HELLENIC
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Opinion on the Draft Budgetary Plan 2025

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HELLENIC FISCAL COUNCIL

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Opinion on the Macroeconomic Forecasts of the Draft Budgetary Plan 2025

The Hellenic Fiscal Council (HIFSC) constituted as an independent fiscal authority under the law 4270/2014. HFISC submits its opinion on macroeconomic forecasts and assumptions underpinning the Draft Budgetary Plan 2025 (DBP 2025) as stipulated in Regulation 473/2013 (Art. 6 par. 3f) of the European Parliament and the Council of the European Union (EU).[1]

This assessment takes into account the following:

(a) The macroeconomic scenario and budgetary forecasts as communicated to the HFISC by the Ministry of Economy and Finance (MinFin) on September 12, 2024, and the technical dialogue between experts from MinFin and HFISC.

(b) The latest published data of the GDP for the Greek economy and its expenditure components by the Hellenic Statistical Authority (ELSTAT), covering the first half of the year.[2]

(c) The Stability Programme 2024 (SP 2024) projections as well as those of the State Budget 2024 (SB 2024).[3,4]

(d) The European Commission's Spring Forecasts 2024, and the forecasts of other international and national organizations regarding the performance of the main macroeconomic indicators of the Greek economy.[5]

(e) The GDP forecasts based on the econometric models of the HFISC.

Macroeconomic forecasts

The macroeconomic forecasts underlying the DBP 2025 are in line with the medium-term planning of the MinFin. The Medium-Term Fiscal-Structural Plan 2025-2028 (MTP 2025-2028), submitted on September 30 2024, has been discussed in the relevant parliamentary committee and the final plan has been submitted to the European Commission. HFISC assessment of the macroeconomic forecasts and assumptions underlying the multi-annual trajectory of net expenditures in the MTP 2025-2028 remain valid.[6]

[1] A comprehensive analysis of the macroeconomic and budgetary developments of the Greek economy will be presented in the forthcoming HFISC bi-annual report.
[2] ELSTAT, press release, 6/9/2024
[3] Stability Programme 2024
[4] State Budget 2024 (in Greek) – Ministry of Finance and Economy
[5] European Commission, Spring forecasts 2024
[6] HFISC opinion on the Medium-Term Fiscal-Structural Plan 2024

Compliance with Fiscal Rules

This is the first opinion on the country's annual budgetary planning under the EU's new economic governance framework, which entered into force on April 30, 2024.[7] The new framework based on an analysis of country-specific risks ensures a plausibly continuous reduction of the debt-to-GDP ratio. Key component of assessing fiscal sustainability in EU Member States is a reference trajectory for net primary expenditure, always in compliance with the rules of the EU's Stability and Growth Pact (SGP) maintaining budget deficit below 3% and public debt below 60% of GDP.

HFISC acknowledges that DBP 2025 is in line with the EU SGP fiscal rules. It ensures compliance with the 3% of GDP reference value for the deficit (1% of GDP this year, 0.6% of GDP in 2025), as well as debt as a share of GDP remains on a downward path by 4.6 percentage points. Moreover, the expected nominal increase in net primary expenditure in 2024 aligns with the Council's recommendations (maximum increase 2.6%).[8] For 2025, the projected increase in net primary expenditure by 3.6% is in line with the MTP 2025-2028 fiscal reference (3.7%).

In particular, the 2024 State Budget execution so far reveals a better performance of net revenues for the eight-month period from January to August 2024 (+0.5%) compared to the initial estimates (see Table 1). Encouragingly, it entails the reduction in the actual expenditure, 7.5% lower than estimated. Moreover, the primary surplus tends to be higher than both the initial and the revised forecasts. Finally, in the budgetary projections of the DBP 2025 the primary surplus of the General Government is expected to reach 2.4% of GDP in 2024 (compared to 2.1% of GDP forecast in the SB 2024) and 2.5% of GDP in 2025.[9]

Table 1: Revenues – Expenditures State Budget 2024 (million euros)

Net Revenues		**Expenditures**	
August 2024 Actuals	45,133	August 2024 Actuals	44,089
August 2024 Budget Estimates	44,905	August 2024 Budget Estimates	47,679
Difference	228	Difference	-3,590
Difference compared to estimated	0.5%	Difference compared to estimated	-7.5%

Source: Report of State Budget Execution, Ministry of Economy and Finance, August 2024, HFISC data processing.

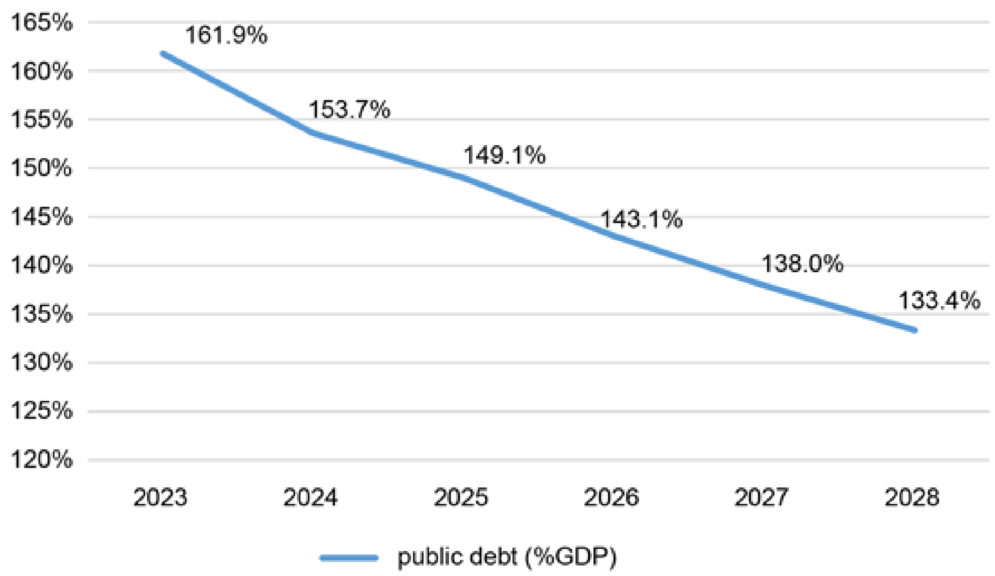
The better performance in the primary balance is offset by higher interest rate expenditure. As a result, the General Government balance remains in deficit, but well below the 3% of GDP limit (1% of GDP

[7] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral fiscal surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024), Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024).
[8] OJ C 312, 1.9.2023
[9] A detailed budgetary analysis will be presented in the submission of the Opinion on State Budget 2024 (November 2024).

in 2024 and 0.6% of GDP in 2025). These projections are close to those of the European Commission and other international organizations.

The projected General Government debt ratio is 153.7% of GDP in 2024, a decrease of 8.2 percentage points compared to 2023 (see Chart 1). For the next year, debt is projected to reach at 149.1% of GDP, a decline of 4.6 percentage points. Key factors contributing to this rapid de-escalation include the sustained strong nominal growth and the significant increase in the primary surplus. In particular, the determinants of this debt reduction shows a gradual weakening of the relative effect of the growth-interest rate differential vis a vis the attainment of substantial primary surpluses. Despite the significant debt reduction in the coming years, continued vigilance is necessary since high levels of debt may limit the government's ability to invest in growth-promoting initiatives.

Chart 1: Debt of General Government



Source: Ministry of Economy and Finance, DBP 2025

Risks - Uncertainties

Addressing the macroeconomic and fiscal challenges, especially concerning upside risks, several factors are considered. In particular (a) an attractive environment due to upgraded investment status, for both domestic and foreign investment can lead to increased capital inflows and a further increased investor interest in Greek securities and projects, (b) optimistic forecasts regarding GDP growth can lead to higher tax revenues, which many alleviate fiscal pressures, (c) the acceleration of EU programs implementation and structural reforms in the goods, services and labour markets, (d) a faster than expected decline in inflation and ECB interest rates, with a positive impact on borrowing costs, market confidence and ultimately growth.

On the other side, (a) increased geopolitical crisis can pose several downside risks as tourism vulnerability, higher energy prices and supply disruptions, refuge and migration pressures, increased military spending etc. (b) a deeper sluggishness of growth in Northern European economies, Greece's major trading partners, could lead to a slowdown in export revenues, tourism, decrease in foreign direct investment, lower consumer and business confidence etc. (c) adverse shocks stemming from climate change, such as natural disasters often leading to unforeseen expenditures and (d) product and labour market segmentation affecting growth, employment and social cohesion.

Speeding up the pace of announced reforms, aiming to reduce markets segmentation and boost labour productivity so as to align with better wage prospects, is a priority. Assessing the impact of all the above risks, designing and effectively implementing targeted fiscal interventions for those in need without jeopardizing fiscal stability, remains another significant challenge.

Based on the above, the Hellenic Fiscal Council endorses the macroeconomic projections underlying the DBP 2025 and confirms that the fiscal figures are in line with the rules of the new European Economic Governance Framework.

For the Hellenic Fiscal Council,

The Chairperson

Anastasia Miaouli

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