HELLENIC REPUBLIC
Ministry of Finance

Stability Programme 2020

Athens, April 2020

Preface

The Stability Programme of the Hellenic Republic for the period 2020-2023 (which for this year, due to the pandemic crisis, covers the years 2020 and 2021 in consistence with the EC guidance), is submitted to the Council and to the Commission in line with the requirements set out in Council Regulation (EC) 1466/1997 and corresponds to the national medium-term fiscal plan of Article 4(1) of Regulation (EU) 473/2013 of the European Parliament and of the Council.

The format and content of the Stability Programme are in line with the updated "Code of Conduct of the Stability and Growth Pact" that has been agreed by the Economic and Financial Committee on 15 May 2017 taking into account the guidelines for a streamlined format of the 2020 SCPs in light of the COVID – 19 outbreak (6 April 2020 EC).

The macroeconomic forecasts included in the Stability Programme have been endorsed by the Hellenic Fiscal Council (HFC), as required under Article 4(4) of Regulation (EU) 473/2013.

In addition to the activation of the general escape clause of the Stability and Growth Pact as a result of the pandemic, regarding any possible temporary violations of the Greek fiscal rules and the Greek budgetary framework in general, the "extraordinary circumstances" clauses of articles 37.3 and 38.2 of L.4270/2014 will be relied on.

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1. Economic Outlook

Prospects for the Greek economy looked significantly positive in the beginning of the current year, on the back of the favourable economic climate and a reform-oriented economic policy beyond the agreed commitments aimed at upgrading the investment environment. The economic recovery continued in 2019 and was pointing to an acceleration throughout the year 2020.

However, the Coronavirus outbreak has imposed a burden on the Greek economy as also on the rest of the world economy, reverting the initial favorable short-term forecast. Bridging the growth gap caused by the public health crisis and incentivizing social and environment-friendly investment are now primary goals, expected to promote productivity and foster sustainable economic growth in the medium-term.

1.1 Macroeconomic Outturn 2019

In 2019, the Greek economy sustained its growth momentum amid frail global economic environment, benefitted from positive expectations, improved financial conditions and an acceleration of structural reforms. According to national accounts data, real GDP continued to grow by 1.9% year-on-year as in 2018, marginally slower than the relevant estimate in the Draft Budgetary Plan 2020 (2.0%).

With an annual growth rate of 4.8% (versus 8.7% in 2018), exports slowed but managed to remain resilient despite weakened foreign demand and to constitute the main determinant of growth in 2019. Further market share gains were visible primarily in services (8% vs 9% in 2018), thanks to a buoyant tourism and shipping activity, and secondarily, in goods (2.2% vs 8.4% in 2018). Overall, the contribution of the external sector to output growth was 0.8 pps. On the basis of Balance of Payments data, the current account deficit as a percentage of nominal GDP halved year-on-year to 1.4% in 2019 from 2.8% in 2018, mainly attributed to an increase in the surplus of services (higher travel and transport receipts) and to a shift of the secondary income account from deficit to surplus (due to the return of a proportion of the ANFAs/SMPs profits).

Additionally, unlike 2018, final domestic demand made a positive contribution of 1.5 pps to real GDP growth, through all its components. Real investment rebounded strongly by 4.7%, against a decline by 12.2% in 2018, mainly supported by investment in transport equipment and investment in housing construction amid increased demand for real estate. The improved investment performance was largely attributed to a more investment-conducive environment, driven by a sharp increase in economic sentiment, the continuing decline in government bonds' interest rates, the adoption of a more growth-friendly tax framework, the full lifting of capital controls as of September 2019 and the ongoing recovery of bank lending to non-financial corporations. Real private consumption increased by 0.8% versus an increase by 1.1% in 2018, backed by the fiscal measures of May and August 2019 and ongoing improvements in the labour market that supported disposable incomes, although households continued to deleverage. Real public consumption turned positive, pointing to an increase by 2.1%, versus a decline by 2.5% in 2018. Moreover, inventories had a negative contribution of 0.4 pps to real output growth.

From the part of short-term economic indicators, in 2019, the Economic Sentiment Indicator hit a record high, reflecting strong growth expectations and the Manufacturing Purchasing Managers' Index remained comfortably above the critical 50-threshold, indicating a stable improvement in operating conditions in the manufacturing sector. Retail sales increased but with slower pace than in 2018, whereas the general industrial production index declined mainly due to a fall of the energy sector.

On the back of the economic upturn and labour market reforms, the labour market continued to improve. In 2019, national-account based employment grew at faster pace than in the previous year, namely by 2.0% versus 1.7% in 2018, while LFS-based unemployment rate continued its downward path to 17.3% from 19.3% in the previous year, though remaining at high levels. Despite improvements, long-term unemployment (70.4% both in 2019 and 2018) as well as youth (35.5% from 39.9% in 2018) and female unemployment (21.5% from 24.2% in 2018) remain the main challenges to address. At the same time, nominal wages increased further by 5.2% in 2019 from 3.6% in 2018, supporting disposable incomes.

HICP inflation remained moderate (0.5% from 0.8% in 2018), mostly on account of lower energy prices and the indirect tax decreases on certain goods in May 2019. Core inflation remained unchanged to low levels (0.5%), reflecting low domestic demand pressures. Accordingly, a slower nominal GDP growth compared to 2018 (1.5% vs 2.5%), with real GDP growth remaining unchanged, resulted in the GDP deflator falling below zero (-0.4% from 0.6% in 2018).

1.2 Macroeconomic Projections for 2020

The Coronavirus outbreak clouds the outlook for global economy. The unprecedented degree of uncertainty, the shock resulting from China's initial contraction and the consequent demand, supply and liquidity shocks to the European and world economy create the conditions conducive to a deep global recession in 2020, far worse than during the 2008-2019 financial crisis.

There is exceptional uncertainty around the global growth forecast, with the latter being continuously revised downwards. The economic repercussions of the pandemic depend on the extent and the duration of the Coronavirus spread, the efficacy of containment measures and the effectiveness of economic policy response measures.

According to the IMF World Economic Outlook published in April 2020, global growth is projected at -3.0% in 2020, revised down by more than 6 pps compared to the October 2019 WEO and January 2020 WEO Update projections. Prospects for the Euro area are even worse, with a growth forecast of -7.5% for 2020, revised down by approximately 9 pps.

The disruption of global economic activity caused by the Coronavirus pandemic, coupled with the abrupt rise in uncertainty, is set to reverse the initially expected acceleration of Greece's economic growth in 2020. The Greek economy is exposed to external shocks due to a considerable dependency on tourism and transportation receipts. Recessionary effects are also to stem from the timely adoption of all necessary containment measures against the transmission of COVID-19 through labour and income effects in primarily affected sectors. However, the adoption of a wide range of well-coordinated fiscal and financial policy response measures in conjunction with the gradual easing of containment measures as of early May are expected to largely mitigate the socio-economic repercussions of the pandemic.

Taking into account the impact of the policy response measures the baseline macroeconomic scenario, points to an output recession of 4.7% in the Greek economy for 2020, under the assumptions that the public health crisis fades in the second half of 2020 and that its greatest negative economic impact takes place in the second quarter of the year, through the channels of contracting trade and tourism, postponed investment, subdued labor market growth and a depressed consumer demand. Without taking into account the policy response measures, the forecasts point to an output recession of up to 10%.

Let it be noted that, under an alternative set of more adverse assumptions against this baseline forecast (that is, against the assumed slow-paced rebound of travel exports as of July 2020 and the presumably contained recession in the Euro area to a rate similar to the baseline projection for the Greek economy), simulations on output growth point to a significantly more sizable recession for 2020, of up to 8% year on year, taking into account the policy response measures, due to a steeper drop on exports, and broader negative spill-over effects across the economy. This highlights the uncertainty in the related macroeconomic forecasts, in Greece and worldwide, which are largerly dependent on the length of the disease and its implications on tourism, world trade and all the components of the economic activity.

In the baseline macroeconomic forecast, taking into account policy response measures, final domestic demand is expected to provide a negative contribution of 3 pps to change in GDP, whereas the external sector a negative contribution of 1.7 pps. From the part of domestic demand, real private consumption is estimated to experience the largest contraction, with a negative contribution of 2.7 pps to GDP and a negative growth rate of 4.1%, reflecting consumer confidence drop, income losses from business closures or companies running at reduced production levels, postponements of consumer spending due to social-distancing measures and depressed sales, with the exception of food, pharmaceutical/medical goods and online shopping. Gross fixed capital formation is expected to turn substantially negative by 4.6%, due to the lockdown, supply chains disruptions, tighter financing conditions and high uncertainty that weigh on investment plans. Equipment investment and investment in non-residential contraction are projected to take the largest hit. By contrast, public consumption is projected to remain positive and grow by 1.0% amid increases in government spending on health care.

In parallel, the Coronavirus fallout is anticipated to take a heavy toll on the external sector of the economy. Transport restrictions, travel cancellations, closed land-borders and unsettling supply chains are expected to push exports of goods and services to a sharp dip by 19.2%. The negative contribution of the external sector to GDP is expected to stem from the balance of services, which outweighs the positive contribution of balance of goods amid the anticipated large drop in equipment investment in line with the dip of imports of goods. Total imports are expected to follow the contraction path and shrink by 14.2%, in response to negatively affected domestic demand and exports shrinkage. Tourism, transport and shipping are set to be the most affected sectors, with tourism industry experiencing the bigger losses.

The Coronavirus-related lockdown and business activity disruptions inevitably put a number of workers at risk of a pay cut or losing their jobs. However, the provision of the clause of retaining all job positions as eligibility criterion for the adopted fiscal policy response measures is anticipated to safeguard wage and salary earners against widespread layoffs. Total employment (on a national account basis) is expected to be adversely affected and decline by 3.6%. The negative employment growth of the self-employed is set to exceed that of private sector employees. In consequence, the until recently steady de-escalation of unemployment is projected to halt, with the LFS unemployment rate projected to increase to 19.9%. The anticipated unfavorable developments in the labour market are set to drag down wage growth.

Projections for HICP inflation point to a negative rate of 0.3% for 2020 amid downward pressures on prices stemming from the depressed demand, as well as steeply declining international energy prices (by as much as 40% against 2019 for Brent oil).

1.3 Macroeconomic Projections for 2021

Decisive national policy action to support labour and capital income, safeguard employment and stimulate liquidity, together with EU initiatives (e.g. Coronavirus Response Investment Initiative, EIB Group initiative for a pan-European guarantee fund for SMEs, loan-based instrument called “SURE” to protect employment, the forthcoming Recovery fund), are perceived to permit a quick recovery of the Greek economy in the medium-term. In addition, the exclusion of one-off budgetary spending to offset the socio-economic impact of the pandemic from the compliance rule with EU fiscal framework and the temporary suspension of the required primary surplus target under the “general escape clause” as well as the ECB’s decision to include Greece in the emergency bond purchase scheme (PEPP) will ease pressure on Greece’s debt-servicing costs.

Subject to the materialization of assumptions under the baseline macroeconomic forecast regarding the extent of the public health crisis, real GDP growth is expected to climb to 5.1% y-o-y in 2021, as there will be ample room for Greece’s spare productive capacity to be mobilized as well as for aggregate demand to bounce back to cover the gap. Domestic demand, through investment and private consumption, is projected to be the main driving force behind real GDP growth. Gross fixed capital formation is projected to rise to double-digit rates (15.3%), as postponed investment plans of the previous period will be materialized, taking advantage of growth-friendly fiscal policy, improved liquidity conditions and positive externalities that structural reforms create. Policy efforts on incentivizing social and environment-friendly investment are expected to promote productivity and foster sustainable economic growth. Private consumption is expected to rebound substantially (4.2%), backed by an upturn in employment and increasing consumer spending on goods and services suspended during the Coronavirus-period. Exports of goods and services are expected to regain lost ground to a great extent (19.2%) amid gradual normalization of world trade and restoration of global supply chains, notwithstanding tourism industry will need more time to return to pre-coronavirus activity levels. Imports of goods and services are projected to rise significantly (15.6%), as domestically driven recovery pushes them up.

Total employment (on a national accounts basis), after the reversal of its dynamics in 2020, is expected to recover strongly in 2021 (3.8%) and LFS-based unemployment rate is projected to resume its de-escalation path against the drop of 2019 (16.4%). Similarly, wage growth is anticipated to return to being robust in 2021 as domestic demand drives up economic growth, making room for non-wage structural competitiveness to develop. Enhancing effectiveness of active labour market policies and further strengthening the social safety net should be key factors to ensure inclusiveness in the coming years.

In 2021, HICP inflation is expected to marginally exceed the rate of 2019 (0.6%), mainly due to the expected rise in domestic demand.

Table 1: Key Annual Macroeconomic Indicators and Forecasts

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(% annual changes, constant prices)

	2018	2019	2020	2021
GDP	1.9	1.9	-4.7	5.1
Private consumption	1.1	0.8	-4.1	4.2
Public consumption	-2.5	2.1	1.0	-0.9
Gross fixed capital formation	-12.2	4.7	-4.6	15.3
Exports of goods and services	8.7	4.8	-19.2	19.2
Imports of goods and services	4.2	2.5	-14.2	15.6
GDP deflator	0.6	-0.4	0.0	0.7
HICP	0.8	0.5	-0.3	0.6
Total employment*	1.7	2.0	-3.6	3.8
Unemployment rate (LFS)	19.3	17.3	19.9	16.4

(*) On a national accounts basis

Source: Annual National Accounts (Hellenic Statistical Authority), estimates/ projections of the Ministry of Finance

2. Budget Balance and Government Debt

2.1 Fiscal Developments

In 2019 Greece, for the fourth consecutive year, has registered a surplus in the headline budget balance. Furthermore, for the fifth consecutive year the country achieves its primary surplus target as it is defined under the enhanced surveillance definition.

Compared to the estimates of DBP 2020 for the year 2019 only marginal differences are observed in the fiscal aggregates (headline balance 1.4% of GDP, primary balance 4.3% of GDP and enhanced surveillance primary balance 3.7% of GDP).

It is noted that a targeted social dividend of 0.1% of GDP was distributed to vulnerable groups of the society in anticipation of the achievement of the fiscal targets in 2019. Additionally, the budget balance of 2019 has been negatively affected by a change in the General Government perimeter, following the legislation regarding the LEPETE fund.

Table 2: Fiscal developments 2018-2019

Balance aggregates (% of GDP)	2018	2019
Headline Budget Balance (ESA 2010)	1,0	1,5
Primary Balance (ESA 2010)	4,3	4,4
Primary Balance (enhanced surveillance definition)	4,2	3,5
Primary Balance Target (enhanced surveillance definition)	3,5	3,5
Fiscal Space	0,7	0,0

Table 3 summarizes the current fiscal estimations for 2020 (incorporating the macro effects of the pandemic plus the effects of the urgent expansionary policies adopted by the Greek Government to relief the adverse economic and social consequences of the Covid – 19 crisis) and the forecast for 2021.

Table 3: Fiscal Projections

	2019	2020	2021
1. Net lending/net borrowing: General government	1,5%	-4,7%	-0,2%
1. Total revenue	**47,8%**	**46,7%**	**47,3%**
Of which			
1.1 Taxes on production and imports	16,9%	16,3%	17,3%
1.2 Current taxes on income, wealth, etc	9,4%	9,2%	9,0%
1.3 Capital taxes	0,1%	0,1%	0,1%
1.4 social contributions	14,2%	13,7%	14,1%
1.5 Property income	0,5%	0,4%	0,4%
1.6 Other	6,6%	7,0%	6,3%
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)	40,7%	39,3%	40,6%
Total expenditure	**46,3%**	**51,4%**	**47,5%**
Of which			
2.1 Compensation of employees	11,7%	12,6%	11,9%
2.2 Intermediate consumption	4,6%	5,0%	4,8%
2.3 Social payments	20,7%	21,6%	20,3%
Of which unemployment benefits	0,6%	0,9%	0,7%
2.3.a Social transfers in kind supplied via market producers	2,0%	2,1%	1,9%
2.3.b Social transfers other than in kind	18,7%	19,5%	18,4%
2.4 Interest expenditure	2,9%	2,8%	2,7%
2.5 Subsidies	1,0%	0,9%	0,9%
2.6 Gross fixed capital formation	3,2%	3,1%	4,8%
2.7 Capital transfers	0,8%	0,5%	0,5%
2.8 Other	1,3%	4,9%	1,6%

The 2020 headline balance is estimated at the level of -4.7 pp of GDP vs 1.0 pp of GDP projected in the DBP 2020. The heavy deterioration is mainly attributed to macroeconomic developments related to pandemic as well as the expansionary measures adopted to address it.

2.2 COVID – 19 Policy Interventions

Following the identification of the initial cases of COVID-19 at the end of February, containment measures have been gradually scaled up by the Greek government. Beyond the initial suspension of cultural and sports events, closure of all educational institutions, domestic travel restrictions, travel bans on visitors from high-risk countries, and quarantines for international visitors and Greek nationals returning from abroad, the government imposed a near-total lockdown by 22 March 2020. Initially the Government imposed the closure of schools and business operations that were considered of high risk for the spread of the virus, namely the ones involving high concentration of people i.e. restaurants, catering, cafes, bars, cinemas, theatres, museums, gyms, entertainment venues, etc, followed by hotels. Then on March 18th closure of retail shops, except food stores, followed. From 22 March 2020 onwards transportation restrictions were imposed.

A Ministry of Interior's regulation (DIDAD / F.69 / 110 / oik.8189) defined the overall framework within which all ministries were expected to continue their operations while safeguarding the health of public servants (definition of vulnerable groups, special leave for parents with children up to 15 years old etc).

As of 30 April 2,591 cases and 140 deaths in relation to COVID-19 were recorded in Greece. (https://coronavirus.jhu.edu/map.html)

The successive packages of measures announced by the government in response to the COVID-19 outbreak, detailed below, are estimated at a total value added of 10% of GDP taking into account the leverage of loan guarantees and cost for 2020 of 6.5% of GDP. A Supplementary Budget Law (increasing budget appropriations by 5 billion €) was tabled in Parliament on 2 April 2020, following an announcement by the Prime Minister that the Euro Group had agreed to waive Greece's 3.5% primary surplus target defined in the Enhanced Surveillance Programme.

2.2.1 Budget measures

The packages of measures announced by the government aim at supporting crisis-affected businesses and sectors, as well as their employees, and provide additional funding to the health sector. As the COVID-19 outbreak unfolded, the number of beneficiaries for support measures was progressively increased.

A budget envelope of about 273 million € will be allocated to the health sector and about 100 million € to the other line Ministries. The bulk of this sum will be used for the hiring of additional workers, as well as for the acquisition of medical supplies. In addition, private hospitals and laboratories will be contracted to provide facilities and services. Finally, VAT on certain pharmaceutical products was decreased from 24% to 6% until the end of 2020, including on protective masks and gloves, antiseptic products, soap, etc.

The main beneficiaries of the economic support measures are employees, enterprises of the private sector, self-employed and freelancers. In total, eligible to receiving support measures are more than 800,000 enterprises, with more than 1.7 million employees and more than 700,000 self-employed, freelancers and sole proprietorships, covering more than 80% of the private sector. The selection of beneficiaries is based on NACE codes classification of economic activity and differs among the months March to June, depending on the dates different sectors of the economy cease or continue their operations. Note that out of the total eligible beneficiaries, some may choose not to receive all or part of the benefits, thus the final costs depend on actual applications. All the above factors have been taken into account in the quantification of measures, so as the estimates to be as close to the final outcome as possible.

The benefits for businesses, their employees and self-employed-freelancers differ on basis of different frameworks, depending on the impact of the COVID-19 outbreak on their activities, as described below (according to their NACE code):

Framework I (eligible beneficiaries on April: approximately 717,000 enterprises with 1.44 million employees and 640,000 self-employed, freelancers and sole proprietorships)

- VAT and tax obligations for enterprises and self-employed-freelancers due at end March-April/May are suspended until August 31st/September 30th. For June the suspension holds for those that remain closed on public order. For tax obligations a possibility for a 25% discount is given, if they are paid in time. Furthermore, for VAT obligations due in April, if they are paid fully by end April a 25% of these could be offset with tax obligations already certified or to be certified and due to pay from May onwards.
- Social security contributions (for employees and employers) due to be paid by end March/April/May can be suspended until end September/October/November and there is three months extension of the installments due to EFKA, with 25% reduction if are paid on time. For June it applies to those that remain closed on public order.
- For owners of buildings which are rent to those enterprises the dates for tax obligations are postponed accordingly, with a 25% discount possibility if they are paid in time.
- 40% discount on commercial rent for eligible enterprises. For the employees of those enterprises whose labour contract is suspended, there is a 40% discount possibility for their primary and student residence rent.
- Special allowance of 800 € on 45 days basis and full coverage of social security contributions for the employees whose labour contract is temporarily suspended. The allowance is to be continued on May for enterprises affected and June for enterprises closed on State order.
- Furthermore for the abovementioned employees there is a possibility of suspending their tax obligations by four months with a 25% discount possibility if paid in time.
- Special allowance of 800 € on 45 days basis for self employed, freelancers and individual businesses affected by the coronavirus (with up to 20 employees). Special allowance of 600 € for six scientific sectors. The special allowance is to be continued for May/June for those that remain closed on State order.
- Enterprises hold the right to pay the Easter bonus to their employees until June 30th. The part of the bonus that corresponds to those days the employees are under labour contract suspension will be covered by the state budget.

Framework II (eligible beneficiaries on April: approximately 73,000 enterprises with 241,000 employees and 48,000 self-employed, freelancers and sole proprietorships)
Receive all the benefits of Framework I, except the following:

- Social security contributions (for employees and employers) due to be paid by end March/April/May can be suspended until end September/October/November and there is three months extension of the installments due to EFKA, with 25% reduction if are paid on time.

Framework III (eligible beneficiaries on April: approximately 22,000 enterprises with 66,000 employees and 14,000 self-employed, freelancers and sole proprietorships)

Receive all the benefits of Framework II, except the following:

- VAT and tax obligations for enterprises and self-employed-freelancers due at end March-April/May are suspended until August 31st/September 30th. For tax obligations a possibility for a 25% discount is given, if they are paid in time. Furthermore, for VAT obligations due in April, if they are paid fully by end April a 25% of these could be offset with tax obligations already certified or to be certified and due to pay from May onwards.

Suspension of VAT payments for April, May and June as described above is estimated to cost around 835 million € for the whole year (1029 million € until June, before returns), while suspension of other tax obligations is expected to cost 383 million € for the whole year (472 million € until June, before returns). Suspension of SSC payments and instalments for businesses, self-employed persons and sole proprietorships is estimated to cost nearly 325 million € for the whole year (794 million € until June, before returns). The cost of the 25% discount on tax and social security contribution instalment schemes, in case they are paid on time, for employees of halted firms as well as for self-employed, freelancers and firms affected is estimated at 68 million. The cost of the 25% of VAT paid on time to be discounted from future tax obligations is 38 million €.

The aforementioned special allowances for employers (with up to 20 employees), employees, and self employed, freelancers and individual businesses hit by the COVID crisis are expected to cost 2.36 billion €, from which approximately 478 million € are to be covered from Public Investment Budget (PIB).

The cost for the state budget to cover the SSC for employees whose labour contract has been suspended is estimated at around 1.36 billion €.

A bonus equal to half of the basic salary was paid to public servants working in hospitals, National Emergency Aid Centre, National Organization of Public Health and Civil Protection (net cost 62 million), whereas the compensation for the Easter bonus to employees with temporary labour contract suspension is up to 187 million €.

Regarding unemployed people, an extension of the regular unemployment benefit, as well as an extension of the long-term unemployment benefit and the unemployment benefit to freelancers and self-employed workers, has been applied with a cost of 232 million €. In parallel, an unemployment benefit (400 €) will be provided to 155,000 natural persons that became long-term unemployed since April 2019, the cost of which amounts to 65 million €.

150 million € will be distributed targeted to domains of the primary sector most hurt by the pandemic, by the Ministry of Rural Development and Food. Other measures include support of the shipping sector, through 15 million € provided to passenger ships companies and support to hospitals via reduction of clawback with a cost of 19 million €. The special school leave for people with children during the period schools are closed, is estimated to have a

cost of another 15 million €. Abolishment of Legal Government levy's for enterprises closed on state order is estimated to have a cost of 110 million €.

A repayable advance payment scheme for financing enterprises is implemented with total value of 2 billion €, from which 900 million € are to be covered from PIB funds. The scheme is open to companies active in all sectors and applies to the whole territory of Greece. It is targeted at companies having temporary financial difficulties due to the coronavirus outbreak, as demonstrated by a significant reduction of their turnover and taking into account the number of their employees. The scheme will help to ensure that liquidity remains available in the market, to counter the damage inflicted by the outbreak and to preserve the continuity of economic activity after the outbreak.

Guarantees in the order of 2 billion €, on basis of PIB funds, will be issued by the Hellenic Development Bank (HDB) in order to support the provision of working capital loans to businesses, which will be leveraged by the Greek banks, to reach a total amount with liquidity provided to the enterprises up to 7 billion €.

Finally, the interest of loan installments of small and medium-size enterprises (SMEs) will be covered by PIB funds with a cost of 800 million € for three months.

Table 4: Discretionary Measures in Response to COVID – 19 Outbreak (% of GDP)

NO	MEASURE	ESA code	Adoption status	Budgetary impact 2020	Budgetary impact 2021 (cumulative)	Budgetary impact 2021 (incremental)
1	Suspension of VAT payments for businesses, self-employed persons and sole proprietorships affected by the coronavirus crisis based on specific NACE codes.	D.2	Already adopted	-0,47	0,27	0,71
2	Suspension of tax obligation payments for businesses, self-employed persons and sole proprietorships affected by the coronavirus crisis based on specific NACE codes.	D.5	Already adopted	-0,21	0,12	0,33
3	Suspension of Social Security Contributions (SSC) payments for businesses, self-employed persons and sole proprietorships affected by the coronavirus crisis based on specific NACE codes.	D.61	Already adopted	-0,03	0,02	0,05
4	3-month extension of the deadline for the payment of scheduled installment, in the context of a debt settlement scheme.	D.61	Already adopted	-0,16	0,00	0,15
5	25% discount on tax and SSC installment schemes for April, in case they are paid on time, for employees of halted firms as well as for self-employed, freelancers and firms affected by the coronavirus crisis.	D.2, D.5, D.61	Already adopted	-0,04	0,00	0,04
6	25% of the VAT paid on time discounted from future tax obligations.	D.2	Already adopted	-0,02	0,00	0,02
7	Immediate repayment of all pending tax refund claims up to 30,000 euros that are under audit. The measure refers to tax refunds for CIT and VAT and has no fiscal impact.		Already adopted	0,00	0,00	0,00
8	Special allowance for self employed, freelancers and individual businesses affected by the coronavirus crisis based on specific NACE codes.	Other expenditure	Already adopted	-0,32	0,00	0,30
9	Special allowance for employees of firms affected by the coronavirus crisis, whose labour contract has been suspended based on specific NACE codes.	Other expenditure	Already adopted	-0,90	0,00	0,85
10	Special allowance for employers (with up to 20 employees) affected by the coronavirus crisis based on specific NACE codes.	Other expenditure	Already adopted	-0,04	0,00	0,04
11	Special allowance for six scientific sectors (economists/accountants, engineers, lawyers, doctors, teachers and researchers).	Other expenditure	Already adopted	-0,06	0,00	0,06

NO	MEASURE	ESA code	Adoption status	Budgetary impact 2020	Budgetary impact 2021 (cumulative)	Budgetary impact 2021 (incremental)
12	The SSC of employees of firms affected by the coronavirus crisis, whose labour contracts have been suspended are covered by the state.	D.61	Already adopted	-0,76	0,00	0,72
13	Business financing in the form of a refundable advance payment.	Other expenditure	Already adopted	-1,12	0,00	1,06
14	40% reduction in commercial rent, for March and April (May), paid by firms affected by the coronavirus crisis based on specific NACE codes	Other revenue	Already adopted	0,00	0,00	0,00
15	40% reduction in primary and student residence rent, for March and April (May), for employees of firms affected by the coronavirus crisis based on specific NACE codes	D.5	Already adopted	0,00	-0,02	-0,02
16	VAT reduction to 6%, from 24%, for sanitary products (masks, gloves etc). Fiscal cost is estimated to be negligible.		Already adopted	0,00	0,00	0,00
17	Suspension of performing loan repayments (for the principal amount) until September for firms affected by the coronavirus crisis.		Already adopted	0,00	0,00	0,00
18	Public servants working in hospitals, National Emergency Aid Centre, National Organisation of Public Health and Civil Protection receive an (extraordinary) Easter bonus.	D.1	Already adopted	-0,03	0,00	0,03
19	The part of the Easter bonus (for private sector employees) that corresponds to the time period of their labour contract suspension will be covered by the state budget.	Other expenditure	Already adopted	-0,10	0,00	0,10
20	Support of the primary sector of the economy with 150 million to the Ministry of Rural Development and Food.	D.9	Already adopted	-0,08	0,00	0,08
21	Introduction of special purpose leave only for workers with children attending to schools (while schools are closed), the cost of which will be shared between the state, the firm and the employee.	Other expenditure	Already adopted	-0,01	0,00	0,01
22	Each employee can be employed at least for 2 weeks per month. The measure covers at least 50% of all employees within a firm. Firings are prohibited for employers that will adopt this measure.		Already adopted	0,00	0,00	0,00
23	Extension of the regular unemployment benefit payment, as well as extension of the long-term unemployment benefit.	D.62	Already adopted	-0,13	0,00	0,12
24	Reduction of clawback to hospitals.	Other expenditure	Already adopted	-0,01	0,00	0,01
25	Compensation of passenger ships.	Other expenditure	Already adopted	-0,01	0,00	0,01
26	COVID Healthcare expenditures.	D.1 , P.2, Other expenditure	Already adopted	-0,15	0,00	0,14
27	COVID expenditures of other ministries.	P.2, Other expenditure	Already adopted	-0,05	0,00	0,05
28	The interest payment on performing loans of SMEs affected by the coronavirus crisis is paid by the state conditional to firms maintaining their job positions.	Other expenditure	Already adopted	-0,45	0,00	0,42
29	Delayed payment (by 75 days) of checks of the enterprises in the nace codes affected by the crisis.		Already adopted	0,00	0,00	0,00
30	Postponement of the recalculation of objective values.	D.2	Already adopted	-0,07	0,00	0,07
31	Abolishment of LG levy's for enterprises closed because of COVID on public order.	D.5	Already adopted	-0,06	0,00	0,06
32	Unemployment benefit (400 €) to 155.000 natural persons that became long-term unemployed since April 2019.	D.62	Already adopted	-0,04	0,00	0,03
33	Suspension of tax payment obligations for property owners that receive reduced rent.	D.2	Already adopted	-0,01	0,01	0,02
34	Ministry of Culture compensation for cultural projects in sectors hit by COVID.	Other expenditure	Already adopted	-0,01	0,00	0,01
	TOTAL			**-5,35**	**0,41**	**5,46**

Table 5: Guarantees Adopted in Response to COVID – 19 Outbreak

NO	MEASURE	Adoption status	Maximum amount of contingent liability (% GDP)
1	Hellenic Development Bank guarantees	Already adopted	1,1

2.3 Debt Developments

The evolution of public debt for the period up to 2021 is presented in Table 6.

Table 6: Evolution of public debt

Debt evolution	2019	2020	2021
Nominal Debt	331,1	337,0	334,0
as % of GDP	176,6	188,8	176,8
Change	-4,6	12,2	-12,1

The Greek general government debt is estimated at €337.0 billion or 188.8% of GDP at the end of 2020, versus €331.1 billion or 176.6% of GDP in 2019. For 2021, the general government debt is forecast at €334.0 billion or 176.8% of GDP, reduced by 12.1 pp compared to 2020.

The previous year's (2019) financing needs, as outlined in the P.D.M.A.'s relevant borrowing program, were fully met by three successful fixed-rate new Greek Government Bond issuances (GGBs) with 5, 7 and 10-year maturities and a re-opening of the new 10-year GGB that further enriched the Greek government's bonds yield curve. In addition, they marked the first time that the Hellenic Republic accomplished four syndicated bond issuances in a year (including the re-opening), since 2010, demonstrating the normalization of Greece's access to international capital markets, with a ten-year bond issuance, also, for the first time since 2010.

According to the P.D.M.A.'s initial funding program for 2020, an option of GGBs total issued amount of €8 billion has been provided. This program was based on the assumption that the HR’s annual gross financing needs for 2020 would be an amount close to zero and that the HR should find “space” for funding activity by reducing the outstanding amount of Greek T-bills and by prepaying part of IMF Loans, or doing other similar Liability Management Exercises (LMEs), in order to keep its continuous presence to the capital markets as a “normal” Eurozone Sovereign issuer, providing also the necessary supply of tradable securities which in its turn would improve the GGB secondary market’s liquidity, reducing the bid-offer spreads and therefore the overall HR’s future funding cost.

The HR's existing funding strategy for 2020 should be adjusted covering its additional funding needs due to COVID-19. So far, two Syndicated GGB issuances have taken place, covering almost 50% of the overall annual funding program.

It should be stressed that in January, the HR raised €2.5 billion from the capital markets via a new 15-year GGB, with a fixed rate of 1.875% and a yield to maturity 1.911%. It was the first time that the HR issued 15-year bonds after almost 11 years, proving that the sovereign can issue even securities with maturity far longer than 2032, which, according to market's perception, was the year up to which Eurozone partners have provided their support to Greece, due to the medium and long term measures for the Greek public debt sustainability.

The aforementioned adjustment focuses mainly to a change in the use of the borrowing proceeds and does not necessarily constitute a change in the overall funding activity in general. Therefore, by keeping pretty much the same funding strategy, as it was initially designed, the biggest part of the additional gross financing needs would be covered without providing unpleasant surprises to investors' community.

Lastly, both the HR's incorporation in PEPP and the ECB's decision related to the eligibility of Greek Government Securities provide the necessary confidence that the aforementioned funding strategy will be successfully implemented.

2.4 Medium Term Projections

On the basis of the current macroeconomic assumptions (underlined by high levels of uncertainty) the evolution of General Government headline budget balance for the years 2022 and 2023 is expected to reach the positive ground (in the range of 0.1 – 0.2 pp of GDP).

As far as the General Government debt is concerned it is expected to gradually decline as a percentage of GDP by a year average of 7 pp of GDP (mainly due to denominator effects).

2.5 Projections under an adverse macroeconomic scenario

The adverse macroeconomic scenario assumes real GDP growth for 2020 and 2021 of -7.9 pp and + 8.0 pp respectively. In nominal terms the growth assumptions are for -8.1 pp in 2020 and +8.7 pp in 2021.

On the basis of those assumptions the headline fiscal balance is estimated to worsen by -0.9 pp of GDP and -0.3pp of GDP for the years 2020 and 2021 respectively compared to the estimations described in section 2.1.

Annex I: Stability Programme Tables

Table 1a. Macroeconomic Prospects

	ESA Code	2019 (Levels)	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
1. Real GDP	B1*g	194387	1,9	-4,7	5,1
2. Nominal GDP	B1*g	187456	1,5	-4,8	5,9
Components Of real GDP					
3. Private consumption expenditure	P.3	130893	0,8	-4,1	4,2
4. Government consumption expenditure	P.3	40477	2,1	1,0	-0,9
5. Gross fixed capital formation	P.51	22288	4,7	-4,6	15,3
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	1789	0,9	1,0	0,9
7. Exports of goods and services	P.6	68067	4,8	-19,2	19,2
8. Imports of goods and services	P.7	69127	2,5	-14,2	15,6
Contribution to real GDP growth					
9. Final domestic demand		2875	1,51	-3,04	4,39
10. Changes in inventories and net acquisition of valu	P.52 + P.53	-748	-0,39	0,00	0,00
11. External balance of goods and services	B.11	1443	0,76	-1,70	0,70

Table 1b. Price developments

	ESA Code	2019 (Levels)	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
1. GDP deflator		96,4	-0,4	0,0	0,7
2. Private consumption deflator		97,4	0,6	-0,3	0,6
3. HICP		102,5	0,5	-0,3	0,6
4. Public consumption deflator		90,3	1,2	1,0	1,3
5. Investment deflator		96,0	0,0	-0,2	1,0
6. Export price deflator (goods and services)		102,4	-0,3	-6,7	2,4
7. Import price deflator (goods and services)		100,9	1,2	-6,6	2,5

Table 2a. General government budgetary prospects

	ESA Code	2019 (Levels)	2019 (% of GDP)	2020 (% of GDP)	2021 (% of GDP)
Net lending (EDP B.9) by sub-sector					
1. General government	S.13	2.745	1,5	-4,7	-0,2
2. Central government	S.1311	882	0,5	-4,2	-1,2
3. State government	S.1312				
4. Local government	S.1313	82	0,0	-0,1	0,0
5. Social security funds	S.1314	1.781	1,0	-0,3	1,0
General government (S13)					
6. Total revenue	TR	89.515	47,8	46,7	47,3
7. Total expenditure	TE	86.771	46,3	51,4	47,5
8. Net lending/borrowing	EDP B.9	2.745	1,5	-4,7	-0,2
9. Interest expenditure	EDP D.41	5.505	2,9	2,8	2,7
10. Primary balance		8.250	4,4	-1,9	2,5
11. One-off and other temporary measures		971	0,5	0,4	0,1
Selected components of revenue					
12. Total taxes (12=12a+12b+12c)		49.511	26,4	25,6	26,5
12a. Taxes on production and imports	D.2	31.590	16,9	16,3	17,3
12b. Current taxes on income, wealth, etc	D.5	17.675	9,4	9,2	9,0
12c. Capital taxes	D.91	246	0,1	0,1	0,1
13. Social contributions	D.61	26.694	14,2	13,7	14,1
14. Property income	D.4	1.007	0,5	0,4	0,4
15. Other		12.303	6,6	7,0	6,3
16=6. Total revenue	TR	89.515	47,8	46,7	47,3
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		76.205	40,7	39,3	40,6
Selected components of expenditure					
17. Compensation of employees + intermediate consumption	D.1+P.2	30.565	16,3	17,6	16,7
17a. Compensation of employees	D.1	21.986	11,7	12,6	11,9
17b. Intermediate consumption	P.2	8.578	4,6	5,0	4,8
18. Social payments (18=18a+18b)		38.767	20,7	21,6	20,3
of which Unemployment benefits		1.192	0,6	0,9	0,7
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	3.687	2,0	2,1	1,9
18b. Social transfers other than in kind	D.62	35.080	18,7	19,5	18,4
19=9. Interest expenditure	EDP D.41	5.505	2,9	2,8	2,7
20. Subsidies	D.3	1.788	1,0	0,9	0,9
21. Gross fixed capital formation	P.51	6.091	3,2	3,1	4,8
22. Capital transfers	D.9	1.571	0,8	0,5	0,5
23. Other		2.484	1,3	4,9	1,6
24=7. Total expenditure	TE	86.771	46,3	51,4	47,5
p.m.: Government consumption (nominal)	P.3				

Annex II: Opinion of the Hellenic Fiscal Council

HELLENIC FISCAL COUNCIL

Athens, 29th of April, 2020

The Hellenic Fiscal Council's opinion on the macroeconomic projections of the 2020-2021 Stability Programme

According to the EU regulation 473/2013 Article 4(4), the macroeconomic projections on which the medium-term budgetary plans are based should have been endorsed by an independent institution.

The Hellenic Fiscal Council (hereafter HFC) assesses the macroeconomic projections on the basis of its own evaluation of the development and trends in the Greek economy in the current circumstances that are dominated by an extreme and adverse shock due to the COVID-19 pandemic.

The Stability Programme is in line with the Commission's recent guidelines which allow enhanced adaptability, taking into consideration the uncertainty that the pandemic is causing to the economies of the Member States. At the same time, the fiscal targets stemming from the EU's fiscal framework as well as the 3.5% primary surplus target for Greece have been suspended given the activation of the general escape clause of the Stability and Growth Pact along with the recent Eurogroup decision.

In this context, the HFC endorses the macroeconomic projections of the Stability Programme conditional upon the exceptionally high uncertainty that surrounds the macroeconomic environment in the current juncture.

Table 1: Macroeconomic Indicators Projections (%, annual change in 2010 current prices)

GDP and components (%, annual change)	**2020**	**2021**
Gross Domestic Product	**-4.7**	**5.1**
Private Consumption	-4.1	4.2
Public Consumption	1.0	-0.9
Gross Fixed Capital Formation	-4.6	15.3
Exports of goods and services	-19.2	19.2
Imports of goods and services	-14.2	15.6

Source: Ministry of Finance

For 2020 in particular, the Ministry of Finance foresees a reduction of real GDP by 4.7%. This is deemed as highly optimistic given that most international institutions are less optimistic on the depth of the crisis. Consequently, given the high degree of uncertainty regarding the evolution of the pandemic we can not exclude a much deeper recession. Looking at the individual GDP components, these clearly depict the likely 2020 negative trend, again with a high degree of uncertainty in relation to how deep the impact will be on private consumption, investments, imports and exports. However, public consumption is expected to increase thanks to the fiscal measures taken.

For 2021 the Ministry of Finance foresees a growth of GDP by 5.1% in real terms, which would then reach 195 bil. Euros, almost as high as in 2019. This scenario presumes that the COVID-19 crisis only temporarily affected the positive dynamics of the Greek economy and that all losses will be recovered in 2021 (a V shape recovery). However, the materialization of this scenario depends on how the pandemic will evolve and on the expectation that the crisis did not have a long- lasting structural impact on the economy so an immediate restart is feasible.

On the basis of the above, the HFC highlights two risks that can hinder the future recovery of the economy. The first one is associated with the possibility that wages reduction become permanent and thus private consumption will not be restored to the pre-crisis levels. The second risk is related to the intensity and direction of the fiscal measures in the sense that in the current adverse situation restarting the economy is the primary target, taking into consideration the available fiscal space. Under these circumstances, the decisions taken at a European Level for securing the necessary additional resources to deal with recessionary impact of the crisis will be of great importance.

A more comprehensive analysis of the macroeconomic projections will be part of the HFC's bi-annual report that is scheduled to be published at the end of May.

The Chairman of the Board

Panagiotis Korliras