HELLENIC FISCAL COUNCIL

Autumn 2021 report – November

Executive Summary

Gross Domestic Product was significantly increased by 16,2% in the second semester of 2021, on a year-to-year basis, while the corresponding GDP growth for the first semester was 6,3%. All of the GDP components were particularly elevated in the first semester apart from imports of goods and services. The slight increase in the value of Greek exports was not sufficient to counteract the even more sizeable increase in imports, leading to a net negative contribution of the external sector.

More specifically, private consumption increased by 4% in the first semester of 2021 on a year-to-year basis, public consumption by 7,1%, gross fixed capital formation by 11,8% and exports of goods and services by 3,4%. As already mentioned, imports of goods and services were increased by 8,4% and hence cancelled out the exports increase.

Most macro leading indicators (e.g. purchasing managers' index, economic sentiment indicator, industrial production index) do record a positive trend and are in line with the overall positive assessment for 2021 regarding the boost in economic activity which in GDP terms is expected to reach, or even exceed, 7%.

During the pandemic deflation was evident for the period between April 2020 and May 2021. From June 2021 inflation returned to positive ground and in particular the Harmonized Index of Consumers Prices (HICP) in October 2021 increased by 2,8% compared to the same month last year. In any case, inflationary pressures in both Greece and the Eurozone seem to be of temporary nature and could be attributed to the surge in the energy prices which levelled up the sizeable last year's drop. Furthermore, the view that inflationary pressures will not persists is supported by the fact that these are also resulting from a dysfunction of the global supply chain (bottlenecks) due to the acute increase in demand after easing of the restrictive measures. To this end, ECB is not expected to raise interest rates soon but this scenario can not be excluded if inflationary pressure persists and voices asking for a tighter monetary policy ultimately dominate.

Most domestic and foreign projections converge to a GDP growth around 4,5% for 2022 although downside risks may include:

- Adverse pandemic developments
- The mobilization speed of the investment supporting schemes funded by the Recovery and Resilience Fund
- The inflation developments which could confine the monetary easing in the Eurozone and hence put the positive growth scenario at risk

General Government's (GG) budget execution for the period between January and September 2021 point out to a partial turnaround of the adverse effects of the pandemic in the fiscal management. Driven by GDP growth, revenues were elevated by 12,4% compared to the same period last year reaching 59.771 mil. euros against a performance of 53.187 mil. euros in 2020. GG's expenditure was also increased by 8,1% compared to last year amounting to 63.561 mil. euros. The budget category "transfers" showed the largest increase (by 61%) and is evidently associated with the supporting measures due to the pandemic.

The fiscal outcome in the first 9 months remains negative and sums to a 9.546 mil. euros deficit, 585 mil. euros more than last year's performance for the same period while primary deficit is reaching 5.744 mil. euros (3,3% of GDP), 522 mil. euros more than 2020. It has to be noted though that the primary deficit is on a downwards path mainly thanks to the gradual economic recovery after the ending of the restrictions as well as the profound recovery in tourism. Moreover, the GG's expenditures are not expected to significantly grow until the end of the year. On the basis of the above, we stick to our projection for a 2021 primary deficit around and even less than 7% of GDP which falls within the MTBF 2022-2025 target.

The 2022 primary balance target of 1,4% of GDP deficit as set in the State Budget draft law is aligned with the projections by international institutions (European Commission, IMF, OECD) and is also assessed by HFISC as plausible.

A potential source of budget execution risk may emerge from a possible resurgence of the pandemic that will require further supporting measures for the economy as a whole as well as the national health system. Additional risks may appear in the case of State guarantees being called and court decisions with fiscal impact. Finally, persistence of the inflationary pressures – particularly in the energy sector – may also require cushioning fiscal measures.