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## **REPORT FROM THE COMMISSION**

**Greece**

**Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of  
the European Union**

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#### 1. INTRODUCTION

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Data notified by the Greek authorities on 22 April 2020 and subsequently validated by Eurostat<sup>1</sup> show that the general government surplus in Greece reached 1.5% of GDP in 2019, while general government gross debt stood at 176.6% of GDP. According the 2020 Stability Programme, Greece plans a deficit of -4.7% of GDP in 2020, while debt is planned at 188.8% of GDP.

The planned deficit for 2020 provides *prima facie* evidence of the existence of an excessive deficit for as defined by the Stability and Growth Pact. Moreover, the data for 2019 imply insufficient progress towards compliance with the debt reduction benchmark, which also provides *prima facie* evidence of the existence of an excessive deficit as defined by the Stability and Growth Pact.

Against this background, the Commission has therefore prepared this report, which represents the first step in the excessive deficit procedure. It analyses Greece's compliance with the deficit and debt criteria of the Treaty. It takes into account all relevant factors and gives due consideration to the major economic shock linked to the COVID-19 pandemic.

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<sup>1</sup> <https://ec.europa.eu/eurostat/documents/2995521/10294648/2-22042020-AP-EN.pdf/6c8f0ef4-6221-1094-fe77-a07764b0369f>

**Table 1. General government deficit and debt (% of GDP)**

		2016	2017	2018	2019	2020 COM	2021 COM
Deficit criterion	General government balance	0.5	0.7	1.0	1.5	-6.4	-2.1
Debt criterion	General government gross debt	178.5	176.2	181.2	176.6	196.4	182.6
	Gap to the debt reduction benchmark	n.r.	n.r.	n.r.	n.r.	2.5	-1.0
	Change in structural balance	2.3	-0.5	-0.1	-2.2	n.r.	n.r.
	Required MLSA	n.r.	0.1.	0.4	0.8	n.r.	n.r.

Note: MLSA refers to the Minimum Linear Structural Adjustment

Source: Eurostat, Commission 2020 spring forecast

## 2. DEFICIT CRITERION

Based on the 2020 Stability Programme, Greece's general government deficit in 2020 is expected to reach 4.7% of GDP, above and not close to the Treaty reference value of 3% of GDP.

The planned excess over the Treaty reference value in 2020 is exceptional, as it results from a severe economic downturn. Taking into account the impact of the COVID-19 pandemic on Greece's economy, the Commission spring forecast projects a contraction of real GDP in 2020 by 9.7%.

The planned excess over the Treaty reference value would be temporary, based on the Commission 2020 spring forecast, which projects the deficit to fall under 3% of GDP in 2021. However, those projections are surrounded by an exceptionally high degree of uncertainty.

In sum, the planned deficit for 2020 is above and not close to the 3%-of-GDP Treaty reference value. The planned excess is considered to be exceptional as defined by the Treaty and the Stability and Growth Pact, while the nature of the excess is currently considered temporary. Hence, the analysis suggests that *prima facie* the deficit criterion as defined by the Treaty and Regulation (EC) No 1467/97 is not fulfilled.

## 3. DEBT CRITERION

The government debt-to-GDP ratio decreased from 181.2% in 2018 to 176.6% in 2019. The debt reduction was due to the high primary surplus reached in 2019, which was augmented by strong real GDP growth and the increase in the GDP deflator, and by a marginally debt-reducing impact of stock-flow adjustments.

Following the abrogation of the excessive deficit procedure in September 2017, Greece was subject to a three-year transition period to ensure sufficient progress towards compliance with the debt reduction benchmark. The transition period started in 2017 and ended in 2019. In

order to ensure continuous and effective progress towards compliance during the transition period, Greece should respect simultaneously the following two conditions:

- a. First, the annual structural adjustment should not deviate by more than ¼% of GDP from the Minimum Linear Structural Adjustment (MLSA) ensuring that the debt reduction benchmark is met by the end of the transition period;
- b. Second, at any time during the transition period, the remaining annual structural adjustment should not exceed ¾% of GDP (unless the first condition implies an annual effort above ¾% of GDP);

The notified data show that Greece did not make sufficient progress towards meeting the debt reduction benchmark in 2019, as the structural balance is estimated to have deteriorated by - 2.2% of GDP last year, compared with the applicable MLSA of 0.8% of GDP.

The analysis thus suggests that *prima facie* the debt criterion is not fulfilled based on the 2019 outturn data.

#### **4. RELEVANT FACTORS**

Article 126(3) of the Treaty provides that, if a Member State does not fulfil the requirements under one or both of those criteria, the Commission has to prepare a report. That report must also “take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State”.

Those factors are further clarified in Article 2(3) of Regulation (EC) No 1467/97, which also provides that “any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and to the Commission” need to be given due consideration.

For the apparent breach of the debt criterion, the analysis of the relevant factors is particularly warranted given that debt dynamics are to a larger extent influenced by factors outside the control of the government than is the case for the deficit. This is recognised in Article 2(4) of Regulation (EC) No 1467/97, which provides that the relevant factors shall be taken into account when assessing compliance on the basis of the debt criterion irrespective of the size of the breach. In that respect, at least the following three main aspects need to be considered when assessing compliance with the debt criterion given their impact on the debt dynamics and sustainability: (i) adherence to the MTO or the adjustment path towards it, (ii) the implementation of structural reforms, and (iii) the prevailing economic conditions.

As specified in Article 2(4) of Regulation (EC) No 1467/97, as regards compliance with deficit criterion in 2020, however, since the government debt-to-GDP ratio exceeds the 60% reference value and the double condition is not met - i.e. that the deficit remains close to the reference value and that its excess over the reference value is temporary - those relevant factors cannot be taken into account in the steps leading to the decision on the existence of an excessive deficit on the basis of the deficit criterion for Greece.

In the current situation, a key additional factor to take into consideration regarding 2020 is the economic impact of the COVID-19 pandemic, which has a very substantial impact on the budgetary situation and results in a highly uncertain outlook. The pandemic has also led to the activation of the general escape clause.

#### **4.1. COVID-19 pandemic and the activation of the general escape clause**

The COVID-19 pandemic has led to a major economic shock that is having a significant negative impact throughout the European Union. The consequences for GDP growth will depend on the duration of both the pandemic and of the measures being taken by national authorities and at European and global level to slow its spread, protect production capacities and support aggregate demand. Member States have already adopted or are adopting budgetary measures to increase the capacity of health systems and provide relief to those individuals and sectors that are particularly affected. Significant liquidity support measures and other guarantees have also been adopted. Subject to more detailed information, the competent statistical authorities are to examine whether those measures entail an immediate impact on the general government balance or not. Together with the fall in economic activity, these measures will contribute to substantially higher government deficit and debt positions.

#### **4.2 Medium-term economic position including structural reforms**

Since 2016, real GDP growth has been recovering driven by net exports and private consumption. Nominal growth increased until 2018, but declined somewhat in 2019. Nevertheless, it cannot be argued that macroeconomic conditions are a mitigating factor in explaining Greece's lack of sufficient progress towards meeting the debt reduction benchmark in 2019.

Economic activity is expected to be severely impacted by the COVID-19 outbreak and the related containment measures. The Commission 2020 spring forecast projects GDP to decline by 9.7% in 2020, with tourism and shipping services – two very important sectors for Greece's economy – expected to be hit particularly hard and the expected to increase in unemployment may also depress domestic demand. The macroeconomic outlook is marked by an exceptional degree of uncertainty related to the duration of the pandemic and its economic impact. This is a mitigating factor in the assessment of Greece's compliance with the deficit criterion in 2020.

In its 2020 Country Report<sup>2</sup>, the Commission assessed that Greece had made some progress in addressing the 2019 Country Specific Recommendations. More specifically, Greece pursued reforms in line with the post-programme commitments given at the meeting of the Eurogroup of 22 June 2018. In 2019, Greece implemented important reforms aimed to increase the efficiency of the Greek public sector, strengthen the effectiveness of social policy, advance the privatisation agenda and further improve the quality of the business environment. Notably, the authorities continued taking steps to enhance the capacity of the Independent Authority for Public Revenue and enhance the human resource management in the public administration. Regarding the financial sector, some progress continued on reforms needed to clean up the stock of non-performing loans. The authorities also pursued a broader reform agenda, for instance in the area of good law-making, digital governance and education.

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<sup>2</sup> See Commission Staff Working Document SWD (2020) 507 final, 26.2.2020, "*Country Report Greece 2020. Including an In-Depth Review on the prevention and correction of macroeconomic imbalances*".

### **4.3 Medium-term budgetary position, including government investment**

The headline surplus increased from 1.0% of GDP in 2018 to 1.5% in 2019, due to solid economic growth, contained expenditure growth, and the receipt of transfers of equivalent amounts to the income earned by euro-area national central banks on Greek government bonds held under the Agreement on Net Financial Assets (ANFA) and the Securities Market Programme (SMP). Public investment is estimated to have fallen from 3.0% of GDP in 2018 to 2.2% in 2019.

Since Greece was exempt from submitting Stability Programmes while it was subject to a macroeconomic adjustment programme ('the programme'), the Greek authorities have not established a medium-term budgetary objective for 2019. In spring 2018, the Council issued no country-specific recommendation to Greece in the context of the European Semester because pursuant to Article 12 of Regulation (EU) No 472/20132 Greece was exempt the monitoring and assessment under the European Semester at that time since it was under the programme. Under those circumstances, the assessment of year 2019 is conducted in the absence of a medium-term budgetary objective, taking into account the factors mentioned above, the primary surplus target recommended by the Council and monitored under the enhanced surveillance procedure, as well as the structural budget balance for 2019.

Data notified by the Greek authorities on 31 March 2020 and subsequently validated by Eurostat<sup>3</sup> confirms a general government primary surplus of 4.4% of GDP in 2019, which is equivalent to a primary surplus monitored under the enhanced surveillance procedure<sup>4</sup> of 3.5% of GDP. The budgetary outcome was thus compliant with Greece's commitments monitored under the enhanced surveillance procedure. The structural balance in 2019 remained in high surplus, reaching 2.8%. Compliance with its fiscal requirements under the enhanced surveillance procedure is a mitigating factor for the assessment of Greece's prima facie non-compliance with the debt criterion in 2019.

In view of the ongoing pandemic, the authorities have adopted fiscal measures of an unprecedented amount to address the COVID-19 crisis and to support the economy. The overall size of the measures is estimated to reach up to 10.5% of GDP with an estimated impact of 3.7% of GDP on the general government deficit. The majority of the measures aim to support companies and their employees who are affected by the COVID-19 pandemic either through a direct suspension of the companies' operation or the general deterioration of economic activity due to the containment measures.

Under the current circumstances, uncertainty about the fiscal and macroeconomic outlook is significantly higher than usual. At this stage, only very preliminary data were available to confirm the magnitude and the severity of the economic and fiscal hit.

### **4.4. Medium-term government debt position**

Government debt decreased between 2016 and 2017 from 178.5% to 176.2% of GDP, and then increased markedly in 2018 to 181.2% of GDP. That increase was due to the final

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<sup>3</sup> <https://ec.europa.eu/eurostat/documents/2995521/10294648/2-22042020-AP-EN.pdf/6c8f0ef4-6221-1094-fe7-a07764b0369f>

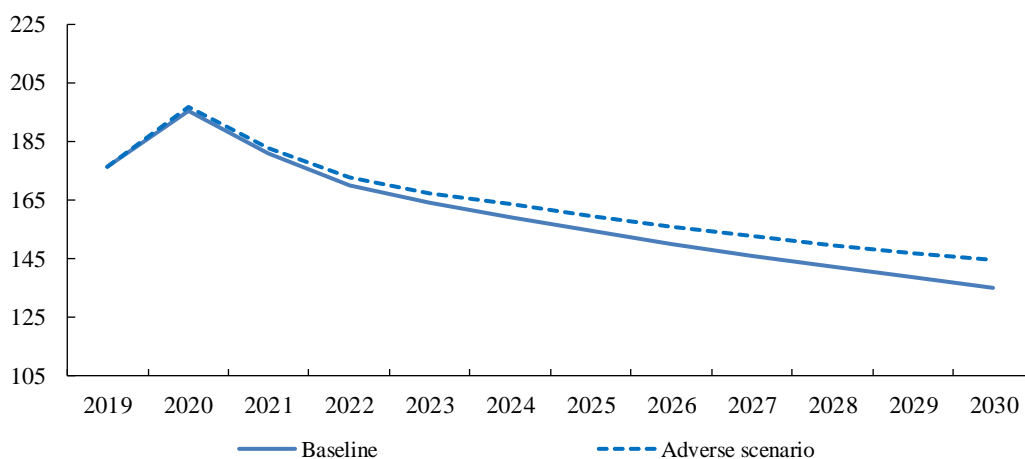
<sup>4</sup> The programme definition of the primary balance excludes the one-off cost of bank recapitalisation, SMP and ANFA revenues and part of the privatisation proceeds. See Commission Opinion of 21.11.2018 on the Draft Budgetary Plan of Greece {SWD(2018) 516 final} for the definition.

disbursement under the programme in 2018, which contributed to the build-up of Greece’s significant cash buffer. The cumulated high general government surpluses recorded over the same period as well as the nominal GDP growth would have otherwise resulted in the steadily declining debt path. In 2019, the public debt-to-GDP ratio declined to 176.6%, reflecting the high general government headline surplus and the nominal GDP growth and the debt-reducing impact of stock-flow adjustments.

According to the Commission 2020 spring forecast, general government debt is expected to rise from 176.6% of GDP in 2019 to 196.4% in 2020. The increase in the debt ratio is mostly due to the large drop in nominal GDP and the deterioration of the primary balance due to the cyclical developments and the fiscal measures addressing the COVID-19 crisis. The impact of those measures on debt is mitigated by the expected use of cash financing.

The debt sustainability analysis has been updated with the Commission 2020 spring forecast. This analysis confirms that notwithstanding risks, the debt position remains sustainable over the medium-term in Greece, which takes account of important mitigating factors (including the debt profile and the large share of official loans at depressed rates). In particular, while the debt position deteriorates as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term<sup>5</sup> (Graph 1).

**Graph 1: Government debt-to-GDP ratio, Greece, % of GDP**



**Source:** Commission services.

<sup>5</sup> The baseline reflects the Commission Spring 2020 forecast and the post-programme commitments for Greece beyond 2021, in line with the methodology established in the context of Enhanced Surveillance. Under the adverse scenario, higher interest rates (by 500 bps.) and lower GDP growth (by -0.5 pps.), with respect to the baseline, are assumed (throughout the projection horizon).

#### **4.5 Other factors put forward by the Member State**

On 11 May 2020, the Greek authorities transmitted a letter with relevant factors in accordance with Article 2(3) of Regulation (EC) No 1467/97. The analysis presented in the previous sections already broadly covers the key factors put forward by the authorities.

### **5. CONCLUSIONS**

According to the Stability Programme, Greece's general government deficit in 2020 is planned to reach 4.7% of GDP, above and not close to the 3% of GDP Treaty reference value. The planned excess over the reference value is considered to be exceptional and currently considered to be temporary.

The general government gross debt stood at 176.6% of GDP at the end of 2019, above the 60% of GDP Treaty reference value. Greece did not make sufficient progress towards meeting the debt reduction benchmark in 2019.

In line with the Treaty and the Stability and Growth Pact, this report also examined relevant factors.

As specified in Article 2(4) of Regulation (EC) No 1467/97, as regards compliance with the deficit criterion in 2020, since the government debt-to-GDP ratio exceeds the 60% reference value and the double condition is not met – i.e. that the deficit remains close to the reference value and that its excess over the reference value is temporary – those relevant factors cannot be taken into account in the steps leading to the decision on the existence of an excessive deficit on the basis of the deficit criterion for Greece. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

As regards compliance with the debt criterion in 2019, the relevant factors, in particular (i) the observed macroeconomic conditions; (ii) some progress with the implementation of growth enhancing structural reforms in past years, and (iii) the compliance with Greece's fiscal targets in the context of the enhanced surveillance, lead to the conclusion that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is complied with.