SPRING REPORT 2023

JULY 2023

HELLENIC
FISCAL
COUNCIL

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SUMMARY

The Greek economy proved remarkably resilient throughout 2022 and the first months of 2023 maintaining a positive trajectory despite geopolitical uncertainty stemming from the ongoing war in Ukraine, surging inflation rates and a substantial tightening of monetary policy. According to the Hellenic Fiscal Council's economic forecasts, Greek GDP growth in 2023 is projected to be 2.6%, with a modest improvement to 2.8% for 2024 mainly due to rapidly rising fixed investment and private consumption dynamism.

After months of stubborn inflationary pressures there are signs of better prospects. The Greek Harmonized Index of Consumer Prices (HICP) slowed down from 4.1% in May to 2.8% in June 2023 due to the de-escalation of energy prices, the gradual easing in the supply chain disruptions and the tightening of the European Central Bank's monetary policy. The country's inflation rate is falling faster than in other European countries with the corresponding index for the Eurozone to be 5.5%. Should this be a long-lasting phenomenon it might beneficially impact Greece's current account deficit. Core inflation also fell noticeably from 7.3 % in May 2023 to 4.8 % in June. Nevertheless, it remains persistently high burdening disproportionately the most vulnerable households' living costs and consequently necessitating the fiscal interventions so far to boost their disposable income.

The unemployment rate continued its falling trend from 12.6% in 2022 to 10.8 % in the first quarter of 2023 amid sustained job creation. Despite the improvement and the narrowing towards a zero-output gap, it remains high compared with the other European Union economies and this highlights the importance for the continuation of structural reforms in product and labour markets.

In the external sector, Greece's substantial current account deficit decreased decisively during the first quarter of 2023 by 3 billion euros vis a vis the corresponding quarter of 2022, mainly due to the partial reversal of the adverse energy price effects, the cooling-off of high domestic demand and thus the slow import volume growth, the rising export values and the increased tourism receipts and finally the inflows of the Recovery and

Resilience Fund. Inward investments linked to the RRF and other European programmes despite beneficial for the long-term growth prospects might have contributed to the high level of external deficit. The deficit is set to stay large until 2026 constituting a significant concern regarding the necessary improvement in the noticeably negative Net International Investment Position of the country.

Upside risks for the Greek economy are associated with the shortening of the period towards regaining an investment-grade, a faster fall in inflation, a better than expected performance in tourism, the leveraging of the substantial deposits held by Greek banks and the maintenance of political stability.

On the other side, external downside risks both in the short and medium term are linked with the ongoing war in Ukraine, the possible economic stagnation in European economies, a less efficient and lower-than-expected absorption rate of Next Generation EU funds, the deterioration in the adverse effects of climate change and the continuation of the tightening of ECB's monetary policy.

Regarding the fiscal developments, the Greek economy in 2022 recorded a marginal primary budget surplus of 0.1 % of GDP that is projected to 1.1 % for 2023 in the Stability Programme 2024-26. In the first months of 2023 the budget execution was running smoothly, showing a substantial increase in tax revenues in all groups of taxes around 1.5 billion euros vis a vis the target in the Budget 2023 with higher transfers along with the nominal growth as the main drivers. The digitalization of the tax system, the improved tax compliance and the broadening of the tax base contributed positively.

Nevertheless, Greek fiscal targets for 2023 are subject to uncertainty linked mainly to the realization of the baseline macroeconomic scenario. Furthermore, there is a considerable pressure to the Greek Government for expenditure increases mainly for public servant wages and social benefits, due to inflation.

Greek public debt was significantly de-escalated in 2022 by 23 percentage points, projected to further decreased at 162.6 % of GDP in 2023. It remains however, the highest in the European Union and one of the highest worldwide. Strong growth, high inflation and tax compliance have been important factors for this substantial debt de-escalation, that could be kept in a downward trajectory and reach 135% of GDP in 2026. Provided that the prudent fiscal policy will be continued, Greece is assessed to face low risks for debt sustainability in the short term due to its structure and the available cash buffer. However, in the medium term the service of Greek public debt will be sensitive to the market rate fluctuations and any increase in the cost of borrowing along with lower growth and inflation rates might lead to an unfavorable scenario for debt sustainability. Thus, the continuation of fiscal discipline will tame negative market sentiment.

2023 marks the new era and after the 12 year adjustment period the Greek economy, is not under a program or a post-program enhanced surveillance while the general escape clause still applies albeit for the last time. The new EU fiscal framework currently under discussion is far from the "one solution fits all" and emphasizes the net expenditure path along with country specific considerations while highlighting the importance of national ownership regarding the fiscal policy mix. In this respect, fiscal surpluses through well targeted fiscal measures in line with the commitments of the country are key elements for fiscal sustainability and macroeconomic stability.

Prudent fiscal policy is a prerequisite for the growth prospects of the Greek economy, that will allow the support of vulnerable households and ultimately the improvement of social welfare.

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