Model, VECMs, MIDAS, AR, ARIMA & ARFIMA) produce HFISC forecasts. The light blue color indicates the range of forecasts 2023: 2.4%-2.6% and 2024: 2.6%-3.1%.

Figure 2: 2023 & 2024, a comparison of annual GDP growth rates projections



Sources: 1) IMF, World Economic Outlook, October 2023, 2) EC, European Economic Forecast, November 2023, 3) OECD Economic Outlook, Vol. 2023, No 113, June 2023, 4) BoG, Financial Stability Report, November 2023, 5) HFISC, September 2023, 6) MinFin, SB 2024, November 2023.

The expected GDP growth in SB 2024 exceeded marginally the PDB 2024 forecasts to 2.4% from 2.3%. This improvement is mainly related to the base effect due to the revision of the 2022 GDP growth by ELSTAT from 5.9% to 5.6%.

Regarding 2024, the expected GDP growth in SB 2024 has a marginal downward revision to 2.9% from 3.0% in the PDB 2024. This is mainly explained by a lower than anticipated, carry-over effect of the 2023 fourth quarter growth rate, which according to HFISC calculations is between 0.32% and 0.4%, considerably lower than the 1.15% of 2023. It is worth noting that the SB 2024 is based on the latest economic data in relation to the PDB 2024, including the economic effects of recent sever natural disasters (floods September 2023), the new technical assumptions for slower growth in the European Union (EU) in 2024, and the European Central Bank's (ECB) raised interest rates 14/09/2023.

The SB 2024 GDP growth rate estimates for the current year is in line with those of HFISC (2.4% to 2.6%) as well as the forecasts of the European Commission (EC 2.4%), International Monetary Fund (IMF 2.6%), OECD (2.2%) and the Bank of Greece (BoG 2.2%) (see, figures 1 and 2).

The projections for the GDP growth rate in 2024 (3%) fall within the range of HFISC's forecasts (2.6% to 3.1%) although in the upper limit of the phase diagram. HFISC as well as other international organizations' projections are less optimistic than those in the SB 2024. HFISC's concerns are mainly around a possible deepening of the slowdown observed in some Eurozone economies that might negatively affect the Greek exports of goods and services momentum. In addition, uncertainty arises towards a further slowdown in private consumption growth, as the pace of post-pandemic expenditure is slowing, along with persisting inflationary pressures of last months and a negative households' savings growth. However, the anticipated acceleration of nominal wage growth (2.8%) might offset the above adversities.

In SB 2024, the expected inflation (Harmonized Index of Consumer Prices, HICP) is marginally revised upwards from the Preliminary Draft to 4.1% from 4% in 2023 and to 2.6% from 2.4% in 2024 reflecting the observed upward pressures on prices, such as of services and non-energy industrial goods. In particular, general inflation in October 2023 stood at 3.9% and food inflation at 9.3%.

The above SB 2024 forecasts, for 2023 and 2024 are consistent with those of international organizations that fall in a range of 3.9% - 4.2% for 2023 and 2.4% - 3.2% for 2024. At the Eurozone level, according to the EC Autumn forecasts (November 2023) inflation is projected to amount higher to 5.6% for 2023 and to 3.2% for 2024.

The SB 2024 forecasts a General Government (GG) primary surplus of 1.1% of GDP for 2023, in line with the projections of PDB 2024 as well as the objectives of the SP 2023 and this is improved against the SB 2023 target of 0.7% of GDP (see, figures 3.a and 3.b). The better performance in relation to the 2022 outturn (ELSTAT, 0.1% of GDP) is mainly due to the phasing out of the energy measures, the one-off expenditure related to natural disasters as well as the better-than-expected performance of tax revenues, in particular from value added tax and social security contributions.[7]The fiscal impact from the recent natural disasters have only partially affected the budget and the primary surplus remains within the revised target of the SP 2023. The GG headline deficit is expected to decrease further to 2.1% of GDP in 2023 (from 2.4% in 2022) despite the higher interest expenditure. These forecasts are in line with those of the EC and other international organizations.

For 2024, the primary balance is forecast to increase significantly to 2.1% of GDP in line to the Preliminary Draft and the SP 2023. The GG deficit projections show a further de-escalation to 1.1% of GDP (from 2.1% in 2023) as in the Preliminary Draft. It is however, slightly worse than in the SP 2023 (0.8% of GDP) and this is mainly due to the upward revision of the interest expenditure projections. The above are in line with the EC and other international organizations' forecasts. The economy's expansion at a strong pace (from 2.4% in 2023 to 2.9% in 2024), higher disposable income and improved tax mechanisms (digitalization, electronic transactions, tax compliance) producing higher tax revenues and social security contributions are among the main drivers for the improved fiscal balance. Initiatives to wind down the emergency energy support measures in force and exclusively targeted support interventions protecting the income of the most vulnerable households and firms is expected to contribute too.

7. According to GG's implementation reports during Jan-Sep. 2023 a primary surplus of EUR 5.5 billion (2.5% GDP) was created on a cash basis, vis-à-vis EUR 3.6 billion (1.7% GDP) of the corresponding period the last year.

Figure 3.a: General Government Headline Budget Balance (% GDP)

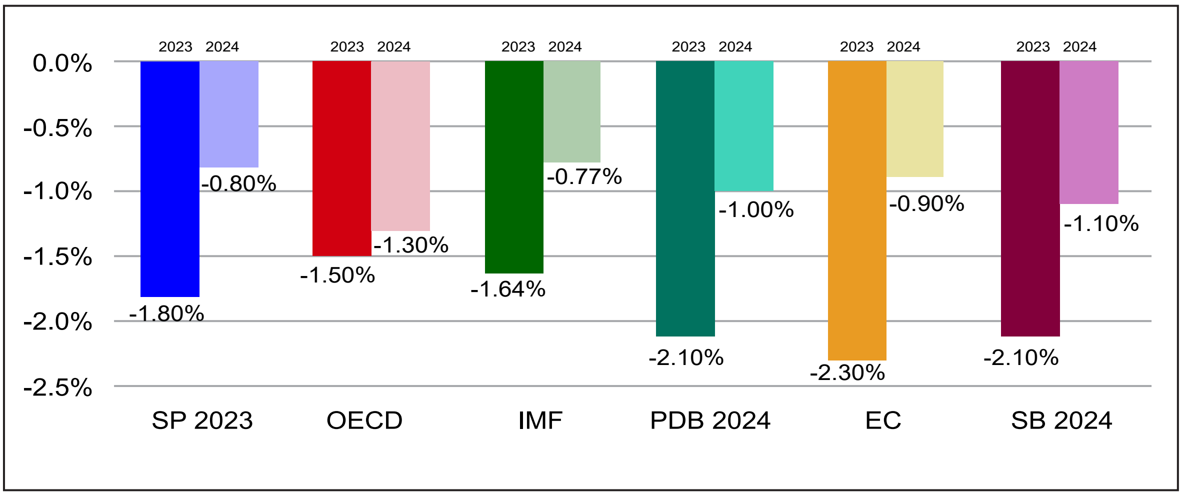
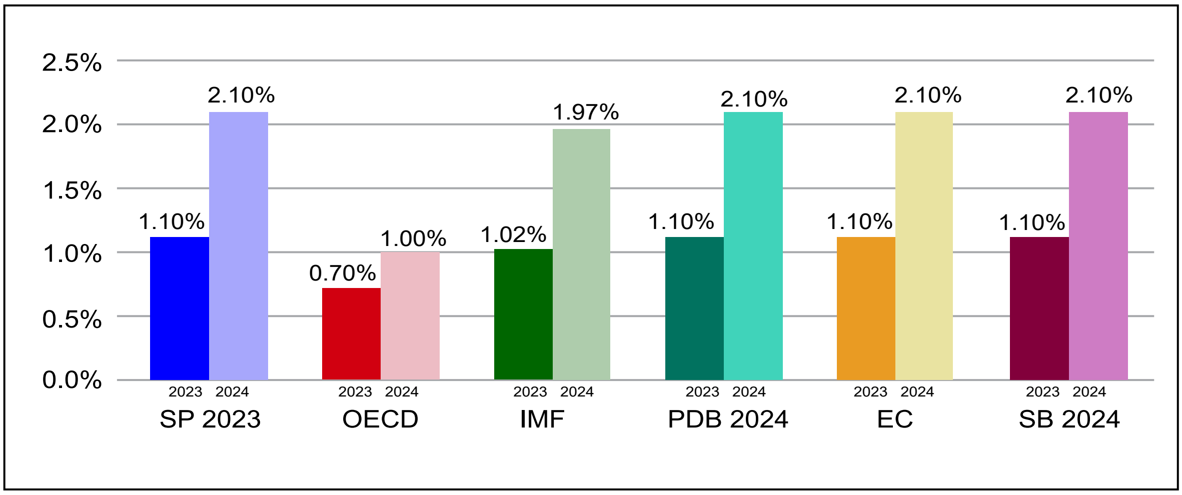


Figure 3.b: General Government Primary Balance (% GDP)



Sources: 1) SP 2023, MinFin, April 2023, 2) OECD Economic Outlook, No 113, June 2023, 3) IMF, World Economic Outlook Database, October 2023, 4) PDB 2024, MinFin, October 2023, 5) EC, European Economic Forecast, November 2023, 6) SB 2024, MinFin, November 2023.

General Government debt as a percentage of GDP remains the highest in the euro area and is expected to stand at 160.3% for 2023 exhibiting a significant de-escalation pace of around 12 percentage points vis-a-vis 2022. Among the main contributors are, the momentum of strong nominal growth (7.8% y-o-y), the primary surplus (1.1% of GDP) and relatively stable interest burden since most of the debt is held by official bodies (states and international organisations) with a low weighted average (indirect) interest rate and a long repayment period.

In the SB 2024, the debt situation remains stable for 2024 (EUR 356 billion) and in line with EC and other international institutions' estimations, though a further reduction of debt as a percentage of GDP of around 8 percentage points vis-a-vis 2023 is expected. This is mainly due to the favorable impact of both the difference of the indirect interest rate and nominal growth (snowball effect) as well as the significant primary surplus. It is worth noting, that the expected lower inflation highlights the real value of the declining path of debt as percentage of GDP.

Favourable factors contributing to the macroeconomic and fiscal performance are: (a) the substantial cash reserves to address the liquidity needs of the government, (b) the successful implementation of the European programmes supporting investment and growth, (c) the rating upgrades of Greek bonds by the investment rating agencies. In the same direction is, the EC's legislative proposal to improve the economic governance framework in the EU ensuring fiscal sustainability while encouraging economic growth is contributing too.

Risks tilted to the downside for the SB 2024 projections are mainly stemming from exogenous factors such as (a) the geopolitical uncertainty due to the wars in Middle East and Ukraine, which among other things might have a significant energy footprint, (b) ECB's unchanged interest rates throughout 2024 with negative impact on investment and consumption, and (c) signs of a deepening recession in euro area economies with negative spill-over effects on the Greek economy. A domestic challenge could emerge from delays or other deficiencies in the Recovery and Resilience Programme implementation.

This opinion takes into consideration the EC communication (08/03/2023) providing Member States with guidance on the conduct and coordination of fiscal policy in 2024, and the deactivation of the general escape clause at the end of 2023.[8] HFISC is noting that the Greek economy for 2024 is in compliance with the rules of the EU SGP concerning the 3% of GDP reference value for the deficit ratio, as this is expected to be 1.1% and ensures the plausible and continuous reduction of debt to GDP ratio. In addition, the nominal increase in Net Nationally Financed Primary Expenditures, which is estimated at 0.4% (against the 2.6% ceiling) for 2024, is in full compliance with the Council Recommendation of July 2023.[9]

Based on the above, the Hellenic Fiscal Council endorses the macroeconomic and budgetary forecasts of the Annual State Budget 2024.

For the Hellenic Fiscal Council

The Chairperson

Anastasia Miaouli

8. European Commission (2023), "Fiscal policy guidance for 2024", COM (2023) 141 final 8/3/2023.
9. Council Recommendation on the 2023 National Reform Programme of Greece and delivering a Council opinion on the 2023 Stability Programme of Greece, OJ C 312, 1.9.2023, p. 67-76.

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