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Opinion on the macroeconomic forecasts of the 2024 Preliminary Draft Budget

October 2023



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The Hellenic Fiscal Council (HFSC) constituted as an independent fiscal authority under the law 4270/2014. HFSC assesses for endorsement (article 2, par. 4 and 5 and article 58, par.2, amended by law 4472/2017, article 66, par. 2), the macroeconomic forecasts on which the annual Preliminary Draft Budget (PDB) 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 Preliminary Draft Budget (PDB) 2024 macroeconomic scenario that has been forwarded by the Ministry of Economy and Finance (MinFin) to HFSC on 20 September 2023, the technical meeting that took place between experts from MinFin and HFSC on 28 September 2023 as well as the budgetary forecasts forwarded to HFSC on the 29 September 2023.
2. The most recent data published from ELSTAT (first semester of 2023, GDP and components).²
3. The 2023 Stability Programme (SP) projections for 2024-2026 as well as those of the 2023 State Budget (SB).^{3,4}
4. The European Commission Economic Forecast Spring 2023 (May 2023) along with main indicators and macroeconomic forecasts of leading international and national organizations for the Greek economy (real GDP, Harmonized Index of Consumer Prices, HICP).⁵
5. HFSC's own GDP growth forecasts based on in-house econometric estimations.

For the years 2023 and 2024, in the PDB 2024 the GDP growth rate forecasts (see, figure 1) remain in line with those of SP 2023 at 2.3% and 3%, respectively. In particular, for 2023 the scenario revises upwards the GDP forecast of the SB 2023 (November 2022) from 1.8% to 2.3%. This upward revision is partly justified by the significant statistical base effect (carry-over) of the 2022 growth rate, estimated at 1.5%, as well as the strong performance of the economy in the first semester of 2023 (ELSTAT, 2.4% y-o-y). Buoyant consumption, significant investments, and tourism are the main drivers for this performance. It is worth noting that, the A' semester of 2023 GDP growth rate was significantly higher than the European Union's average (0.7%).

1. A comprehensive analysis of the macroeconomic developments of the Greek economy will be included in the forthcoming HFSC bi-annual report.

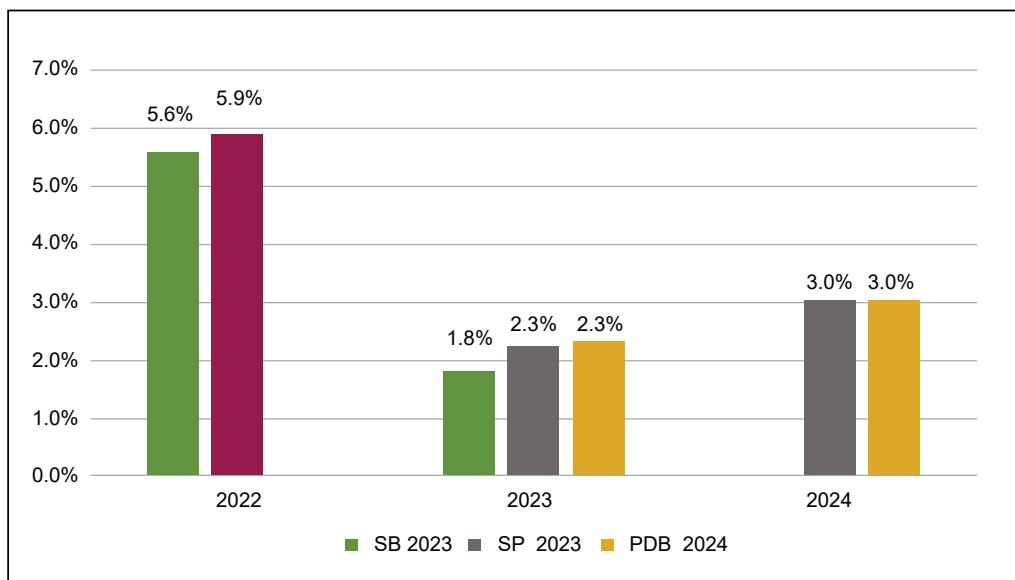
2. Hellenic Statistical Authority, press release, 6/9/2023.

3. Stability Programme (europa.eu)

4. State Budget 2023 (In Greek) – Ministry of Economy and Finance (MinFin.gr)

5. Economic forecast for Greece (europa.eu)

Figure 1: 2022-2024, Ministry of Economy and Finance: GDP growth rates *



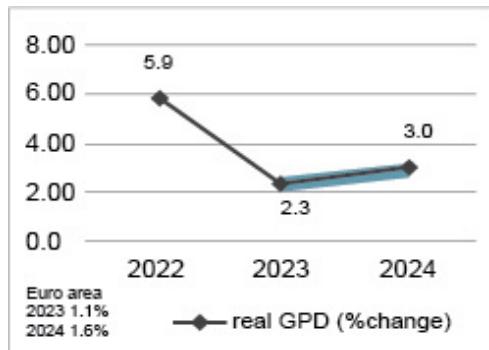
Sources: Ministry of Economy and Finance (MinFin): 1. State Budget (SB, November 2022) 2. Stability Programme (SP, April 2023) 3. Preliminary Draft Budget 2024 (PDB, October 2023), HFISC data processing.

*Note: The magenta color is for actual figures, grey and yellow are forecasts.

The PDB 2024 estimations for the GDP growth rate for the current year are in line with those of HFISC (2.4% to 2.6%), as well as the most recent projections from the European Commission (EC 2.4%), the International Monetary Fund (IMF 2.6%), OECD (2.2%) and the Bank of Greece (BoG 2.2%) (see, figures 2 and 3).

Regarding 2024, MinFin projections for the GDP growth rate (3%) fall within the range of HFISC's forecasts (2.6% to 3.1%) although in the upper limit of the phase diagram. Thus, our projections as well as those of EC and other leading international organizations, are more conservative than the ones outlined in the current PDB for 2024. This is mainly due to a worse than anticipated, slowdown momentum observed in some Eurozone economies, that is expected to extend to 2024 and may lead to lower demand for the Greek exports of goods and services. Additionally, a reduced pace in private consumption growth cannot be ruled out due to the fading out of the post-pandemic spending momentum along with the persisting inflationary pressures of past months and a low households' savings growth. However, all the above might be partially offset by the anticipated nominal wages increase.

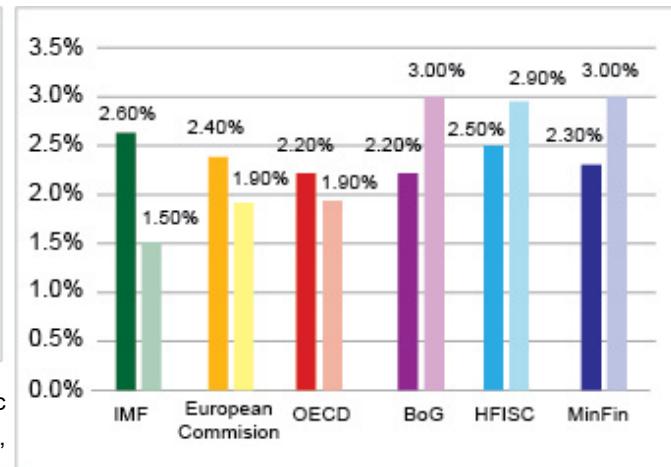
Figure 2: 2023 & 2024, HFSIC projections for real GDP growth rates.



Note: 1) Six different groups of econometric models (Dynamic Factor Model, VECMs, MIDAS, AR, ARIMA, & ARFIMA) produce HFSIC forecasts.

2) The dark color indicates the range of forecasts (2.4%-2.6% for 2023 & 2.6%-3.1% for 2024).

Figure 3: 2023 & 2024, a comparison of annual GDP growth rates projections.



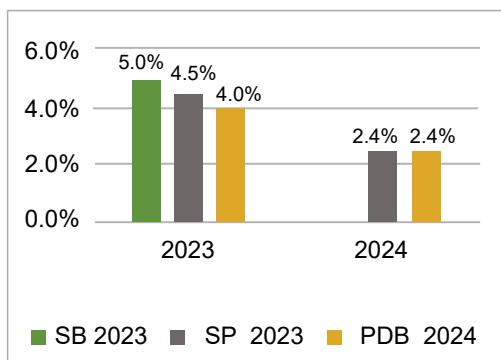
Sources: 1) IMF, World Economic Outlook, April 2023, 2) EC, European Economic Forecast, May 2023, 3) OECD Economic Outlook, Vol. 2023, No 113, June 2023, 4) BoGr, Monetary Policy Report, 2022-2023, June 2023, 5) HFSIC, September 2023, MinFin, October 2023.

Note: Dark colors are for 2023, light ones for 2024.

In PBD 2024, inflation (HICP) for 2023 is projected to decline to 4.0% from 5% in SB 2023 and 4.5% in SP 2023, reflecting the de-escalation observed in the last months (see, figure 4). More specifically, according to the most recent ELSTAT data, the average inflation slowed down from 5.1% in the first semester of 2023 to 3.5% in July and August. For 2024 MinFin is expecting inflation to keep on falling to 2.4% in line with what was forecasted in SP 2023.

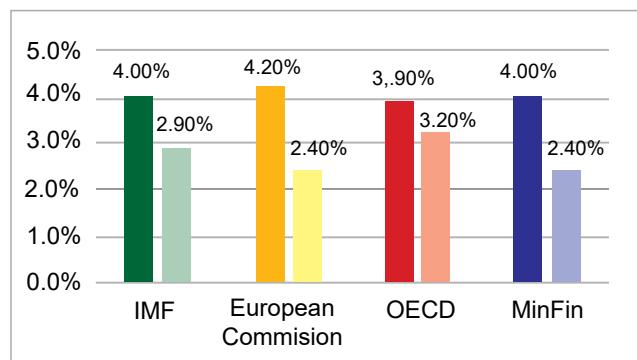
The above PDB 2024 forecasts, for 2023 and 2024 are consistent with those of international organizations, that fall in a range of 3.9%-4.2% for 2023 and 2.4%-3.2 % for 2024 (see, Figures 4 and 5). At the Eurozone level, according to the EC summer forecasts (September 2023) HICP is projected to amount higher to 5.6% for 2023 and to 2.9% for 2024. The rapid deceleration of inflation rate in Greece vis a vis EU average reveals a potential benefit for the Greek economy relatively to its European trading partners.

Figure 4: 2023 & 2024, Inflation (HICP) projections - MinFin (annual % change)



Source: 1) SB 2023 (November 2022), 2) SP 2024-2026 (April 2023), 3) PDB 2024 (October 2023).

Figure 5: 2023 & 2024, Inflation (HICP) projections, MinFin and International Institutions



Source: 1) IMF World Economic Outlook (April 2023), 2) EC, European Economic Forecast (May 2023), 3) OECD Economic Outlook, Volume 2023 Issue 1 (June 2023), 4) MinFin PDB 2024 (October 2023).

Note: Dark colors are for 2023 and light colors for 2024.

Key assumptions for the macroeconomic scenario of PDB 2024 are the de-escalation of inflation at 2.4%, the sustained momentum in private consumption (1.6%) after the strong growth record in 2023 (2.5%), investment dynamics supported by the contribution of the funds of the National Recovery and Resilience Plan (NRRP) (see, Table 1). It is worth noting that the contribution of investment to the Greek GDP is estimated to increase to 16.2% in 2024. Furthermore, the increase of Greek exports by 6.3% will contribute to the growth rate of 2024 too.⁶ Indicatively it is noted that, according to PBD 2024, the average real GDP growth rate for 2023-2024 would be limited to only 1.2% excluding the impact of the NRRP, versus 2.6% when considering the NRRP's contribution. Thus, the timely and effective implementation of the Recovery and Resilience Plan is considered essential.

6. The Greek economy has received, up to now (April 24, 2023), 11.1 billion euros out of the 30.1 billion euros allocated for the financing of the Greek economy with 19 billion euros in financing (loans and grants) remaining until 2026.

Table 1: Key macroeconomic indicators forecasts (annual rate of change - %, at constant 2015 prices, unless otherwise stated).

	State Budget 2023	Stability Program 2023		Preliminary Draft Budget 2024		Actual3
		2023	2024	2023	2024	
		2023	2023	2024	2023	(1st semester of 2023)
GDP	1,7%	2,3%	3,0%	2,3%	3,0%	2,4%
Private Consumption	1,0%	1,2%	2,0%	2,5%	1,6%	2,8%
Public Consumption	-1,5%	-0,4%	-1,2%	0,3%	-1,3%	0,4%
Gross Fixed Capital Formation	15,5%	13,2%	9,7%	8,3%	12,1%	8,1%
Exports of Goods and Services	1,0%	2,3%	6,2%	2,7%	6,3%	3,5%
Imports of Goods and Services	2,6%	2,6%	4,4%	2,2%	4,5%	2,8%
Trade Balance (% GDP)	-6,3%	-7,6%	-7,0%	-7,2%	-6,6%	-6,1%
HICP	5,0%	4,5%	2,4%	4,0%	2,4%	5,1%
Employment (National Accounts)	0,2%	0,9%	1,0%	1,4%	0,9%	1,1%
Unemployment Rate ¹	12,6%	11,8%	10,9%	11,2%	10,6%	11,1%
Compensation of Employees ²	2,3%	3,9%	4,6%	6,5%	3,7%	4,2%

Sources: SB 2023 (November 2022), 2) SP 2023 (April 2023), 3) PDB 20242024 (October 2023) and HFISC calculations.

Notes: 1) As a percentage of the Labor Force, Labor Force Survey, 2) Nominal Values, 3) ELSTAT 06/09/2023.

Ensuring prudent fiscal policy combined with investment and tax reforms, speeding up the momentum in the steady implementation of the recovery and resilience plan, the further upgrading of the Greek sovereign by the rating agencies,⁷ are among the beneficial factors for maintaining the low cost of borrowing, leading to a sustainable GDP growth.

On the other side, adverse shocks such as the recent natural disasters could challenge the growth dynamism of the Greek economy in 2024. Assessing their impact, designing and effectively implementing fiscal interventions for those in need without jeopardizing fiscal stability, remains a significant challenge. In the external environment the continuation of geopolitical crisis, ECB's tight monetary policy, a potential slowdown in Northern European economies, which are Greece's major trading partners such as the German economy, would dampen the external demand for goods and services. Thus, the ability of the country to finance any additional fiscal support measures, along with the existing current account deficits (even if reduced), would present another significant challenge.

This opinion takes into consideration the communication providing Member States with

7. Credit rating agencies (DBRS, Scope Ratings, and Moody's) have upgraded the creditworthiness of the Greek economy during the last period.

guidance on the conduct and coordination of fiscal policy in 2024 that EC has adopted on 08/03/2023,⁸ and the deactivation of the general escape clause at the end of 2023. HFISC is noting that PDB 2024 complies with the fiscal rules and the Stability and Growth Pact 3% of GDP reference value for the deficit ratio, as it is expected to be 1% and ensures the plausible and continuous reduction of debt to GDP ratio by 11.8 percentage points in 2024.⁹

Based on the above, the Hellenic Fiscal Council endorses the macroeconomic forecasts of the PDB 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. A comprehensive assessment of the budgetary forecasts will be carried out in November 2023, with the State Budget 2024 submission to the Greek Parliament