



Opinion on the Macroeconomic Forecasts of the Stability Program 2022-2024.

According to the EU regulation 473/2013 Article 4(4), national medium-term budgetary plans should be based on independent macroeconomic forecasts, that is forecasts endorsed by national independent fiscal institutions. Acting as such, the Hellenic Fiscal Council (hereafter HFC) assesses the baseline macroeconomic scenario of the Stability Programme for the period 2022-2024.

This assessment follows the recent guidelines set out by the European Commission (3.3.2021) with preliminary considerations in favor of the continued activation of the general escape clause of the Growth and Stability Pact for the year 2022 and its deactivation from the year 2023 onwards. This indicates European Commission's strong position to support national fiscal policies that help overcome the global pandemic socioeconomic consequences.

The macroeconomic scenario of the Ministry of Finance incorporates the expected positive effects of the National Recovery and Resilience Plan (released in 31.3.2021) based on the European Recovery and Resilience Mechanism. The Plan foresees over €30 billion inflows to the Greek economy in the form of loans and grants during a period up to 2026. Given the magnitude of the Plan, macroeconomic forecasts strongly depend on the Plan's implementation as well as on its multiplicative effects on the Greek economy. In addition, macroeconomic forecasts are also sensitive to the unfolding of the pandemic both in Greece and abroad.

Through the lens of the expected positive effect of the National Resilience and Recovery Plan as well as the uncertainty due to the pandemic, HFC endorses the National Stability Plan's macroeconomic scenario.

Table 1: Macroeconomic indicators forecasts endorsed by the HFC (at constant 2015 prices)

GDP and its components (%, annual change)	2021	2022	2023	2024
Gross Domestic Product	3.6%	6.2%	4.1%	4.4%
Private consumption	2.6%	2.9%	2.1%	2.8%
Public consumption	1.5%	-3.0%	-1.0%	-0.5%
Gross fixed capital formation	7.0%	30.3%	12.3%	10.8%
Exports of goods & services	10.4%	13.8%	7.5%	6.2%
Imports of goods & services	6.9%	8.5%	4.0%	3.4%

Source: Ministry of Finance, Stability Programme, April 2021.



The 2021 Stability Programme baseline scenario (*Table 1*) revises downwards the GDP growth rate (3.6%) in comparison with the State Budget 2021 report (4.8%), presenting a more conservative outlook, which is justified by the extension of lockdown for the first four months of 2021 due to the pandemic.

As far as the period 2021-2024 is concerned, according to the aforementioned scenario, 2022 will be the year when the largest annual percentage growth of GDP will occur. This shift, is in line with the corresponding revision of the European Commission's Autumn forecasts (2021: 5%, 2022: 3.5%) by the Winter forecasts (2021: 3.5%, 2022: 5%). In the same year (2022) GDP is expected to exceed the pre-pandemic levels of GDP. The growth rate for 2022 is **relatively more optimistic (6.2%) than that of the European Commission**, with the positive deviation incorporating two main elements:

- (a) the positive effects of the Recovery and Resilience Plan (hereafter: RRP), where part of the current year's disbursements are carried forward to the year 2022. This transfer is expected to have a particularly strong impact on **gross fixed capital formation (+30.3%)**, given the investment orientation of RRP, and
- (b) the assumption that in the year 2022 the pandemic will be fully controlled thus the economic activity will have been fully recovered. This scenario is reflected to the **strong recovery, to their pre-pandemic levels, of both private consumption (2019) and exports of goods and services.**

Facts that strongly supports the aforementioned forecasts are: (a) the progress of the national vaccination program, which may reduce the likelihood of a fourth pandemic wave; (b) the upcoming lifting of coronavirus containment measures and the "reopening" of tourism services and facilities; (c) the increase of private savings, which may finance new investment projects; and (d) the resilience shown by specific sectors of the economy, such as construction, despite the containment measures on economic and social activity, which may further support the economic recovery.

For the period 2022-2024, the average annual GDP growth is estimated at approximately 3.83%, supported by private consumption, investment and exports. It is underlined that in the aforementioned period the public consumption is estimated to be reduced, despite RRF's grants, which is in line with the possible deactivation of the "general escape clause" in the coming years.

Furthermore, the MoF macroeconomic forecasts are largely in line with the forecasts provided by the European Commission and other international and domestic institutions (IMF, OECD, BoG) for 2021 and 2022 (*see table 2*). Compared to the IMF forecasts, there is a significant deviation in GDP growth in the medium term (2023-2024). However, this deviation may arise because the **beneficial effect of the RRF on the Greek economy has not been taken into account.**

Table 2: Forecasts of Greek GDP growth produced by domestic and international institutions.

	2021	2022	2023	2024
Real GDP (annual change, %)				
MoF (April 2021) ¹	3.6	6.2	4.1	4.4
BoG (April 2021) ²	4.2	n/a	n/a	n/a
IMF (April 2021) ³	3.8	5.0	2.4	1.5
EC (February 2021) ⁴	3.5	5.0	n/a	n/a
OECD (December 2020) ⁵	0.9	6.6	n/a	n/a

Sources: 1) MoF: Stability Programme, April 2021. 2) Bank of Greece (BoG): Report of the Governor, April 2021. 3) International Monetary Fund (IMF): World Economic Outlook Database, 6 April 2021. 4) European Commission (EC): Winter forecasts, 2021 - Greece, 11 February 2021. 5) OECD: Economic Outlook, No 108, December 2020.

Regarding the fulfillment of the macroeconomic scenario produced by the Ministry of Finance, HFC identifies the following risks:

- (a) The evolution of the current pandemic wave is a key point for the current macroeconomic forecast estimations. Any further delay in lifting the restrictive measures (lockdowns) due to health crisis, will negatively affect important sectors of the Greek economy (retail sales, tourism, etc.). A possible fourth pandemic wave could also jeopardize the return of Greek economy to "normality" in 2022, putting further constraints in its fiscal and macroeconomic position.
- (b) A possible delay of the Plan's implementation related to the agreed milestones and targets, may lead to a loss of funds which will negatively affect GDP growth. The European Semester of economic policy coordination will be used as a framework of managing the Funds under the Facility and its implementation will be monitored through progress reports submitted to the Commission. Regulation (EU) 2021/241, establishing the recovery and resilience facility, gives the Council the power to suspend, on a proposal from the Commission, partially or fully the disbursements under the Facility, if significant deviations from the SGP rules will be occurred.
- (c) The banking sector is expected to play a key role in securing the undisrupted flow of funds into the economy. To this end it is important that financial institutions will continue to consolidate their balance sheets.
- (d) The private sector's contribution is also vital for the recovery and in particular in relation to the required productive investments in innovative sectors in order to raise the potential output in the medium term.

A more detailed analysis of the macroeconomic developments of the Greek economy will be included in the HFC's biannual report which will be published by the end of May 2021

The Chairman of the Hellenic Fiscal Council,

Prof. Panagiotis Korliras