IMF Country Report No. 21/154

GREECE

July 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Greece, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its consideration of the staff report that concluded the Article IV consultation with Greece.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis, following discussions that ended on May 28, 2021, with the officials of Greece on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on [date on page 1 of final report circulate.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/218

IMF Executive Board Concludes 2021 Article IV Consultation with Greece

FOR IMMEDIATE RELEASE

Washington, DC – July 16, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Greece and endorsed the staff appraisal on July 9 without a meeting on a lapse-of-time basis.

Greece entered the pandemic with an unfinished recovery, but the country has demonstrated resilience in facing COVID-19. The economy contracted by 8.2 percent in 2020, better than expected given Greece's high dependence on tourism and pre-existing vulnerabilities. The government provided among the largest on-budget fiscal stimuli in the euro zone and supervisory and ECB accommodation shielded the banking sector and kept financing conditions highly accommodative. Despite the pandemic, reforms progressed in a number of areas, albeit at a slower pace than in recent years.

While full vaccination is progressing at a rate above the European average, a more prolonged pandemic would add unprecedented uncertainty and downside risks to all sectors of the economy. Investment through Next Generation EU (NGEU) grant funding, pent-up consumption funded by deposit drawdown, and tourism resumption are expected to be the main drivers of the recovery with growth projected at 3.3 percent this year, accelerating to 5.4 percent in 2022, as tourism gradually recovers. Public debt levels are projected to decline over the medium term, and gross financing needs and IMF repayment capacity remain adequate under stress, but uncertainty is too high to reach a firm conclusion on the sustainability of long-term debt. Greece's external imbalances are significant and the pandemic could add further stress to already-impaired bank and corporate balance sheets.

Executive Board Assessment[2]

In concluding the Article IV consultation with Greece, Executive Directors endorsed the staff's appraisal as follows:

The government's response to the pandemic was swift and proactive. Greece entered the pandemic with an unfinished recovery, but the country has demonstrated resilience in facing COVID-19. The economy contracted by 8.2 percent in 2020, which was better than expected given Greece's high dependence on tourism and pre-existing vulnerabilities. The government provided among the largest on-budget fiscal stimuli in the euro zone, which prevented a spike in corporate distress and kept workers attached to the labor market although young and part-

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

time workers experienced a sharp drop in employment. Supervisory and ECB accommodation shielded the banking sector and kept financial conditions highly supportive.

The economy is expected to rebound in 2021–22. Investment through Next Generation EU (NGEU) grant funding, pent-up consumption funded by deposit drawdown, and tourism resumption are expected to be the main drivers of the recovery, with growth projected at 3.3 percent this year, accelerating to 5.4 percent in 2022. The permanent output loss from the pandemic ("scarring") is projected to reach 3 percent, suggesting policy efforts should focus on facilitating both debt workouts and resource reallocation.

Substantial uncertainties and downside risks continue to cloud the outlook. While full vaccination is progressing at a rate above the European average, a more prolonged pandemic would add significant downside risks to all sectors of the economy. Further, the uncertain extent of pandemic-related Non-Performing Exposures (NPEs) could affect banks' securitization plans and curb credit growth. Other risks include weaker-than-anticipated absorption of NGEU funding, while on the external side, key risks include a reversal of global accommodative financial conditions and the manifestation of geopolitical risks.

Upside risks to growth stem primarily from full execution of the authorities' Recovery and Resilience Fund's (RRF) plans. The strategy could unlock synergies that would address multiple challenges. Higher investment, economies of scale from greater firm size, and increased export orientation would keep the current account deficit in check and together with the RRFs structural reform agenda raise productivity growth, move the country to investment grade, and anchor long-term debt sustainability. The expansion of output, lower tax rates, and digitalization would widen the tax base and avoid cliff effects when NGEU funding dries up. Increased lending opportunities would support interest margins and declining NPE ratios would allow banks to improve the quality of bank capital organically. While such a virtuous cycle cannot be ruled out, in staff's view it is subject to significant execution risks.

Public debt levels are projected to decline over the medium term, and gross financing needs and IMF repayment capacity remain adequate under a variety of downside risks. Following a spike in 2020, Greece's public debt is projected to peak in 2021 and decline gradually over the medium-term, albeit remaining at higher levels than forecast before the pandemic. Greece's public debt remains sustainable over the medium-term, predicated on the negative interest rate-growth differential and a gradual return to primary surpluses. The government's large cash buffer and active liability management further mitigate refinancing risks, while Greece's ability to service its debt under a severe shock depends on continued regional support.

Uncertainty is too high to reach a definitive assessment on long-term debt sustainability. While a feasible set of policies and interest rate trajectories could deliver sustainable debt dynamics over the long-term, alternative scenarios suggest that uncertainty about the long-term neutral rate and risk premia is too high to reach a firm conclusion. This marks a departure from staff's previous long-term DSA, published in 2018, which also acknowledged large uncertainty, but nonetheless concluded that public debt sustainability was not assured under a realistic set of macro-fiscal assumptions. While concerns about Greece's capacity to sustain high primary surplus targets have deepened in light of the pandemic and uncertainty about the potential growth path remains, these are more than offset by the significant decline in the risk-free rate and the very sharp compression of Greek bond spreads. This yields compression started before the pandemic and continued following the roll-out of Europe-wide economic and financial support packages. However, it is unclear whether such low rates can be maintained in the future amid an unprecedented transition from official to market funding.

Policies should focus on preventing economic scarring and nurturing an inclusive recovery by bridging the transition from lifelines to investment financed by NGEU funds. The near-term focus should be on health outcomes and ensuring that medium-term fiscal sustainability objectives are not be achieved at the expense of growth, especially considering the impact of two crises on youth experiencing high unemployment rates. Any materialization of downside risks should be accommodated through automatic stabilizers as well as through further targeted support if warranted. In tandem, the authorities should step up structural and financial sector reforms prioritizing those that encourage the swift, sustainable reallocation of capital and labor and inclusive growth.

Staff offers qualified support for maintaining fiscal accommodation in 2022. Pandemic-related measures imply a primary deficit of around 7¼ percent of GDP in 2021 with much of the support frontloaded ahead of NGEU disbursements in line with previous staff recommendations. While the headline primary deficit for 2022 is expected to recover to 1 percent of GDP, the underlying fiscal stance, excluding temporary COVID-19 measures, remains expansionary by about 2 percent of GDP. This support could help reduce scarring risks and support job creation, which is expected to lag the output recovery, provided the stimulus is properly spent. However, given substantial uncertainty about the extent of economic slack and the strength of the ongoing recovery, fiscal overperformance should be saved as a contingency reserve to hedge against future downside risks and potential contingent liabilities from the pandemic.

The authorities should use the additional support to initiate a durable improvement in the fiscal policy mix. The reductions in the corporate income tax (CIT) rate and advanced CIT payments are welcome as they strengthen investment incentives and preserve firm liquidity. However, staff urged equal emphasis on the long-standing objective of improving the expenditure mix of the budget. In the near term, this entails addressing gaps in the Guaranteed Minimum Income scheme as support should transition from job retention towards targeted income support and worker reactivation, as well as addressing unmet needs in healthcare provision. As these measures have a structural fiscal impact, they should be matched by renewed impetus to create fiscal space over the medium term including through personal income tax base-broadening, tackling VAT compliance gaps, and aiming for expenditure savings in less-well targeted entitlement programs (including pensions), in the public wage bill (with the number of civil servants creeping back to pre-crisis levels), and in State Owned Enterprises (which continue to be a drain on the budget).

The Hercules securitization strategy could achieve a rapid reduction in NPEs provided capital-raising efforts are successful. The pandemic could delay further the normalization of bank balance sheets, requiring a proactive government approach backed by a comprehensive cost-benefit analysis of all available options. The overarching goals should be to reduce financial sector risks and avoid a prolonged and muted credit-less economic recovery. In this regard, staff welcomed the extension of additional government guarantees for NPE securitizations ("Hercules-II") but suggested that backup plans should be formulated in case fresh capital raising efforts by banks are insufficient and/or other execution risks materialize. As the Bank of Greece's proposal to establish an Asset Management Company (AMC) has been shelved, staff encouraged the authorities to work with European partners to find a solution for the weak quality of bank capital. Amid increasing bank differentiation, stand-alone DTC conversion could be considered as a last resort if it restores investor confidence for those banks that are unable to fully utilize existing tools. Staff also encourages the authorities to swiftly finalize a DTC law amendment to ensure that the instruments are loss absorbing in resolution. Effective implementation and use of the new Insolvency Code, including by servicers, will be critical for meaningful debt resolution.

Structural reform implementation will be essential to minimize scarring risks and leverage NGEU resources. While reforms have progressed in a number of areas and the widening of Greece's external imbalances last year reflected mainly temporary factors related to the pandemic, the external position of Greece in 2020 is assessed to have remained weaker than consistent with medium-term fundamentals and desirable policies . Addressing this overvaluation of the Real Effective Exchange Rate and strengthening convergence prospects in the Eurozone requires accelerating structural reforms that boost productivity, reduce non-wage costs, and close the investment gap. Improving the fiscal policy mix would help achieve the authorities' labor force participation objectives by encouraging female labor participation (particularly by funding childcare) and investing in youth's prospects and older worker reskilling. NGEU funds have the potential to support Greece's transition to a job-rich, fairer, and greener growth model provided the public investment framework is upgraded. Staff recommended that the upcoming labor codification should foster labor market flexibility and that the minimum wage adjustment should be prudent. The authorities should also continue implementing proper safeguards to ensure the transparency and accountability of COVID-19-related emergency spending and protect the independence and credibility of the statistical agency and its staff, making every effort to uphold the "Commitment on Confidence in Statistics" endorsed by the government in 2012.

Table 1. Greece: Selected Economic Indicators

Population (millions of people)	10.7	Per capita GDP (€'000)	15.5
IMF quota (millions of SDRs)	2428.9	Literacy rate (percent)	97.9
(Percent of total)	0.5	Poverty rate (percent)	31.8

Main products and exports: tourism services; shipping services; food and beverages; industrial products; petroleum and chemicals.

Key export markets: E.U. (Italy, Germany, Cyprus, Bulgaria, Spain), Turkey, USA, UK.

GHG emission per capita (tonnes of CO2 equivalent): 8.4

	2020	2021	2022
	(prel.)	(proj.)	
Output			
Real GDP growth (percent)	-8.2	3.3	5.4
Employment			
Unemployment rate (percent)	16.4	16.5	15.2
Prices			
CPI inflation (period avg., percent)	-1.3	-0.3	0.8
General government finances (percent of GDP) 1/			
Revenue	50.2	49.7	49.2
Expenditure	60.7	59.8	53.3
Overall balance	-10.5	-10.1	-4.1
Primary balance	-7.5	-7.2	-1.1
Public debt	211.2	213.8	204.1
Balance of payments			
Current account (percent of GDP)	-7.4	-6.6	-3.5
FDI (percent of GDP)	-1.5	-2.0	-2.1
External debt (percent of GDP)	303.9	299.0	285.6
Exchange rate			
REER (percent change) 2/	-0.8	-0.9	-0.6

Sources: Bank of Greece; ELSTAT; Eurostat; Ministry of Finance; World Bank, World Development Indicators; IMF, International Finance Statistics; IMF, Direction of Trade Statistics; and IMF staff projections.

1/ Based on the primary balance definition outlined in the EU enhanced surveillance framework with Greece.

2/ CPI-based.

GREECE

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION[1]

June 23, 2021

KEY ISSUES

Context. Greece entered the pandemic with an unfinished recovery, but the country has demonstrated resilience in facing COVID-19. The economy contracted by 8.2 percent in 2020, better than expected given Greece's high dependence on tourism and pre-existing vulnerabilities. The government provided among the largest on-budget fiscal stimuli in the euro zone and supervisory and ECB accommodation shielded the banking sector and kept financing conditions highly accommodative. Despite the pandemic, reforms progressed in a number of areas, albeit at a slower pace than in recent years.

Outlook and risks. Full vaccination is progressing above the European average, but a more prolonged pandemic would add unprecedented uncertainty and downside risks to the economy. Investment through Next Generation EU grant funding, pent-up consumption funded by deposit drawdown, and tourism are expected to be the main drivers of the recovery with growth projected at 3.3 percent this year, accelerating to 5.4 percent in 2022. Public debt levels are projected to decline over the medium term, and gross financing needs and IMF repayment capacity remain adequate under stress, but uncertainty is too high to reach a firm conclusion on the sustainability of long-term debt. Greece's external imbalances are significant and the pandemic could add further stress to already-impaired bank and corporate balance sheets.

Policy discussions. The key priorities are mitigating the health crisis, preventing economic scarring, and nurturing an inclusive recovery. With significant uncertainty about the extent of economic slack, providing further fiscal stimulus in 2022 would reduce scarring risks, but this support should become more targeted and lay the foundation for a durable improvement in the fiscal policy mix over the medium term. In case the ongoing recovery is stronger than anticipated, the authorities should save any fiscal overperformance as a contingency buffer to accommodate future downside risks as well as the potential realization of contingent liabilities. The Hercules securitization strategy could achieve a rapid reduction in the banks' Non-Performing Exposures (NPEs), but backup plans should be formulated in case capital-raising efforts by banks are insufficient and/or other execution risks materialize. The authorities should work with European partners to resolve the increasingly weak quality of bank capital. The non-bank financial sector should be deepened to support credit growth while effective implementation of the new Insolvency Code will be critical for meaningful debt resolution. Greece needs to address the fragmentation in its social safety net and efficiently deploy NGEU resources to address gaps in green and job-rich investments, while continuing its efforts to strengthen the business climate to raise convergence prospects in the euro zone.

[1] On May 7, 2021 the IMF Executive Board approved renaming Post-Program Monitoring (PPM) to Post Financing Assessment (PFA) and adopted combined Article IV and PFA consultations (IMF Policy Paper No. 2021/026).

Approved By
Philip Gerson (EUR) and Jeromin Zettelmeyer (SPR)

Discussions were held during May 17–28, 2021. The virtual mission met with Minister of Finance, C. Staikouras, Governor of the Central Bank, Y. Stournaras, other Cabinet Ministers, and their staff. Mission members included: D. Botman (Head), M. Mendez, (EUR), J. Schauer (SPR), K. Chen, C. DeLong (all LEG), T. Harjes (MCM). M. Massourakis (OED) participated in key meetings. M. Louis (COM) supported the mission. R. Dumo, S. Hua, and D. Murphy Pineda (all EUR) provided assistance.

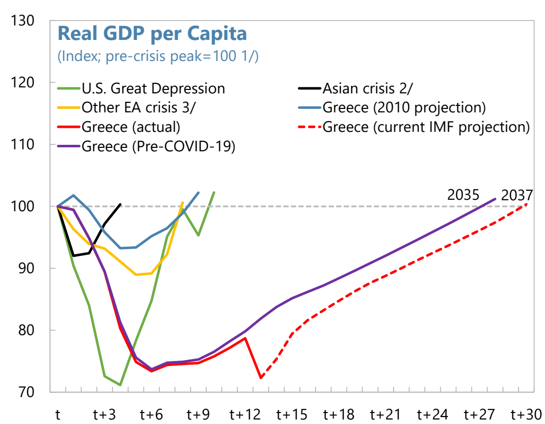
CONTENTS

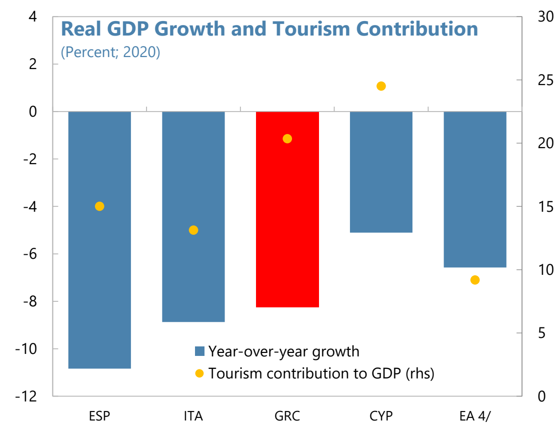
ANNEXES

CONTEXT

1. **Greece entered the pandemic with an unfinished recovery, but the country has demonstrated resilience in facing COVID-19.** The pre-pandemic recovery had been modest and scars from the Global Financial Crisis (GFC) implied that income per-capita had a long road ahead to return to pre-GFC levels (text chart). Nonetheless, incremental progress had been made with the structural reform agenda, focused on lowering taxes, improving the business climate, and cleaning up the banking sector. Unemployment was declining, and investor confidence had improved (Figure 1). The authorities responded early and pro-actively to the first wave of COVID-19, with Greece also benefiting from monetary and fiscal actions taken at the European Union (EU) level, including the prospect of receiving significant resources from the Recovery and Resilience Facility (RRF, see Section C). Despite the economy's high reliance on tourism, the contraction remained below double digits (text chart) and hospitalizations and deaths are lower compared to those of peers (Figure 2). Full vaccination is progressing at a rate above the European average, but COVID-19 continues to add unprecedented uncertainty and downside risks to all sectors of the economy, amplified by Greece's pre-existing vulnerabilities (Annex I—RAM) [2].

Scarring from the GFC and the Growth Hit from COVID-19





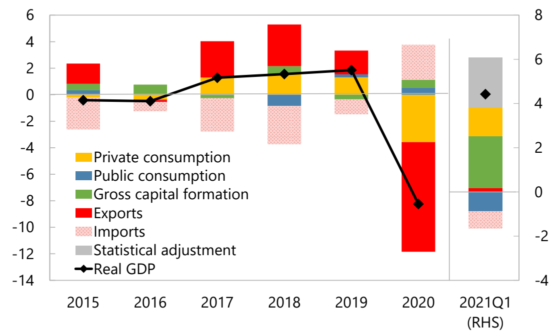
Source: European Commission (EC); Eurostat; Haver Analytics; IMF, WEO database; World Travel & Tourism Council; and IMF staff projections.
1/ Pre-crisis peaks are: 1929 for Great Depression; 1996–97 for Asian crisis; 2007 for Greece, Ireland, and Spain; 2008 for Cyprus and Portugal.
2/ Indonesia, Republic of Korea, and Thailand.
3/ Cyprus, Ireland, Portugal, and Spain.
4/ GDP-weighted average for Euro Area member countries.

[2] See also Greece—Second Post Program Monitoring (CR/20/308).

RECENT DEVELOPMENTS

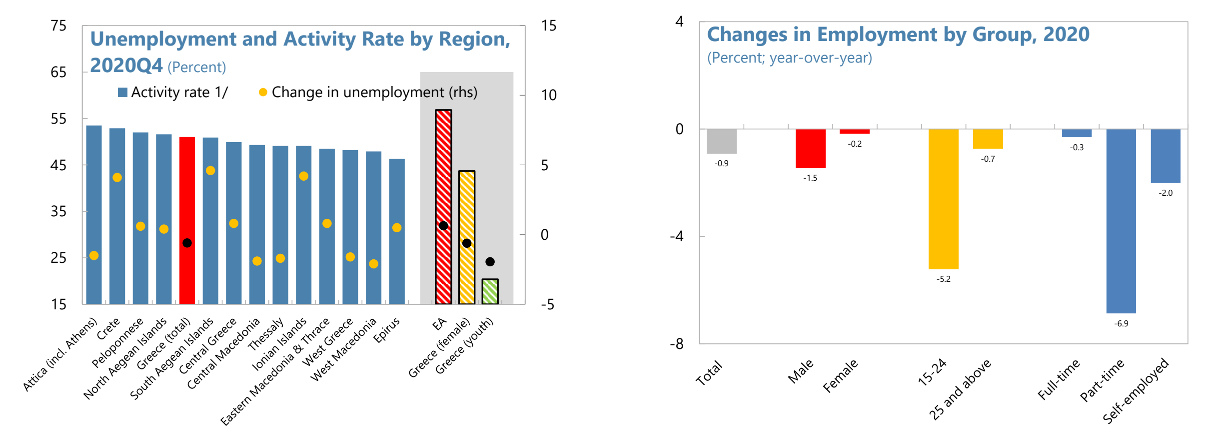
2. The contraction was smaller than expected despite the hard hit from the pandemic. The contraction in 2020 was large (8.2 percent y/y), but less severe than expected in the second PPM report (- 9.5 percent) as on-budget fiscal support was among the largest in the EA, cushioning the sharp drop in private consumption and a 76.5 percent drop in tourism receipts from their 2019 level (text chart and Figure 3). Weak domestic demand and falling oil prices drove average annual deflation to 1.3 percent (1.2 percent core). Employment support policies and counting furloughed workers as employed during lockdowns led to a decline in the average unemployment rate (16.4 percent, NSA) in 2020 compared to 2019 (17.3 percent) (Figure 4), but this masks fewer working hours, regional, demographic, and sectoral disparities, and lower labor force participation (LFP). Part-time and younger workers were particularly affected by the pandemic (text charts). Growth in 2021:Q1 came in stronger than expected at 4.4 percent, partly reflecting transitory factors such as inventory accumulation, the front-loading of fiscal stimulus, and a large positive statistical discrepancy, which offset the decline in private consumption due to the lockdown. Average unemployment increased slightly as of February 2021 to 16.7 percent (NSA) with policy measures continuing to cushion employment albeit with rising inactivity.[3]

Real GDP Growth
(Percent)



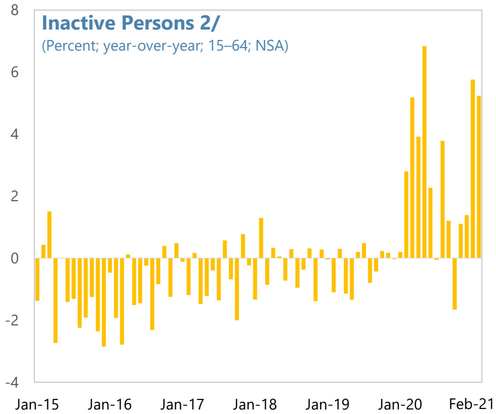
Sources: ELSTAT; Haver; and IMF staff calculations.

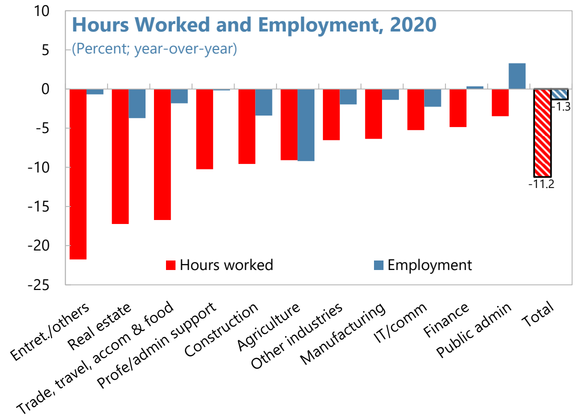
Text Figure 1. Greece: Labor Market Developments during COVID-19



[3] In addition, 2020:Q3 and Q4 real GDP growth were revised upward by 0.7 and 0.8 percentage point, respectively, implying growth for 2020 will be stronger and there will be a higher carry-over effect for 2021. Annual growth figures will only be revised in October 2021. Staff is assessing the revision and will reflect this in future updates of the macro-framework.

Text Figure 1. Greece: Labor Market Developments during COVID-19 (concluded)



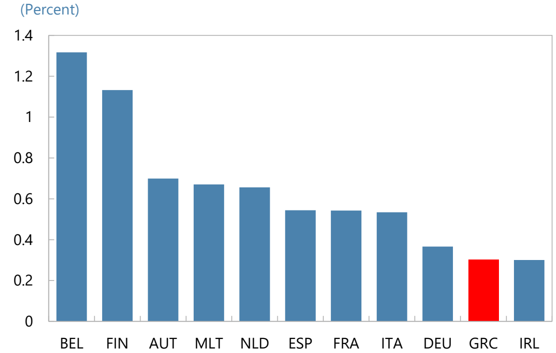


Source: ELSTAT; Eurostat; Haver Analytics; and IMF staff calculations.
1/ Activity rate is calculated as the ratio of labor force to population (aged 15 or above).
2/ Persons not actively seeking or currently available for work.

3. **The fiscal position deteriorated sharply due to COVID-19 measures.** Greece mostly overperformed on the primary balance (PB) targets agreed with the European Institutions (EIs) under the Enhanced Surveillance (ES) framework prior to the pandemic (Figure 1). The impact of pandemic support measures and, to a lesser extent, automatic stabilizers yielded primary deficits of 7.5 percent of GDP (accrual basis) in 2020 and 2.1 in percent of annual GDP (cash basis) in 2021:Q1. The EIs provided flexibility by suspending the Stability and Growth Pact (SGP) and the PB target, and by adjusting state-aid rules. Greece also received EU grant and loan financing for COVID-19-related measures totaling about 4.5 percent of GDP in 2020 (including 2.5 percent of GDP in reallocations/frontloading of existing funds).

4. **Financial conditions remain highly accommodative.** Prompt actions by the government and EIs supported liquidity and credit flows (Figure 5). The inclusion of Greek government bonds (GGBs) in the ECB's Pandemic Emergency Purchase Program (PEPP) led to a substantial increase in ECB funding, lowering funding costs and banks' liquidity risks. As of end-2020, the four Systemic Institutions (SIs) complied for the first time with the 100 percent Liquidity Coverage Ratio on a consolidated basis. Constraints to consumption and cash hoarding by NFCs boosted deposit growth to 14.4 percent (y/y) in 2020, bringing them to their highest level since 2010 (98 percent of GDP). Government lending, credit guarantee programs, and moratoria on debt service boosted net credit growth to 3.5 percent y/y in 2020, mostly to corporates (+9.3 percent) as household credit growth remained negative (-2.5 percent).

Selected Euro Area Banks: Price-to-book Ratio, Latest
(Percent)



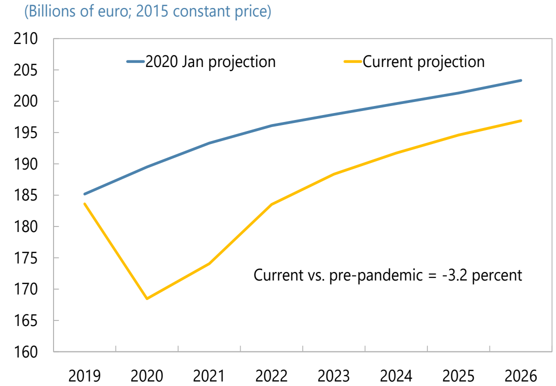
Sources: Bloomberg Finance L.P.; and IMF staff calculations.

5. Policy measures cushioned the banking sector from the immediate impact of the COVID-19 crisis but reinforced the sovereign-bank nexus. The NPE ratio declined to 30 percent in 2020 (still the highest level in the EU) mostly driven by securitizations and sales of NPEs under the Hercules program that includes government guarantees.[4] The consolidated CET1 ratio of the SIs fell to 15.1 percent while the largest bank, Piraeus, missed a convertible bond coupon payment, prompting its conversion into equity and de-facto majority state-ownership by the Hellenic Financial Stability Fund (HFSF). Sizable loan guarantees (€1.5 billion June 2020–March 2021), co-financing schemes (€0.6 billion June 2020–March 2021), and increased bank holdings of GGBs have strengthened the interlinkages between banks and the sovereign, already prominent pre-COVID-19 through DTCs that account for a substantial share of bank capital (59 percent of CET1 capital as of end-2020).[5] Despite the policy support and ECB access, bank share prices remain depressed, including compared to Euro Area (EA) peers.

6. Greece's external imbalances are significant (Figure 6, Annex II—ESA). The 2020 current account (CA) deficit reached its widest level since the GFC (7.4 percent of GDP, accrual basis), mainly on account of temporary factors related to the pandemic. The CA deficit was financed largely by official sector flows, while foreign direct investment (FDI) declined by 28 percent compared to its 2019 level. Greece's external position in 2020 was weaker than that consistent with medium-term fundamentals and desirable policies, with the CA gap at end-2020 estimated around -3.1 percent of GDP, corresponding to a 10.5 percent Real Effective Exchange Rate (REER) overvaluation.

7. Reforms are advancing but progress slowed in 2020. The authorities made efforts to advance the structural reform agenda during 2020, but the pace of implementation understandably slowed due to their focus on the pandemic and the preparation of the RRF National Plan. Recent milestones include modernization of the energy market and legislation that fosters renewable energy production, two ambitious education bills to address youth unemployment and reduce labor skills mismatches, business climate simplification, a law to encourage digital governance (see Section C), and more recently the rollout of the GMI Third pillar.

Real Output Loss
(Billions of euro; 2015 constant price)



Sources: IMF, WEO database; and IMF staff estimates.

[4] For some banks, sales are pending and subject to execution risks.

[5] For a discussion of deferred tax credits (DTCs) please see Annex IV—Financial Sector Background Note.

OUTLOOK

8. **The pandemic will have a lasting economic impact (Table 1).** The baseline assumes no further lockdowns beyond 2021:H1 and broad vaccination by end-2021. Travel restrictions and strict lockdowns will keep growth modest in 2021:H1, with consumption and services exports rebounding in 2021:H2. Real GDP growth in 2021 is projected at 3.3 percent, driven by NGEU-grant financed investment, a rebound of private consumption funded by drawing down accumulated deposits, and by a gradual recovery in service exports (tourism receipts are expected to reach 2019 peak levels only in 2025 in line with the WTO's conservative scenario). The same factors will drive growth to 5.4 percent in 2022 with further momentum coming from the execution of privatization, energy, and ICT projects that underpin growth in construction, electricity, and transportation. However, staff expect the job recovery to lag with some shadow unemployment becoming official as employment measures are gradually phased out amid rising labor force participation. The permanent output loss from the pandemic ("scarring") is projected to reach 3 percent reflecting impaired balance sheets in banks and already highly-indebted small-and-medium enterprises (SMEs) and permanent job losses linked to lower demand for high-contact services, suggesting policy efforts should focus on facilitating both debt workouts and resource reallocation.[6,7] Regarding the RRF (see Box 1), the baseline only incorporates the grant-financed spending, focused on green and digital investments, which adds 0.6 percentage points to real growth annually on average. A slower speed of grant disbursements and execution would imply downside risks to staff's near-term growth projections. Upside risks to near-term growth would materialize if the strong rebound in 2021:Q1 is confirmed in subsequent quarters. Given the profile of NGEU disbursements, growth will exceed potential, estimated at 1 percent, in line with adverse demographic trends and staff's estimated investment gap, over the medium-term.[8]

Text Table. Next Generation EU (NGEU) Recovery Grants, 2021–26 1/

(Billions of euro, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	Total	
								% GDP
(IMF baseline)								
NGEU Grants	4.7	3.0	3.0	3.4	3.4	1.8	19.3	*11.6*
o.w. New spending	3.4	3.0	3.0	3.4	3.4	1.8	18.0	*10.9*
o.w. Existing spending 2/	1.3	0.0	0.0	0.0	0.0	0.0	1.3	*0.8*
Minus REACT-EU, Just Transition Fund, European Agricultural Fund for Rural Development	0.5	0.5	0.5	0.5	0.5	0.5		
Just NGEU	4.2	2.5	2.5	2.9	2.9	1.3		
(Authorities' Stability and Growth Pact Baseline)								
NGEU grants (authorities) 3/	2.4	3.2	3.2	3.2	3.2	3.2	18.1	*10.9*
NGEU loans	1.6	2.2	2.2	2.2	2.2	2.2	12.4	*7.5*
Memo items:								
IMF Parameters for new spending	*Investment*		*Consumption*					
Multiplier (%)	*0.8*		*0.3*					
Persistence (%)	*0.6*		*0.3*					
Nominal GDP (2020)	*166*							

Sources: Conclusions of the European Council (July 21, 2020); and IMF staff estimates.

1/ Includes the recovery and resilience facility (€16.2 bn), ReactEU (€2.2bn), JUST transition, rural development and other related funds.

2/ Reflects the ReactEU financing of the existing COVID-19 measures. The disbursement path is modeled based on discussion with the authorities and historical absorption.

3/ Preliminary assumptions by the Bank of Greece.

[6] The 2015 national accounts base change lowered the real output level by an additional 4 percent.

[7] See "Corporate Vulnerabilities in the Wake of COVID-19" Staff Selected Issues Paper by Parodi et al; and IMF "Tourism in the Post-Pandemic World: Economic Challenges and Opportunities for Asia-Pacific and the Western Hemisphere" (2021); "The Future of Work after COVID-19", McKinsey Global Institute (2021).

[8] See "Greece's Investment Gap" Staff Selected Issues Paper by Hua et al.

9. Downside risks dominate (Annex I—RAM). The trajectory of the pandemic will dominate the outlook in the near-term. Prolongation of restrictions linked to COVID-19 cases into 2021:H2 would further delay the recovery and deepen the medium-term impact on real output and convergence prospects. The key external risks include a reversal of accommodative financial conditions, lower global trade, and geopolitical risks. On the domestic front, the uncertain extent of new NPE formation during the post-pandemic normalization could affect banks' securitization plans and curb credit growth while other risks include the poor absorption or execution of NGEU funds and/or cliff effects from a premature withdrawal of economic and financial support measures. Faster vaccine delivery that allows herd immunity and economic normalization earlier, higher-than expected tourism flows, and the effective channeling of NGEU loans into private investment would boost growth prospects.

Authorities' Views

10. The authorities anticipated a stronger recovery this year and, supported among others by their Recovery and Resiliency Plan under the RRF, over the medium term. The authorities noted that their sizeable, swift, and proactive policy response resulted in a less-severe-than-anticipated contraction in 2020 and Q1:2021. Their support measures preserved employment, prevented a rise in the gender employment gap, and protected part-time workers as income support did not depend on hours worked. They noted their effective handling of the pandemic and strong RRP ownership suggests that structural reform implementation will be accelerated. They indicated that this, combined with effective execution of NGEU grants and loans (as evidenced both by Greece ranking second among the EU-27 in terms of absorption rates of cohesion funds during 2014–20 and by the upgraded public investment implementation framework), will transform Greece's economic model, prevent scarring, and boost Greece's growth permanently. They highlighted their recovery plan is cohesive, adequately costed, and backed by a government that enjoys the social mandate to execute it. They broadly agreed with staff on the key risks to the baseline, but suggested potential upside risks from faster vaccination rates, a stronger tourism rebound, and greater pent-up consumption demand. They also noted that the impact of downside risks would be manageable considering the resilience observed during the pandemic. The authorities also considered the real exchange rate overvaluation to be lower and expect external imbalances to narrow over the medium term by stronger net exports, boosted initially by enhanced price competitiveness and later through improved productivity gains as reforms take hold and the economy further rebalances towards tradeable sectors.

POST FINANCING ASSESMENT[9]

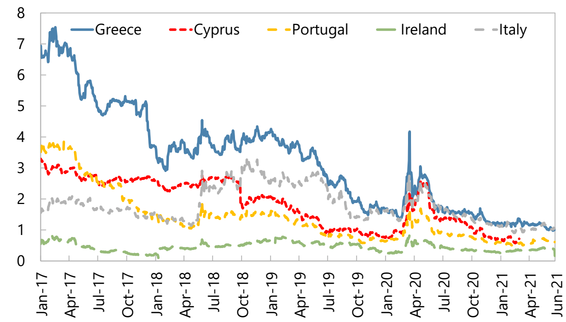
11. Debt and GFNs considerations over the medium-term are broadly unchanged from the Second PPM Consultation and Greece's capacity to repay the Fund is preserved under the baseline and various downside scenarios (see Annex III—DSA).

[9] See footnote 1. This section reports on discussions under the Post Financing Assessment policy. For a description of the PFA policy see IMF Policy Paper No. 2021/026.

Liquidity Considerations

12. Financing conditions remain favorable. After some volatility at the onset of the pandemic, GGB yields normalized and have reached historically low levels. The government dipped into the cash buffer at the beginning of the pandemic but replenished it through market access, tapping the bond market five times in 2020 (€12 billion total), which largely preserved the government's cash buffer (€31 billion at end-2020).[10] In March 2021, the government issued its first 30-year bond since 2008 and in early May it raised a further €3.0 billion from a five-year bond, both under favorable terms. In addition, following Moody's upgrade of Greek debt to Ba3 in November 2020, S&P also raised its rating to BB in April 2021.

General Government 10-Year Bond Spreads
(Percent; against Germany)



Sources: Bloomberg Finance L.P.; Tullett Prebon Information; Haver Analytics; and IMF staff calculations.

13. Greece is projected to stay current on Fund obligations under the baseline. A second IMF pre-payment was made on March 18, 2021, covering obligations due between March 2021 and December 2022 totaling SDR 2.8 billion (€3.4 billion). Greece's annual payments to the Fund will average SDR 0.6 billion over 2022–23 (plus a final SDR 0.25 billion payment in 2024). Greece could prepay in full its remaining Fund balance of SDR 1.5 billion (€1.8 billion) to further reduce interest payments. Gross financing needs (GFNs) before government deposit drawdowns are projected to fall to 21.3 percent of GDP in 2021 and to average 13.4 percent of GDP during the period of Greece's repayments to the Fund (2022–24). Additional safeguards include Greece's cash buffer, which would remain adequate to cover outstanding Fund credit even under an adverse scenario, and its current, low sovereign borrowing costs. It is also expected that the EU and ECB would extend their pandemic support under a generalized adverse COVID-19 scenario, which could help close financing gaps and allow Greece to remain current on its debt service.

Solvency Considerations

14. Medium-term (MT) public debt levels are projected to decline. The debt-to-GDP ratio is expected to reach 214 percent in 2021, from 185 percent in 2019, and to decline thereafter to 169 percent by 2030. Furthermore, a wide majority of simulated debt trajectories are estimated to stabilize over the medium-term. Greece's public debt remains sustainable over the medium term, but the pandemic highlights Greece's vulnerability to large shocks (which are amplified by its high debt level). The downward debt trajectory in the MT is predicated on the negative interest-growth differential and a gradual return to primary surpluses. The government's large cash buffer, its active liability management exercises, and ongoing EI support further mitigate refinancing risks.

[10] Includes general government entities' deposits at commercial banks accessible through repos.

Text Table. Greece: Government Financing Needs and Sources, 2018–24
(Billions of euro, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024
			Projections				
Gross financing needs	35.9	21.6	29.1	32.6	24.2	20.2	19.9
Overall deficit	-1.4	-2.3	17.1	16.9	6.7	4.9	4.0
Primary deficit 1/	-6.1	-7.3	12.2	11.9	1.6	-0.3	-0.9
Amortization	18.6	28.9	18.8	18.9	20.6	21.6	17.6
o/w short-term principal payments (T-bills)	14.3	11.2	12.6	11.8	12.6	10.0	8.0
o/w medium and long-term principal payments	4.3	17.7	6.1	7.1	8.0	11.6	9.5
o/w to IMF	1.7	4.2	0.0	3.6	0.2	1.3	0.3
o/w to other official	1.9	5.8	2.1	2.1	4.0	4.5	5.8
Other 2/	0.7	-1.7	-1.2	-1.6	-2.5	-0.1	-0.1
Government deposits: replenishment (+) / drawdown (-)	18.0	-3.3	-5.5	-1.5	-0.5	-6.2	-1.5
Gross financing sources	35.9	21.6	29.1	32.6	24.2	20.2	19.9
Short-term (T-bills)	11.2	12.6	11.8	12.6	10.0	8.0	7.0
Medium and long-term (incl. through private placements)	3.0	9.0	15.3	16.7	14.2	12.2	12.9
Official sector	21.7	0.0	2.0	3.3	0.0	0.0	0.0
Memo item:							
Total deposits of general government	38.4	36.4	31.0	28.7	27.4	20.5	18.2
Deposits directly available to state government 3/	30.0	29.6	24.5	22.2	20.9	14.0	11.7
in % of GDP	16.7	16.1	14.8	13.0	11.5	7.4	6.0
in % of T-bills	210	263	194	188	166	139	145
in months of next year's GFN	17	12	9	11	12	8	8
in % of next year's debt service	88	125	103	86	78	62	58
Debt service to IMF	2.1	4.5	0.1	3.6	0.2	1.3	0.3
in % of deposits directly available to state government 3/	7.0	15.1	0.3	16.4	0.9	9.5	2.6

Sources: Ministry of Finance; and IMF staff projections.

1/ Includes adjustments to reflect cash flow concept.

2/ Includes arrears clearance, privatization proceeds and ANFA/SMP transfers.

3/ Total deposits of general government excluding deposits of general government entities in commercial banks.

15. Uncertainty is too high to reach a definite conclusion on long-term (LT) debt sustainability. While a feasible set of policies and interest rate trajectories could deliver sustainable debt dynamics over the long-term, alternative scenarios suggest that the uncertainty about the long-term neutral rate and risk premia is too high to reach a firm conclusion. This marks a departure from staff's previous analytical long-term DSA, last published in 2018, which also acknowledged large uncertainty, but nonetheless concluded that public debt sustainability was not assured under a realistic set of macro-fiscal assumptions. The latter pertained in particular to: (i) Greece's capacity to sustain high primary surplus targets; (ii) the scope and pace of structural reform implementation and its potential to more-than-offset demographic headwinds; and (iii) the commitment by European partners to provide further debt relief if needed following a reassessment in 2032. While concerns about the primary balance and potential growth path remain and have further worsened in light of the pandemic, this is more than offset by the significant decline in the risk-free rate and the very sharp compression of Greek bond spreads (already in place even prior to the pandemic) and subsequent roll-out of Europe-wide economic and financial support packages. However, it is unclear whether such low rates can be maintained in the future amid an unprecedented transition from official to market funding.

Capacity to Repay Risks

16. Greece's medium-term debt and GFNs trajectories remain sustainable under a variety of downside risks. Temporary shocks to the PB and interest rates would not significantly endanger Greece's capacity to repay the Fund because average GFNs would largely remain below 15 percent of GDP medium-term benchmark over the next 10 years despite the higher debt path. However, the GFN benchmark would be breached more severely under the growth shock, combined macro-fiscal or contingent liability shock. All considered, these scenarios highlight that Greece's ability to service its debt under a severe shock scenario depends critically on continued regional support. If access to this safety net became compromised (either because the common support by the EU-ECB was gradually withdrawn or because the materialization of idiosyncratic risks made Greek bonds again ineligible for ECB purchases or because of a setback on NGEU funding), Greece's debt servicing capacity could become compromised. Policy options under these more extreme adverse scenarios would most likely entail a strong procyclical fiscal contraction and/or further financial support from European partners.

Authorities' Views

17. The authorities concurred with staff's assessment of medium-term debt sustainability. They emphasized Greece's favorable debt structure, including long maturity, low financing needs, absence of interest rate and exchange rate risk and the almost completed re-construction of the yield curve, mostly over the last two years. They also highlighted the recent rating upgrades despite the pandemic crisis, the projected negative interest-rate growth differential and return to, and sustainment of, (viable) primary surpluses, as well as their active liability management, which allowed them to take advantage of favorable market conditions and further reduce risks. In addition, they highlighted their prudent management of the government's cash buffer, which would be maintained until the sovereign restores its investment-grade rating and continue thereafter. The authorities also pointed out that the pandemic has shown that Greece can weather a severe shock, with the reduction in Greek yields starting well ahead of the PEPP and a substantial fraction of Greece's debt to the Fund being repaid ahead of time during the crisis.

18. The authorities took note of staff's updated assessment of long-term public debt but consider with high certainty that long-term sustainability is assured. In particular, they noted that Greece's capacity to sustain high primary balances has been proven in recent years, and that long-run growth will be significantly stronger owing, among others, to the implementation of the RRP. They agreed that the transition from official to market financing could result in higher funding costs but noted that this transition will be gradual and will add to the depth and liquidity of the secondary market. They noted that an increase in interest rates is not a foregone conclusion given the uncertainty about long-term neutral rates and the potential to further reduce Greece's risk premia–including by the potential upward output revision and higher long-term growth–through enhanced policy reform credibility.

POLICY DISCUSSIONS

19. Policy discussions focused on preventing economic scarring and nurturing an inclusive recovery by bridging the transition from lifelines to investment financed by the NGEU. Staff emphasized that near-term policies should prioritize health outcomes and increasing healthcare capacity is essential to hedge against the risk of variants or seasonal virus waves. Policy support should be removed gradually once there is evidence of sustained economic activity and/or a substantial amount of RRF projects have effectively broken ground to provide a counter-cyclical buffer while private sector balance sheets are repaired. Medium-term fiscal sustainability objectives should not be achieved at the expense of growth, especially considering the impact of two crises on youth experiencing high unemployment rates. To support long-term output and ensure the recovery is inclusive, the government should aim to: i) implement a better fiscal policy mix that addresses inter-generational concerns, including climate change; ii) fund those COVID-19 measures that have a structural fiscal impact; and iii) prepare for the "day after" when NGEU funding is exhausted and the risk of a fiscal cliff emerges towards the end of the decade. In tandem, the authorities should step up structural reforms prioritizing those that encourage the swift, sustainable reallocation of capital and labor, needed to boost productivity and long-term growth.

A. Fiscal Policy Discussions

Background

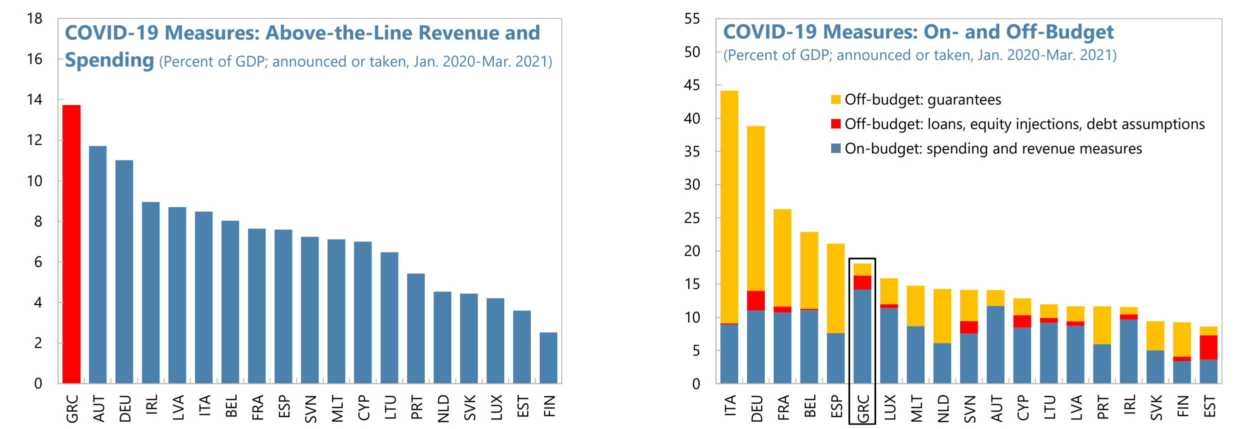
Greece: Primary Balance Decomposition, 2019–21
(Percent of GDP, unless otherwise indicated)

	2019	2020 Est.	2021
Primary Balance — pre-COVID baseline	3.7	3.1	2.7
Primary Balance — current baseline	3.2	-7.5	-7.2
Difference		-10.6	-9.9
Automatic Stabilizers		-3.6	-2.7
Discretionary measures		-8.2	-8.3
GDP effect		1.1	1.1

Source: ELSTAT; Ministry of Finance; Bank of Greece; and IMF staff estimates.

20. Fiscal policy is appropriately accommodative in 2021. Wage allowances and businesses refundable advances were extended, the solidarity tax and Social Security Contributions (SSC) were cut temporarily, and new grants were provided to SMEs, all implemented in tandem with the 2021:Q1 localized lockdowns. A primary deficit of 7.2 percent of GDP (accrual) is expected for 2021, mostly on account of COVID-19 related measures (see text charts). Compared to peers, on-budget measures taken since the pandemic are among the highest in the EA, but off-budget guarantees are lower, excluding government guarantees to financial institutions on NPE securitizations (project Hercules) (Figure 7). The bulk of measures focus on protecting incumbent workers and firms instead of encouraging new startups and job creation. Measures that facilitate structural transformation amounted to less than 0.2 percent of GDP. In line with staff recommendations, about 70 percent of announced measures were frontloaded in 2021:H1 to support the recovery ahead of NGEU disbursements in 2021:H2. The authorities have also tightened the eligibility criteria of refundable advances and wage/SSC allowances, to focus on more severely-hit firms and workers. Meanwhile, staff analysis suggests that fiscal support measures prevented a major deterioration in firms' performance in 2020, that otherwise would have been similar to that observed during 2010–15.[11]

Text Figure 2. EA: COVID-19 Fiscal Measures



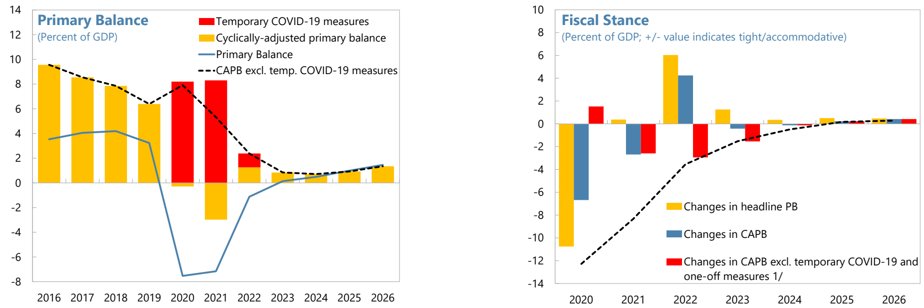
Source: IMF, Fiscal Monitor Database; National Authorities; and IMF staff estimates.

21. The authorities target further fiscal accommodation in 2022 and gradual consolidation over the medium term. Excluding temporary COVID-19 measures, the latest Stability Programme by the authorities plans to implement about 2 percent of GDP in fiscal support for 2022. The recently-adopted Medium-Term Fiscal Strategy calls for gradual consolidation over the medium term resulting in a 3¾ percent of GDP primary surplus by end-2025. Policy intentions include broadening the tax base by combatting tax evasion, including through IAPR digitalization, lowering tax wedges (including for corporates and by extending the reduction in the Solidarity Tax through 2022), stimulating electronic payments, and revaluing property prices for the ENFIA tax assessment as of early 2022.

22. Once temporary measures unwind, significant contingent liabilities could materialize. These are not included in the baseline and stem from new and existing guarantees, potential additional support to banks and firms (including SOEs that receive high budget transfers, see Figure 7), non-repayment of the "refundable advance" administered by the IAPR, and unexpected losses from Hercules. Meanwhile, rulings on retroactive pension and wage reforms continue to pose fiscal risks. On the upside, faster vaccine distribution and larger-than-expected stimulus effects from RRF loans could help improve the fiscal outlook.

[11] See Parodi et al (SM/21/114).

Text Figure 3. Greece: Fiscal Balance and Fiscal Stance

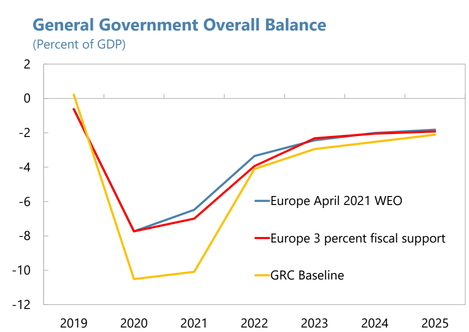


1/ The red bar excludes fiscal cost of temporary COVID-19 measures during 2020–22 and the one-off effect of the expected clearance cost of the backlog of state guarantees in 2020 (1.2 percent of GDP).
Source: Ministry of Finance; and IMF staff estimates.

23. Progress with fiscal structural reforms has been mixed. The new chart of accounts is broadly on track and the Treasury Single Account (TSA) reform is mostly completed, while the supplementary wage grid for the Independent Authority of Public Revenue (IAPR) was recently adopted following a long delay. Implementation of the new grading system and its associated wage-grid will allow the IAPR to implement comprehensive HR reforms, including adopting new staff appraisal, performance management, and career development systems. The IAPR has also restructured some of its departments with a view to improving the prioritization of audit cases. The IMF's technical assistance related to a Public Investment Management Assessment (PIMA) was postponed and new unprocessed pension claims are adding to the stock of government arrears. Meanwhile, the introduction of a new information management system to streamline budget execution processes over the medium-term was postponed. In addition, new tax payment installment plans and business loan subsidies ("Gefyra II" scheme), alleviate pandemic-related debt distress but could potentially have adverse effects on the payment culture.

24. Safeguards for emergency spending are in place. Spending related to COVID-19 is mostly on-budget and subject to regular budget-execution processes including publication of pandemic-related expenditures. Continued progress with ongoing public financial management reforms will contribute to ensuring that proper safeguards for transparency and accountability are in place.

25. Policy discussions focused on three priority areas:

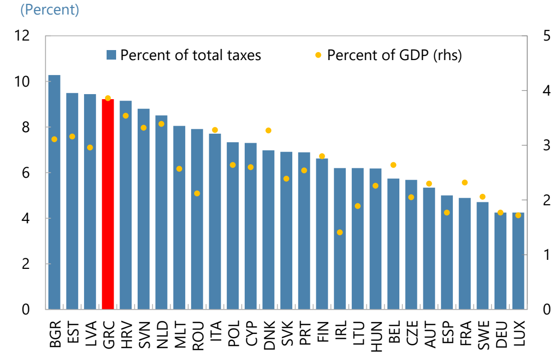


Sources: IMF, WEO database; and IMF staff calculations.

- **Staff offered qualified support for maintaining fiscal accommodation in 2022.** With significant uncertainty about the extent of economic slack**,** providing further stimulus of about 2 percent of GDP would help to bridge any gap between the phasing out of temporary COVID-19 measures and the recovery in tourism, pent-up consumption demand, and investment funded through the NGEU. In addition, maintaining accommodation could reduce scarring risks and support the creation of jobs which is expected to lag the output recovery, provided the stimulus is properly spent. In this regard, the authorities' plan to reduce the headline CIT rate by 2 percentage points is in line with previous staff advice, while the reduction of advanced CIT payments preserves corporate liquidity as otherwise-profitable firms would face an effective tax rate of 50 percent in 2022. While the authorities prioritized extending the reduction in SSCs and the Solidarity Tax through 2022, staff urged equal emphasis on the long-standing objective of improving the fiscal policy mix. In the near term, this entails addressing coverage gaps in the GMI as support should transition from job retention towards targeted income support and worker reactivation (see Section C), as well as addressing unmet needs in healthcare provision. Since all these measures have a structural fiscal impact, they should be matched by renewed efforts to create fiscal space over the medium term (see next two bullets) and by efforts to address supply-side bottlenecks to investment (see Section C). The authorities' planned accommodation is lower than the IMF's recommendation for a Europe-wide 3 percent stimulus during 2021–22, which staff deems appropriate given the sizeable support already provided in 2020–21, the rapid closure of the output gap (including the additional stimulus), absorptive capacity constraints, and Greece's high debt and external imbalances.[12] In case the ongoing recovery is stronger than currently anticipated, the authorities should save any fiscal overperformance as a contingency reserve. This buffer could then be used to accommodate future downside risks, through targeted fiscal support based on strict eligibility criteria, as well as the potential realization of pandemic-related contingent liabilities. In this context, implementation of a data-driven approach could complement stepped-up enforcement procedures of the new insolvency code to ensure that only viable firms are provided with state-supported rescheduling options (see paragraph 25).

- **Adopting a more inclusive and growth-friendly fiscal policy mix in the medium term.** The pandemic has further highlighted the importance of staff's past recommendations on increasing critical social spending.[13] Spending gaps compared to the EA remain large in health, education, targeted social spending, housing, childcare and unemployment benefits (Figure 7). Certain infrastructure gaps remain high and the country has ground to cover in digitalization, "green" mobility, and human capital (re-skilling/training). While NGEU funds will provide financing in these areas through 2026, the authorities should consider measures to create necessary fiscal space over the medium term to sustain adequate levels of social and investment spending. With the exception of diesel taxes, which could be raised, environmental taxes are already high (text chart), but other possible revenue mobilization options include base-broadening (PIT), tackling tax compliance

Environmental Taxes, 2019
(Percent)



Sources: Eurostat.

[12] See IMF Regional Economic Outlook Europe, April 2021.

[13] For more detail on past Fund advice, see 2019 Article IV Consultation Annex I (IMF CR/19/340).

gaps (especially in VAT), and expenditure adjustment in pensions[14], the public wage bill, and efficiency gains in public investment, supported by IMF TA (PIMA). SOEs continue to be a drain on the state budget, suggesting governance practices should be strengthened in line with OECD standards, including through a clear performance management framework and sound internal governance (internal audit and risk functions).

- **Safeguarding emergency spending and accelerating fiscal structural reforms once the pandemic ends.** In addition to existing controls, allowing public access to procurement contracts related to COVID-19, making available information on beneficial owners of contract recipients, and conducting and publishing ex-post audits of crisis related spending should be considered. More broadly, staff welcomed progress on the functional classification of the Chart of Accounts (CoA), the TSA, and revenue administration reforms, but noted that reinvigorated efforts in public investment management are needed to improve the effectiveness of public spending (including NGEU-funded programs) going forward. This includes addressing staffing constraints in GAO and ensuring the CoA appropriately captures and reports on new digital and green infrastructure initiatives once they are implemented. In addition to these reforms, reducing the VAT gap, accelerating digitalization, and addressing the root causes of recurrent arrears (including by establishing interfaces between various government IT systems, particularly for social security operations, simplifying payment procedures, assessing the legal framework for execution of government payments, and making proposals for the elimination of bottlenecks) would also enhance the ability to implement counter-cyclical policies in case downside risks materialize. Staff encouraged continued application of anti-money laundering tools to help promote tax compliance.

Authorities' Views

26. The authorities agreed that fiscal policy would remain accommodative in the aftermath of the pandemic—in line with EC guidelines—and noted that the fiscal mix was improving. They suggested that most COVID-19 measures would lapse next year, but the fiscal stance would remain expansionary following the reduction in SSCs and the solidarity tax rate and the expected impact on corporate and personal income tax receipts as these are based on previous years' earnings. They expect this stimulus, together with reforms and the fiscal space from RRF grants, would mitigate short-term cliff effects risks, increase investment, accelerate the recovery, and raise potential growth. They also consider the resulting revenue buoyancy would prevent a fiscal cliff when NGEU funding dries up. The authorities expect to accommodate downside risks through automatic stabilizers or targeted interventions and noted that fiscal support this year consisted more of grants than loans consistent with the goal of transitioning from liquidity to equity support measures. They agreed that improving the fiscal policy mix was a priority and noted significant progress with broadening the tax base through greater use of electronic transactions and by enhancing the digital capacity of the revenue administration agency (IAPR). On the expenditure side, the authorities agreed with the need to strengthen the GMI and increase healthcare spending, but

[14] See "Reforming the Greek Pension System" by Kangur et al (IMF Working Paper, forthcoming).

noted that the structural fiscal impact would be modest and would not require a reduction in the income tax credit or entitlement reform, in line with the most recent Ageing Report projections, which clearly demonstrate the long-term sustainability of the pension system. The authorities also emphasized that the number of civil servants remained well below the pre-crisis peak and that recent hirings in the public sector were mostly temporary healthcare workers to address the pandemic.

B. Financial Policy Discussions

Background

27. **The slow progress with restoring banking sector health prior to the pandemic reflected deep-seated institutional and policy constraints.** Weak core profitability[15], NPE market values that are below book valuation, and lukewarm investor interest given the risk of dilution from the high and rising share of DTCs in bank capital impede faster organic solutions.[16] On the policy front, the Greek and European authorities rely on financial engineering (government-backed securitizations, corporate hive-downs[17]) to reduce NPEs without triggering DTC conversion, breaching EU-wide state aid rules, or giving rise to high fiscal costs. This gradual approach came at the expense of growth, as the modest recovery prior to the pandemic was partly due to lack of credit. Against this backdrop, the Bank of Greece's (BoG) proposal to establish an Asset Management Corporation (AMC) has been shelved by the government, who instead has opted to extend Hercules through end-2022 and doubled the provision of state guarantees to €24 billion, including to deal with fresh NPEs that may materialize due to COVID-19.[18]

28. **The Hercules securitization strategy could achieve a rapid reduction in NPEs provided capital-raising efforts are successful.** Loan moratoria for both corporate and household loans, together with temporary subsidies for interest payments, have prevented a spike in new NPEs in 2020.[19] However, these measures have also delayed the recognition of inevitable loan losses stemming from the crisis which the banks project will add about €5 billion in fresh NPEs given debt repayment behavior so far following the end of moratoria (the BoG earlier estimated about €8–10 billion additional NPEs). Nonetheless, corporate transformations have enabled banks to reduce NPEs

[15] Bank profitability has been subdued in Greece, not only due to cyclical factors and the weak economic recovery following the Greek sovereign debt crisis but also reflecting structural impediments such as costly restructuring and insolvency procedures. Moreover, emerging Fintech providers may eat into the banks' revenues coming from payment, settlement, and wealth management functions.

[16] See Annex IV—Financial Sector Background Note for a full discussion of recent banking sector developments and COVID-19 policy support measures.

[17] "Hive-downs" involve the transformation of "old" banks into holding companies and creation of a "new" bank have prevented the conversion of DTCs into equity (owned by the state) which would lead to dilution of existing private shareholders

[18] For additional details on the AMC, see Annex IV—Financial Sector Background Note.

[19] About 75 percent of the €21 billion drop in NPEs is due to intra-group transfers in anticipation of securitizations in 2021–22.

faster, with any losses parked in a separate part of the bank and therefore not triggering DTC conversion. In addition, banks are finally able, or willing, to raise fresh capital to execute Hercules securitizations. As a result, amid increasing bank differentiation, some banks could reach single digit ratios of NPEs already this year, while others might do so by 2022, but execution risks remain high, and these goals would still leave Greek banks as outliers relative to European peers with negative repercussions for credit supply—specially once the recovery takes hold. The Greek non-bank financial sector is relatively small in comparison to European peers and currently no substitute for bank credit (Figure 8). Since the onset of COVID-19, banks have relied on official funding to finance private sector activity. Other official support outside the banking system (which may increase if the government on-lending of NGEU loans moves forward) could "crowd out" demand for bank lending going forward. In addition, newly-adopted corporate and household debt distress resolution mechanisms remain largely untested given gradual implementation of the new Insolvency Code in March 2021 (for corporates) and June 2021 (for households).

29. Policy discussions focused on:

- **Gradually lifting government support measures to avoid the risk of a sudden deterioration in bank balance sheets (while maintaining transparency).** If government support measures are unwound abruptly, borrowers' capacity to repay may be stretched, and a new wave of NPEs (including "strategic defaults") and provisioning could emerge. In parallel, the Greek authorities should let mortgage and business loan subsidy programs ("Gefyra I and II") lapse by end-2021 to allow use of the new insolvency framework to help resolve firms that default on loans (see point iv below).

- **Supporting banks' efforts to reduce NPEs and strengthen capital buffers.** The risk of a continued, credit-less recovery reflecting impaired bank balance sheets calls for a proactive government approach backed by a comprehensive cost-benefit analysis of all available options. Staff welcomed the extension of additional government guarantees for NPE securitizations ("Hercules-II") but suggested that backup plans should be formulated in case fresh capital raising efforts by banks are insufficient and/or Hercules execution risks materialize (for example, delays in securitizations and/or lower-than-expected collection rates). Staff also encouraged the authorities to find a solution with European partners for the rising share of DTCs in bank capital, where stand-alone DTC conversion could be considered as a last resort if it restores investor confidence for those banks that are unable to fully utilize existing tools. In this regard, staff welcomed the authorities' commitment to swiftly finalize a DTC law amendment that ensures that DTCs are loss-absorbing in resolution.

- **Developing the non-bank financial sector to support growth.** Amid continued bank deleveraging and given that the COVID-19-related government lending and guarantee programs (which amounted to roughly 50 percent of new credit to NFCs since March 2020) will be phased out, other avenues for channeling funds into the private sector need to be explored. In this respect, the authorities' plans to: (i) improve capital markets governance; (ii) channel

NGEU loans through the banks into private investment; and (iii) strengthen incentives for private retirement savings could be important elements to develop the non-bank financial system.

- **Allowing the resolution framework to function**. Staff commended the authorities for their progress in implementing the Insolvency Code and for lifting temporary measures put in place to "freeze" debt resolution activity and stressed the importance of ensuring the effectiveness of enforcement proceedings and that only viable firms are provided with state-supported rescheduling options. While the Insolvency Code could support needed debt resolution activity, it remains to be seen whether these tools will be used effectively, given that past efforts have been largely unsuccessful.

Authorities' Views

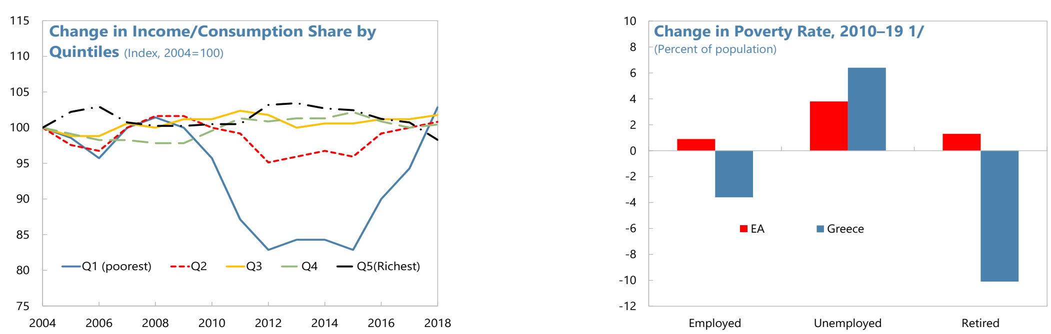
30. The authorities noted that the Greek banking system is now turning the page with the help of the government-supported securitization program. Notwithstanding the pandemic, they stressed the recent rapid reduction in NPEs, supported by the swift implementation of the government's Hercules Asset Protection Scheme, and noted recent upgrades in the outlook of the Greek banking system by the major credit rating agencies, following the sovereign upgrades. They also emphasized they expected a positive impact on private sector debt resolution from the recently-adopted comprehensive insolvency law reform. The acceleration of NPE reduction, the implementation of bank business plans and the forthcoming financing from the RRF should contribute to a more positive macroeconomic and financial environment, favorable for increasing banks' (organic) profitability and substantially reducing any risk of DTC conversion. The BoG, however, noted that the risk of conversion remains substantial in the long term, as DTCs count as capital over an extended period of time. Moreover, the MoF considered pandemic-related loan losses would be contained, according to banks' calculations to around €4–5 billion, which is manageable under Hercules whereas the BoG estimates that COVID-19 related NPEs will likely amount to €8–0 billion once support measures are fully phased out. The government noted that the BoG's AMC proposal is under consideration but has so far not been adopted, pending analysis of potential upfront fiscal costs, possible conflicts with Hercules, and also due to the lengthy process for getting EU approval, by which time NPE ratios are projected to be converging towards the EU average. Finally, the authorities agreed with the need to further strengthen the non-bank financial sector and with reforms already in train to enhance corporate governance of listed companies and modernize capital markets, including supervisory powers.

C. Welfare, Labor, and Structural Policy Discussions

Background

31. Greece has made progress in implementing social welfare policies but disparities remain and the safety net is unfinished. Following the GFC, the drop in consumption was disproportionally larger for lower-income households, indicative of an inadequate safety net (text chart). The 2017 GMI narrowed the poverty gap, while the employed and retirees also experienced falling poverty incidence (text chart). However, poverty increased for the unemployed, as did in-work poverty risks, as most jobs created were low-earning part-time, low-skilled, and/or temporary, linked to growth in tourism and other services.[20] Despite progress in take-up, the GMI's coverage is low by European standards, mostly due to under-funding and program fragmentation, while its labor re-activation pillar was only rolled out nationally in June 2021, while the employment agency (OAED) has resource constraints and its programs face design issues. As elsewhere in the region, given its design, the GMI was not used to support workers during the pandemic (see Section B).

Text Figure 4. Greece: Consumption of the Poor and Poverty Rates



Source: World Bank; Eurostat.
1/ Persons at risk of poverty are those living in a household with equivalized disposable income <60 percent of the national median.

32. Greece has become more competitive, but weak firm productivity constrains growth. Greece became more competitive following the GFC, but gaps remain vis-à-vis trading partners (in corporate governance, regulatory burden, institutional quality, and efficiency of network industries; see also Figure 1) and overvaluation remains an issue (see Annex II—ESA).[21] In addition, the Greek economy is dominated by low value-added SMEs that entered the pandemic with high levels of NPLs (Figure 9), and elevated vulnerability in sectors such as accommodation and food services, which increases scarring risks.[22] However, there are some green shoots: SMEs improved their balance sheets since the GFC and a new breed of fast-growing, high-tech startups is emerging. Prior to the pandemic there was also evidence of firm expansion. To encourage economies of scale, the

[20] See IMF 2019 Article IV Selected Issues Paper (CR/19/340) and OECD (2020).

[21] See IMF 2019 Article IV Selected Issues Paper (CR/19/340)

[22] See Parodi et al (SM/21/114).

RRF plan introduces new legal frameworks to encourage firm growth, joint ventures and cooperation with larger firms, and incentives for SME mergers. In addition, to boost competitiveness and increase the economy's export orientation, the government is rightly focusing its updated National Growth Strategy (NGS) on ways to link SMEs with external markets through trade facilitation. Recent efforts include advancing business climate reforms and encouraging labor market flexibility through telework. The draft revision to the labor code is expected to allow opt-outs to collective bargaining, reform the arbitration framework, and modernize industrial action. Meanwhile, the revision to the minimum wage (MW) is scheduled to take place by end-July 2021.

33. Effective NGEU execution will be key to limit scarring risks. The RRF national plan was submitted to the EC on April 21, 2021. The plan's blueprint is based on the updated Development Plan for the Greek Economy (the updated National Growth Strategy) led by the "Pissarides Commission" and it includes ambitious reforms to modernize labor market institutions to support labor reactivation and create higher value-added jobs[23], enhance productivity and social welfare (including of youth through vocational training and apprenticeships), and encourage innovation and technology development through increased research and development (R&D, including in tertiary education) and public administration digitalization (see also Box 1). The action plan to ensure the RRF funds are executed efficiently is progressing, albeit with some delays in approving the Project Preparation Facility and the Strategic Project Pipeline Unit, which aim to improve sectoral ministry coordination and accelerate public capital spending. The government has signed an agreement with the European Investment Bank (EIB) to manage €5 billion in RRF funds, tapping into the bank's technical, economic, and financial expertise in identifying high-impact projects.

34. The NGS also emphasizes the importance of institutional change and better governance to boost growth. Greece's low rates of investment have also been found to be to driven by governance and institutional barriers (e.g. regulatory burden, public administration inefficiencies, and delays and challenges in the justice system).[24] Progress has been made in legislation linked to investment licensing and business regulation, but the judicial system remains a roadblock to resource reallocation (in lengthy and costly exit procedures and missing/contradictory secondary legislation). The NGS aims to improve the justice system by re-organizing it, expanding its resources, and digitalizing services (e-justice). Greece has also recently stepped up efforts to fight illicit trade and protect intellectual property rights. The authorities are also furthering efforts to enhance governance by preparing a 2022–25 National Anti-Corruption Action Plan. In this context, the National Transparency Authority is coordinating a consultation with the main stakeholders, to finalize the Action Plan by December 2021.

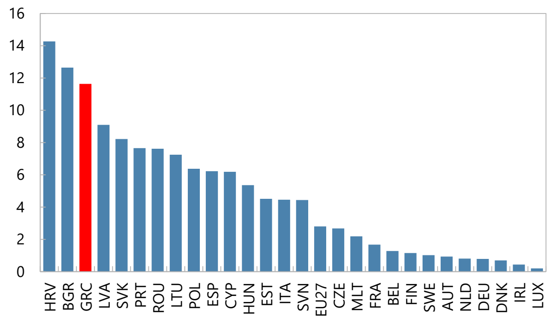
[23] Boosting the capacity of the employment agency (OAED) to provide counseling and job matching, modernizing the ministry of labor's electronic platform, improving gender equity through leave policies.

[24] See Hua et al (SM/21/114).

Box 1. Greece: The National Plan for Recovery and Resilience

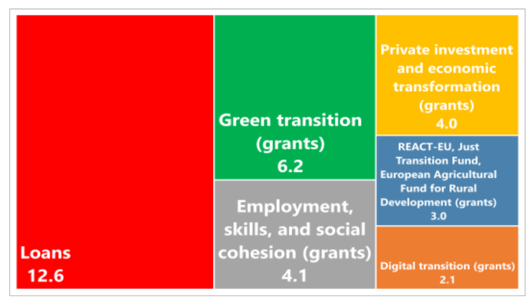
Greece's RRF national plan aims to transition towards a more outward-looking, competitive, and green production model.[1] Greece is set to receive a generous allocation (in terms of income) in NGEU funds benefiting particularly from the grant portion (text chart). The national plan ("Greece 2.0") aims to mobilize an additional €26 billion in investment from the private sector and IFIs. In line with European guidance, Greece's plan has four pillars: i) green transition; ii) digital transition; iii) employment, skills, and social cohesion; and iv) private investment and economic transformation (text chart). In addition to labor market and educational reforms (see above), selected flagship projects include investments in energy infrastructure to reduce emissions, a strategy to tackle energy poverty, marine spatial planning to protect coastal zones, improving access to water supply, developing 5G and fast broadband connection corridors, improving the quality of public services through digital transformation and IT system integration, strengthening cybersecurity, and implementing healthcare reforms (strengthening primary and preventive care, claw-back reduction, and renovating hospital equipment and infrastructure).

Next Generation EU (NGEU) Recovery Grants
(Percent of GDP)



Sources: Conclusions of the European Council (July 21, 2020); Ministry of Finance; and IMF staff estimates.

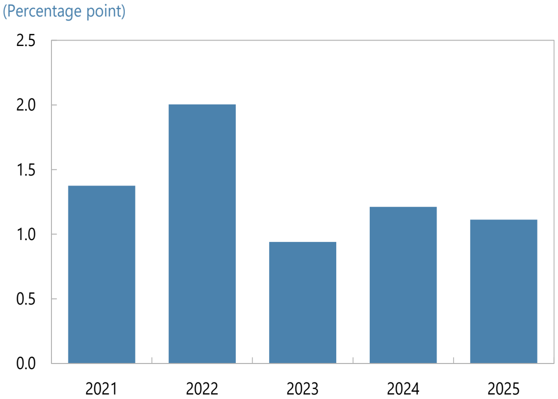
Proposed Allocation of NGEU Funds
(Grants and loans; billions of euro)



Sources: Greece 2.0 National RRP (April 2021).

The authorities estimate that Greece 2.0 will boost growth and employment significantly. The authorities use a DSGE model where RRF grants increase public investment and consumption and loans boost private investment during 2021–26. By itself, the package would increase real GDP levels by 4.3 percent by 2026 while in combination with ambitious structural reforms, output would increase by 6.9 percent during the same period. Private investment grows by 20 percent and employment by 4 percent, creating 180,000–200,000 jobs. The model assumes convergence to European benchmarks in product market regulation (PMR), labor force participation, and worker and firm digital skills and utilization by 2030. Reform implementation is assumed to start in 2021. NGEU loans are channeled to the private sector, boosting the capital stock and exports, and raising the tax/GDP ratio by 2.8 percentage points. Based on the simulations, the Ministry of Finance's baseline projects an average growth rate of 4.3 percent through 2025. Staff estimates of the authorities' baseline with and without NGEU suggest a cumulative multiplier of 1.2 of investment by the end of the projection period and of 0.9 percent on average between 2021–26.[2]

MoF Projected Impact of Investment on Real GDP Growth
(Percentage point)

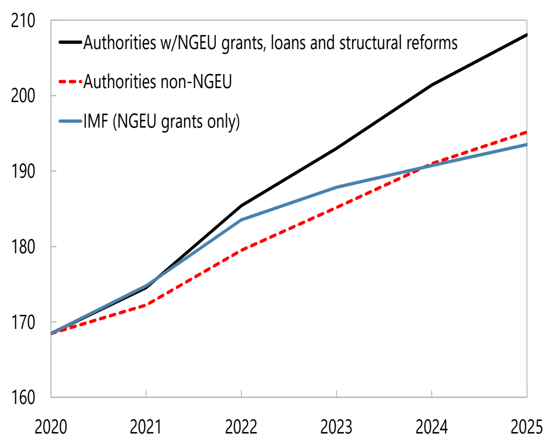


Sources: Ministry of Finance; and IMF staff estimates.

Box 1. Greece: The National Plan for Recovery and Resilience (Concluded)

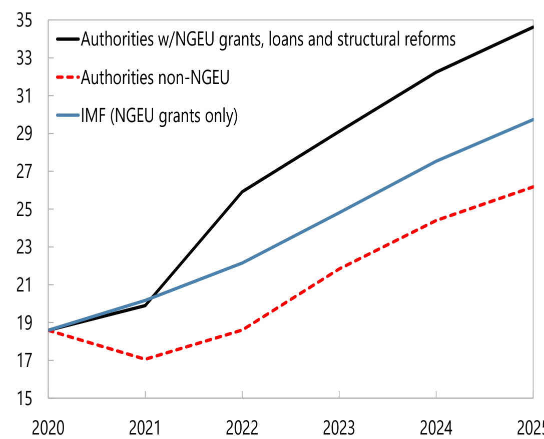
Staff assume a more conservative growth impact. Staff's baseline is not strictly comparable, but impact estimates are less optimistic, with the annual average boost to GDP growth estimated at 0.6 percentage points driven by an acceleration in investment and a recovery in exports. However, staff only take into account the grant portion of NGEU and assume that the completion of structural reforms in train will just be sufficient to overcome demographic headwinds. Staff's baseline multipliers are not time-varying and are lower, in light of Greece's well-known structural constraints to investment and incremental approach to structural reform implementation. A key final difference is the starting point: where the authorities estimate the impact of NGEU compared to a steady state, staff splits the impact of COVID-19 into a cyclical and permanent component, which NGEU funds offset only partially, resulting in a lower level of real GDP compared to the pre-pandemic forecast (-3 percent)(see Outlook).

Real GDP Projection
(Billions of euro)



Sources: Ministry of Finance; and IMF staff calculations.

Total Investment Projection
(Billions of euro)



Sources: Ministry of Finance; and IMF staff calculations.

[1] Greece 2.0: National Recovery and Resilience Plan (May 2021).

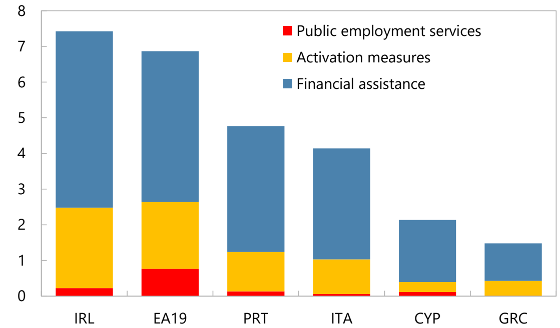
[2] Measured as the ratio of the cumulative difference between the with and without NGEU output levels relative to the cumulative amount of additional investment.

35. **The quality of official statistics has continued to improve and data provision is adequate for surveillance.** A decade after its establishment, the independent Hellenic Statistical Authority (ELSTAT) is now compliant with most international statistical standards and during the pandemic it produced helpful indicators to gauge the impact of lockdowns on enterprises and workers. The base revision to the national accounts and changes to the external data methodology have reduced discrepancies in macro data. However, areas of improvement remain, including in the real estate sector, where publishing of several series was halted after the GFC. The timing of national accounts also lags behind that of peers and flash estimates have stopped. In parallel, lengthy ongoing court cases against former employees of the statistical agency could dent ELSTAT's credibility and professional independence

36. Policy discussions focused on three areas:

- **Encouraging resource reallocation and strengthening the safety net to prevent scarring.** The authorities rightly prioritized protecting livelihoods and productive capacity, and staff welcomed the extension of suspension measures for tourism through end-June and the short-term work scheme through end-September 2021. Overhauling OAED and ensuring full execution of the GMI third pillar rollout should be near-term priorities to ensure spending approaches regional levels and labor market policies are more effectively delivered through activation measures and employment services (in addition to unemployment assistance). Improving the fiscal policy mix would help achieve the authorities' labor force participation objectives by encouraging female labor participation (particularly by funding childcare) and investing in youth's prospects and older worker re-skilling and activation. The vocational training legislation is a step in the right direction to address skills mismatches and high youth unemployment, but its success will depend on the speed of execution, the quality of training, and the delivery model. Addressing SME challenges, in particular debt resolution and access to finance, would allow the release of capital to newer, viable firms. Plans to route NGEU loans to SME lending could ease credit constraints for SMEs, but this should come hand-in-hand with exit and resolution reforms that encourage firm churn and with business climate improvements that improve governance and competition to reduce the risk of defaults.

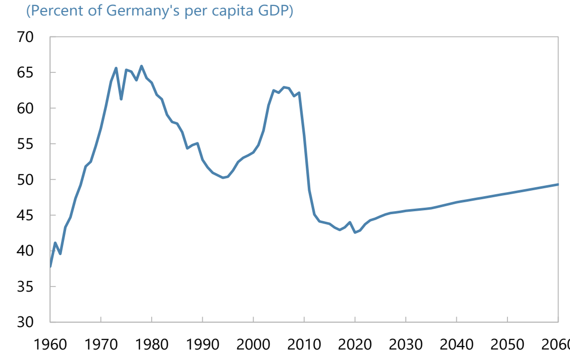
Active Labor Market Policy Spending, 2018
(Thousands of euro in purchasing power standard per person wanting to work)



Sources: European Commission.

- **Investing in a job-rich, green recovery**. NGEU funds have the potential to support Greece's transition to a more competitive, fairer, and greener growth model provided the public investment framework is upgraded. Staff recommended that upcoming labor legislation should foster labor market flexibility, including by allowing firm opt-outs to sectoral collective bargaining agreements and restricting the unilateral recourse to arbitration. Staff recommended a prudent minimum wage increase given the tough operating environment firms and workers face and broadly flat productivity growth since the

Real GDP per Capita
(Percent of Germany's per capita GDP)



Sources: IMF, WEO database; and IMF staff estimates.

last minimum wage hike in 2019. However, staff also noted that given productivity differentials, further internal devaluation in the face of the pandemic's income shock would not be a sustainable or inclusive cure for Greece's imbalances and convergence prospects (see text chart). Instead, reforms to boost worker productivity (encourage labor churn, improve education, open closed product markets and remaining closed professions, make network industries more efficient including by speeding up privatization) should be accelerated while fostering an institutional environment that encourages a cleaner economy, particularly by reducing green infrastructure gaps (Figure 10). Timely implementation of the NECP and implementing fiscally-neutral policies that encourage energy efficiency and lower emissions through renewable energy use (feebates) would help Greece meet its emission commitments while helping narrow the investment gap (see text table).[25]

Main Objectives for 2030 in the National Energy and Climate Plan (NECP)

Reduce greenhouse gas emissions and environmental objectives
•Reduce Total GHG emissions by at least 54 percent 1/
•Emission reduction objectives in individual sectors
•Attain quantitative targets for lower emissions of air pollutants
•Shut down lignite power plants by 2028.
Increase the share of renewable energy sources (RES) in consumption
•Share of RES in gross final energy consumption doubled to 35 percent
•Total PV and Wind installed capacity >14.5 Gw
•Share of RES in gross final electricity consumption at least 60 percent
•Share of RES in heating and cooling exceeds 40 percent
•Share of RES in the transport sector to reach 14 percent
Enhance Energy Efficiency
•Improvement in energy efficiency by 38 percent 2/
•Final Energy Consumption not to exceed 16.4 Mtoe
•Primary Energy Consumption not to exceed 21 Mtoe
•Attain cumulative energy savings of 7.3 Mtoe 2021-2030
•Energy renovation to cover 3 percent annually of the total surface area of the heated parts of central govt buildings by 2030
•Energy renovation of 12-15 percent of the existing building stock

Source: Greece National Energy and Climate Plan (NECP).
1/ Compared to 2005. 40 percent compared to 1990.
2/ According to the EU methodology.

- **Tackling structural bottlenecks and improving governance to attract investment**. Staff welcomes the RRP's objective of fostering innovation and technology acquisition, noting higher R&D spending is essential to increase value added. On statistical capacity, staff noted that providing flash national account estimates could provide policymakers with a real-time picture of macroeconomic and financial conditions. The government should also strive to protect the independence and credibility of the statistical agency and its staff, making every effort to uphold the "Commitment on Confidence in Statistics" endorsed by the government in 2012. Discussions also focused on efforts to strengthen governance, reform the justice system, and improve the business climate. Staff encouraged the authorities to implement proper safeguards to ensure the transparency and accountability of COVID-19-related emergency spending and to ensure the completion of the NTA's 2022–25 action plan by end-2021 to ensure its swift implementation in 2022.

Authorities' Views

37. The authorities consider structural transformation as paramount to achieving a recovery that permanently improves living standards. The authorities highlighted their significant policy support to workers and firms, which they consider will prevent scarring. They

[25] SM/21/114.

agreed resource reallocation will be key to the economic recovery and highlighted their efforts to improve policy targeting going forward and to continue implementing structural reforms to this end. They agreed that reinforcing the GMI and reforming the employment agency (OAED) are key to managing poverty risks and tackling unemployment going forward, noting "Greece 2.0" features concrete steps to up- and re-skill workers. However, they also consider NGEU funding and reforms will gradually reduce social welfare needs and poverty risks by boosting job quality and incomes. They also noted the NGEU reform's fourth pillar is focused on improving the business environment and encouraging firm scale growth and productivity by providing incentives for firm expansion and tackling financing constrains, for firms of all sizes, including SMEs. They concurred that labor market flexibility along with active labor policies will be key to encouraging labor force participation and market churn, noting the upcoming legislation focuses on modernization and digitalization of labor market institutions (including the labor inspection agency), encouraging telework, modernizing labor relations, reducing informality, safeguarding rights, and increasing gender equality in the workforce. They agree with staff that Greece's competitiveness strategy going forward should be anchored on productivity increases spread to all labor market participants in lieu of internal devaluation at workers' expense. The authorities also pointed to the high priority granted in the RRP to climate change, governance, and institutional transformation, through the NECP and their Digital Transformation Strategy which aims to modernize state functions, leverage data (including for economic monitoring), and increase public sector transparency. Finally, the authorities noted that they remain fully committed to protecting and respecting the independence and credibility of the statistical agency and its staff and will continue to fully uphold the "Commitment on Confidence in Statistics".

STAFF APPRAISAL

38. The government's response to the pandemic was swift and proactive. Greece entered the pandemic with an unfinished recovery, but the country has demonstrated resilience in facing COVID-19. The economy contracted by 8.2 percent in 2020, which was better than expected given Greece's high dependence on tourism and pre-existing vulnerabilities. The government provided among the largest on-budget fiscal stimuli in the euro zone, which prevented a spike in corporate distress and kept workers attached to the labor market although young and part-time workers experienced a sharp drop in employment. Supervisory and ECB accommodation shielded the banking sector and kept financial conditions highly supportive.

39. The economy is expected to rebound in 2021–22. Investment through Next Generation EU (NGEU) grant funding, pent-up consumption funded by deposit drawdown, and tourism resumption are expected to be the main drivers of the recovery, with growth projected at 3.3 percent this year, accelerating to 5.4 percent in 2022. The permanent output loss from the pandemic ("scarring") is projected to reach 3 percent, suggesting policy efforts should focus on facilitating both debt workouts and resource reallocation.

40. Substantial uncertainties and downside risks continue to cloud the outlook. While full vaccination is progressing at a rate above the European average, a more prolonged pandemic would add significant downside risks to all sectors of the economy. Further, the uncertain extent of pandemic-related Non-Performing Exposures (NPEs) could affect banks' securitization plans and curb credit growth. Other risks include weaker-than-anticipated absorption of NGEU funding, while on the external side, key risks include a reversal of global accommodative financial conditions and the manifestation of geopolitical risks.

41. Upside risks to growth stem primarily from full execution of the authorities' Recovery and Resilience Fund's (RRF) plans. The strategy could unlock synergies that would address multiple challenges. Higher investment, economies of scale from greater firm size, and increased export orientation would keep the current account deficit in check and together with the RRFs structural reform agenda raise productivity growth, move the country to investment grade, and anchor long-term debt sustainability. The expansion of output, lower tax rates, and digitalization would widen the tax base and avoid cliff effects when NGEU funding dries up. Increased lending opportunities would support interest margins and declining NPE ratios would allow banks to improve the quality of bank capital organically. While such a virtuous cycle cannot be ruled out, in staff's view it is subject to significant execution risks.

42. Public debt levels are projected to decline over the medium term, and gross financing needs and IMF repayment capacity remain adequate under a variety of downside risks. Following a spike in 2020, Greece's public debt is projected to peak in 2021 and decline gradually over the medium-term, albeit remaining at higher levels than forecast before the pandemic. Greece's public debt remains sustainable over the medium-term, predicated on the negative interest rate-growth differential and a gradual return to primary surpluses. The government's large cash buffer and active liability management further mitigate refinancing risks, while Greece's ability to service its debt under a severe shock depends on continued regional support.

43. Uncertainty is too high to reach a definitive assessment on long-term debt sustainability. While a feasible set of policies and interest rate trajectories could deliver sustainable debt dynamics over the long-term, alternative scenarios suggest that uncertainty about the long-term neutral rate and risk premia is too high to reach a firm conclusion. This marks a departure from staff's previous long-term DSA, published in 2018, which also acknowledged large uncertainty, but nonetheless concluded that public debt sustainability was not assured under a realistic set of macro-fiscal assumptions. While concerns about Greece's capacity to sustain high primary surplus targets have deepened in light of the pandemic and uncertainty about the potential growth path remains, these are more than offset by the significant decline in the risk-free rate and the very sharp compression of Greek bond spreads. This yields compression started before the pandemic and continued following the roll-out of Europe-wide economic and financial support packages. However, it is unclear whether such low rates can be maintained in the future amid an unprecedented transition from official to market funding.

44. **Policies should focus on preventing economic scarring and nurturing an inclusive recovery by bridging the transition from lifelines to investment financed by NGEU funds**. The near-term focus should be on health outcomes and ensuring that medium-term fiscal sustainability objectives are not be achieved at the expense of growth, especially considering the impact of two crises on youth experiencing high unemployment rates. Any materialization of downside risks should be accommodated through automatic stabilizers as well as through further targeted support if warranted. In tandem, the authorities should step up structural and financial sector reforms prioritizing those that encourage the swift, sustainable reallocation of capital and labor and inclusive growth.

45. **Staff offers qualified support for maintaining fiscal accommodation in 2022.** Pandemic-related measures imply a primary deficit of around 7¼ percent of GDP in 2021 with much of the support frontloaded ahead of NGEU disbursements in line with previous staff recommendations. While the headline primary deficit for 2022 is expected to recover to 1 percent of GDP, the underlying fiscal stance, excluding temporary COVID-19 measures, remains expansionary by about 2 percent of GDP. This support could help reduce scarring risks and support job creation, which is expected to lag the output recovery, provided the stimulus is properly spent. However, given substantial uncertainty about the extent of economic slack and the strength of the ongoing recovery, fiscal overperformance should be saved as a contingency reserve to hedge against future downside risks and potential contingent liabilities from the pandemic.

46. **The authorities should use the additional support to initiate a durable improvement in the fiscal policy mix.** The reductions in the corporate income tax (CIT) rate and advanced CIT payments are welcome as they strengthen investment incentives and preserve firm liquidity. However, staff urged equal emphasis on the long-standing objective of improving the expenditure mix of the budget. In the near term, this entails addressing gaps in the Guaranteed Minimum Income scheme as support should transition from job retention towards targeted income support and worker reactivation, as well as addressing unmet needs in healthcare provision. As these measures have a structural fiscal impact, they should be matched by renewed impetus to create fiscal space over the medium term including through personal income tax base-broadening, tackling VAT compliance gaps, and aiming for expenditure savings in less-well targeted entitlement programs (including pensions), in the public wage bill (with the number of civil servants creeping back to pre-crisis levels), and in State Owned Enterprises (which continue to be a drain on the budget).

47. **The Hercules securitization strategy could achieve a rapid reduction in NPEs provided capital-raising efforts are successful.** The pandemic could delay further the normalization of bank balance sheets, requiring a proactive government approach backed by a comprehensive cost-benefit analysis of all available options. The overarching goals should be to reduce financial sector risks and avoid a prolonged and muted credit-less economic recovery. In this regard, staff welcomed the extension of additional government guarantees for NPE securitizations ("Hercules-II") but suggested that backup plans should be formulated in case fresh capital raising efforts by banks are insufficient and/or other execution risks materialize. As the Bank of Greece's proposal to establish an Asset Management Company (AMC) has been shelved, staff encouraged the authorities to work with

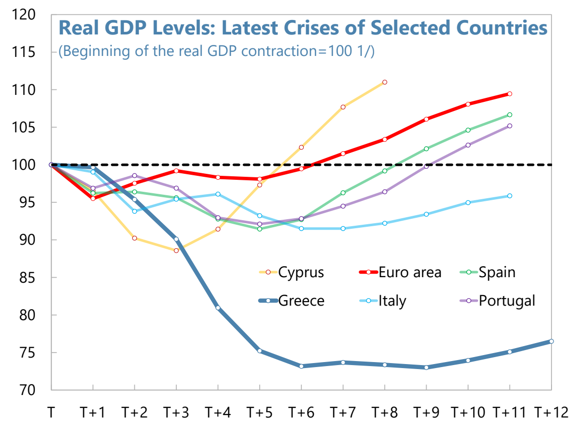
European partners to find a solution for the weak quality of bank capital. Amid increasing bank differentiation, stand-alone DTC conversion could be considered as a last resort if it restores investor confidence for those banks that are unable to fully utilize existing tools. Staff also encourages the authorities to swiftly finalize a DTC law amendment to ensure that the instruments are loss-absorbing in resolution. Effective implementation and use of the new Insolvency Code, including by servicers, will be critical for meaningful debt resolution.

48. Structural reform implementation will be essential to minimize scarring risks and leverage NGEU resources. While reforms have progressed in a number of areas and the widening of Greece's external imbalances last year reflected mainly temporary factors related to the pandemic, the external position of Greece in 2020 is assessed to have remained weaker than consistent with medium-term fundamentals and desirable policies . Addressing this overvaluation of the Real Effective Exchange Rate and strengthening convergence prospects in the Eurozone requires accelerating structural reforms that boost productivity, reduce non-wage costs, and close the investment gap. Improving the fiscal policy mix would help achieve the authorities' labor force participation objectives by encouraging female labor participation (particularly by funding childcare) and investing in youth's prospects and older worker reskilling. NGEU funds have the potential to support Greece's transition to a job-rich, fairer, and greener growth model provided the public investment framework is upgraded. Staff recommended that the upcoming labor codification should foster labor market flexibility and that the minimum wage adjustment should be prudent. The authorities should also continue implementing proper safeguards to ensure the transparency and accountability of COVID-19-related emergency spending and protect the independence and credibility of the statistical agency and its staff, making every effort to uphold the "Commitment on Confidence in Statistics" endorsed by the government in 2012.

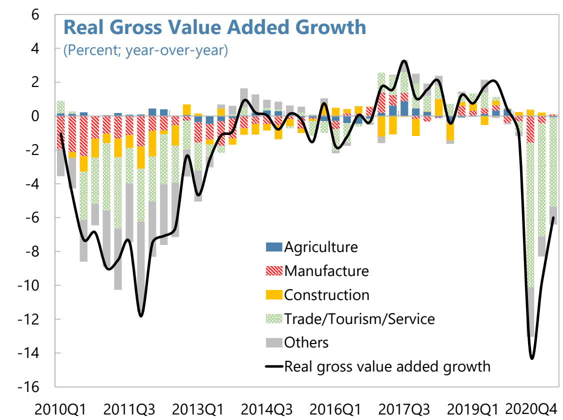
49. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Greece: Pre-COVID-19 Developments

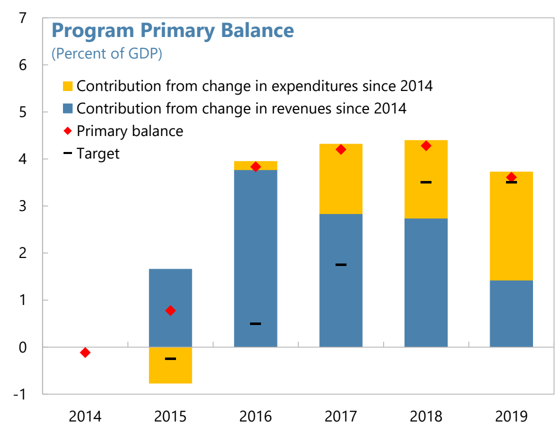
The Greek economy had yet to recover from the previous crisis and was decoupled from the European cycle.



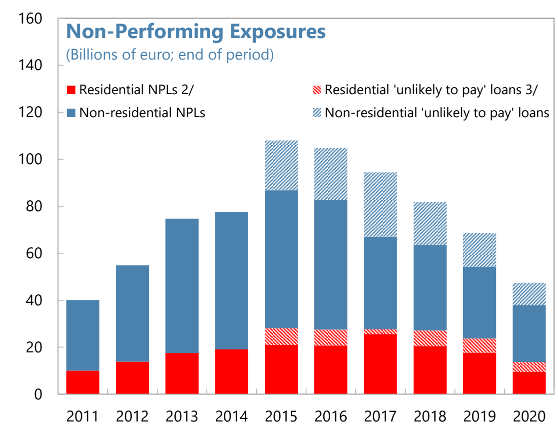
Pre-pandemic growth was modest, led by trade, tourism and services, agri-business, and manufacturing.



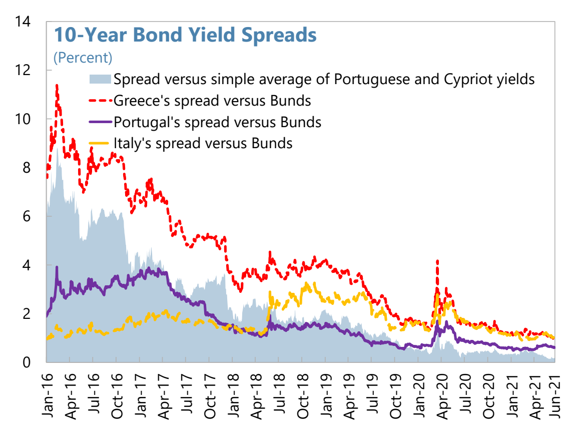
The primary surplus consistently exceeded its target, increasingly through expenditure compression.



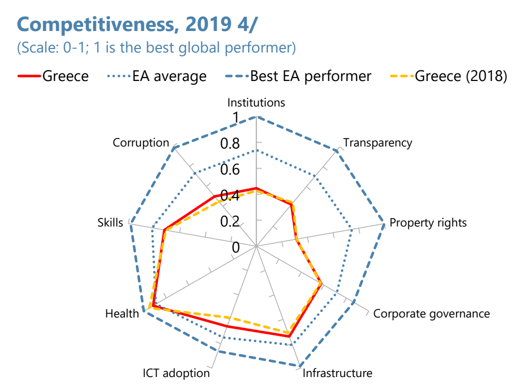
Greek banks entered the pandemic with improving but still highly impaired balance sheets…



…but Greek 10-year bond yield spreads had declined to their lowest level in a decade.



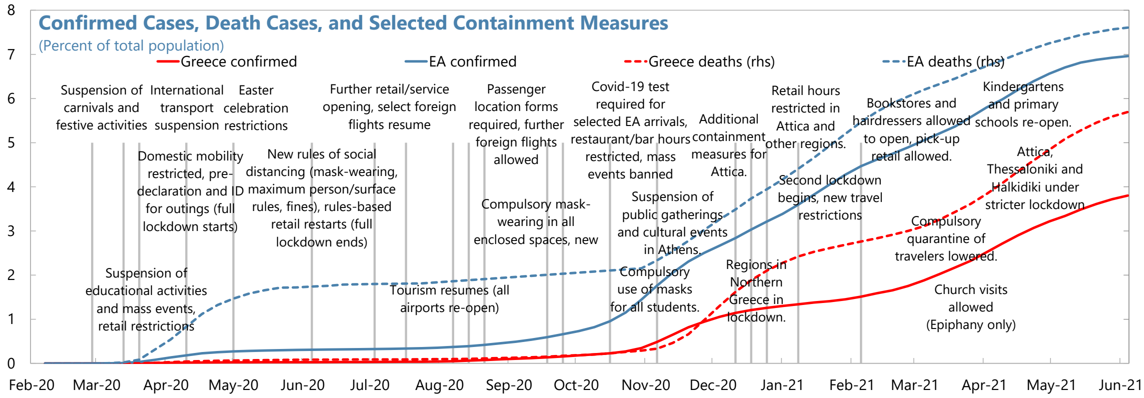
Despite some improvements, a substantial competitiveness gap remained vis-à-vis peers.



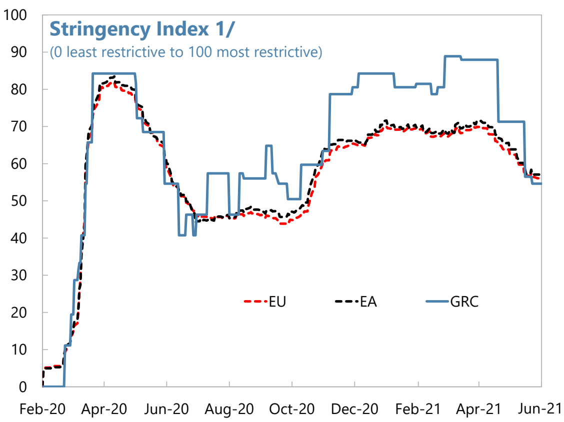
Source: Bank of Greece; Bloomberg Finance L.P.; ELSTAT; Haver Analytics; IMF, WEO database; Transparency International, Corruption Perception Index; World Economic Forum, Global Competitiveness Index; and IMF staff calculations.
1/ Base years are: 2011 for Cyprus; 2007 for Greece, Italy; 2008 for the rest.
2/ NPLs only include loans 90 days past due and denounced loans.
3/ "Unlikely to pay" loans include all other loans compliant with the EBA NPE definition; data unavailable prior to 2005.
4/ Surveys measure perceptions of competitiveness.

Figure 2. Greece: Health Developments

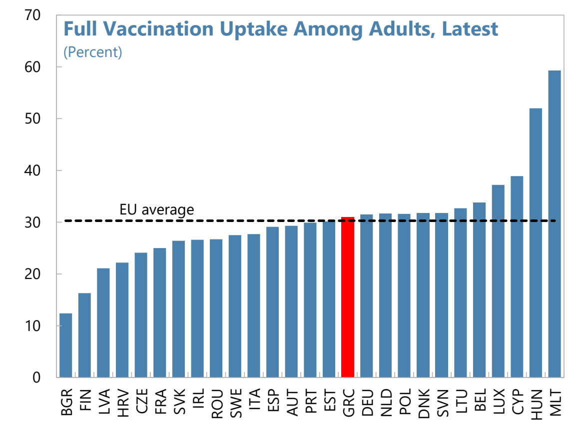
Cases and mortality in Greece are low by regional standards, but the third wave was more treacherous.



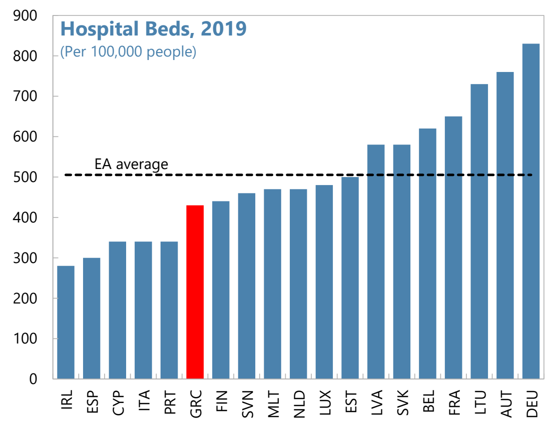
Strict lockdowns were lifted in May 2021.



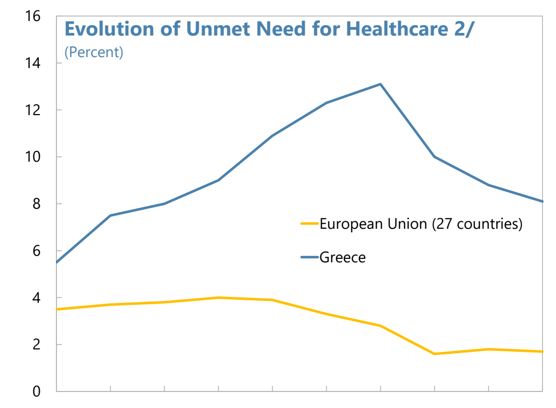
Full vaccination is progressing well...



...but capacity constraints to deal with cases remain...



... and unmet health needs remain higher vis-à-vis peers. 1/



Source: Blavatnik School of Government at the University of Oxford; Bloomberg Finance L.P.; Eurostat; Greek Authorities; Haver Analytics; Johns Hopkins University; Kalavrezou et al (IMF WP forthcoming); and IMF staff calculations.

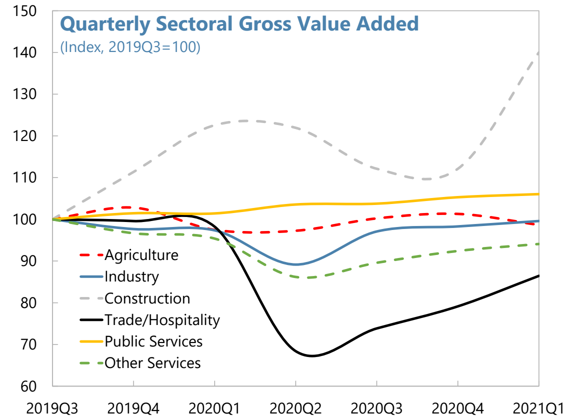
1/ "Healthcare Reform in Greece: Progress and Reform Priorities"; Kalavrezou et al (IMF Working Paper, forthcoming)

2/ EU-SILC indicator reports unmet medical needs due to cost, distance or waiting time.

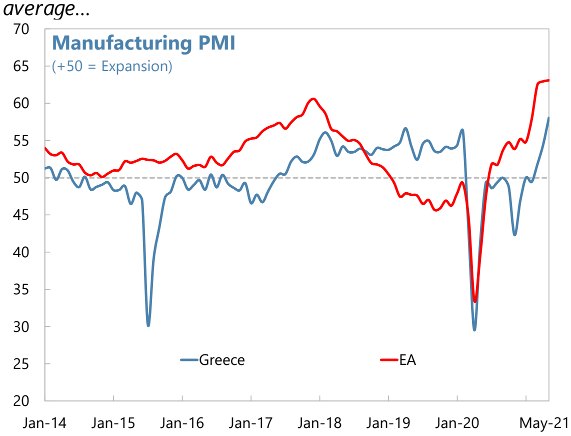
Figure 3. Greece: Recent Macroeconomic Developments

The contraction eased after 2020:Q2.

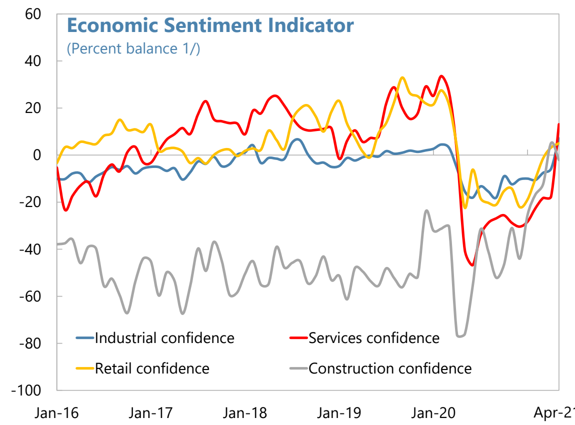
Construction activity held up well and other sectors bottomed out in the summer of 2020.



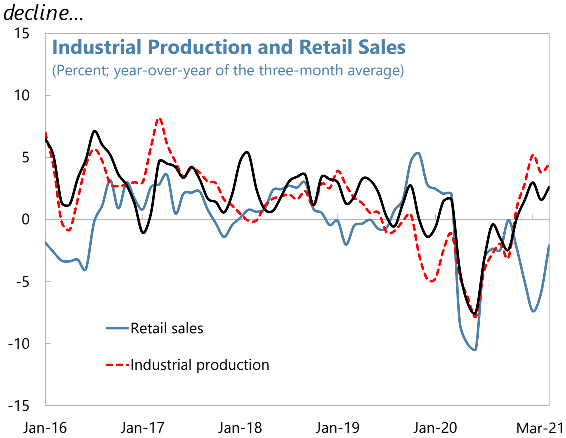
Manufacturing expectations have rebounded, but lag the EA average...



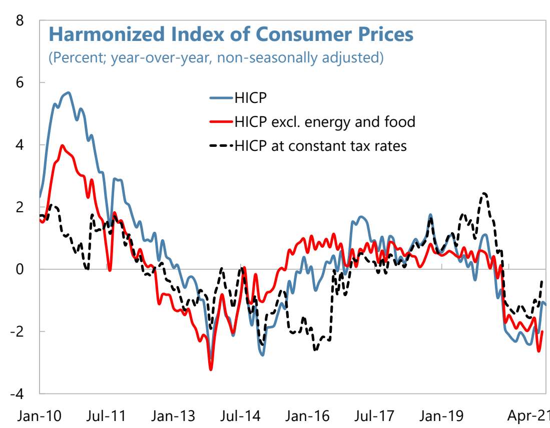
...while confidence indicators have improved.



Industrial production is expanding, but retail sales continue to decline...



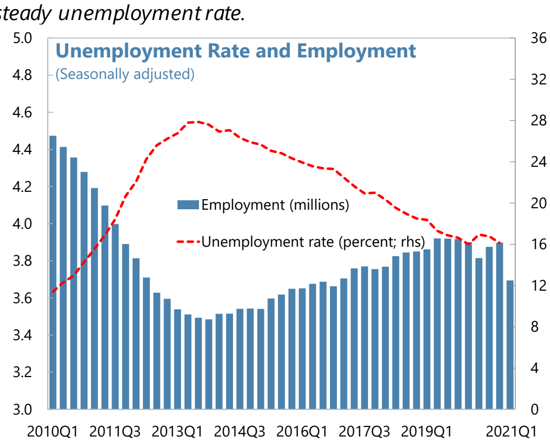
... reflecting constraints to domestic demand driving deflation.



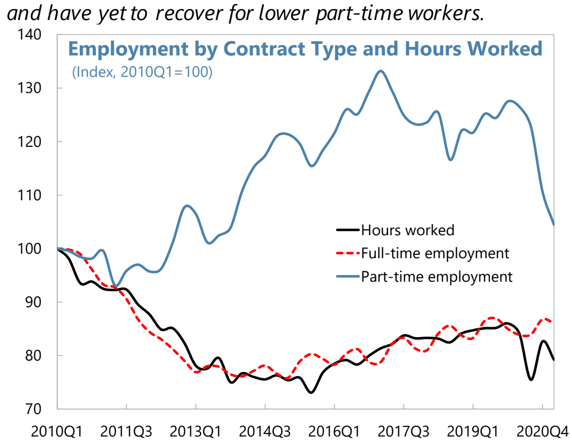
Source: ELSTAT; Eurostat; Greek Authorities; Haver Analytics; IHS Markit; and IMF staff calculations.
1/ Percent balance is the difference between weighted percentages of positive and negative replies.

Figure 4. Greece: Labor Market Developments

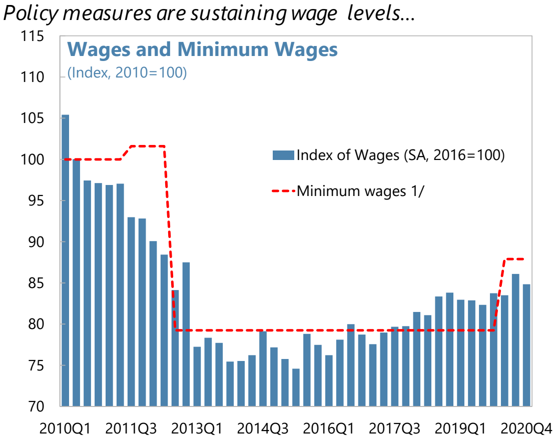
Policy measures aimed to protect employment, yielding a steady unemployment rate.



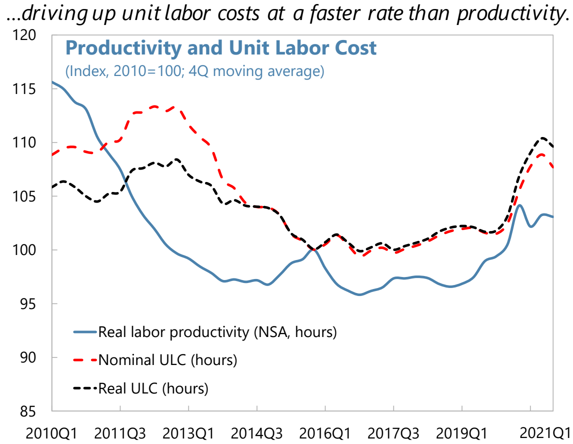
Hours worked fell sharply during the onset of the pandemic, and have yet to recover for lower part-time workers.



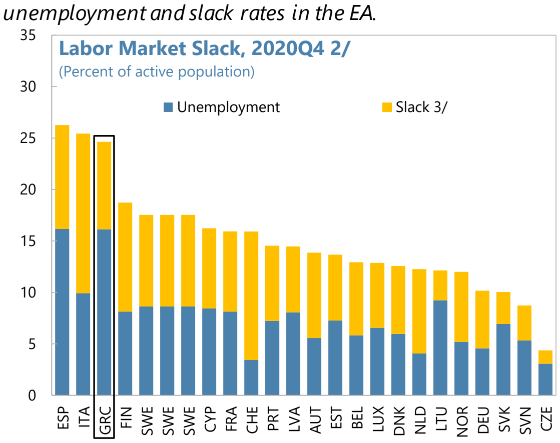
Policy measures are sustaining wage levels…



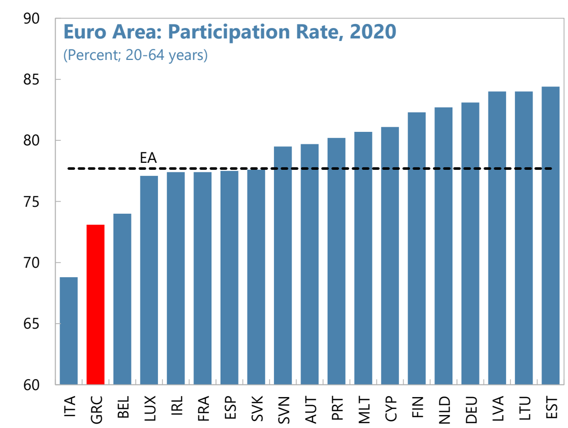
…driving up unit labor costs at a faster rate than productivity.



Greece continues to have one of the highest labor market unemployment and slack rates in the EA.



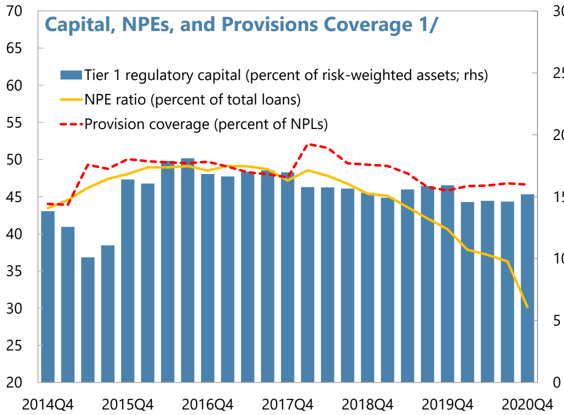
And features one of the lowest labor force participation rates.



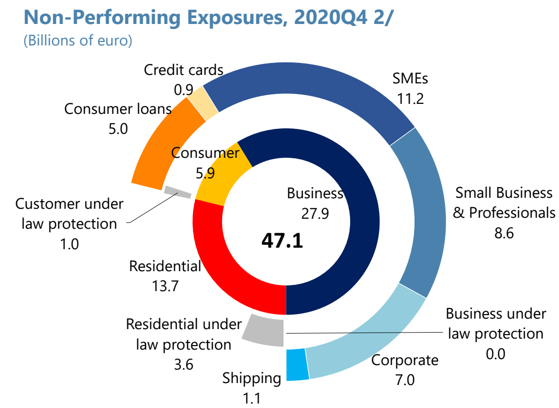
Source: ELSTAT; Eurostat; Haver Analytics; ILO, Global Wage Report; and IMF staff calculations.
1/ As of February 2019, the minimum wage increased by 11 percent to €650 for monthly wages and to €29 for daily wages.
2/ 2020Q3 slack for Norway.
3/ Slack includes underemployed part-time workers, persons available but not seeking work and persons seeking work but not immediately available.

Figure 5. Greece: Financial Sector Developments

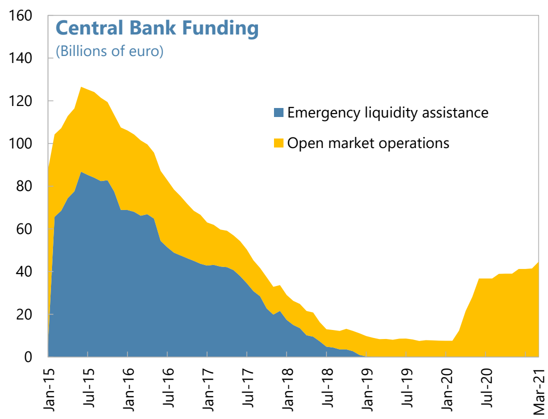
NPEs are declining amid stable capital ratios and provisioning coverage.



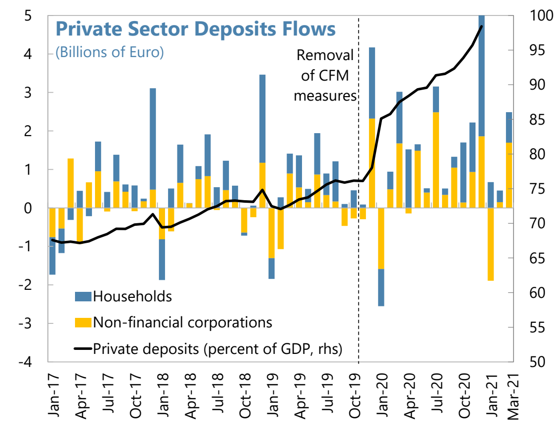
About one-third of residential NPEs remain under legal protection



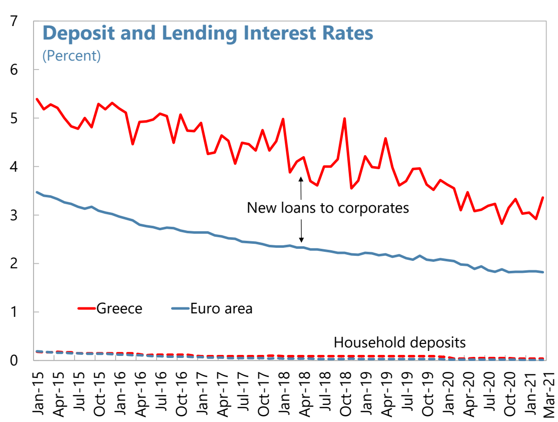
Central bank funding has normalized...



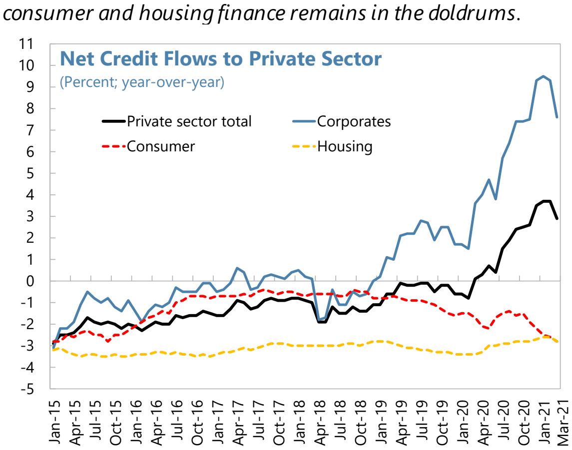
...owing to deleveraging and the recovery in deposits.



Lending rates are falling but remain elevated...



...while net credit growth to firms peaked in early 2021 while consumer and housing finance remains in the doldrums.



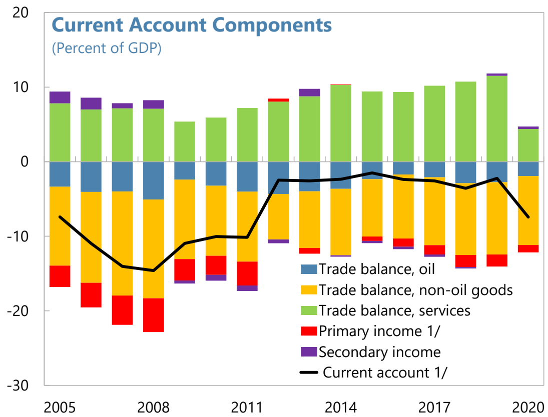
Sources: Bank of Greece; ELSTAT; Haver Analytics; S&P Market Global Intelligence; IMF, Financial Soundness Indicators database; and IMF staff calculations.

1/ Non-performing exposures are defined as loans that are 90 days or more past due, unlikely to be paid in full without realizing collateral, and impaired according to accounting rules, as well as loans that have been restructured for less than a year.

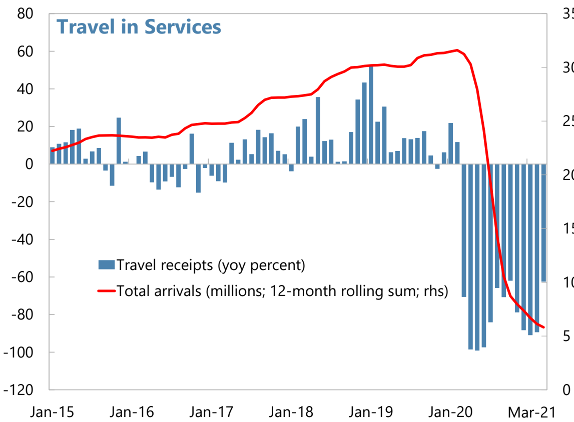
2/ On balance sheet non-performing exposures, solo basis.

Figure 6. Greece: External Sector Developments

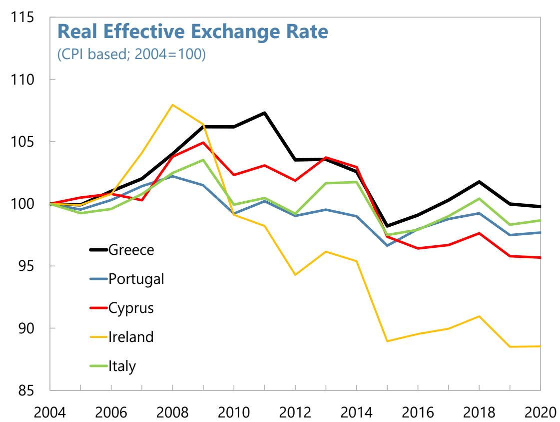
The current account balance deteriorated sharply in 2020…



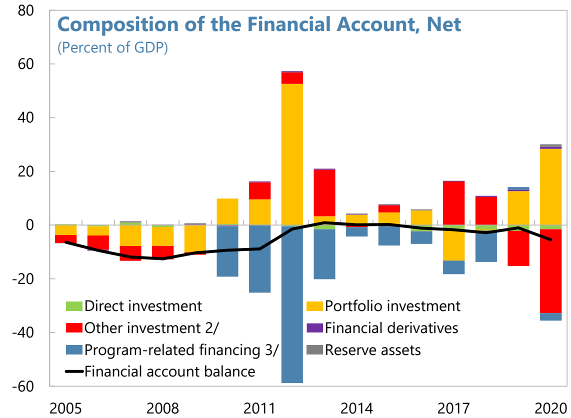
…as travel receipts collapsed due to the pandemic's impact on tourism.



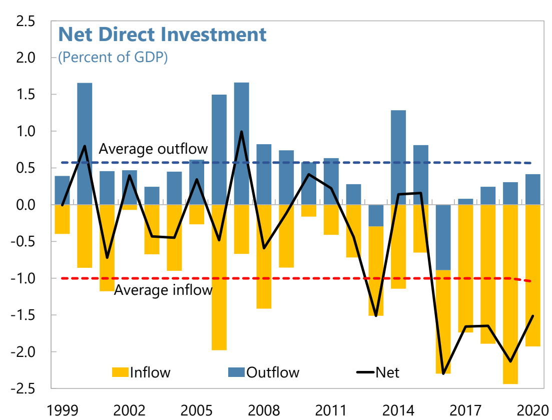
The CPI-based REER reversed its recent appreciation in 2019, remaining broadly stable in 2020.



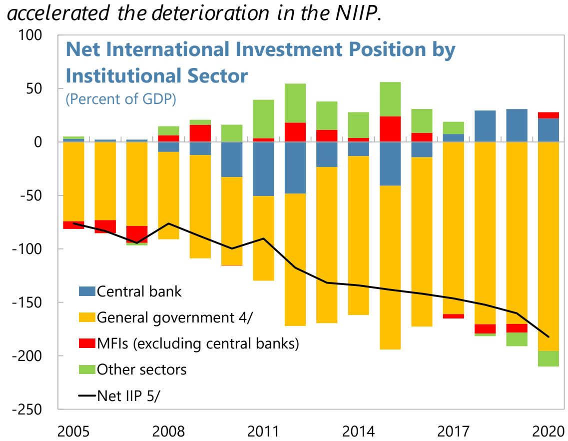
With official sector program-related financing tapering off, financial account dynamics continued to be driven by portfolio and other investment.



Net FDI remains negative.



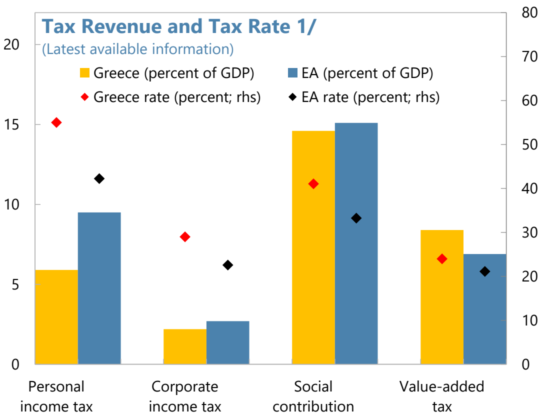
The sharp drop in GDP and increase in government debt accelerated the deterioration in the NIIP.



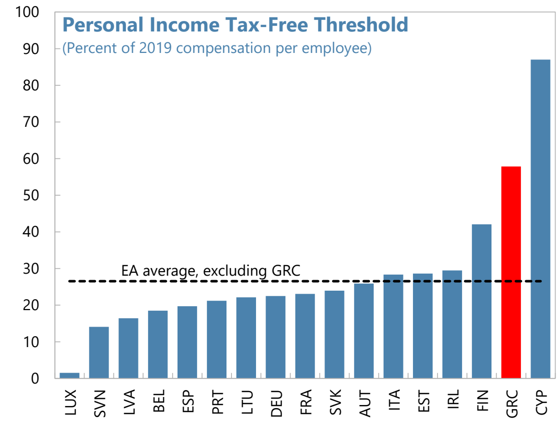
Sources: Bank of Greece; ELSTAT; Eurostat; European Central Bank; Haver Analytics; and IMF staff calculations.
1/ Includes deferred interest payments on EFSF loans (adjusted for compliance with the System of National Accounts (SNA)).
2/ Includes liabilities to Eurosystem related to TARGET2. Excludes official financing (SNA adjustment).
3/ Includes official financing and deferred interest payments on EFSF loans (SNA adjustment).
4/ Includes the stock of deferred interest payments on EFSF loans (SNA adjustment).
5/ The improvement in the net IIP in 2018 can be attributed to ELA reduction and TARGET2 balance normalization.

Figure 7. Greece: Fiscal Policy Mix

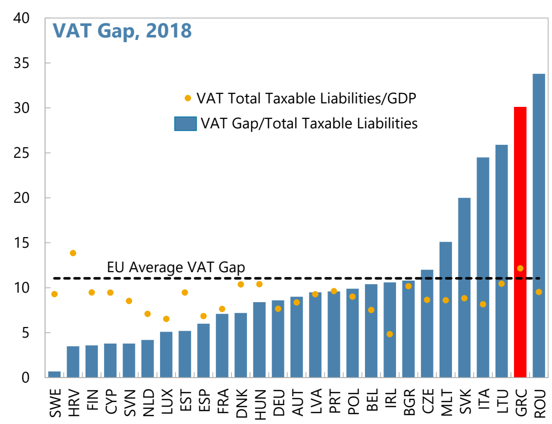
Greece has higher tax rates but lower revenues than EA peers...



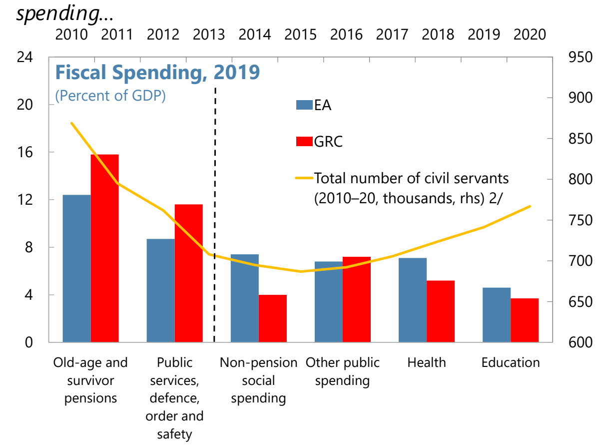
...reflecting a narrow tax base, notably in PIT...



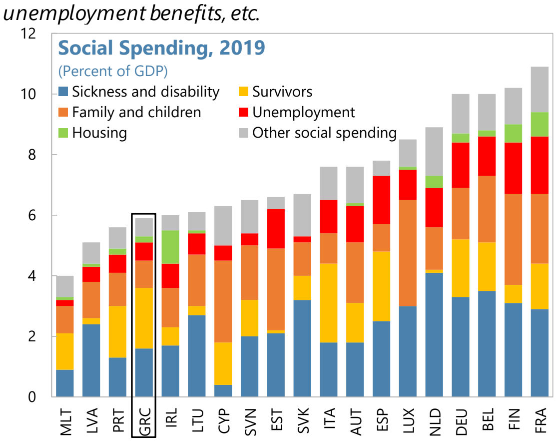
...and weak tax compliance, especially in VAT.



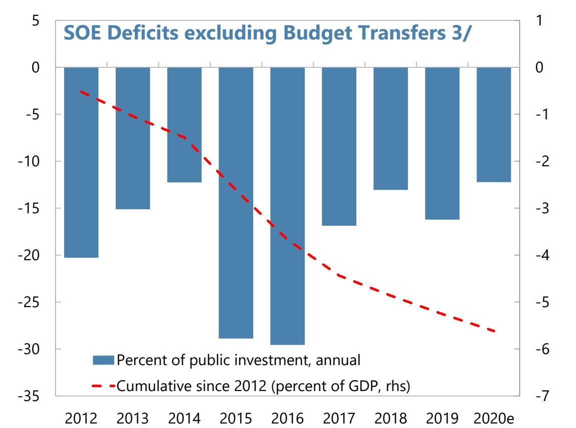
High pension and public sector employment costs creeping back to pre-crisis levels crowd out health and education spending...



...and critical social spending in childcare, housing, unemployment benefits, etc.



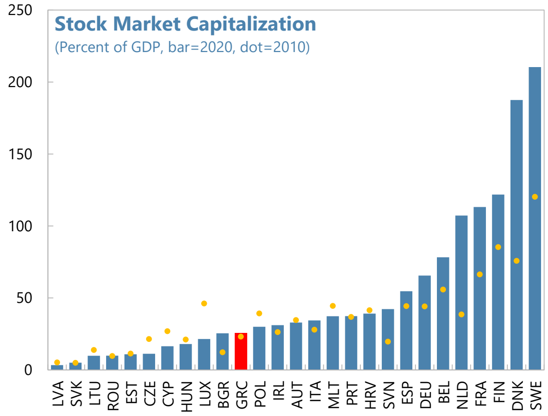
Meanwhile, SOEs continue to receive sizable state transfers.



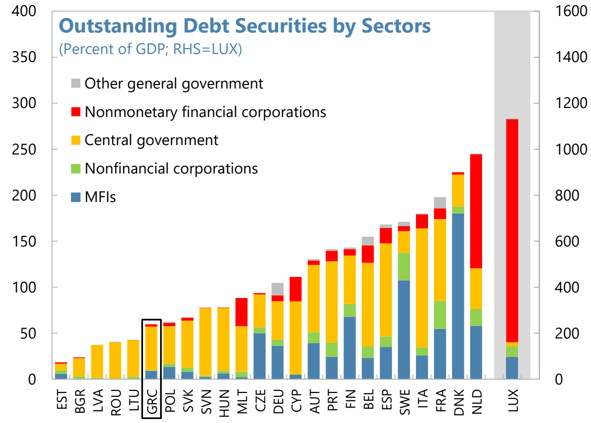
Source: Center for Social and Economic Research; Deloitte; Eurostat; Greek Authorities; KPMG; OECD and IMF staff calculations.
1/ PIT – top marginal rate; SSC – includes both employee's and employer's contributions; CIT and VAT – the standard rate.
2/ Secondary x-axis.
3/ SOE (excluding ETERPS) deficits excludes ordinary budget, PIB and other transfers.

Figure 8. Greece: Non-Bank Financial Institutions

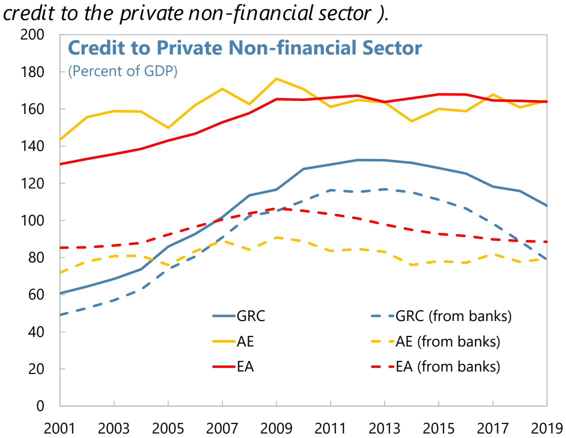
Greece's stock market capitalization is in the lower half of EU countries.



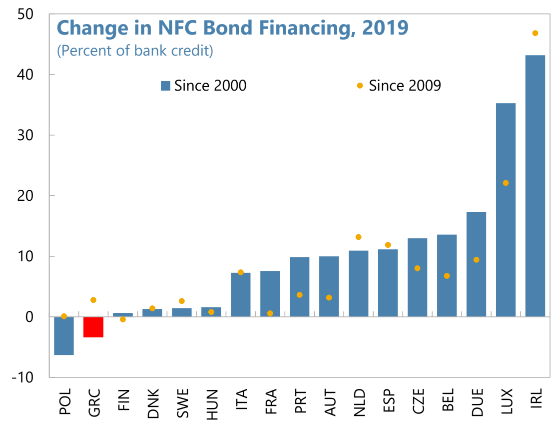
Total outstanding debt securities in GRC are among the lowest in the EU; mostly issued by the central government.



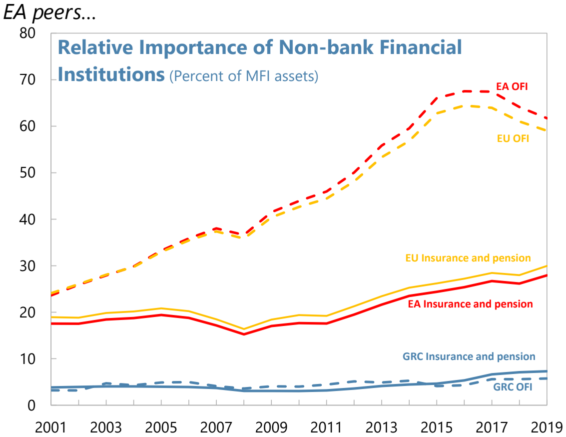
Banks account for most of Greece's credit to NFCs, while the EA is less bank dominated (contributing about half of the total credit to the private non-financial sector).



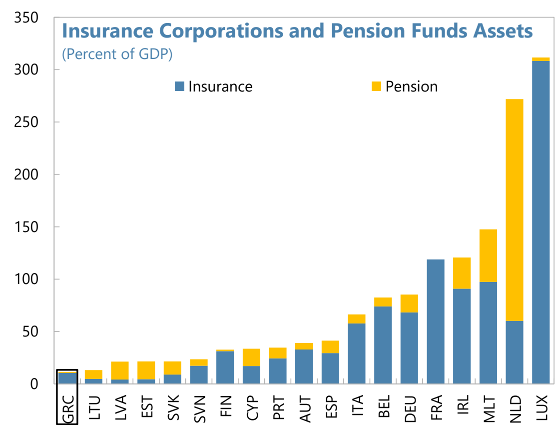
Greece's NFCs bond financing increased slightly since the GFC but remains lower than in 2000 and compared to peers.



Greece's Other Financial Intermediaries (OFI) and pension and insurance funds have experienced limited growth compared to EA peers...



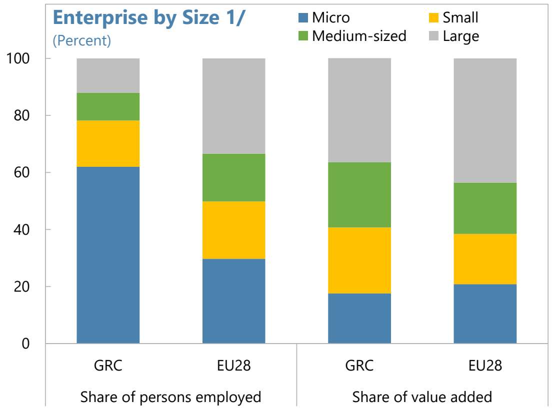
...while insurance and pension funds' are the lowest in the EA.



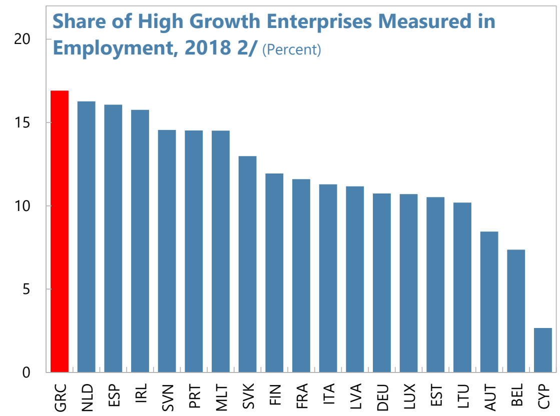
Source: BIS; Bloomberg Finance L.P.; ECB; Eurostat; Haver Analytics; IMF, WEO database; and IMF staff calculations.

Figure 9. Greece: Small and Medium Enterprises (SMEs)

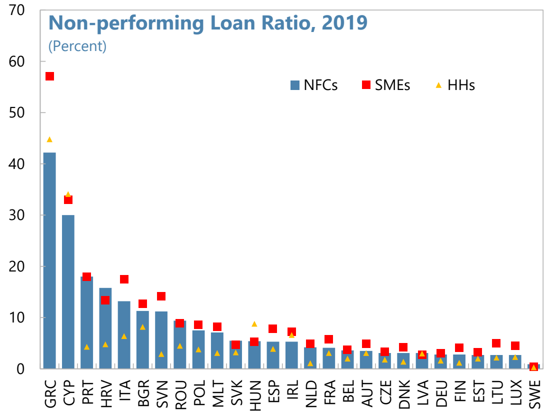
Micro and small firms employ a majority of the Greek labor force but contribute to less than half of gross value-added.



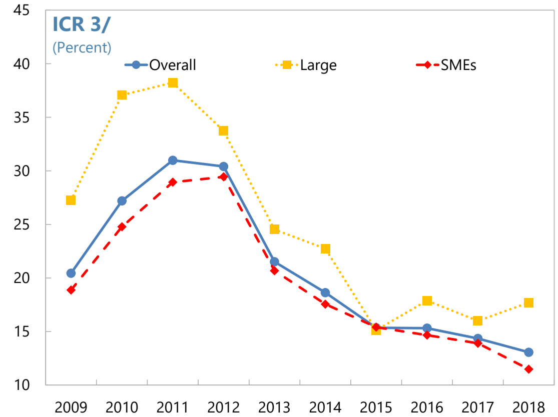
Prior to the pandemic, Greece had a relatively large share of firms with rapid employment growth.



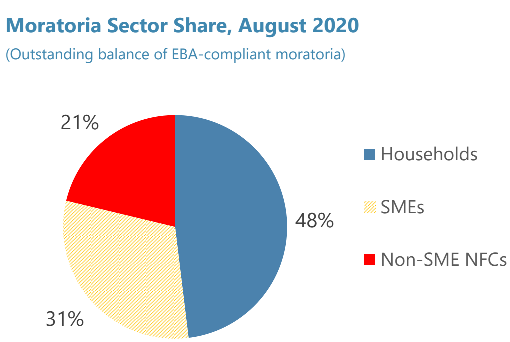
SMEs entered the pandemic with high legacy non-performing loans from the previous crisis…



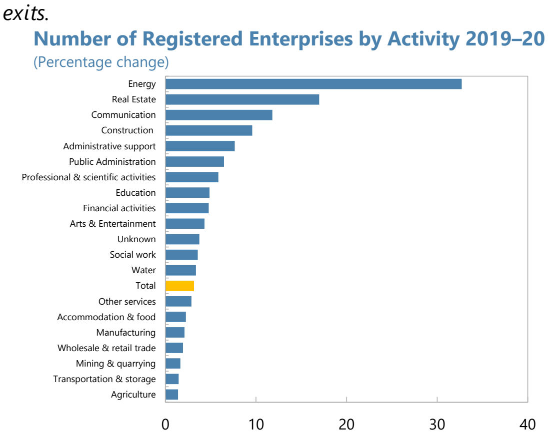
…but their balance sheets had improved in the last decade and financial vulnerability is now lower than in larger firms. 3/



SMEs took a substantial share of bank loans under pandemic-related moratoria…



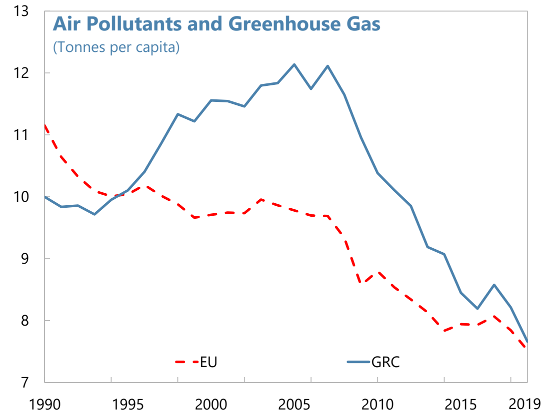
…suggesting policy measures are succeeding at preventing firm exits.



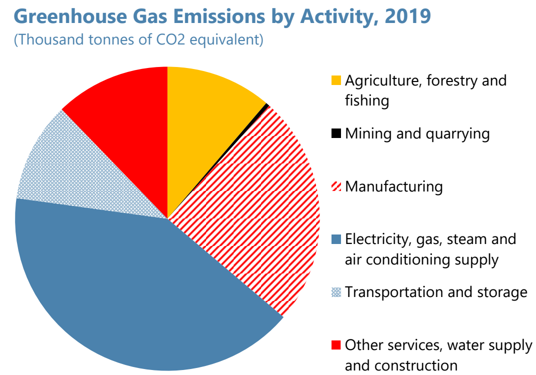
Source: ELSTAT; Bank of Greece; Bureau van Dijk Orbis; Eurostat; and IMF staff calculations.
1/ Estimates for 2018 are based on 2008–15 figures from the Structural Business Statistics Database (Eurostat) and ELSTAT.
2/ Number of high growth enterprises (HGE) divided by the number of active enterprises with >10 employees. HE are enterprises with an average annualized growth in the number of employees of more than 10 percent per year over a 3-year period and at least 10 employees when the growth began.
3/ See Parodi et al (SM/21/114)).

Figure 10. Greece: Tackling Climate Change

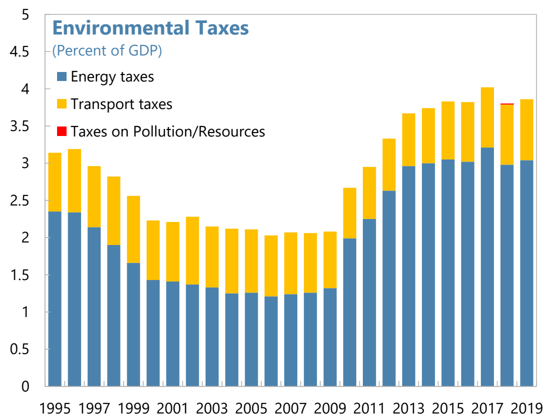
Greece's emissions per capita converged rapidly to the EU average since the onset of the GFC. 1/



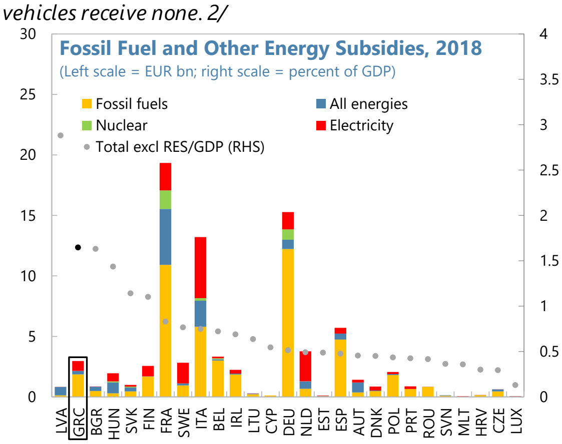
The highest-emission activity in production is electricity generation.



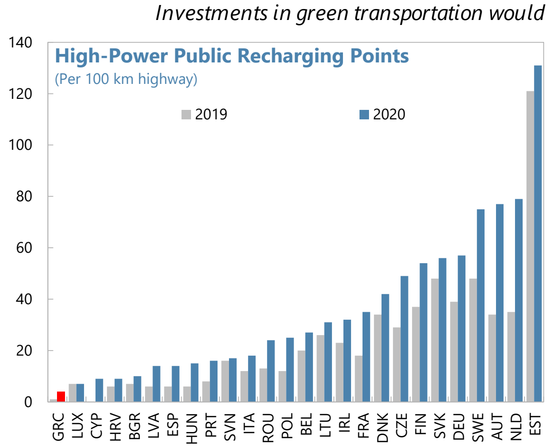
Environmental tax hikes helped meet fiscal targets…

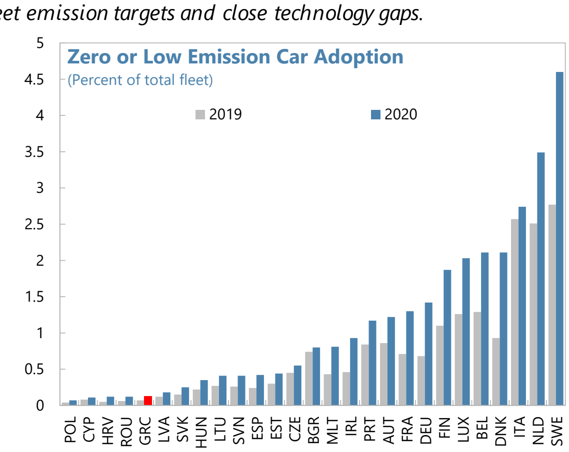


…but fossil fuels still receive subsidies, while zero-low emissions vehicles receive none. 2/



Investments in green transportation would help meet emission targets and close technology gaps.





Source: European Alternative Fuels Observatory; Eurostat; European Commission; Haver Analytics; and IMF staff calculations.
1/ OECD Country Survey 2020.
2/ "Sectoral Policies for Climate Change Mitigation in the EU", IMF EUR Departmental Paper Series No. 20/14 (IMF).

Table 1. Greece: Medium-Term Macro Framework, 2019–26

	2019	2020	2021	2022	2023	2024	2025	2026
		Projections						
	(Percentage change, unless otherwise indicated)							
Real GDP	1.9	-8.2	3.3	5.4	2.6	1.8	1.5	1.2
Total domestic demand	1.2	-2.4	1.4	3.0	2.4	2.4	1.8	1.4
Private consumption	1.9	-5.2	0.6	2.2	1.1	1.1	1.0	0.9
Public consumption	1.2	2.7	2.0	-0.4	-1.0	0.5	0.2	0.3
Gross fixed capital formation	-4.6	-0.7	6.1	15.0	15.8	11.7	7.8	4.4
Net exports								
Exports of goods and services	4.8	-21.7	8.5	16.1	5.7	2.4	2.5	2.4
Imports of goods and services	3.0	-6.8	2.4	8.3	5.3	3.9	3.2	2.7
Final consumption (contribution)	1.5	-3.1	0.8	1.5	0.5	0.8	0.7	0.7
Gross fixed capital formation (contribution)	-0.5	-0.1	0.7	1.7	1.9	1.6	1.2	0.7
Change in inventories (contribution)	0.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance (contribution)	0.7	-5.6	1.8	2.3	0.0	-0.7	-0.4	-0.2
Resource utilization								
Potential GDP	-0.7	-0.9	-0.3	0.2	0.5	0.7	0.8	1.0
Output gap (percent of potential)	-4.4	-12.3	-8.3	-3.5	-1.5	-0.5	0.2	0.3
Employment	2.2	-0.9	-0.2	1.8	1.8	0.9	0.1	0.0
Unemployment rate, period average (percent) 1/	17.3	16.4	16.5	15.2	13.7	12.5	12.1	11.8
Prices								
GDP deflator	0.2	-1.5	-0.2	0.7	0.9	1.5	1.8	1.8
Consumer prices (HICP), period average	0.5	-1.3	-0.3	0.8	1.0	1.6	1.8	1.9
Unit labor costs	0.8	7.6	-0.2	0.6	0.9	1.5	1.8	1.8
	(Percent of GDP, unless otherwise indicated)							
Current account 2/	-2.2	-7.4	-6.6	-3.5	-3.4	-3.4	-3.5	-3.4
Trade balance	-0.9	-6.8	-6.1	-2.8	-1.9	-2.0	-2.1	-2.0
Export of goods and services	39.6	31.1	35.2	37.4	38.0	38.0	38.2	38.4
Export of goods	17.7	17.4	19.7	18.4	18.1	18.1	18.1	18.2
Exports of services	21.9	13.7	15.6	19.0	19.9	19.9	20.0	20.2
Imports of goods and services	40.5	37.9	41.4	40.1	39.9	40.0	40.2	40.4
Imports of goods	30.1	28.6	31.5	30.1	29.7	29.7	29.9	30.0
Imports of services	10.4	9.3	9.8	10.0	10.2	10.3	10.3	10.4
Primary income 2/	-1.6	-1.0	-1.1	-1.2	-1.2	-1.2	-1.3	-1.4
Secondary income 3/	0.3	0.3	0.6	0.5	-0.3	-0.2	-0.1	-0.1
Net international investment position 4/	-160.3	-182.0	-182.4	-173.0	-169.5	-166.3	-163.1	-160.3
Gross external debt 4/	249.0	303.9	299.0	285.6	278.9	273.0	267.7	263.0
Private sector capital flows (net)	-2.3	-44.2	-6.2	0.5	-0.9	0.1	-0.6	-0.5
Fiscal Indicators (general government)								
Total revenues	48.0	50.2	49.7	49.2	49.1	48.8	48.1	47.6
Total expenditures	47.8	60.7	59.8	53.3	52.1	51.4	50.3	49.3
Primary expenditures	44.8	57.7	56.9	50.3	49.0	48.3	47.2	46.2
Primary balance	3.2	-7.5	-7.2	-1.1	0.1	0.5	1.0	1.5
Cyclically-adjusted primary balance	6.4	-0.3	-3.0	1.3	0.8	0.7	0.9	1.3
Overall balance	0.2	-10.5	-10.1	-4.1	-2.9	-2.5	-2.1	-1.7
Gross public debt 4/	184.9	211.2	213.8	204.1	197.0	192.6	188.0	183.6
Memorandum item:								
Nominal GDP (billions of euros)	183.4	165.8	171.0	181.5	187.9	194.1	200.5	206.5
General government debt excl. stock of deferred interests (billions of euros)	331.1	341.0	354.4	359.2	357.7	361.4	364.2	364.5

Sources: ELSTAT; Ministry of Finance; Bank of Greece; and IMF staff estimates.

1/ Based on Labor Force Survey.

2/ Includes deferred interest payments on EFSF loans (adjusted for the compliance with the System of National Accounts (SNA)).

3/ Includes transfers related to ANFA/SMP profits (SNA adjustments).

4/ Includes the stock of deferred interest payments on EFSF loans (SNA adjustments).

Table 2. Greece: Summary of Balance of Payments, 2019–26

	2019	2020	2021	2022	2023	2024	2025	2026
		Projections						
				(Billions of euros)				
Current account balance 1/	-4.1	-12.3	-11.2	-6.3	-6.4	-6.7	-7.0	-7.1
Balance of goods and services	-1.7	-11.2	-10.5	-5.0	-3.6	-3.8	-4.1	-4.1
Goods balance	-22.8	-18.5	-20.3	-21.3	-21.7	-22.5	-23.6	-24.5
Exports	32.4	28.9	33.6	33.3	34.1	35.2	36.4	37.5
Imports	55.3	47.4	53.9	54.7	55.8	57.7	60.0	62.0
Services balance	21.1	7.3	9.8	16.3	18.2	18.7	19.5	20.4
Credit	40.2	22.7	26.6	34.5	37.4	38.6	40.1	41.8
Debit	19.0	15.4	16.8	18.1	19.2	19.9	20.7	21.4
Primary income 1/	-3.0	-1.6	-1.9	-2.2	-2.3	-2.4	-2.6	-2.8
Credit	6.2	6.5	6.7	6.8	7.0	7.2	7.5	7.7
Debit 1/	9.2	8.1	8.6	9.0	9.3	9.6	10.1	10.5
Secondary income	0.6	0.6	1.1	0.9	-0.5	-0.5	-0.2	-0.1
Credit 2/	3.8	4.1	4.3	4.4	3.2	3.1	3.6	3.8
Debit	3.2	3.5	3.2	3.5	3.7	3.6	3.8	4.0
Capital account balance	0.7	2.7	3.6	3.1	3.0	2.8	2.8	3.0
Financial account balance	-3.5	-6.0	-8.8	-0.9	-3.5	-3.0	-2.9	-2.8
Direct investment	-3.9	-2.5	-3.5	-3.9	-2.8	-3.8	-3.1	-3.2
Portfolio investment	23.2	47.1	-5.6	-2.9	-2.9	-4.9	-4.5	-2.7
Financial derivatives	1.0	1.3	0.2	0.3	0.2	0.2	0.2	0.2
Other investment 3/	-23.8	-51.8	0.1	5.5	2.1	5.6	4.5	2.9
Net errors and omissions	1.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	1.6	-3.1	1.2	-2.3	0.1	-0.9	-1.2	-1.3
Reserve assets	0.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-4.2	0.0	-3.6	-0.2	-1.3	-0.3	0.0	0.0
Program-related financing 4/	2.7	4.6	2.4	2.4	1.2	1.2	1.2	1.3
				(Percent of GDP)				
Current account balance 1/	-2.2	-7.4	-6.6	-3.5	-3.4	-3.4	-3.5	-3.4
Balance on goods and services	-0.9	-6.8	-6.1	-2.8	-1.9	-2.0	-2.1	-2.0
Goods balance	-12.4	-11.2	-11.9	-11.8	-11.6	-11.6	-11.8	-11.9
Services balance	11.5	4.4	5.7	9.0	9.7	9.6	9.7	9.9
Primary income 1/	-1.6	-1.0	-1.1	-1.2	-1.2	-1.2	-1.3	-1.4
Secondary income 2/	0.3	0.3	0.6	0.5	-0.3	-0.2	-0.1	-0.1
Capital account balance	0.4	1.6	2.1	1.7	1.6	1.4	1.4	1.4
Financial account balance	-1.9	-3.6	-5.2	-0.5	-1.9	-1.5	-1.5	-1.4
Direct investment	-2.1	-1.5	-2.0	-2.1	-1.5	-2.0	-1.6	-1.6
Portfolio investment	12.7	28.4	-3.3	-1.6	-1.6	-2.5	-2.2	-1.3
Financial derivatives	0.6	0.8	0.1	0.2	0.1	0.1	0.1	0.1
Other investment 3/	-13.0	-31.2	0.1	3.0	1.1	2.9	2.2	1.4
Net errors and omissions	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	0.9	-1.9	0.7	-1.2	0.1	-0.5	-0.6	-0.6
Reserve assets	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-2.3	0.0	-2.1	-0.1	-0.7	-0.2	0.0	0.0
Program-related financing 4/	1.4	2.8	1.4	1.3	0.6	0.6	0.6	0.6
Gross external debt	249.0	303.9	299.0	285.6	278.9	273.0	267.7	263.0
Public sector 5/	184.9	232.2	227.7	215.7	208.9	202.6	196.8	191.8
Private sector	64.2	71.7	71.3	69.9	70.0	70.4	70.9	71.2
Memorandum item:								
Current account balance in cash terms	-1.5	-6.7	-5.9	-2.8	-2.8	-2.8	-2.9	-2.8
Deferred interest payments on EFSF loans	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6

Sources: Bank of Greece; and IMF staff estimates.

1/ Includes deferred interest payments on EFSF loans (IMF staff calculation to align with accrual accounting).

2/ Includes transfers related to ANFA/SMP profits.

3/ Includes liabilities to Eurosystem related to TARGET. Excludes official financing (IMF staff calculation).

4/ Includes official financing (IMF staff calculation), deferred interest payments on EFSF loans (IMF staff calculation), and transfers related to ANFA/SMP profits.

5/ Includes the stock of deferred interest payments on EFSF loans (IMF staff calculation) and debt of the monetary authority.

Table 3. Greece: General Government Operations, 2019–26 1/

	2019	2020	2021	2022	2023	2024	2025	2026
		Projections						
	(Billions of euros)							
Revenue	88.0	83.2	85.0	89.3	92.3	94.8	96.5	98.4
Indirect taxes	31.7	27.2	29.7	30.1	30.7	31.4	31.4	32.2
Direct taxes	17.8	15.2	15.0	16.7	18.1	18.7	19.2	19.7
Social contributions	26.7	25.5	25.0	25.9	26.8	27.8	28.8	29.2
Other current revenue	3.5	3.7	3.8	3.5	3.3	4.0	3.9	3.9
Sales	5.4	5.0	5.1	5.4	5.7	5.7	5.9	6.0
Capital revenue	3.1	6.7	6.4	7.8	7.7	7.2	7.2	7.2
Primary expenditure	82.1	95.7	97.3	91.3	92.1	93.8	94.5	95.3
Social benefits	39.5	39.5	40.7	40.9	41.2	41.6	42.0	42.5
Subsidies	1.8	5.9	3.1	2.2	2.1	1.8	1.4	1.4
Other current expenditure	2.9	3.1	4.6	3.0	3.2	3.6	3.4	3.7
Compensation of employees	21.9	22.3	23.0	23.4	23.9	24.5	25.1	25.7
Intermediate consumption	8.5	8.7	9.9	10.0	9.0	9.7	9.7	9.6
Investment	4.7	5.2	8.2	10.0	10.5	10.5	10.6	10.0
Capital transfers payable	2.8	11.0	7.8	1.8	2.0	2.2	2.4	2.4
Primary balance (accrual)	5.9	-12.5	-12.2	-2.0	0.3	0.9	2.0	3.0
Cash basis	6.4	-16.0	-12.5	-5.2	-2.3	-1.3	0.1	1.2
Interest 2/	5.5	4.9	5.0	5.4	5.8	5.8	6.2	6.5
Overall balance	0.4	-17.4	-17.2	-7.4	-5.5	-4.9	-4.2	-3.5
Gross debt 3/	339.1	350.3	365.6	370.4	370.1	373.7	377.0	379.2
	(Percent of GDP)							
Total primary revenue	48.0	50.2	49.7	49.2	49.1	48.8	48.1	47.6
Indirect taxes	17.3	16.4	17.4	16.6	16.3	16.2	15.7	15.6
Direct taxes	9.7	9.2	8.7	9.2	9.6	9.6	9.6	9.5
Social contributions	14.5	15.3	14.6	14.3	14.3	14.3	14.4	14.1
Other current revenue	1.9	2.2	2.2	1.9	1.8	2.1	1.9	1.9
Sales	2.9	3.0	3.0	3.0	3.0	3.0	3.0	2.9
Capital revenue	1.7	4.0	3.8	4.3	4.1	3.7	3.6	3.5
Total primary expenditure	44.8	57.7	56.9	50.3	49.0	48.3	47.2	46.2
Social benefits	21.6	23.8	23.8	22.5	21.9	21.4	21.0	20.6
Subsidies	1.0	3.6	1.8	1.2	1.1	0.9	0.7	0.7
Other current expenditure	1.6	1.9	2.7	1.7	1.7	1.8	1.7	1.8
Compensation of employees	11.9	13.4	13.4	12.9	12.7	12.6	12.5	12.4
Intermediate consumption	4.6	5.2	5.8	5.5	4.8	5.0	4.9	4.7
Investment	2.6	3.1	4.8	5.5	5.6	5.4	5.3	4.8
Capital transfers payable	1.5	6.6	4.6	1.0	1.1	1.1	1.2	1.2
Primary balance (accrual)	3.2	-7.5	-7.2	-1.1	0.1	0.5	1.0	1.5
Interest 2/	3.0	3.0	2.9	3.0	3.1	3.0	3.1	3.2
Overall balance	0.2	-10.5	-10.1	-4.1	-2.9	-2.5	-2.1	-1.7
Gross debt 3/	184.9	211.2	213.8	204.1	197.0	192.6	188.0	183.6
Nominal GDP (billions of euros)	183.4	165.8	171.0	181.5	187.9	194.1	200.5	206.5

Sources: ELSTAT; Ministry of Finance; and IMF staff estimates.
1/ Based on the primary balance definition outlined in the EU enhanced surveillance framework with Greece.
2/ On an accrual basis, inclusive of deferred interest but excluding swaps-related cash flows.
3/ General government debt includes the stock of deferred interest.

Table 4. Greece: Monetary Survey, 2017–21

	2017	2018	2019	2020	2021
					Mar.
			(Billions of euros)		
Aggregated balance sheet of Monetary Financial Institutions (MFIs)					
Total assets	427.7	402.4	419.5	520.0	530.9
Cash (held by credit institutions)	1.8	1.8	2.1	1.9	1.7
Claims on Bank of Greece	2.0	6.9	9.1	27.3	31.3
Claims on other MFIs	50.7	27.9	21.2	56.3	58.3
Claims (loans) on non MFIs	201.0	186.1	172.1	159.7	158.2
Domestic	197.5	183.1	162.5	149.4	146.2
General government	13.7	12.9	8.4	8.0	6.5
Other sectors	183.8	170.2	154.1	141.4	139.6
Other countries	3.4	3.0	9.7	10.3	12.0
Securities 1/	103.4	105.6	136.7	192.3	200.6
Other assets	64.3	69.5	72.2	76.1	74.5
Fixed assets	4.5	4.6	6.1	6.4	6.2
Total Liabilities	427.7	402.4	419.5	520.0	530.9
Liabilities to Bank of Greece	33.7	11.1	7.7	41.2	44.6
Liabilities to other MFIs	79.2	62.1	56.4	116.6	128.4
Deposits and repos of non MFIs	157.6	185.3	195.2	207.9	208.9
Domestic	150.9	178.1	187.2	199.4	198.8
Other countries	6.7	7.2	8.0	8.5	10.1
Capital and reserves	83.5	69.9	69.1	63.4	62.0
Banknotes and coins in circulation	31.9	33.6	30.4	33.5	33.8
Other liabilities	41.8	40.5	60.8	57.4	53.2
Money and credit					
Broad money	171.0	178.4	185.9	208.4	210.6
Credit to the private sector 2/	183.4	169.8	153.7	141.0	139.2
Credit to government	18.9	18.2	19.7	27.4	28.8
			(Annual percentage change)		
Broad money	5.7	4.3	4.2	12.1	12.9
Domestic private sector deposits	4.2	6.3	6.1	12.9	12.5
Credit to the private sector 2/	-5.8	-7.5	-9.5	-8.2	-5.4
Credit to government	-0.7	-3.8	8.2	39.3	37.6
			(Percent of GDP)		
Broad money	96.6	99.4	101.9	125.5	130.4
Domestic deposits	85.2	99.2	102.6	120.1	123.1
Credit to the private sector 2/	103.6	94.6	84.2	84.9	86.2
Credit to government	10.7	10.1	10.8	16.5	17.8
Memorandum items:			(Percent)		
Capital to assets	11.2	8.9	9.0	8.1	8.0
Loans to customer deposits	127.1	106.7	81.2	71.2	71.7
Velocity	1.0	1.0	1.0	0.8	0.8

Sources: Bank of Greece; and IMF staff calculations.

1/ Holdings of securities other than shares and derivatives.

2/ Credit to domestic non-MFI residents by domestic MFIs excluding the BoG, including securitized loans and corporate bonds.

Table 5. Greece: Core Set of Financial Soundness Indicators (Deposit-Taking Institutions), 2014–20 (Percent, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020
Core set							
Regulatory capital to risk-weighted assets 1/	14.1	16.5	16.9	17.0	16.0	17.0	16.7
Regulatory Tier I capital to risk-weighted assets 1/	13.8	16.4	16.8	17.0	15.3	15.9	15.0
Nonperforming loans net of provisions to capital 2/	120.5	80.8	81.6	172.4	157.6	129.2	105.4
Nonperforming loans to total gross loans 2/	33.8	36.6	36.3	45.6	42.0	36.4	27.0
Bank provisions to nonperforming loans	55.8	67.6	68.9	46.8			
Return on assets (after taxes)	-1.0	-2.5	0.1	-0.2	0.0	0.1	-0.6
Return on equity (after taxes)	-10.4	-29.3	0.8	-1.3	-0.4	0.7	-5.9
Interest margin to gross income	81.8	85.3	79.6	78.4	71.9	67.5	57.4
Non-interest expenses to gross income	61.1	61.0	53.6	59.5	64.3	65.1	49.1
Liquid assets to total assets 3/	28.9	29.7	27.0	17.7	19.6	29.6	38.9
Liquid assets to short-term liabilities 3/	40.1	40.4	36.3	24.3	26.5	44.4	53.5
Net open position in foreign exchange to capital 1/	5.4	5.6	0.8	1.3	0.7	0.6	0.7
Encouraged set							
Spread between reference lending and deposit rates (end-of-period, basis points) 4/	6.2	5.9	5.6	5.3	5.0	4.7	4.4
Customer deposits to total (noninterbank) loans 3/	90.3	71.8	76.0	68.1	81.3	91.6	91.7
Foreign currency-denominated liabilities to total liabilities 3/	5.6	3.1	3.5	4.3	4.4	4.3	3.9
Market liquidity							
Average bid-ask spread in the securities market (basis points)	157.0	173.0	149.0	100.0	67.0	95.0	58.0
Households							
Household debt to GDP	63.0	62.3	60.2	57.0	52.4	53.3	59.0
Real estate markets							
Residential real estate loans to total loans 3/	26.8	27.6	27.2	29.1	30.4	29.2	23.7
Memorandum items:							
Assets (billions of euros)							
Banks	375.0	367.8	342.2	292.2	...	...	...
Branches of foreign banks	9.1	5.8	5.9	5.3	...	...	...
General insurance companies 5/	16.3	16.6	15.9	16.9	...	...	...
Other credit institutions	13.0	12.0	3.2	3.3	...	...	...
Deposits (billions of euros)							
Banks	174.3	128.7	134.6	138.7	...	...	...
Branches of foreign banks	2.5	2.8	3.6	3.4	...	...	...

Source: Bank of Greece.

1/ Data on a consolidated basis.

2/ Loans are classified as nonperforming when (1) payments of principal and interest are past due by 90 days or more, or (2) interest payments equal to 90 days or more have been capitalized (reinvested in to the principal amount, refinanced, or rolled over). NPL also include those loans with payments less than 90 days past due that are recognized as nonperforming under the national supervisory guidance. This definition does not take into account restructured NPLs or exposures that are unlikely to be repaid on the basis of qualitative criteria.

3/ On an aggregate resident-based approach (i.e. commercial banks, cooperative banks, and foreign branches).

4/ Spread between rate on credit lines and savings deposit rate.

5/ There are no specialised life insurance companies in Greece. General insurance companies offer general insurance and life insurance

Table 6. Greece: General Government Financing Requirements and Sources, 2018–26

(Billions of euro, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Projections						
Gross borrowing need	35.9	21.6	29.1	32.6	24.2	20.2	19.9	17.4	21.6
Overall deficit	-1.4	-2.3	17.1	16.9	6.7	4.9	4.0	2.6	1.6
Primary deficit 1/	-6.1	-7.3	12.2	11.9	1.6	-0.3	-0.9	-2.0	-3.0
Interest payments (cash) 2/	4.7	5.0	4.9	5.0	5.1	5.2	4.9	4.6	4.6
Amortization	18.6	28.9	18.8	18.9	20.6	21.6	17.6	15.4	20.6
Short-term (T-bills)	14.3	11.2	12.6	11.8	12.6	10.0	8.0	7.0	6.0
Medium and long-term (non-official)	2.6	13.5	5.4	1.4	5.1	5.8	4.8	3.9	10.1
Official creditors	1.7	4.2	0.7	5.7	2.8	5.8	4.8	4.5	4.5
IMF	1.7	4.2	0.0	3.6	0.2	1.3	0.3	0.0	0.0
GLF/EFSF/ESM	0.0	0.0	0.7	2.1	2.6	4.5	4.5	4.5	4.5
Other	18.8	-5.0	-6.7	-3.1	-3.0	-6.3	-1.6	-0.6	-0.6
Arrears clearance	1.9	0.0	0.6	0.6	0.0	0.0	0.0	0.0	0.0
Privatization	-0.8	0.0	-0.4	-0.8	-1.1	-0.1	-0.1	-0.1	0.0
ECB related income (SMP/ANFA)	-0.3	-1.6	-1.5	-1.5	-1.4	-0.1	0.0	0.0	0.0
Reimbursement of the step-up margin 3/	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government deposits: replenishment (+) / drawdown (-)	18.0	-3.3	-5.5	-1.5	-0.5	-6.2	-1.5	-0.5	-0.5
Gross financing sources	35.9	21.6	29.1	32.6	24.2	20.2	19.9	17.4	21.6
Market access	14.2	21.6	27.1	29.4	24.2	20.2	19.9	17.4	21.6
Short-term (T-bills)	11.2	12.6	11.8	12.6	10.0	8.0	7.0	6.0	6.0
Medium and long-term (incl. through private placements)	3.0	9.0	15.3	16.7	14.2	12.2	12.9	11.4	15.6
Official financing	21.7	0.0	2.0	3.3	0.0	0.0	0.0	0.0	0.0
European institutions 4/	21.7	0.0	2.0	3.3	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items:									
Deposits of general government 5/	38.4	36.4	31.0	28.7	27.4	20.5	18.2	16.9	15.6
Directly available to state government 6/	30.0	29.6	24.5	22.2	20.9	14.0	11.7	10.4	9.0
State government in BoG 7/	20.3	18.3	17.5	16.5	16.0	9.9	8.4	7.9	7.4
State government in commercial banks	6.5	5.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0
General government entities in BoG	3.2	6.1	6.5	5.7	4.9	4.1	3.3	2.5	1.7
General government entities in commercial banks 8/	8.5	6.8	6.5	6.5	6.5	6.5	6.5	6.5	6.5

Sources: Ministry of Finance; and IMF staff projections.

1/ Includes adjustments to reflect cash flow concept.

2/ Includes swaps-related cash flows.

3/ The step-up interest rate margin (for part of the EFSF loans) paid by Greece for the period between 1 January and 17 June 2018.

4/ Includes disbursements from the SURE program and the EIB in 2020 and 2021.

5/ Total general government deposits (€36.4 billion) consist of state government deposits (€23.5 billion) and general government entities' deposits (€12.9 billion) in the BOG and commercial banks as of end-December 2019.

6/ Total deposits of general government excluding deposits of general government entities in commercial banks.

7/ Includes the TSA and cash buffer accounts. The drawdown of the cash buffer account is subject to ESM approval.

8/ Excludes cash balances of the Deposit and Investment Guarantee Fund (TEKE).

Table 7. Greece: External Financing Requirement and Sources, 2019–26

(Billions of euro, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026
		Projections						
Gross financing requirements	103.2	130.3	139.6	133.4	137.6	140.9	142.2	146.4
Current account deficit	4.1	12.3	11.3	6.2	6.4	6.9	6.8	7.1
Medium and long-term debt amortization	16.1	10.5	12.7	10.9	17.1	13.7	13.7	15.1
Public sector	10.8	4.3	6.6	4.8	11.1	7.7	7.7	9.2
Of which: GLF/EFSF/ESM/IMF	4.2	0.7	5.7	2.8	5.8	4.8	4.5	4.5
Banks	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Other	3.7	4.6	4.5	4.5	4.4	4.4	4.3	4.3
Short-term debt amortization	83.0	107.5	115.6	116.4	114.1	120.4	121.7	124.2
Public sector and Bank of Greece	37.0	38.9	59.1	60.3	57.4	63.2	64.2	66.4
Bank of Greece 1/	31.5	31.9	51.7	52.9	50.7	57.3	59.1	61.3
Public sector	5.5	7.0	7.5	7.5	6.7	5.9	5.1	5.1
Banks 2/	35.9	59.2	47.2	46.9	47.9	48.4	48.9	49.5
Other	10.0	9.5	9.3	9.1	8.9	8.7	8.5	8.4
Source of financing	104.9	127.8	140.8	131.2	137.7	140.0	140.9	145.2
Capital account (net)	0.7	2.7	2.6	3.0	3.1	3.0	2.5	2.6
Foreign direct investment (net)	3.9	2.5	3.5	3.9	2.8	3.8	3.1	3.2
Equities (net)	0.0	-0.1	-0.1	-0.1	-0.2	-0.3	-0.4	-0.4
Assets drawdown (- increase)	-24.4	-14.2	-3.4	-5.6	-3.3	-3.3	-3.5	-3.5
Bank of Greece	-6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	-21.9	-13.0	-2.8	-4.7	-2.7	-2.7	-2.8	-2.8
Other sector	5.1	-1.2	-0.5	-1.0	-0.6	-0.6	-0.7	-0.6
New borrowing and debt rollover	123.2	136.8	138.1	130.0	135.3	136.8	139.2	143.2
Medium and long-term borrowing	13.5	21.3	21.7	15.9	15.0	15.1	15.0	14.8
Public sector	7.7	14.6	15.1	9.2	8.3	8.5	8.3	8.2
Banks	2.4	2.4	2.5	2.5	2.6	2.6	2.7	2.7
Other	3.3	4.2	4.2	4.1	4.1	4.0	4.0	3.9
Short-term borrowing	109.8	115.6	116.4	114.1	120.4	121.7	124.2	128.4
Public sector and Bank of Greece	39.5	59.1	60.3	57.4	63.2	64.2	66.4	70.2
Bank of Greece 1/	31.3	51.7	52.9	50.7	57.3	59.1	61.3	65.1
Public sector 3/	8.2	7.5	7.5	6.7	5.9	5.1	5.1	5.1
Banks 2/	60.3	47.2	46.9	47.9	48.4	48.9	49.5	50.0
Other	9.9	9.3	9.1	8.9	8.7	8.5	8.4	8.2
Other	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program-related financing 4/	2.7	2.5	2.4	2.4	1.2	1.2	1.2	1.3
Of which: interest deferral	1.4	1.2	1.1	1.1	1.2	1.2	1.2	1.3

Sources: Bank of Greece; and IMF staff estimates.

1/ Includes liabilities to Eurosystem related to TARGET2.

2/ Includes currency and deposits and securitized loans.

3/ Includes government deposits' build-up (regardless of currency denomination for presentational purposes).

4/ Includes official financing, deferred interest payments on EFSF loans, and transfers related to ANFA/SMP profits (adjusted for compliance with the SNA).

Table 8. Greece: Indicators of Fund Credit, 2020–26
(Millions of SDR, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026
(Projected debt service to the Fund)							
Amortization	0.0	3,044.2	146.7	1,112.2	251.1	0.0	0.0
Total charges and fees	69.1	28.8	17.2	10.6	2.5	0.7	0.7
Total debt service	69.1	3,073.0	163.9	1,122.8	253.7	0.7	0.7
Percent of exports of goods and services	0.2	6.2	0.3	1.9	0.4	0.0	0.0
Percent of GDP	0.1	2.2	0.1	0.7	0.2	0.0	0.0
Percent of general government revenues	0.1	4.4	0.2	1.5	0.3	0.0	0.0
Percent of deposits available to state government 1/	0.3	17.9	1.0	10.4	2.5	0.0	0.0
(Projected level of credit outstanding)							
Outstanding stock	4,554.2	1,510.0	1,363.3	251.1	0.0	0.0	0.0
Percent of quota	187.5	62.2	56.1	10.3	0.0	0.0	0.0
Percent of GDP	3.4	1.1	0.9	0.2	0.0	0.0	0.0
Memorandum items:							
Exports of goods and services (billions of euros)	51.6	60.9	69.5	73.5	75.9	78.7	81.6
GDP (billions of euros)	165.8	172.2	182.1	188.0	193.7	200.1	206.5
Quota (millions of SDRs)	2,428.9	…	…	…	…	…	…

Source: IMF staff estimates.

1/ Total deposits of general government excluding deposits of general government entities in commercial banks.

Annex I. Risk Assessment Matrix[1]

Sources of Risk (Conjunctural (C)/*Structural (S)*)	Relative Likelihood	Impact If Realized	Policy Responses
		Domestic	
Higher spending needs, insufficient impact of monetary and fiscal policies. (C)	Medium	High Economic activity remains sluggish without adequate stimulus, hurting confidence.	• Adequately target policies and execute efficiently towards growth-friendly, socially-inclusive policies (e.g. health, education) to secure long-term fiscal sustainability, boost potential growth, and increase economic resilience. • Design a phase-out strategy from COVID-19 measures balancing macro effects with fiscal sustainability concerns. • Reinvigorate fiscal structural reforms to improve current and investment spending effectiveness.
Deterioration of bank balance sheets. (C)	High	High Weak corporate performance gives rise to higher NPLs, lower profitability, and weaker capital buffers. Weaker credit growth undermines the recovery and increases informality.	• Accelerate bank clean-up and the build-up of capital buffers. • Gradually remove supervisory accommodation to avoid a sudden shift in banks' balance sheets. • Strengthen operational preparedness for crisis management.
Structural reform implementation. (S) **Downside.** Fallout from the pandemic reduces reform appetite. **Upside.** The RRF package is seized as an opportunity for deeper, faster reforms.	Low	Medium Lower growth, slower convergence. High Growth above baseline, faster convergence, improved debt dynamics.	• Execute the National Growth Strategy; establish priorities and sequencing, funding plans, and inter-linkages between reform sectors (e.g. financial sector reform and firm dynamics). • Engage in dialogue amongst reform stakeholders to ensure ownership and take-up.

[1] The Risk Assessment Matrix (RAM) shows events that could alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability < 10 percent, "medium" a probability 10–30 percent, and "high" a probability 30–50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (12–18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Sources of Risk (Conjunctural (C)/*Structural (S)*)	Relative Likelihood	Impact If Realized	Policy Responses
		External	
Unexpected shifts in the COVID-19 pandemic (C). Limited access to, and longer-than-expected deployment of, vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects	Medium	**High** Weak tourism season lowers economic activity and employment and worsens public finances.	• Consider further support measures to affected groups if the pandemic and lockdown measures continue. • Seek continued flexibility from European partners to maintain a counter-cyclical buffer to tackle spillovers from the global downturn.
Prolonged pandemic. COVID-19 proves harder to eradicate requiring recurring and costly containment efforts and prompting persistent behavioral changes rendering many activities unviable.	Medium	**High** Lower tourism and reduced export demand raise structural unemployment. Weaker potential growth, worsened debt dynamics, slower convergence.	• Implement partially completed structural reforms that increase resilience, including investing in the health sector and expanding active labor market policies to mitigate hysteresis risks. • Design a phase-out strategy from COVID-19 measures balancing macro effects with fiscal sustainability concerns.
Faster containment. Pandemic is contained faster than expected.	Medium	**High** Sharp increase in tourism and rebound in external demand results in higher employment and investment and reduces deflationary pressures.	Accelerate structural reforms to hedge against future shocks akin to COVID-19.
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities. Fundamental market reassessment triggers a widespread risk-off event. Lower risk asset prices and volatility spikes lead to losses in major non-bank financial institutions. Lower financing for unviable, leveraged firms and households. Bankruptcies erode banks' capital buffers. Financing difficulties extend to sovereigns with excessive public debt, leading to cascading debt defaults.	Medium	**High** Higher sovereign/bank spreads (raising sustainability and stability risks); higher borrowing costs, further strained balance sheets and loss of market access to raise new bank capital lead to sudden credit compression. Weak external financing would lead to lower growth and less-benign debt dynamics.	• Ensure adequate fiscal rebalancing. • Accelerate current banking sector reforms, including steps to reduce risks from the sovereign-bank nexus to reduce exposure of banks to further market volatility.

Sources of Risk (Conjunctural (C)/*Structural (S)*)		Impact If Realized	Policy Responses
Intensified geopolitical tensions and security risks (C). (Geo)political tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher commodity price volatility and lower confidence.	Medium	Medium Regional tensions displace focus/spending away from the reform agenda and hurt tourism.	• Engage partners in dialogue. • Make fiscal space available to address costs related to migration flows. • Facilitate integration of qualified migrant workers and advance structural reform to diversify the economy.
Accelerating de-globalization. Geopolitical competition leads to further fragmentation. Reshoring and less trade reduce potential growth.	Medium	Low Lower demand for exports of goods lowers growth and widens external imbalances, but tourism flows are expected to remain resilient.	• Pursue policies to increase competitiveness, boost productivity, and expand the domestic market, (e.g. complete the liberalization of closed professions, open up product markets).
Higher frequency and severity of natural disasters related to climate change (S) cause severe economic damage. Significant events in large economies reduces global GDP, increases risk and lowers growth prospects.	Medium	Medium Disruptive and more frequent events (forest fires, drought, rising sea levels) lower growth and increase risks. Trade disruptions, higher commodity prices and volatility. Displaced population, lower human capital due to health and environmental concerns.	• Implement the Just Transition to improve the energy mix, prioritize reforms that support green sectors and green employment to ensure broad-based growth and cushion risks to external demand. • Improve and accelerate urban planning and cadaster reforms.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Greece in 2020 was weaker than that consistent with medium-term fundamentals and desirable policies—unchanged from the assessment staff made during the 2019 AIV Consultation (for year 2018). The current account (CA) deficit widened sharply in 2020 due to the collapse in tourism receipts amid a global lockdown. The CA deficit is expected to narrow in the medium-term as the trade balance gradually normalizes and the economy recovers from the pandemic. The decline in the CA balance was mitigated by the increase in private savings, and it was financed mostly from government debt issuances and debt relief by European partners. Staff projects the large negative net international investment position (NIIP) to gradually improve in the medium-term in line with falling public debt.*

Potential Policy Responses: *To reduce the external gap and the large negative NIIP, Greece should accelerate structural reforms to improve competitiveness and facilitate convergence. About half of the improvement in the CA since the Greek debt crisis can be attributed to cyclical/transitory factors, while staff's analysis suggests part of the structural improvement was caused by weak reform implementation that caused a permanent output loss.*[1] *Reform efforts should be re-prioritized in the post-pandemic era and aim at strengthening labor force participation (particularly for youth and females), boosting productivity, facilitating private debt restructuring, reducing non-wage costs, including through reforms that reduce product market rigidities and increase competition, and accelerating the clean-up of bank balance sheets to restore financial intermediation. Raising potential growth would help lower the public debt ratio and thereby the large and negative NIIP.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Following the collapse in GDP and the sharp widening of the twin deficits due to COVID-19, Greece's NIIP deteriorated in 2020, to -182 percent of GDP (from -160 percent of GDP in 2019).[2] The official sector accounts for 70 percent of total external liabilities (with 54 percent attributed to the general government and 16 percent to the central bank).

Assessment. The large negative NIIP (as a percent of GDP) and the current account deficit are projected to gradually improve in the medium term as GDP and tourism recover from the large COVID-19 shock. The currency (largely euro-denominated) and interest rate (largely fixed at low rates) structure of the NIIP helps mitigate the risks posed by the large negative position. General government external liabilities are expected to gradually decline in percent of GDP over the medium-term (see the Annex III—DSA), with rising private-to-private flows covering the residual external funding needs. The NIIP could deteriorate in the medium term if downside risks materialize (e.g., from weaker growth, more persistent fiscal deficits, and subdued tourism receipts).

2020 (% GDP)	NIIP: -182	Gross Assets: - 159	Res. Assets: 5.9	Gross Liab.: 341	Debt Liab.: 304

Current Account

Background. With the collapse in the net travel balance following the pandemic (from 8.4 percent of GDP in 2019 to 2.1 percent of GDP in 2020), the CA deficit in 2020 sharply increased to 7.4 percent of GDP (including deferred interest payments). The CA and trade deficits are projected to recover gradually in the medium-term toward their pre-pandemic levels as global travel resumes, fiscal policy consolidates, structural reforms continue to be implemented, and the output gap closes. **Assessment.** Staff estimate that Greece's external position in 2020 was weaker than one consistent with medium-term fundamentals and desirable policies. With the cyclically-adjusted CA balance estimated at -9.1 percent of GDP (based on an estimated negative output gap of 9 percent), the EBA norm of -2.4 percent, and a COVID adjustor for temporary shocks on the tourism (3.4 percent of GDP), the medical goods (0.1 percent of GDP) and the oil balance (-0.3 percent of GDP), as well as due to shifts in the household consumption composition (0.4 percent of GDP) the EBA CA model indicates a CA gap of -3.1 percent of GDP. Accounting for uncertainty in the estimates, this implies a CA gap in the range of -2.1 to -4.1 percent of GDP. The identified policy gap amounts to 1.3 percent of GDP, largely reflecting Greece's relatively strong cyclically-adjusted fiscal balance compared to that of the world despite its large pandemic-relief package. The large negative residual (-4.5 percent) has declined compared to 2018 and may reflect remaining distortions in product and labor markets that hinder Greece's international competitiveness, which are not captured by the EBA model. The external sustainability approach yields a moderately lower medium-term CA norm of -3.3 percent of GDP which is needed to bring about a strong medium-term improvement in the NIIP and to stabilize it at a more sustainable level of around -70 percent of GDP (the average level over 2000–10 in Greece's pre-crisis era, as opposed to the current level of -182 percent of GDP). However, should the "lower for longer" environment (which is beneficial to net debtors) last shorter than expected, *ceteris paribus*, a higher CA norm would be needed to stabilize the NIIP.							
2020 (% GDP)	CA: -7.4	Cycl. Adj. CA: -9.1	EBA Norm: -2.4	EBA Gap: -6.7	COVID-19 Adj.: 3.6	Other Adj.: 0	Staff Gap: -3.1
Real Exchange Rate							
Background. The ULC-based REER (ULC-REER), which helps gauge production costs relative to trading partners, adjusted substantially over the last decade, falling by 22.3 percent during 2007–15 helped by the macroeconomic adjustment and the 2012 labor market reform that lowered the minimum wage and made wage bargaining more flexible. The REER-CPI fell by less over the same period, reflecting partially offsetting increases in non-wage costs and less effective reforms to address product market rigidities. The REER-CPI declined further, albeit marginally in 2016–20, by 1.9 percent, as Greece's inflation generally lagged its trading partners given its higher levels of slack and weaker domestic demand (reflected in the large, negative output gap and asynchronization from the European cycle, see Figure 1). The REER-ULC declined by 3.8 percent during this period, reflecting slower wage increases in Greece than its trading partners, due in part to larger output gaps. The improvement in relative prices (measured both by CPI and ULC) has helped offset Greece's NEER appreciation (due to the stronger euro). **Assessment.** The EBA REER models indicate a range of overvaluation of 3.8 percent (index model) and 17.5 percent (level model) in 2020. Staff considers the REER model results less reliable in the case of Greece							

given: (i) a large unexplained residual (4.9 percent in the index model and 18.3 percent in the level model), (ii) a large standard error of the norm for the index model, and (iii) the CPI-based REER was affected by non-wage costs. Staff therefore bases the REER assessment on the EBA CA model: consistent with a CA gap of - 3.1 percent and a semi-elasticity of 0.3, the REER_CPI is assessed to be overvalued by 10.5 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Greece's financial account has been dominated by official financing flows. Net FDI inflows had been increasing during the period of 2016 – 19 (though from a low base) driven by privatization, financial sector M&As, and, more recently, investments in real estate. The pandemic led to a moderate reduction in FDI in 2020. With the ECB's accommodation, financing conditions continued to ease in 2020 (despite some volatility at the onset of the pandemic) with the Greek government successfully accessing the markets on a regular basis at progressively lower yields. Greek banks and corporates took advantage of the favorable financing conditions in 2019 to prefund their financing needs for 2020, which, together with the liquidity provided by the ECB, helped them weather the market volatility.

Assessment. The removal of CFMs in 2019 places greater urgency on banking sector reforms in support of a normalization of financial conditions and sentiment, which may be complicated by the adverse implications of the COVID-19 shock on financial stability (see paragraph 25). A steady improvement in the business climate, including from continued efforts on structural reforms, and further reduction in uncertainty are needed to promote sustainable FDI and expand access to external funding markets.

FX Intervention and Reserves Level

Background. The euro has the status of a global reserve currency.

Assessment. Reserves held by the EA are typically low relative to the standard metrics; the currency is free floating.

[1] "Greece's Current Account Deficit: Problem Solved?" by Argyropoulos (forthcoming).

[1] This includes the stock of deferred interest payments on EFSF loans (IMF staff adjustment).

Annex III. Debt Sustainability Analysis

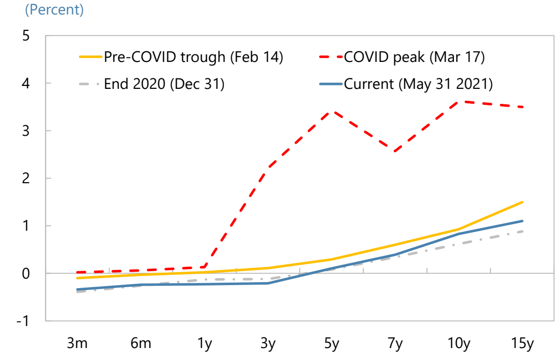
Greece's public debt remains sustainable over the medium-term.[1] *The pandemic is expected to permanently reduce the level of nominal GDP and highlights the challenges of sustaining high primary surpluses, but the overall impact of the pandemic on the DSA is modest and muted by a large decline in market interest rates. While a feasible set of policies and interest rate trajectories could deliver sustainable debt dynamics even over the long-term, uncertainty is too large to reach a firm assessment. This uncertainty stems from whether: (i) reform momentum will be sufficient to close the investment gap and overcome adverse demographics; (ii) the European Union-wide fiscal rules going forward will be achievable and compatible with growth; and especially, (iii) to what extent interest rates on Greek Government Bonds will remain low as official debt will be replaced with market funding over the next four decades. External debt and the negative NIIP are also high and expected to decline only gradually over the medium-term provided that macroeconomic shocks and policy slippages can be avoided.*

A. Public Debt Sustainability

Recent Developments

1. The authorities successfully executed their 2020 Funding Strategy (FS) under favorable market conditions. While GGB spreads were volatile at the onset of the pandemic, they quickly normalized—supported by the ECB's PEPP—and finished the year at historical low levels with Greece tapping the bond market five times in 2020 for a total amount of €12 billion (compared to €4–8 billion envisaged), with a weighted average maturity of 11.4 years and a weighted average coupon rate of 1.7 percent. These funding activities helped the government lock in low rates, extend the overall maturity of GGBs, and preserve its cash buffer (€31 billion at end-2020).[2]

Yield Curve Transformation during COVID-19
(Percent)



Sources: Greek Authorities; Haver Analytics.

2. The authorities' 2021 FS again aims at enhancing market access, lowering funding costs, containing portfolio risks, and maintaining the state's cash buffer. The government expects to issue around €12 billion of medium- or long-term debt in 2021, which can be fully absorbed by the PEPP's allocation to Greece (based on its capital key of 2.0117 percent), amounting

[1] IMF 2nd Post Program Monitoring IMF CR/20/308.

[2] Includes general government entities' deposits at commercial banks that are accessible through repos.

to about €37 billion.[3] Through early-May, three bond issuances took place, one of which was Greece's first 30-year bond since 2008 at a coupon of 1.875 percent and a 5-year bond at a coupon of 0 percent. The government also intends to largely preserve its cash buffer to contain refinancing and interest rate risks, supporting market confidence. Lastly, the authorities made a second IMF pre-payment on March 18, 2021 totaling SDR 2.8 billion (about €3.4 billion), covering maturities coming due between March 2021 and December 2022. Greece's outstanding Fund credit after this partial prepayment remains just above SDR 1.5 billion—the applicable PFA threshold—until end-2022.

B. Changes to Key Macro/Financing Assumptions Since the Last DSA

3. Important changes to the macro/financing assumptions underpinning staff's DSA are as follows:

- ***Growth and inflation***. A historical GDP revision led to a 4-percentage point increase in the 2019 debt-to-GDP ratio (from 180.9 to 184.9) compared to the second PPM DSA. The real GDP contraction in 2020 is now estimated at 8.2 percent, followed by an average 4.4 percent recovery projected over 2021–22. Over the medium-term, GDP growth and inflation are projected to converge towards 1 percent and 1.8 percent, respectively. The GDP revision and the permanent output loss due to the scarring effect of the pandemic jointly lead to projected nominal GDP that by 2030 is about 7 percent below that of the 2nd PPM DSA.

- ***Fiscal policy.*** The cash-basis primary deficit is estimated to have reached 7.3 percent of GDP in 2020 and is projected to decline to 7.0 percent of GDP in 2021 based on staff's latest projections, before gradually converging to the long-run equilibrium level of 1½ percent of GDP by 2026.[4]

- ***Use of cash buffer and market borrowing***. Staff projects that the authorities would draw down the cash buffer by a total €11 billion over 2021–26 (including from the €15.7 billion provided through ESM loans). The annual amount of market issuances is projected to average around €13 billion a year between 2021–26.

- ***Interest rates***. Staff revised down slightly the baseline interest rate projections to reflect latest market developments as well as lower rates on the portion of Greece's official debt with variable rates.

C. Outlook Under the Baseline and Stress Scenarios

4. Staff's regular 10-year DSA as well as a more granular assessment indicate that Greece's public debt is sustainable over the medium-term. This assessment is predicated on a

[3] PEPP's cumulative net purchases of GGBs stood at €21.94 billion (at market price) at end-March 2021. According to the ECB, the Governing Council will terminate net asset purchases under the PEPP once it judges that the COVID-19 crisis phase is over, but in any case, not before the end of March 2022.

[4] The assumptions for arrears clearance and privatization receipts remain unchanged from the 2nd PPM DSA.

firmly-downward public debt trajectory and the relatively low levels of GFNs (well below the 15 percent of GDP benchmark except for 2021). The debt-to-GDP ratio is projected to briefly rise to 214 percent in 2021 (from 185 percent in 2019) before resuming its downward trend over the medium-term, ending at 169 percent in 2030.[5] This is about 12 percent higher than the level projected in the second PPM DSA. The GFNs-to-GDP ratio (after deposit drawdowns) is projected to average 12 percent over the 10-year projection period, compared to 9.1 percent in the second PPM DSA. A more granular assessment in the spirit of the new Sovereign Risk and Debt Sustainability Framework, finding that a wide majority of simulated debt trajectories would stabilize over the next decade, confirms staff's medium-term debt sustainability assessment (Box III.1).

5. **Greece's medium-term debt and GFNs trajectories remain sustainable under a variety of downside risk scenarios.** Under standard macro and fiscal stress tests (same as those applied in the 2nd PPM DSA) simulating weaker growth, lower primary balances, and higher interest rates, Greece's debt-to-GDP ratio and average GFN-to-GDP ratios would increase by 8½ to 33 percentage points and 2 to 4 percentage points, respectively, over the medium-term (see DSA tables and figures including stress scenarios). With the exception of a rather severe, combined macro-fiscal stress test, which increases the debt-to-GDP ratio by 47 percentage points and the average GFNs-to-GDP ratio by 8½8 percentage points, Greece's GFNs would stay mostly below the 15 percent of GDP benchmark with the downward debt trajectory remaining intact over the next 10 years. However, if access to regional safety nets became compromised, Greece's debt vulnerabilities could sharply increase (see Staff Report 16 in main text for details). A Comprehensive Fiscal Risks and Contingent Liabilities Shock (inherited from the 2nd PPM DSA, with slightly modified risk parameters, text table) would lead to a debt/GFNs trajectory similar to that of the combined shock. A new rollover risk analysis based on the new Sovereign Risk and Debt Sustainability Framework also highlights that GFNs can increase sharply under a stress scenario (Box III.1).

Fiscal Risks and Contingent Liabilities

(Billions of euro)

	2021	2022	2023	2024	2025
Fiscal Risks and Contingent Liabilities	**2.2**	**3.1**	**3.6**	**1.3**	**1.3**
Retroactive pension payment for 2012-16	1.6				
Legal challenges to past wage reforms	0.6	0.3	0.3	0.3	0.3
Outstanding state guarantees (other than Hercules) 1/		0.8	0.8		
Unexpected losses from Hercules			1.0	1.0	1.0
Potential DTC conversion costs		2.0	1.5		

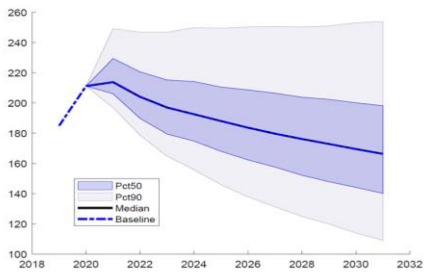
Sources: IMF staff projections.
1/ Includes guarantees provided as part of the COVID-19 policy support packages.

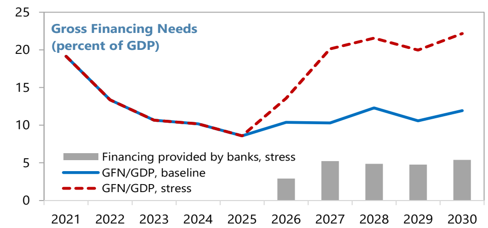
[5] The debt-to-GDP ratios cited throughout this DSA include the stock of deferred interests on EFSF loans, which are not captured by the official debt statistics.

Box III.1. Greece's Medium-term Debt Sustainability—A Granular View

A more granular assessment of Greece's medium-term debt sustainability, inspired by new analytical tools introduced in the reformed MAC DSA framework, confirms a relatively high probability of Greece's debt stabilizing.[1] These tools are grounded in the definition of debt sustainability and focus on assessing the probability of debt stabilization (under both the baseline and realistic shock scenarios) and the level of rollover risks over the medium-term.

- ***Probability of debt stabilization.*** A debt stock fan chart analysis finds a wide majority of simulated debt trajectories (85 percent) of Greece's public debt stabilizing over the next 10 years.[2] This is defined as the probability of the required Debt Stabilizing Primary Balance (DSPB) being lower than staff's projected primary balance in 2030 (i.e. 1.5 percent of GDP). The width of the fan highlights large uncertainties surrounding the baseline projection, which reflects, to some extent, Greece's high debt level (and hence greater sensitivity to growth shocks, as observed during COVID-19) and historical debt volatility from the Greek debt crisis.[3] While Greece's debt stock is projected to remain elevated by the end of the projection horizon, it is important to emphasize that more than 80 percent of Greece's public debt consists of official loans with ultra-low interest rates and ultra-long maturities (which are reflected in low GFNs, discussed below).





- ***Rollover risks.*** Greece's unique debt structure, due to a high share of foreign official debt containing susceptibility to holder shocks, and current favorable market conditions allow the GFNs to remain relatively low over the next decade. GFNs can nevertheless increase sharply under a stress scenario and leave a residual financing need, which under current rules could be absorbed by banks that would repo with the ECB and by drawing from the remaining cash buffer (projected at 4.5 percent of GDP at end-2026).[4]

In sum, these analyses find a relatively high probability of Greece's debt stabilizing, with low levels of rollover risk, and therefore support staff's assessment that Greece's public debt is sustainable over the medium-term.

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[1] Review of The Debt Sustainability Framework for Market Access Countries, IMF Policy Paper No. 2021/003.

2 This fan chart is part of the new and improved tools developed during the recent Review of the Debt Sustainability Framework for Market Access Countries, where the width and skew is determined by that of a historical fan chart which is generated by drawing stochastic realizations of the debt drivers from their joint empirical distribution.

3 These volatile debt dynamics inform the size/distribution of the shocks used to simulate the fan chart and explain why the debt trajectory under the historical scenario (as shown in Figure 2) is noticeably above that of staff's baseline.

4 The stress scenario assumes shocks (of macro, fiscal, and financing conditions), which are broadly similar to those of the existing MAC DSA's stress tests, in the latter half of the projection horizon when rollover-risk mitigating factors, such as the government's large cash buffer and the ECB's monetary accommodation, are expected to taper off.

D. Risks to Long-term Debt Sustainability

6. **In light of the pandemic, Greece's long-term debt sustainability assessment is subject to even larger uncertainties than usual.** Assessing debt sustainability boils down to the question whether there is a set of growth (g) and interest rates (r) that is compatible with a sustainable primary balance (pb) — understood as a level that is politically feasible and growth-friendly. Over a long period of time (40 years), there is substantial uncertainty around these assumptions, making such an assessment extremely challenging, especially in the current environment. Just to illustrate the wide range of debt-stabilizing effective r-g (see table) depending on the starting debt stock in 2030 and projected PB for the subsequent years: the debt-stabilizing effective r-g could be as low as 0.26 percent (if the debt stock is 190 percent of GDP in 2030 and the long-run primary balance is 0.5 percent of GDP) or as high as 1.79 percent (if the debt stock at that time is 140 percent of GDP and the long-run primary balance is 2.5 percent of GDP).[6] The analysis that follows takes this issue further:

Debt Stabilizing r-g Level

	pb/GDP		
debt/GDP	**0.5**	**1.5**	**2.5**
190	0.26	0.79	1.32
140	0.36	1.07	1.79

- ***Growth (g).*** Uncertainty around estimates of long-run potential growth stem primarily from whether the pandemic will affect not just the level of output but also the potential growth rate, whether the availability of NGEU funding can transform the economy, and to what extent reform momentum will be sufficient to close the investment gap and overcome Greece's adverse demographic projections. Staff thus expanded the set of feasible, average real growth rates to between 0.8 and 1.2 percent, with the deflator continuing to be projected at 1.8 percent.

- ***Interest rates (r, i.e. 10y GGB yield).*** Interest rate projections are pinned down by the neutral rate and Greece's bond spread, which both have declined markedly since the last published long-term DSA. However, there remains considerable uncertainty whether benchmark rates will stay "low-for-longer." Further, the narrowing of Greece's bond spreads in part can be attributed to transitory factors (ECB easing programs) in combination with the low share of market-traded debt. However, Greece's public debt comprises a large stock of official debt that only becomes due after the 10-year projection horizon (including the bulk of its €191 billion loans to the ESM/EFSF). These low interest rate and long maturity official loans will eventually have to be refinanced/replaced by shorter-maturity market-based borrowing.

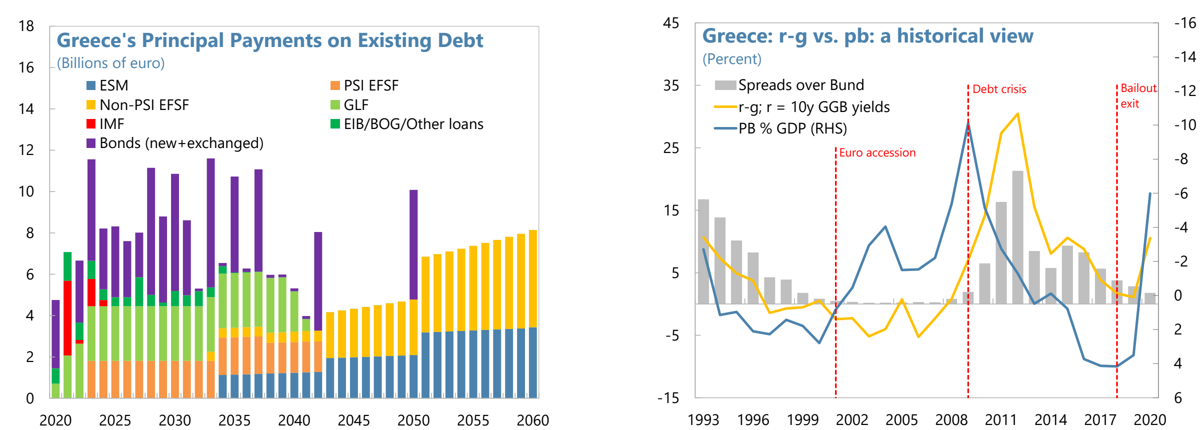
    - Staff's **risk-free rate projections** are underpinned by an estimated long-run equilibrium real interest rate on 10-year German bunds of about 3.4 percent. The level of the long-run equilibrium rate and the path of convergence to it are both widely debated matters.

    - With regards to the **risk premium**, staff has used the Laubach rule (assuming the risk premium starts to rise once debt exceeds 60 percent of GDP) to anchor long-term

[6] 190 and 140 percent of GDP correspond to the 75th and 25th percentile, respectively, in the debt stock fan chart in Box III.1 and are used to illustrate a reasonably plausible range of Greece's public debt stock in 2030.

market rates, but an open question remains whether this "rule" remains valid in the current environment. Under the Laubach rule, there are strong mutually reinforcing effects from higher debt resulting in higher interest rates and weaker overall fiscal balances, compounding the debt path. Mechanically applying the rule yields an average risk premium of 230 basis points over 2031–60 (compared to 280 bps in 2019, 175 bps in 2020, and 117 bps in Feb 2021).[7] [8]This implies an average r-g of around 2.6 ppt during this period, significantly above the average 1.8 ppt Greece experienced during its past episodes of fiscal discipline (defined as continuous primary surpluses) including the years leading up to its euro accession (1994–2000) and immediately following the end of the bailout programs (2018–19).[9] Staff's scenario analysis for long-run r-g assumes continued fiscal discipline and generally favorable market financing conditions. Staff's sensitivity analysis, by raising the debt threshold above which the Laubach rule kicks-in (discussed below), illustrates the unique and extreme sensitivity of Greece's long-term DSA to the uncertainty stemming from the absence of a deep, long-term benchmark market interest rate at the moment.

Text Figure 5. Greece: Principal Payments and Historical Growth-interest Differential



Source: Bank of Greece; Deutsche Bundesbank; IMF, WEO database; and IMF staff calculations.

- ***Primary balance (pb).*** Staff's previous analysis, based on Greece's own history and cross-country evidence, suggested that 1.5 percent of GDP is the maximum level of primary surpluses that could be sustained for a prolonged period.[10] An updated analysis, focusing on countries with high debt and a large need for fiscal surpluses, supports the view that Greece may be able to sustain a somewhat higher primary surplus (see Box 2). However, whether such levels could be sustained on an average basis over a 40-year timeframe remains deeply uncertain, not in the

[7] In line with Greece's 8th Enhanced Surveillance report by the European Commission, staff modified the Laubach rule's by incorporating the large share of official sector debt.

[8] The average risk premium staff projected in 2019 was around 305 basis points.

[9] Greece's r-g has remained positive since 1994 except for the period immediately following its euro accession (2001–08).

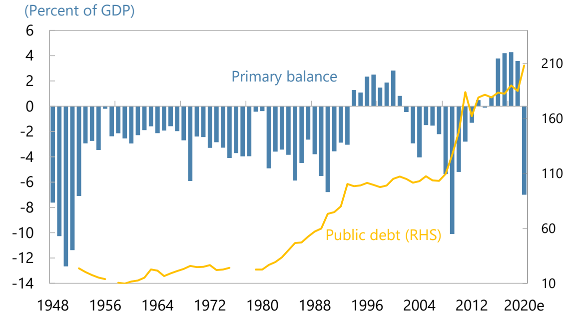
[10] Greece Article IV Consultation (2018).

least because the methodology does not account for shocks that may occur, as evidenced by the pandemic.[11] A further complication for pinning down the long-term fiscal path stems from the current suspension of the Stability and Growth Pact and associated Medium-Term-Objective (which, prior to COVID-19, implied a structural surplus target of 0.25 percent of GDP, implying an average long-term primary surplus of 2.5–2.7 percent of GDP for Greece) and the uncertainty about European fiscal rules going forward once the pandemic recedes and the extent these rules will be growth-friendly.

Box III.2. Revisiting Greece's Long Run Fiscal Path

Greece: Primary Balance and Public Debt, 1948–2020

(Percent of GDP)



Sources: IMF, WEO database; and Mauro et al. (2013).

Note: The primary balance data since 2010 reflects adjustments under the EU's enhanced suveillence framework.

Staff's previous analysis (2018 Article IV), based on Greece's own history, economic conditions, and cross-country evidence, suggested that 1.5 percent of GDP is the maximum level of primary balance (PB) that could be sustained for a prolonged period.[1] Indeed, during most of the post-war history, Greece's PB has been negative. But there were two recent episodes (text chart), 1994–2001, before the euro adoption and 2015–19, after the debt crisis, during which Greece maintained primary surpluses for several years, with the average PB amounting to 1¾ and 3⅓ percent of GDP, respectively, although the recent overperformance came at the expense of (inclusive) growth by compressing public investment and social protection spending to unsustainable levels.

New cross-country evidence suggests that countries with greater adjustment needs are more likely to sustain large primary surpluses. The updated analysis focuses on countries with relatively large adjustment needs (proxied by a debt-GDP ratio above 60 or 100 percent) from a sample of 90 countries during 1945–19. Our findings suggest that countries with higher debt levels are more likely to sustain large primary surpluses across different country groups. Among EA advanced economies, the probability of running ten-year average PBs above 1.5 percent of GDP increases from 11.6 percent in the full sample (Table A) to 23.7 (Table B) and 50.9 percent (Table C) in the two samples with high-debt countries.

However, achieving high average primary surpluses over four decades remains rare. Even if a country is committed to prudent fiscal policies over the long term, there are periodic external shocks that could derail its fiscal performance, as experienced during the global financial crisis and the ongoing COVID-19 pandemic. In the updated sample of 90 countries during 1945–2019, no country was able to sustain primary surpluses for 40 consecutive years. Only 11 countries managed to achieve a 40-year average PB larger than 1.5 percent of GDP, including five commodity exporters (Norway, Chile, New Zealand, Canada and Mexico), two EA members (Finland, Belgium) and three high-initial-debt countries (UK, Canada, Chile) (text table). It is unlikely that Greece can replicate this given unfavorable economic conditions, including low growth, high unemployment, demographic headwinds and social spending pressures, as well as the lack of monetary and exchange rate policies which puts the burden on fiscal policy as the counter-cyclical stabilization instrument.

[11] To clarify, the long-run DSA analysis presented in this section does not assume any materialization of contingent liabilities, which are downside risks to staff's forecasts.

Box III.2. Revisiting Greece's Long Run Fiscal Path (concluded)

Table A. Full Sample (90 countries, 1945–2019)

Probability of a 10-year Average Primary Balance to Exceed a Threshold *(percent)*

	Primary Balance Threshold (percent of GDP)				
	1.5	**2**	**2.5**	**3**	**3.5**
All countries	21.4	15.6	11.0	8.4	6.3
Non-oil and non-resource rich countries, *among these*	19.1	13.2	8.6	6.2	4.4
Advanced economies	20.8	13.5	9.2	6.5	4.3
Euro area advanced economies	11.6	9.3	7.0	6.0	3.8

Sources: IMF WEO database; Abbas, et al. (2010); and Mauro et al. (2013).

Table B. High Debt Sample I (Gov Debt/GDP > 60 percent)

Probability of a 10-year Average Primary Balance to Exceed a Threshold *(percent)*

	Primary Balance Threshold (percent of GDP)				
	1.5	**2**	**2.5**	**3**	**3.5**
All countries	29.5	23.1	15.7	10.9	7.6
Non-oil and non-resource rich countries, *among these*	32.6	25.2	16.4	11.3	7.5
Advanced economies	36.1	26.6	17.3	11.3	6.6
Euro area advanced economies	23.7	20.4	16.4	13.2	6.6

Sources: IMF WEO database; Abbas, et al. (2010); and Mauro et al. (2013).

Table C. High Debt Sample II (Gov Debt/GDP > 100 percent)

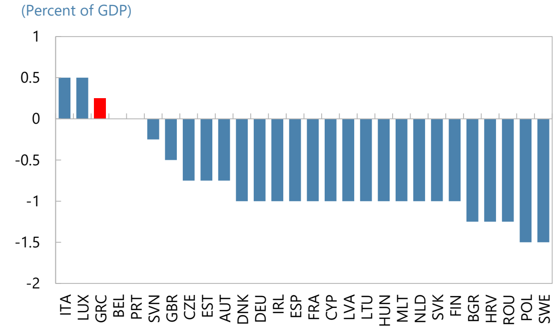
Probability of a 10-year Average Primary Balance to Exceed a Threshold *(percent)*

	Primary Balance Threshold (percent of GDP)				
	1.5	**2**	**2.5**	**3**	**3.5**
All countries	31.8	27.8	16.7	12.1	9.1
Non-oil and non-resource rich countries, *among these*	46.8	40.4	25.6	18.6	12.8
Advanced economies	53.3	46.7	32.7	22.4	14.0
Euro area advanced economies	50.9	47.4	38.6	29.8	17.5

Sources: IMF WEO database; Abbas, et al. (2010); and Mauro et al. (2013).

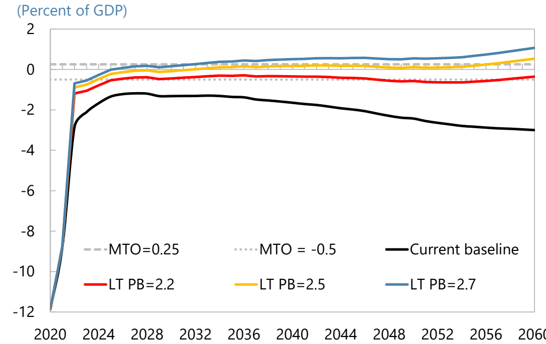
In the long run, Greece's fiscal policy will be anchored within the European fiscal rules but it is unclear whether these will be consistent with growth objectives. Prior to the COVID-19 shock, Greece committed to two fiscal targets: (i) the PB target under the enhanced surveillance (ES) framework—3.5 percent of GDP until 2022 and an average of 2.2 percent of GDP during 2023–60; and (ii) the medium-term objective (MTO) under the preventive arm of the EU's SGP—a structural surplus of 0.25 percent of GDP for 2020–22. Staff estimates that the latter would become binding, with the PB averaging 2.5–2.7 percent of GDP to comply with the pre-COVID-19 MTO in the long-run (text charts), which lies well beyond the range of possible long-run sustainable PBs for Greece.

MTO for 2020–22 1/
(Percent of GDP)



Sources: European Commission.
1/ Standard surveillance target under the prevention arm of the Stability and Growth Pact, updated every three years.

Long-term Projection: Overall Fiscal Balance
(Percent of GDP)



Sources: IMF staff estimates.

[1] See Greece 2018 Article IV Report Annex VI.

Text Table. 40-Year Average Primary Surplus 1/
(Percent of GDP, unless otherwise indicated)

Threshold	Country	Period	Average PS	Initial Gov. Debt
Average PS > 4 percent	Norway	1975–2014	6.7	27.6
Average PS > 3 percent	Denmark	1970–2009	3.3	7.6
Average PS > 2.5 percent	Finland	1969–2008	2.7	6.2
	New Zealand	1968–2007	2.6	62.6
	Philippines	1972–2011	2.5	16.6
Average PS >2 percent	Chile	1975–2014	2.5	108.3
	Canada	1946–1985	2.2	153.8
	Mexico	1969–2008	2.1	11.8
Average PS > 1.5 percent	Japan	1947–1986	1.6	27.5
	United Kingdom	1948–1987	1.6	239.6
	Belgium	1980–2019	1.6	49.4

Sources: IMF, WEO database; Abbas, et al. (2010); and Mauro et al. (2013).
1/ Selected countries with the largest 40-year primary fiscal surpluses.

7. **A scenario analysis based on the parameters outlined above confirms that Greece's long-term debt dynamics are too uncertain to reach a firm conclusion.** A total of 12 alternative scenarios are simulated with identical medium-term (10-year) paths but different assumptions on long-term (2031 and beyond) equilibrium levels of primary balances, risk premiums, risk free rates and nominal growth—with values drawn from the staff-assessed feasible ranges discussed above. Moving the Laubach threshold (above which risk premium starts to rise) to 75 percent of GDP would reduce the baseline risk premium path by 50 basis points. A separate scenario is simulated where the weighted average maturity of new GGB issuances shortens from 6½ years (reflecting a mix of maturities) in other scenarios to 5½ years. The end-point debt-to-GDP and GFNs-to-GDP range from 109 to 150 and from 18 to 25, respectively, with relatively minor variations in assumptions. It is worth noting that this is a sensitivity analysis instead of a boundary test—debt and GFNs levels would be much lower under much more favorable macro-fiscal assumptions (e.g. those that underpin the DSA in Greece's 8th Enhanced Surveillance Report) or much higher should large idiosyncratic risks (including those identified in the 2nd PPM report) materialize and lead to much less favorable macro-fiscal assumptions.

Parameters	Values
Nominal growth rate	[2.6, 2.8, 3.0]
*Implied real growth	[0.8, 1, 1.2]
Risk premium (bps)	[180, 230, 280]
Risk free rate (bps)	[235, 335, 385]
Primary balance/GDP	[1.3, 1.5, 1.7]

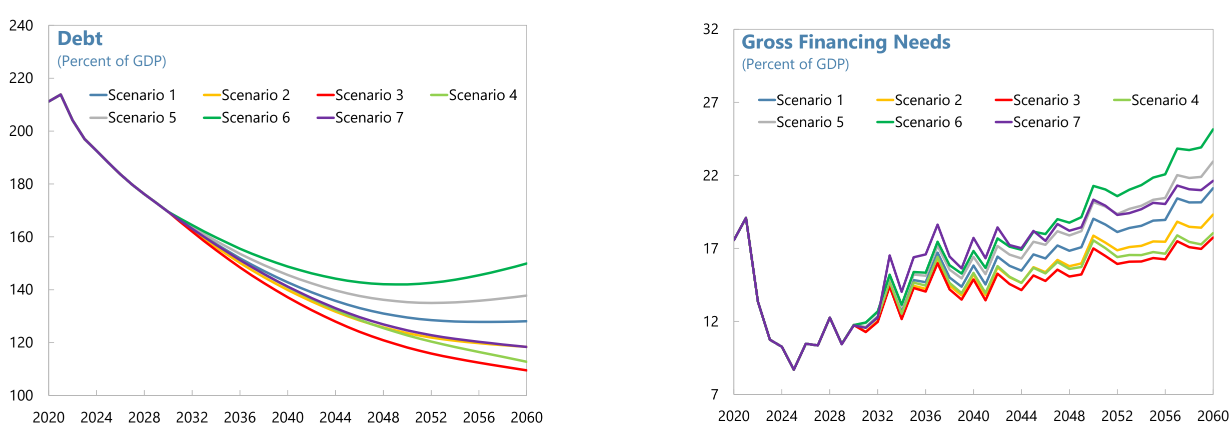
8. While some scenarios show debt stabilization and manageable GFNs (contained below 20 percent of GDP), others signal important downside risks. Greece's long-term debt sustainability hinges on long-term fiscal discipline to sustain a high level of primary surplus, structural reforms to unlock long-run growth potential, and stable financing conditions to contain the risk-free rate and risk premium. A continued active debt management strategy will also be critical, including possible liability management operations to reduce debt portfolio risks. The scenario analysis shows that fiscal underperformance (due to policy choices and/or shocks), growth disappointments, a return to historical levels of risk-free rates, stronger sensitivity of risk premiums to debt levels, and/or shortening of new debt maturities would quickly lead to unsustainable debt dynamics over the long-term, necessitating policy adjustment and/or further financial support from European partners.

Key DSA Parameters
(Percent)

	2021-30 avg.			2031-60 avg.			Debt-to-GDP				GFNs-to-GDP			
	pb	r [1]	g	pb	r [1]	g	2030	2040	2050	2060	2030	2040	2050	2060
Scenario 1: prim. balance/GDP=1.5; growth=2.8; risk prem.=245bps; risk-free rate=330bps														
	-0.3	2.8	3.4	1.5	5.8	2.8	174	147	134	131	12	17	20	21
Scenario 2: increase primary balance/GDP to 1.7														
	-0.3	2.8	3.4	1.7	5.6	2.8	174	144	128	121	12	16	18	19
Scenario 2 alt a *: increase growth to 3 (real growth from 1 to 1.2)														
	-0.3	2.8	3.4	1.5	5.6	3.0	174	144	127	120	12	16	19	19
Scenario 2 alt b *: increase Laubach threshold from 60% to 75%														
	-0.3	2.8	3.4	1.5	5.2	2.8	174	146	130	124	12	16	19	20
Scenario 3: increase primary balance/GDP to 1.7 and g to 3														
	-0.3	2.8	3.4	1.7	5.5	3.0	174	141	122	112	12	16	18	18
Scenario 4: lower risk-free rate by 100bps														
	-0.3	2.8	3.4	1.5	4.6	2.8	174	145	127	116	12	16	18	18
Scenario 5: reduce primary balance/GDP to 1.3														
	-0.3	2.8	3.4	1.3	5.8	2.8	174	150	139	140	12	17	21	23
Scenario 5 alt a †: reduce growth to 2.6 (real growth from 1 to 0.8)														
	-0.3	2.8	3.4	1.5	5.8	2.6	174	150	140	141	12	17	21	23
Scenario 5 alt b †: increase avg. risk premium by 50bps to 295bps														
	-0.3	2.8	3.4	1.5	6.3	2.8	174	148	137	138	12	17	20	23
Scenario 5 alt c †: increase risk-free rate by 50bps														
	-0.3	2.8	3.4	1.5	6.3	2.8	174	148	137	139	12	17	20	23
Scenario 6: reduce primary balance/GDP to 1.3 and growth to 2.6														
	-0.3	2.8	3.4	1.3	5.8	2.6	174	153	146	151	12	18	22	25
Scenario 7: shorten wgt. avg. maturity of new GGBs from 6.7y to 5.5y														
	-0.3	2.8	3.4	1.5	5.6	2.8	174	145	127	118	12	19	21	22

Sources: IMF staff estimates
1/ 10-year GGB yields.
* Not shown in charts because their similar debt and GFNs trajectories to Scenario 2.
† Not shown in charts because their similar debt and GFNs trajectories to Scenario 5.

Text Figure 6. Greece: Debt and GFNs under Long-run Scenarios



Source: IMF, WEO database; and IMF staff estimations.

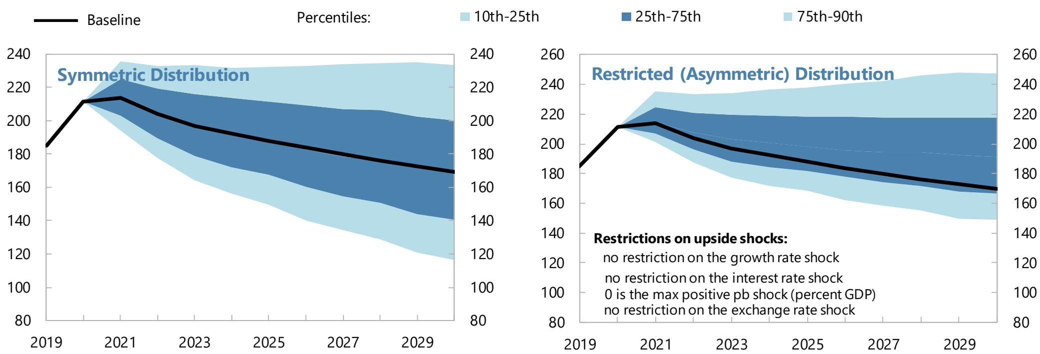
Annex III. Figure 1. Greece Public DSA Risk Assessment (Baseline Scenario)

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

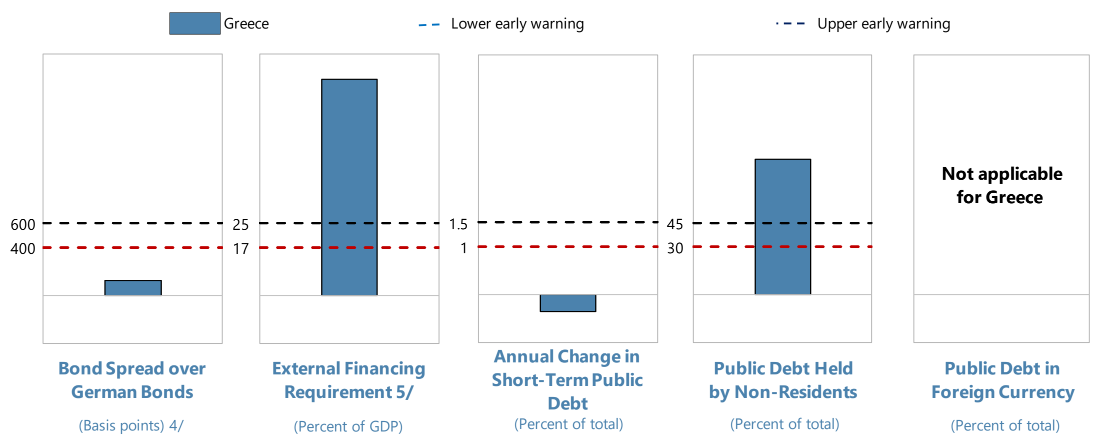
Evolution of Predictive Densities of Gross Nominal Public Debt

(Percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

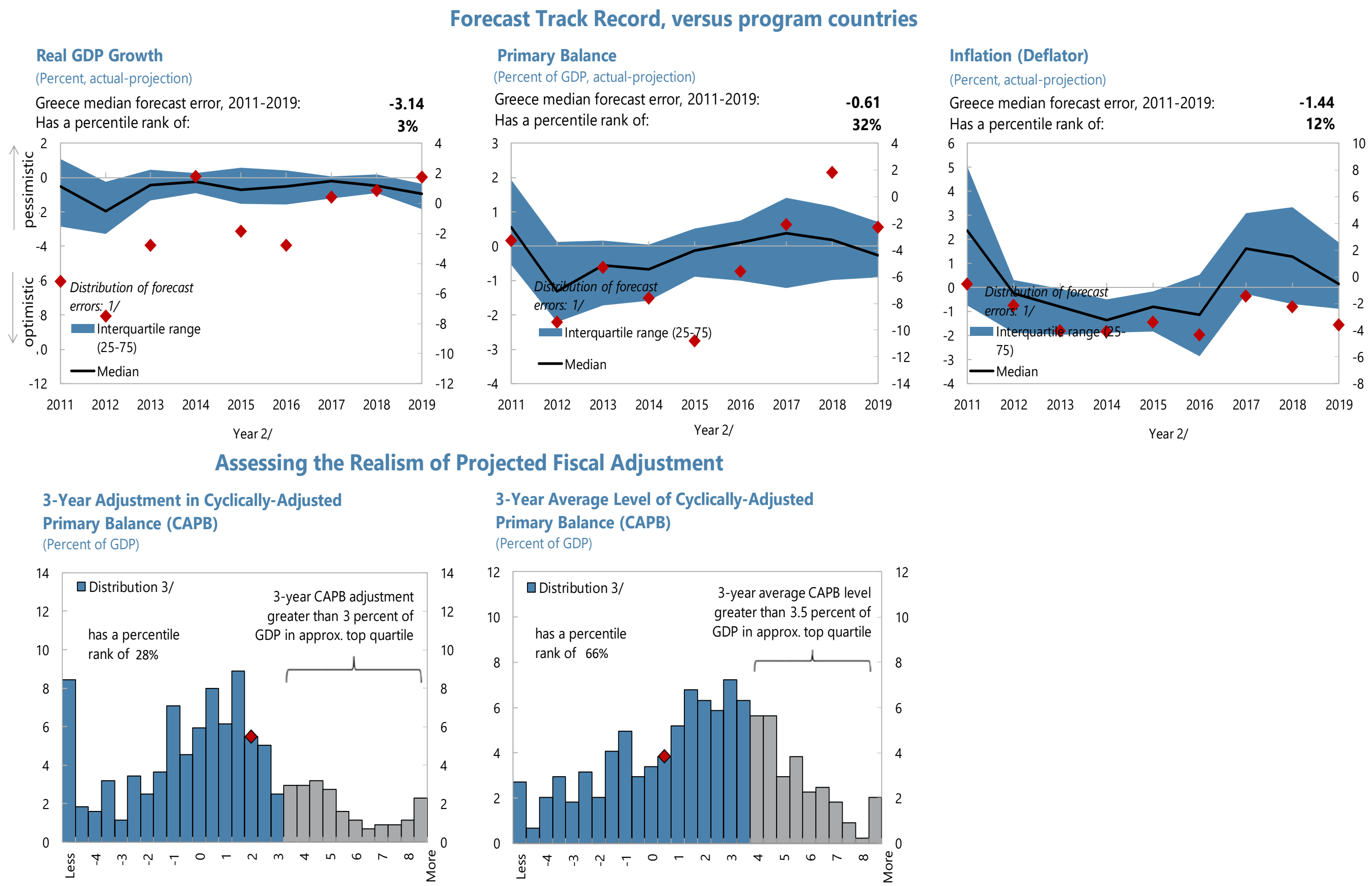
Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ An average over the last 3 months, 01-Jan-21 through 01-Apr-21.

5/ Includes liabilities to the Eurosystem related to TARGET.

Annex III Figure 2. Greece Public DSA – Realism of Assumptions (Baseline Scenario)



Source : IMF Staff.

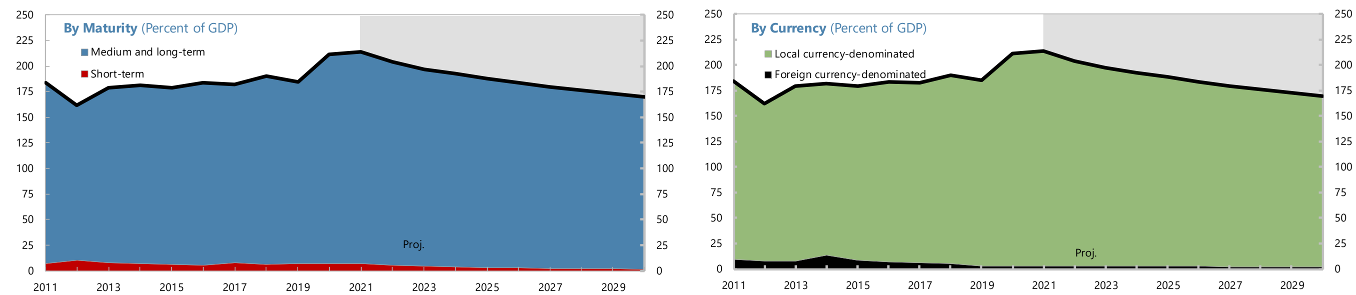
1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

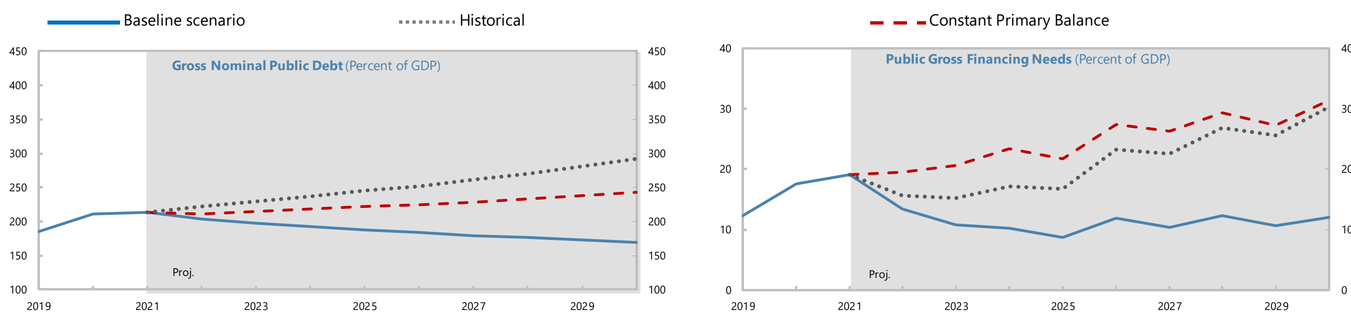
3/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex III. Figure 3. Greece Public DSA: Composition of Public Debt and Alternative Scenarios (Baseline Scenario)

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

(Percent)

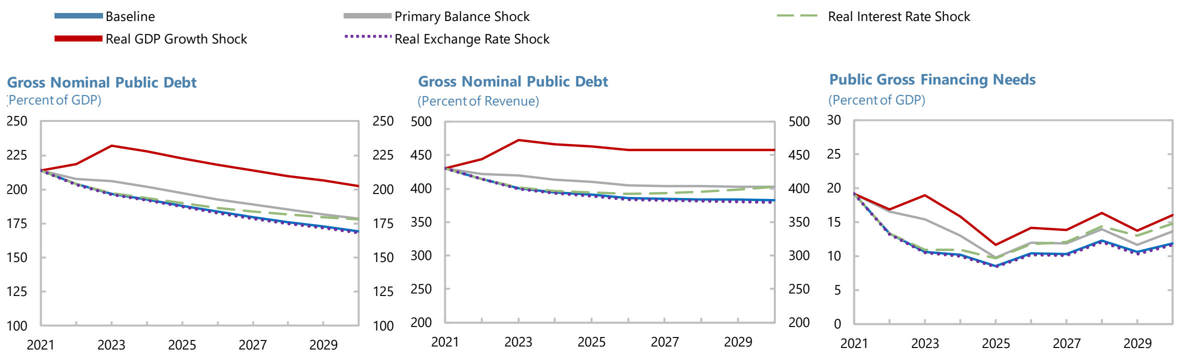
Baseline scenario	2021	2022	2023	2024	2025	2026	2027	2030
Real GDP growth	3.3	5.4	2.6	1.8	1.5	1.2	1.0	1.0
Inflation	-0.2	0.7	0.9	1.5	1.8	1.8	1.9	1.9
Primary balance	-7.0	-0.9	0.1	0.5	1.0	1.5	1.5	1.5
Effective interest rate	1.8	1.7	1.7	1.6	1.5	1.5	1.6	1.9
Constant primary balance scenario								
Real GDP growth	3.3	5.4	2.6	1.8	1.5	1.2	1.0	1.0
Inflation	-0.2	0.7	0.9	1.5	1.8	1.8	1.9	1.9
Primary balance	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0
Effective interest rate	1.8	1.7	1.6	1.6	1.5	1.5	1.6	2.1

Historical scenario	2021	2022	2023	2024	2025	2026	2027	2030
Real GDP growth	3.3	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
Inflation	-0.2	0.7	0.9	1.5	1.8	1.8	1.9	1.9
Primary balance	-7.0	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Effective interest rate	1.8	1.7	1.8	1.8	1.8	1.9	2.1	2.8

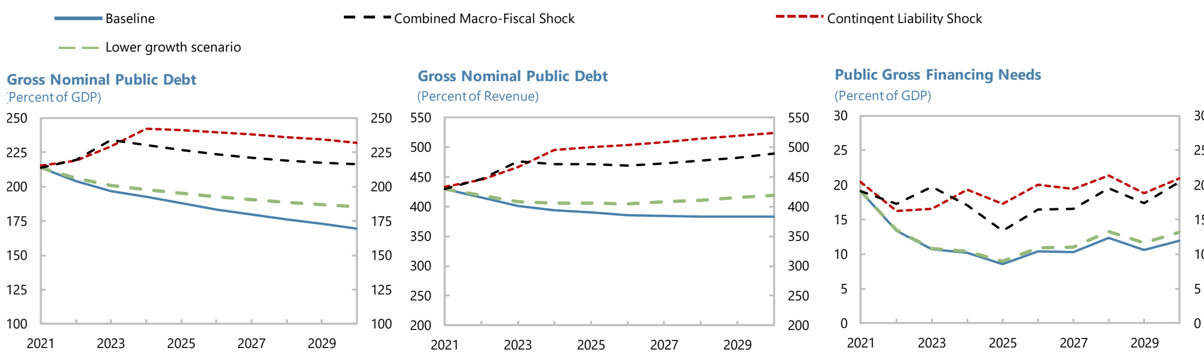
Source: IMF staff.

Annex III. Figure 4. Greece Public DSA: Stress Tests (Baseline Scenario)

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(Percent)

	2021	2022	2023	2024	2025	2026	2027	2030
Primary Balance Shock								
Real GDP growth	3.3	5.4	2.6	1.8	1.5	1.2	1.0	1.0
Inflation	-0.2	0.7	0.9	1.5	1.8	1.8	1.9	1.9
Primary balance	-7.0	-4.1	-3.1	0.5	1.0	1.5	1.5	1.5
Effective interest rate	1.8	1.7	1.7	1.6	1.5	1.5	1.6	1.9
Real Interest Rate Shock								
Real GDP growth	3.3	5.4	2.6	1.8	1.5	1.2	1.0	1.0
Inflation	-0.2	0.7	0.9	1.5	1.8	1.8	1.9	1.9
Primary balance	-7.0	-0.9	0.1	0.5	1.0	1.5	1.5	1.5
Effective interest rate	1.8	1.7	1.8	1.9	1.9	2.0	2.2	3.0
Combined Shock								
Real GDP growth	3.3	0.9	-1.8	1.8	1.5	1.2	1.0	1.0
Inflation	-0.2	-0.4	-0.2	1.5	1.8	1.8	1.9	1.9
Primary balance	-7.0	-4.1	-5.6	0.5	1.0	1.5	1.5	1.5
Effective interest rate	1.8	1.7	1.9	2.0	2.1	2.2	2.4	3.2
Lower Growth Scenario								
Real GDP growth	3.3	4.4	1.6	0.8	0.5	0.2	0.0	0.0
Inflation	-0.2	0.7	0.9	1.5	1.8	1.8	1.9	1.9
Primary balance	-7.0	-0.9	0.1	0.5	1.0	1.5	1.5	1.5
Effective interest rate	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.9

	2021	2022	2023	2024	2025	2026	2027	2030
Real GDP Growth Shock								
Real GDP growth	3.3	0.9	-1.8	1.8	1.5	1.2	1.0	1.0
Inflation	-0.2	-0.4	-0.2	1.5	1.8	1.8	1.9	1.9
Primary balance	-7.0	-3.7	-5.6	0.5	1.0	1.5	1.5	1.5
Effective interest rate	1.8	1.7	1.7	1.7	1.6	1.5	1.6	1.9
Real Exchange Rate Shock								
Real GDP growth	3.3	5.4	2.6	1.8	1.5	1.2	1.0	1.0
Inflation	-0.2	1.0	0.9	1.5	1.8	1.8	1.9	1.9
Primary balance	-7.0	-0.9	0.1	0.5	1.0	1.5	1.5	1.5
Effective interest rate	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.8
Contingent Liability Shock								
Real GDP growth	3.3	0.9	-1.8	-2.7	1.5	1.2	1.0	1.0
Inflation	-0.2	-0.4	-0.2	0.4	1.8	1.8	1.9	1.9
Primary balance	-7.0	-2.6	-1.8	-0.2	0.3	1.5	1.5	1.5
Effective interest rate	1.8	1.7	2.4	3.1	2.9	3.0	2.8	2.7

Source: IMF staff.

Annex III. Table 1. Greece Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(Percent of GDP, unless otherwise indicated)

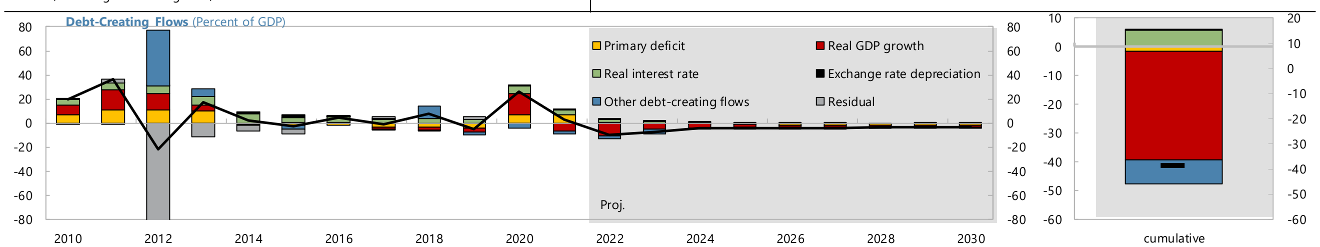
Debt, Economic and Market Indicators 1/

	Actual			Projections									
	2010–2018 2/	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Nominal gross public debt 3/	176.5	184.9	211.2	213.8	204.1	197.0	192.6	188.0	183.6	179.7	176.2	172.9	169.5
Public gross financing needs	21.1	11.8	17.6	19.1	13.4	10.7	10.3	8.7	10.5	10.4	12.3	10.5	11.7
Real GDP growth (percent)	-2.5	1.9	-8.2	3.3	5.4	2.6	1.8	1.5	1.2	1.0	1.0	1.0	1.0
Inflation (GDP deflator, percent)	-0.3	0.2	-1.5	-0.2	0.7	0.9	1.5	1.8	1.8	1.9	1.8	1.8	1.9
Nominal GDP growth (percent)	-2.9	2.1	-9.6	3.1	6.1	3.5	3.3	3.3	3.0	2.9	2.8	2.8	2.9
Effective interest rate (percent) 5/	2.6	1.9	1.8	1.8	1.7	1.7	1.6	1.5	1.5	1.6	1.6	1.8	1.9
Memorandum item:													
Gross financing need 6/	...	14.5	22.0	21.3	15.0	14.1	11.1	9.0	...	...	...	...	...

As of June 01, 2021		
Sovereign Spreads		
Spread (bp) 4/		101
CDS (bp)		76
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	BB	BB
Fitch	BB	BB

Contribution to Changes in Public Debt

	Actual			Projections											
	2010–2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Cumulative	Debt-stabilizing primary balance 11/
Change in gross public sector debt	6.9	-5.0	26.3	2.6	-9.7	-7.1	-4.5	-4.5	-4.4	-3.9	-3.5	-3.3	-3.4	-41.7	-1.7
Identified debt-creating flows	19.6	-6.9	26.3	2.3	-9.7	-7.2	-4.5	-4.6	-4.5	-4.0	-3.5	-3.2	-3.2	-42.1	
Primary deficit	3.1	-4.0	7.3	7.0	0.9	-0.1	-0.5	-1.0	-1.5	-1.5	-1.5	-1.5	-1.5	-1.4	
Primary (noninterest) revenue and grants	47.3	48.0	50.2	49.7	49.2	49.1	48.8	48.1	47.6	46.8	45.9	45.1	44.3	474.8	
Primary (noninterest) expenditure	50.4	44.0	57.5	56.7	50.1	49.0	48.3	47.2	46.2	45.2	44.4	43.6	42.7	473.4	
Automatic debt dynamics 7/	9.7	-0.2	23.0	-2.8	-8.9	-3.7	-3.2	-3.3	-2.8	-2.3	-2.0	-1.6	-1.6	-32.3	
Interest rate/growth differential 8/	9.3	-0.3	23.3	-2.8	-8.9	-3.7	-3.2	-3.3	-2.8	-2.3	-2.0	-1.6	-1.6	-32.3	
Of which: real interest rate	5.1	3.1	6.4	4.0	2.0	1.5	0.2	-0.5	-0.6	-0.6	-0.3	0.0	0.0	5.7	
Of which: real GDP growth	4.2	-3.5	16.9	-6.8	-10.9	-5.2	-3.4	-2.8	-2.1	-1.8	-1.7	-1.6	-1.7	-38.0	
Exchange rate depreciation 9/	0.3	0.1	-0.3	...	...	...	...	...	...	...	...	...	...	...	
Other identified debt-creating flows	6.8	-2.7	-4.0	-1.8	-1.7	-3.4	-0.8	-0.3	-0.3	-0.1	0.0	0.0	0.0	-8.4	
Net privatization proceeds	-0.3	0.0	-0.2	-0.5	-0.6	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	-1.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other liabilities (arrears clearance and cash buffer flows)	7.1	-2.7	-3.8	-1.4	-1.1	-3.3	-0.8	-0.3	-0.3	0.0	0.0	0.0	0.0	-7.1	
Residual, including asset changes 10/	-12.7	1.9	0.0	0.3	0.0	0.1	0.1	0.1	0.1	0.0	0.0	-0.1	-0.2	0.4	



Source: IMF staff projections.
1/ Public sector is defined as general government.
2/ Based on available data.
3/ Public debt includes the stock of deferred interest.
4/ Bond Spread over German Bonds.
5/ Defined as interest payments divided by debt stock at the end of previous year.
6/ Gross financing need level assuming privatization, ECB related income (SMP/ANFA), and government deposits are not available.
7/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
8/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.
9/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
10/ For projections, this line includes exchange rate changes during the projection period.
11/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

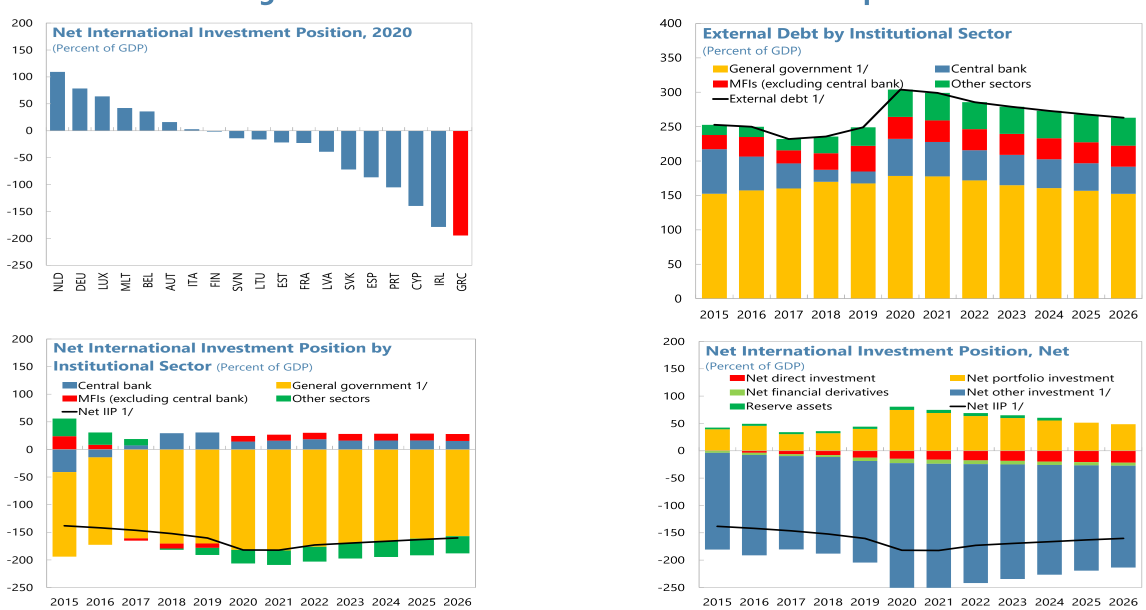
E. External Sector Debt Sustainability Analysis

9. Greece's external debt is higher than that of most other European economies. The sharp GDP contraction and large external financing needs in 2020 pushed Greece's external debt to 304 percent of GDP, exceeding its previous peak of 253 percent of GDP in 2015.[16] The increase relative to the 2019 level (249 percent of GDP) is mostly driven by a rise in the government debt-to-GDP ratio (reflecting a strong denominator effect) and an increase in TARGET2 liabilities (to help finance the large current account deficit in 2020). As of end-2020, 59 percent of Greece's external debt originated from the general government.

10. Similarly, at an estimated minus 182 percent of GDP in 2020, Greece's NIIP is the weakest in Europe (see Figure 7). The NIIP deteriorated by about 22 percent of GDP in 2020, driven largely by the same factors explaining the increase in Greece's external debt (discussed above).

11. Staff projects a gradual improvement in Greece's external debt and NIIP in the medium term. Greece's external debt and NIIP are expected to improve gradually over the medium term, driven by a gradual narrowing of the current account deficit as tourism receipts recover and the post-pandemic recovery in GDP (notwithstanding scarring effects). Due to the large COVID-19 shock and its long-lasting impact on the Greek economy, Greece's medium-term external position is weaker than in the November 2019 DSA where the external debt and NIIP positions were projected to decline/improve to 197 and -141 percent of GDP, respectively.

Text Figure 7. Greece: NIIP and External Debt Developments



Source: IMF, WEO database; and IMF staff calculations.
1/ Includes the stock of deferred interest payments on EFSF loans (IMF staff adjustment).

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[16] This includes the stock of deferred interest to part of EFSF loans (IMF staff adjustment).

12. Macroeconomic shocks and policy slippages could result in adverse dynamics.[17]

- *Interest rate shock.* A 30-basis point interest rate shock (on Greece's entire external debt portfolio) would worsen the income account and raise the debt ratio by 15 ppt above the baseline by 2026. This could also be interpreted as a 100 bp shock on 30 percent of Greece's external debt portfolio, which is a more likely scenario given that a large share of external debt is on fixed rates.

- *Growth shock*. A decline in average growth by 2.2 percentage points would set off a non-stabilizing debt trajectory, with the ratio 43 ppt higher at end-2026 than in the baseline.

- *Larger current account deficits***.** A deterioration in the current account (relative to baseline) by 1.9 percent of GDP over the projection years would raise the debt ratio by 20 ppt compared to the baseline by 2026.

- *Combined shock.* Under a combined shock involving higher interest rates, lower growth, and current account balances (but to a milder degree compared to the individual shocks above), debt dynamics would be much more adverse and hardly stabilizing, with the external debt ratio remaining elevated at 296 percent of GDP in 2026, 33 ppt higher than in the baseline.

[17] Individual interest rate, growth and current account shocks correspond to ½ of the standard deviation of the historical average for the respective variable for 2022 to 2026. The combined shock assumes ¼ standard deviation shocks for 2022 to 2026 for all three variables.

Annex III. Table 2. Greece External Debt Sustainability Framework
(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
Baseline: External debt (includes the stock of deferred interest)	249.8	232.0	235.6	249.0	303.9			**299.0**	**285.6**	**278.9**	**273.0**	**267.7**	**263.0**	**-8.0**
Change in external debt	-2.8	-17.8	3.6	13.4	54.9			-4.8	-13.4	-6.7	-5.9	-5.3	-4.7	
Identified external debt-creating flows (4+8+9)	2.5	-3.4	-1.2	-4.8	32.7			-7.9	-16.7	-7.0	-4.7	-3.4	-2.5	
Current account deficit, excluding interest payments	-0.5	-0.4	0.5	-0.8	4.5			3.7	0.7	0.7	0.8	0.8	0.7	
Deficit in balance of goods and services	1.0	1.0	1.8	0.9	6.8			6.1	2.8	1.9	2.0	2.1	2.0	
Exports	31.2	34.8	38.7	39.6	31.1			35.2	37.4	38.0	38.0	38.2	38.4	
Imports	32.2	35.8	40.5	40.5	37.9			41.4	40.1	39.9	40.0	40.2	40.4	
Net non-debt creating capital inflows (negative)	-2.6	-1.9	-1.6	-2.1	-1.1			-5.3	-5.1	-3.1	-3.4	-2.9	-2.9	
Automatic debt dynamics 1/	5.6	-1.1	-0.1	-1.8	29.4			-6.3	-12.3	-4.5	-2.2	-1.3	-0.4	
Contribution from nominal interest rate	2.8	3.0	3.0	3.1	2.9			2.9	2.8	2.7	2.7	2.7	2.7	
Contribution from real GDP growth	1.3	-3.1	-3.4	-4.5	22.3			-9.2	-15.1	-7.3	-4.8	-4.0	-3.0	
Contribution from price and exchange rate changes 2/	1.5	-1.0	0.2	-0.4	4.2			0.2	-2.2	-2.5	-4.1	-4.7	-4.8	
Residual, incl. change in gross foreign assets (2-3) 3/	-5.3	-14.4	4.8	18.2	22.1			2.9	5.4	2.8	2.9	2.8	2.6	
External debt-to-exports ratio (in percent)	800.1	666.2	609.0	629.1	976.3			848.4	764.4	733.3	718.0	701.6	684.9	
Gross external financing need (in billions of US dollars) 4/	196.4	170.8	141.7	116.9	146.2			214.2	202.8	204.8	205.5	204.2	208.2	
in percent of GDP	101.9	85.4	66.7	56.9	77.3	10-Year	10-Year	102.8	90.5	88.1	85.4	82.2	81.4	
Scenario with key variables at their historical averages 5/								**302.4**	**328.0**	**349.0**	**371.1**	**394.2**	**418.4**	**20.5**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	-0.5	1.3	1.6	1.9	-8.2	-2.4	4.5	3.3	5.4	2.6	1.8	1.5	1.2	
GDP deflator in US dollars (change in percent)	-0.8	2.4	4.5	-5.1	0.4	-1.8	6.7	6.5	2.0	1.1	1.6	1.8	1.8	
Nominal external interest rate (in percent)	1.1	1.2	1.4	1.3	1.1	1.0	0.6	1.1	1.0	1.0	1.0	1.0	1.0	
Growth of exports (US dollar terms, in percent)	-3.9	15.7	17.9	-1.1	-27.5	0.9	15.3	24.6	14.0	5.6	3.4	3.7	3.7	
Growth of imports (US dollar terms, in percent)	-2.8	15.6	19.8	-3.2	-13.8	-0.1	14.7	20.1	4.4	3.2	3.6	3.9	3.4	
Current account balance, excluding interest payments	0.5	0.4	-0.5	0.8	-4.5	-1.1	3.7	-3.7	-0.7	-0.7	-0.8	-0.8	-0.7	
Net non-debt creating capital inflows	2.6	1.9	1.6	2.1	1.1	2.0	1.4	5.3	5.1	3.1	3.4	2.9	2.9	

1/ Derived as [i - g - r(1+g) + ea(1+i)]/(1+g+r+gr) times previous period debt stock, with i = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

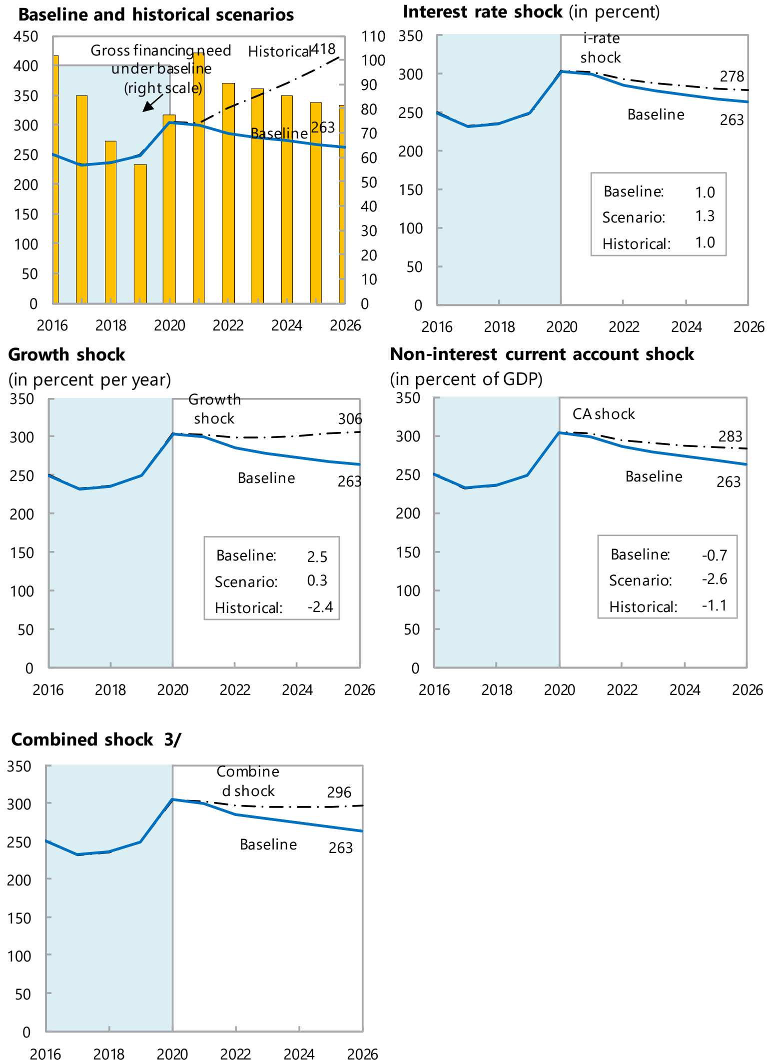
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex III. Figure 7. Greece External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Annex IV. Financial Sector Background Note

Banks entered the COVID-19 crisis with limited buffers reflecting the authorities' financial sector strategy centered around supervisory accommodation and financial engineering to give banks time to reduce Non-Performing Exposures (NPEs) through organic growth without triggering Deferred Tax Credits (DTCs) conversion or breaching EU-wide state aid rules. A range of relief measures that have cushioned and delayed the impact of the COVID-19 shock was put in place while banks continued to make progress with reducing NPEs and improving liquidity, but capital quality and profitability remain a concern. Moreover, some risks materialized last year—the largest bank was partially nationalized due to conversion of a convertible bond coupon held by the Hellenic Financial Stability Fund (HFSF) into equity at end-2020 owing to the bank's poor underlying profitability. The pandemic is expected to add further stress to the banking system including a new wave of NPEs once supervisory and government support measures are unwound, but the Hercules securitization strategy could still achieve a rapid reduction in NPEs provided capital-raising efforts are successful.

A. The Impact of the Pandemic on the Greek Banking Sector

1. The authorities' adopted a range of measures to cushion the pandemic's impact on the banks. These measures include:

- *Banks* launched loan moratoria (amortization and interest payments for households, and amortization payments for corporates), mostly through end-2020. Affected loans and advances peaked at €28 billion (20 percent of performing loans) in 2020 Q3 but declined to €2.3 billion (about 1.5 percent of performing loans) in February (some tourism sector loans remain under moratoria). As a result, banks' 2020 profitability and asset quality were shielded (banks still accrued interest in P&L; provisioning was not required as exposures under moratoria were not booked as NPEs, but some banks booked provisions in anticipation of fresh Covid-19 NPEs). As of February 2021, 50 percent of the assets that had been covered by moratoria were back to performing, while 15 percent are receiving government support through the "Gefyra I and II" programs (see below). Another 15 percent have been converted to "step-up" loans where payments rise gradually (over a period of up to 18 months) to original levels, and 20 percent have become NPEs.

- *The Greek authorities* have introduced measures to support borrowers via interest payment subsidies on pre-existing business loans (about €400 million for 2020–21), and mortgage and business loans payment subsidies for performing and non-performing loans ("Gefyra I and II" programs totaling roughly €650 million), which include previously denounced loans.

- Leveraging EU funding, the Hellenic Development Bank (HDB) has launched a €1.8 billion loan guarantee program to leverage up to €5.5 billion in new lending for SMEs and large corporates.[1] Moreover, the HDB has provided funding under the "Tepix II" programs to the banks for

[1] The figures in this bullet are based on data received from the authorities by mid-April 2021.

€1.8 billion (including about €600 million in state direct co-financing) for working capital loans. The fiscal cost of all on-budget financial sector measures adds up to about €3.8 billion (2.2 percent of 2020 GDP or 12 percent of end-2020 Systemic Institutions (SIs) capital). In addition, the government has: (i) doubled the size of the NPE securitization guarantees under the Hercules program to €24 billion and extended the deadline for securitizations until end-2022 (which would allow securitization of COVID-19-related NPEs); and (ii) provided direct liquidity support to corporates through the 'repayable advance' scheme administered by the tax authority (€7.3 billion).

- In 2020, the *PDMA* conducted Liquidity Management Operations (LMOs) to extend the maturity of Greek Government debt. As part of the LMOs, the PDMA conducted swaps with three SIs that resulted in a €1.1 billion windfall in their trading income.

- The *ECB* lifted restrictions on Greek Government Bonds (GGBs) that paved the way for ECB purchases under the Pandemic Emergency Purchase Program (PEPP) and for Greek banks to post GGBs as collateral in Eurosystem operations. These measures have activated the interest-rate channel (lowering rates), reduced uncertainty (compressing GGB spreads), produced gains on GGB holdings in banks' trading books, and provided effective liquidity backstops and lower funding costs for banks via LTRO/TLTROs.

- The *SSM* has temporarily loosened its enforcement of supervisory requirements. SIs can operate temporarily below Pillar 2 Guidance (P2G) buffer, the capital conservation buffer, and the Liquidity Coverage Ratio. The SSM has also allowed flexibility in classifying and provisioning for NPEs that are covered by public guarantees and COVID-19 related payment moratoria.

2. **Despite the pandemic, SIs continued to make progress with reducing NPEs and improving liquidity**. The systemwide NPE ratio declined by 10.4 percentage points to 25 percent compared to 2.7 percent for EU banks.[2] Liquidity improved substantially (mostly due to ECB measures), but it is still the lowest in the EU. ECB measures led to a sharp decline in funding costs and reduced banks' liquidity risks—as of end-2020, all the SIs managed to comply for the first time on a consolidated basis with the 100 percent Liquidity Coverage Ratio (LCR).

3. **However, weak profitability and quality of capital continue to pose a challenge**. Despite the government and supervisory support measures, system wide ROE was the lowest in the EU. The CET1 ratio dropped to 15.1 percent at end-2020 (or 12.7 versus 15.5 percent for EU banks on a fully-loaded basis). The quality of capital deteriorated further with DTCs, which have limited loss-absorption capacity, accounting for 59 percent of total capital of the 4 SIs – a 4.5 percentage

[2] These figures refer to the ECB definition for NPE ratios which is lower than the Greek definition (30.4 percent). The drop in the NPE ratio includes €6 billion in assets held for sale in anticipation of the Frontier sale of securitized NPEs under Hercules by NBG, which is subject to execution risks. Excluding this reclassification, the system wide NPE ratio would be 3.5 percentage points higher (34 percent, national definition or 28.5 percent, ECB definition).

point increase compared to 2019.[3] In the context of increasing bank differentiation, the largest bank, Piraeus, missed a convertible bond coupon payment, which prompted its conversion into equity and led to the majority state-ownership through the Hellenic Financial Stability Fund (HFSF) (see Box IV.2). More generally, markets have priced in the idiosyncratic vulnerabilities and risks faced by the Greek SIs, which have the second lowest price-to-book ratios in the EA. Likewise, the cost for long-term unsecured funding has increased. Alpha Bank issued Tier 2 bonds in March at a yield of 5.5 percent, 100 basis points higher than a similar issuance in February 2020.

Box IV.1. Recent Developments in Piraeus Bank

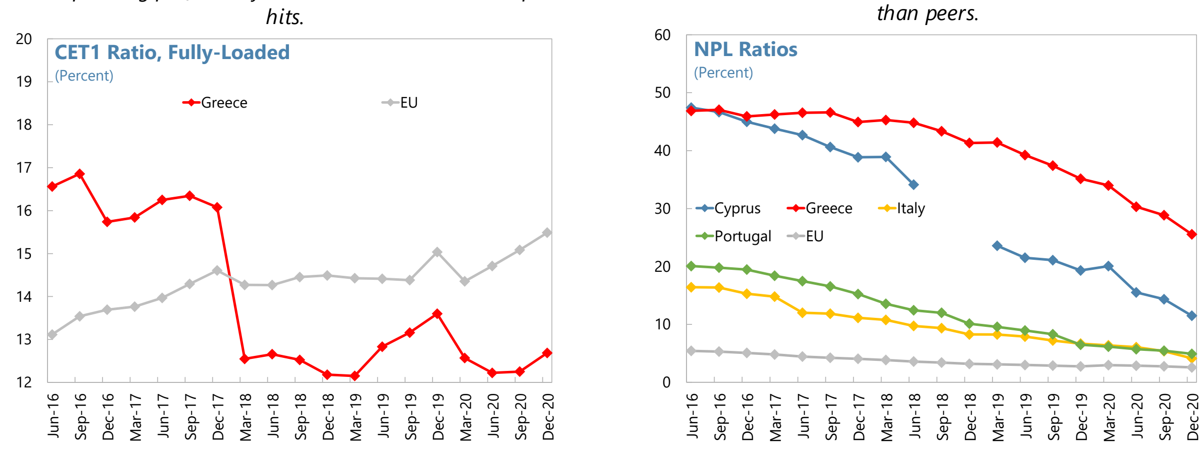
Piraeus (Greece's largest bank), did not make the end-2020 convertible coupon payment to the HFSF.[1] This was the second non-payment of a coupon and the trigger event leading to conversion of the coupon into equity. As a result, the Greek government, through the HFSF, owned 61.3 percent of the bank's shares from end-2020 until end-April, when the bank raised €1.4 billion in fresh CET1 capital. This will allow the bank to undertake a more aggressive NPE clean-up effort. The HFSF participated in the capital share increase, but its stake fell below blocking minority. The bank plans to securitize €17.8 billion in NPEs through the Hercules government-backed asset-protection scheme and in addition sell and/or lease €1.5 billion NPEs to reach a new NPE target of 9.4 percent by end-2021.

[1] The Hellenic Financial Stability Fund (HFSF) is the government's agent with respect to public exposure in the banks. The banks are owned by a mix of domestic and foreign shareholders, including the HFSF on behalf of the government.

Text Figure 8. Greece: Bank's NPE and CET1 Ratios vs. EU Peers

Weak operating profitability and securitizations led to capital hits.

The NPE ratio continued to decline but remains much higher than peers.



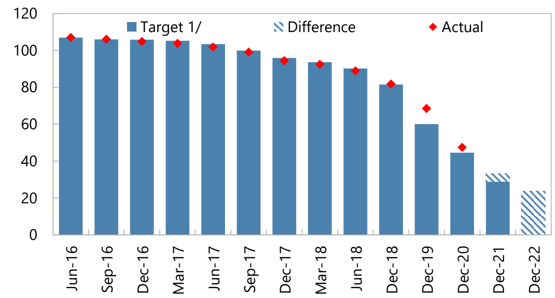
Source: European Banking Authority.

[3] For an in-depth discussion of Greek banking sector linkages to the government via DTCs see "Cost-effectiveness of State Support," Staff Selected Issues Papers, 2019 Article IV Staff Report (CR/19/340).

B. Developments in NPE Reduction and Deleveraging of the Economy

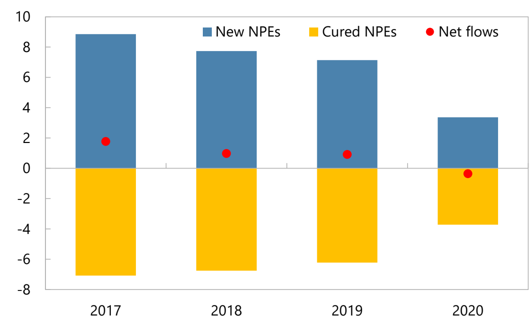
4. **NPE reduction plans center around Hercules securitizations, which are subject to execution risks and fresh capital needs.** The NPE reduction plans are mainly relying on securitizations totaling €32 billion under the Hercules scheme, of which about half are yet to be completed. Further delays are possible due to concerns about the impact of the crisis on underlying collateral values, potentially reducing securitization amounts. Other execution risks are also elevated, for example, senior tranche coupon payments depend on improvements in debt servicers' collection rates, the recovery of real estate prices, and the speedy implementation of debt restructuring tools. Organic NPE reduction has been slow in recent years as new NPE inflows exceeded curings, though net NPE inflows were negative in 2020 due to the moratoria. Given that organic NPE reduction is expected to remain slow and insolvency reforms will take time to take effect, further inorganic solutions may require additional fresh capital.

NPL Operational Targets
(Billions of euro)



Sources: Bank of Greece; and European Central Bank.
1/ NPE targets for 2020 were suspended, 2021-22 are banks' business plans projections submitted to the SSM

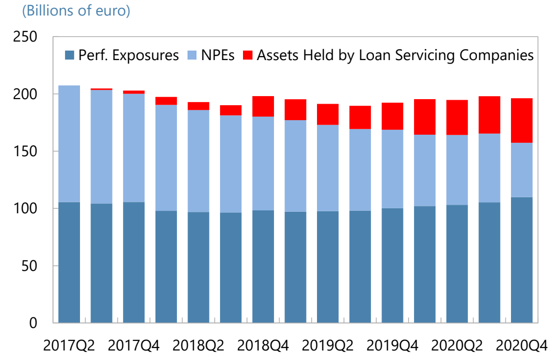
Organic NPE Flows
(Billions of euro)



Sources: Bank of Greece, banks reports; and IMF staff calculations.

5. **NPE securitization does not necessarily lead to a reduction in private indebtedness.** Since 2017, Banks have sold NPEs to credit servicing companies (including through securitizations) but there is little evidence of material private debt resolution. While the NPE stock declined by €54 billion since 2017, assets held by servicers increased by €38 billion. In this respect, the bank moratoria, collateral auction suspensions, and gradual implementation of the new insolvency regime will impact the rate of future meaningful debt resolution.

Greece: Bank Credit vs. Assets Held by Loan Servicers
(Billions of euro)

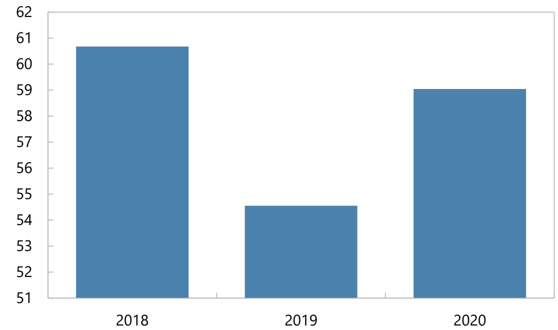


Sources: Bank of Greece.

C. Capital Level and Quality

6. The level and especially the quality of capital in the four SIs is likely to deteriorate further. The banks' capital adequacy ratio fell in 2020 but remained at a satisfactory level. As the corporate "hive-downs" prevent DTC conversion, their share in percent of CET1 capital rose by 5 percentage points to about 60 percent and could rise further over the next few years.[4]

Deferred Tax Credits as Share of CET1 Capital
(Percent of CET1 Capital)



Source: ECB; and IMF staff calculations.

D. Liquidity

7. Liquidity has improved markedly due to ECB accommodation and deposits have increased sharply. Following the ECB liquidity measures, all SIs have increased liquidity buffers by replacing repo and LTRO funding with TLTROIII funding. The two banks that were previously breaching LCRs met their targets at end-2020. Banks also experienced a large deposit increase from households (which were postponing consumption due to lockdowns) and NFCs (that hoarded cash for precautionary purposes). Total deposits rose by 14 percent in 2020 (for both corporates and households) and reached 98 percent of GDP- the highest level since 2010. Banks' balance sheet expansion on the asset side has relied mostly on assets with zero-risk weight such as HQLAs (cash at central banks and GGBs), and loans receiving state guarantees.

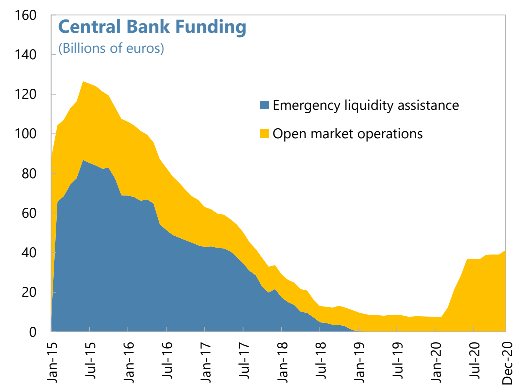
E. Bank Profitability and Credit Provision

8. Profitability was weak, benefiting from one-off Greek Government Bond swaps. Greek banks are the least profitable in Europe (an ROE of -6.5 percent in 2020 versus 2 percent on average for EU banks), mostly due to large impairment costs and losses from securitizations (the cost of risk was 3.1 percent versus 0.7 percent on average in the EU). Moreover, profitability was also hampered by the low net-fee and commission income. Thus, banks relied mainly on nonrecurrent income in the form of asset sales (in 2020, other operating income as a share of equity was the highest in the EU) and especially GGB trading. In this respect, the PDMA conducted GGB swaps with Alpha, Eurobank, and NBG in 2020, that resulted in trading income totaling €1.1 billion (or 6 percent of the banks' equity).

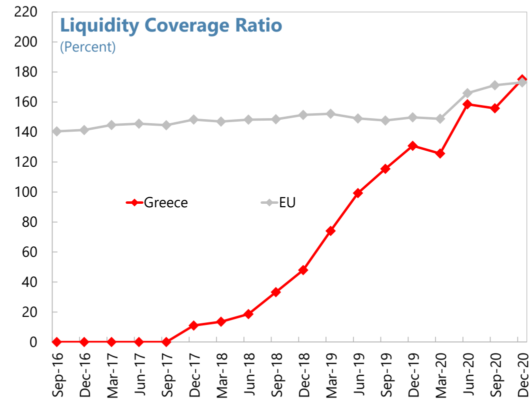
[4] Greek DTCs are special deferred tax assets in the sense that the law allows Greek banks to "convert" DTCs into immediate claims on the government (cash or cash equivalents) in case of reported losses, in exchange for an increased government stake (diluting other private shareholders). Importantly, this special treatment also means that banks are not required to deduct such 'DTC' assets from calculation of regulatory (CET1) capital. However, so called "hive downs" (a transformation of "old" banks into holding companies and creation of a "new" bank) have prevented the conversion of DTCs into equity (owned by the state) and dilution of other shareholders despite recent losses due to NPE securitizations and subsequent sales that depleted capital. Therefore, the share of DTCs in terms of CET1 capital has been rising.

Text Figure 9. Greece: Liquidity Developments

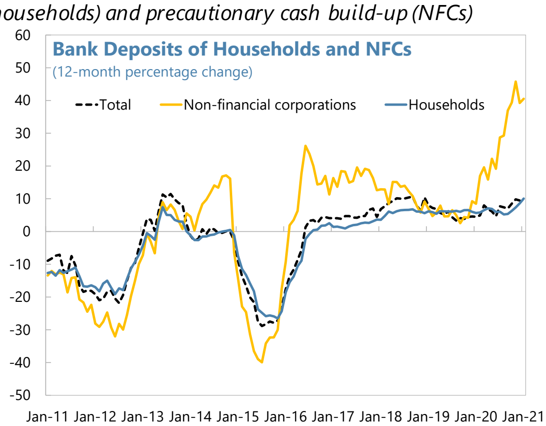
Greek SIs took advantage of ECB TLTRO windows.



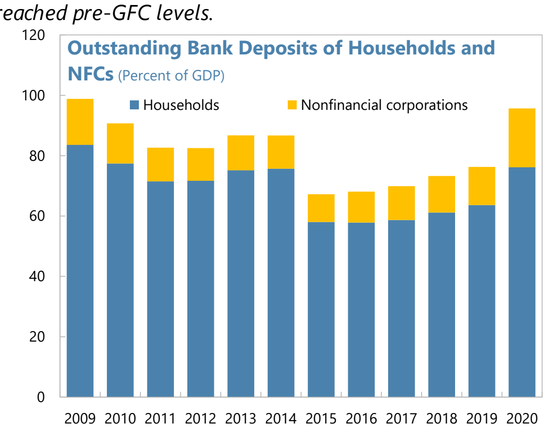
The overall LCR ratio improved to the EU average.



Strong deposit growth was driven by spending constraints (households) and precautionary cash build-up (NFCs)



As a result, Greek private sector deposits in percent of GDP reached pre-GFC levels.



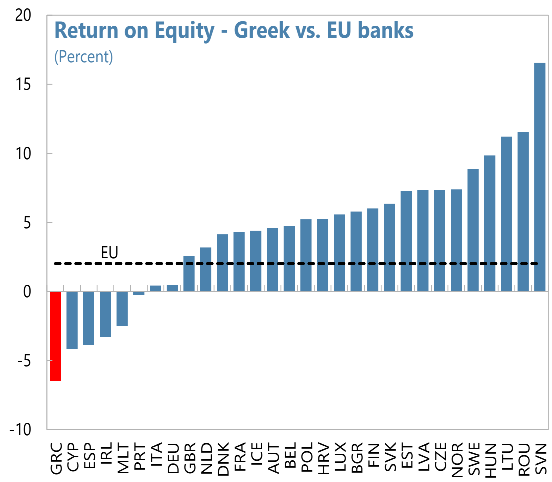
Source: ELSTAT; Bank of Greece; ELSTAT; European Banking Authority; Haver Analytics; and IMF staff calculations.

9. Progress on strengthening banks' business plans and internal governance has been limited. There are three important challenges. First, the four SIs' business models are broadly similar, in the context of a shallow domestic market with a large debt (and collateral) overhang and a weak payment culture. Second, banks may face potential threats from Fintech developments. In this respect, a cloud-based electronic payment company just acquired a banking license to open a digital bank. Third, continued reliance on securitizations may reduce the banks' customer bases, as there are regulatory constraints on extension of new credit to borrowers whose loans have been securitized.

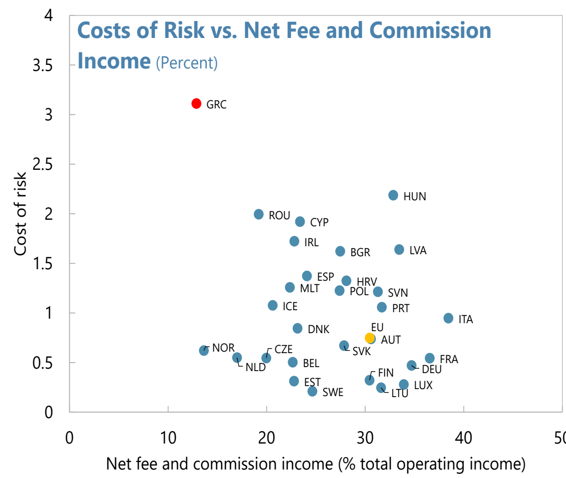
10. Credit to the economy is increasingly dependent on government-sponsored programs. Bank lending to NFCs through government-support programs reached €8.6 billion in 2020–21:Q1 (about 45 percent of new credit provided by banks during that period). In addition, official credit support totaled an additional €9.6 billion (€7.3 billion in 'repayable advances' and €2.3 billion in EIB loans). Thus, banks are relying on government funding to finance private sector activity. Other official support outside the banking system (which may increase if the government on-lending of NGEU loans moves forward) may "crowd out" demand for bank lending going forward.

Text Figure 10. Greece: Drivers of Greek SI's Profitability

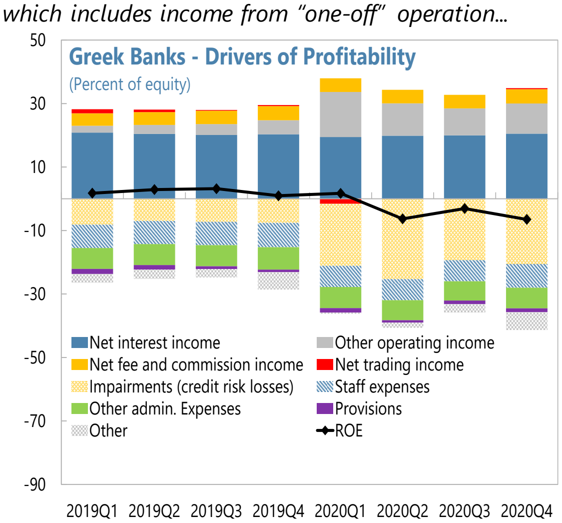
Greek banks had the lowest ROE in the EU in 2020…



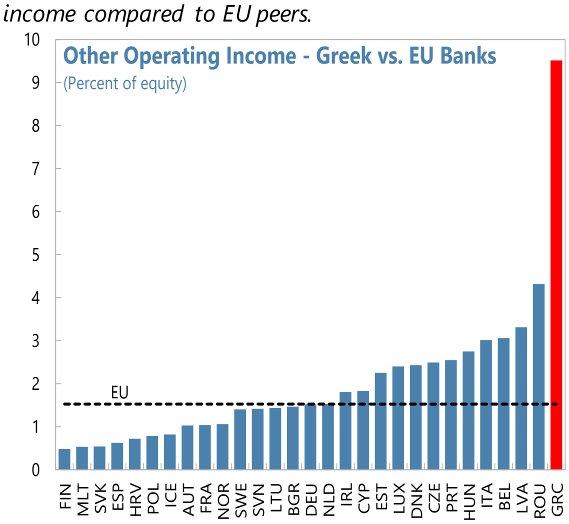
…partly driven by high cost of risk and low fee and commission income.



Bank profits are buttressed by "other operating income", which includes income from "one-off" operation…



Greek banks are overly reliant on other operating income compared to EU peers.



Source: European Banking Authority; and IMF staff calculations.

Table IV. 1. Financial Stability Indicators for Greek and EU

Indicator1 +B5:L27B40B5:L26B5:L30B40B5:L26B5:L25B5:L24B5:L15	GR Q4-18	GR Q4-19	GR Q4-20	EU Q4-18	EU Q4-19	EU Q4-20
Capital adequacy						
CET 1 ratio (transitional)	15.3	16.3	15.1	14.7	15.2	15.9
CET 1 ratio (fully loaded)	12.2	13.6	12.7	14.5	15.0	15.5
Asset quality						
NPL ratio	41.3	35.2	25.5	3.2	2.7	2.6
NPE ratio	37.0	30.9	21.4	2.8	2.4	2.3
Coverage ratio of NPLs	48.3	44.7	44.7	45.1	44.7	44.9
Forbearance ratio for loans	24.4	21.5	16.6	2.1	1.8	2.0
Share of exposures to real estate to total exposures to NFCs	5.5	5.7	5.6	27.1	27.3	27.1
NPE ratio for real estate exposures	48.7	39.7	30.7	4.0	2.9	2.6
Share of exposures to construction to total exposures to NFCs	9.4	9.1	7.2	6.1	5.7	5.6
NPEs for construction exposures	60.4	53.6	48.6	15.9	15.1	10.4
Share of financial at fair value through the P&L	6.3	6.1	4.9	19.7	20.0	17.7
Share of financial assets at fair value through the OCI	8.9	8.9	7.2	6.6	6.6	5.4
Share of fair value level 3 to total fair valued assets	3.2	3.3	2.5	4.1	3.4	3.9
Profitability						
RoE	-0.5	1.0	-6.5	6.5	5.7	2.0
RoA	-0.1	0.1	-0.7	0.4	0.4	0.1
Cost to income ratio	53.4	49.9	42.1	64.6	64.0	65.1
Net fee income to total operating income	15.9	15.0	12.9	28.7	28.5	30.5
Net trading income to total operating income	2.1	1.7	0.6	3.1	10.0	4.7
Liquidity						
Liquidity Coverage Ratio (LCR)	48.0	130.8	175.2	152.0	149.8	173.1
Asset encumbrance ratio	23.9	19.1	26.4	28.0	27.3	27.9
Share of secured funding	76.2	68.9	34.8	33.1	33.2	37.5

Sources: EBA, IMF Staff.
1/ In percent as of Q4-2020

INTERNATIONAL MONETARY FUND

GREECE

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 24, 2021

Prepared By

European Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(as of May 31, 2021)

Membership Status: Joined December 27, 1945.

Exchange Rate Arrangements: Greece's currency is the euro, which floats freely and independently against other currencies. Greece has accepted the obligations of Article VIII, Sections 2, 3, and 4. As of April 30, 2021, it maintains an exchange system free of restrictions on payments and transfers for current international transactions, except for those measures adopted solely for security reasons, which have been notified to the Fund in accordance with the procedures of Decision 144 (52/51).

General Resources Account:

	SDR Million	Percent Quota
Quota	2,428.90	100.00
IMF's Holdings of Currency	3,365.86	138.58
Reserve Tranche Position	575.02	23.67

SDR Department:

	SDR Million	Percent Allocation
Net Cumulative Allocation	782.36	100.00
Holdings	11.79	1.51

Outstanding Purchases and Loans:

	SDR Million	Percent Quota
Extended Arrangements	1,510.00	62.17

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	Mar 15, 2012	Jan 15, 2016	23,785,30	10,224.50
Stand-by	May 09, 2010	Mar 14, 2012	26,432.90	17,541.80

Projected Payments to the Fund:
(SDR Million, based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2021	2022	2023	2024	2025
Principal		146.72	1,112.15	251.13	
Charges/Interest	15.87	16.25	9.95	2.17	0.40
Total	15.87	162.97	1,122.10	253.30	0.40

Article IV Consultations:
The last Article IV was concluded on November 13, 2019 following consultation discussions that ended on September 27, 2019. Greece is on the standard 12-month consultation cycle.

Resident Representative:

The Resident Representative departed his position in July 2020. The local office was closed in December 2020.

Technical Assistance:

Department	Purpose (V=Virtual)	Date
STA	Government Finance Statistics	November 2016
FAD	IT Strategy Development in Tax Administration	December 2016
FAD	Institutional Reforms in Tax Administration	January 2017
FAD	IT Strategy Development in Tax Administration	February 2017
STA	Government Finance Statistics	February 2017
FAD	Chart of Accounts, Cash Management and Reconciliation	March 2017
STA	Government Finance Statistics	May 2017
FAD	Roadmap for IT Strategy Implementation in Tax Administration	August 2017
FAD	Restructuring Tax Debt	September 2017
FAD	Strategic Planning in Tax Administration	October 2017
FAD	Implementing a Treasury Single Account and Chart of Accounts (Roehler)	November 2017
FAD	Roadmap for IT Strategy Implementation in Tax Administration	January 2018
FAD	Assessment of Tax Administration	February 2018
FAD	Follow-up on Tax Administration Reforms	February 2018
FAD	Chart of Accounts, Accounting and Treasury Single Account Reforms (Roehler)	February 2018
STA	Government Finance Statistics	February 2018
FAD	Developing Communication Procedures in Tax Administration	March 2018
FAD	Performance Targets in Tax Administration	March 2018
FAD	Roadmap for IT Strategy Implementation in Tax Administration	April 2018
FAD	Cash Management Legislation and Regulation	June 2018
FAD	Performance Budgeting	July 2018
FAD	Revenue Administration: Enhancing Operating Practices (Russell)	November 2018
FAD	Revenue Administration: Development of IT Capability (Poulin)	November 2018
FAD	Chart of Accounts and Accounting Reforms (Renteria) (V)	February 2019
FAD	Revenue Administration: Modern Tax Administration (Sorensen)	February 2019
FAD	Revenue Administration: Institutional Reforms/ IT Capability (Coyne)	April 2019
FAD	Developing Compliance Risk Management Capacity (Holloway)	April 2019
FAD	Revenue Administration: Development of IT Capability (Poulin)	May 2019
FAD	Revenue Administration: VAT Gap Analysis (Hutton)	August 2019
FAD	Streamlining Government Payment Processes	February 2020
FAD	Revenue Administration : Management Framework (Roberts) (V)	March 2020
FAD	Chart of Accounts and Accounting Reform Strategy (Makaronidis–peripatetic STX) (V)	May 2020–May 2021
FAD	Revenue Administration : Development of IT Capability (Poulin) (V)	December 2020

FAD	Public Financial Management: Workshop on Enterprise Resource Planning Financial Accounting Central Administration (GAO) (V)	March–April 2021
FAD	Public Financial Management: pre-PIMA (Renteria Rodriguez)	July–August 2020
FAD	Public Financial Management: HQ Resident Advisor Briefing (De Clerck) (V)	September 2020
FAD	Tax and Customs Administration: IT Modernization Follow-up (Poulin)	November-December 2020
FAD	Public Financial Management: Chart of Accounts: Resident Advisor (Kirchmann) (V)	September 2020–August 2021

STATISTICAL ISSUES

As of May 31, 2021

I. Assessment of Data Adequacy for Surveillance	
General. Data provision has some shortcomings but is broadly adequate for surveillance. The quality of Greek statistics has improved since the establishment of the independent Hellenic Statistical Authority, ELSTAT, in 2010.	
Real sector. Quarterly and annual national accounts are compiled in accordance with the *ESA 2010* standard. The CPI is chained annually, and weights are being renewed every year on the basis of the most recent available data from the Household Budget Survey.	
Fiscal sector. General government non-financial accounts are compiled in accordance with *ESA 2010* by ELSTAT and are scrutinized and validated by Eurostat on a regular basis. In 2019, the Bank of Greece (BoG) revised the general government financial accounts data to resolve the quality and consistency issues which had been observed since 2015. This enabled Eurostat to validate and publish Greece's general government financial accounts after four years. Greece reports high frequency and annual GFS data for general government to STA through the Eurostat GFS convergence project with the IMF.	
Trade and balance of payments. Since January 2015, data are provided according to the IMF's sixth edition of the *Balance of Payments Manual*. Historical data based on the new methodology are available from January 2002. Since July 2015, the Bank of Greece has been using ELSTAT's trade statistics instead of the settlements data used until June 2015 inclusive. Therefore, the goods trade balance statistics reflect customs-based or other administrative data, as collected or estimated by ELSTAT. Historical data based on the methodology is available from January 2013. In November 2018, the Bank of Greece introduced a change to the compilation of sea transport accounts. Instead of settlements data, the Bank now uses data from international shipping databases and administrative sources.	
Monetary and Financial Statistics. Data on the central bank balance sheet and on the aggregated balance sheets of other depository corporations are available from the Bank of Greece's website. The data are also reported to the IMF through the ECB using standardized report forms: 1SR for the central bank (1SR) and 2SR for other depository corporations (ODCs). Data on other financial corporations (OFCs) is not compiled. Greece reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).	
Financial sector surveillance. Data on financial soundness indicators (FSIs) are compiled and reported to IMF on a quarterly basis and covers deposit takers, other financial corporations, nonfinancial corporations and households.	
II. Data Standards and Quality	
Greece subscribed to the Fund's Special Data Dissemination Standard (SDDS) on November 8, 2002.	

Table 1. Greece: Table of Common Indicators Required for Surveillance
(As of May 30, 2021)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	May 30, 2021	May 30, 2021	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May 30, 2021	May 30, 2021	M	M	M
Reserve/Base Money	April 2021	May 31, 2021	M	M	M
Broad Money	April 2021	May 31, 2021	M	M	M
Central Bank Balance Sheet	March 2021	May 31, 2021	M	M	M
Consolidated Balance Sheet of the Banking System	April 2021	May 31, 2021	M	M	M
Interest Rates[2]	May 2021	June 2, 2021	M	M	M
Consumer Price Index	April 2021	May 31, 2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	April 2021	June 4, 2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	April 2021	June 4, 2021	M	M	M

Table 1. Greece: Common Indicators Required for Surveillance (concluded)
(As of May 31, 2021)

Stocks of Central Government and Central Government-Guaranteed Debt[5]	2021Q1	May 19, 2021	Q	Q	Q
External Current Account Balance	March 2021	May 20, 2021	Q	Q	Q
Exports and Imports of Goods and Services	March 2021	May 20, 2021	Q	Q	Q
GDP/GNP	2020Q4	June 6, 2021	Q	Q	Q
Gross External Debt	2020Q4	March 31, 2021	Q	Q	Q
International Investment Position[6]	2020Q4	March 31, 2021	Q	Q	Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).