INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/173

GREECE

June 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GREECE

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 2022 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 June 8 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 June 8, 2022, following discussions that ended on April 1, 2022, 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 May 23, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Greece.

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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PRESS RELEASE

PR22/218

IMF Executive Board Concludes 2022 Article IV Consultation with Greece

FOR IMMEDIATE RELEASE

Washington, DC – **June 21, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Greece on June 8, 2022.

The Greek economy recovered strongly from the severe COVID-19-induced recession, with output returning to the pre-pandemic level in 2021. The strong fiscal response, accommodative monetary policy and prudential policies, and sizable EU support have been key to fostering the recovery. Despite the challenging environment, reforms progressed in several areas, including digitization, privatization, improving the fiscal policy mix, and bank balance sheet repair. Greece completed the early payment of all outstanding IMF credit in April, which terminates the Post Financing Assessment.

Growth is expected to remain robust at 3.5 percent in 2022 despite the adverse impact of the war in Ukraine. High energy prices are expected to push up average inflation to 6.1 percent in 2022. Both growth and inflation are expected to decelerate in 2023, reaching 2.6 and 1.2 percent, respectively. Public debt is on a downward trajectory and rollover risks appear manageable over the medium term. Despite improving, the external position last year was moderately weaker than that consistent with fundamentals and desirable policies. Significant downside risks continue to cloud the outlook, especially from a further intensification of the war in Ukraine and still substantial uncertainties associated with the pandemic.

Executive Board Assessment[2]

Executive Directors welcomed the stronger-than-expected economic recovery in 2021, which was buttressed by the Greek authorities' strong policy response to the COVID-19 crisis, past structural reforms, and the support from the European Union. Directors commended the authorities for advancing reforms to address legacies from the debt crisis despite the challenging environment and for the early repayment of all outstanding Fund credit. They welcomed that output has returned to pre-pandemic levels, that public debt is on a downward trajectory, and that the growth outlook remains robust despite the war in Ukraine and high inflation. Noting that uncertainties and downside risks to the outlook remain, Directors stressed the need to continue pursuing prudent policies and implementing growth-enhancing structural reforms to ensure debt sustainability and promote inclusive and greener growth.

Directors agreed that fiscal policy should remain accommodative but well-targeted in 2022 before returning to a gradual and growth-friendly consolidation with sustained primary

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[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] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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surpluses thereafter. They recommended that across-the-board subsidies for high energy prices be replaced with targeted support for vulnerable groups. Directors broadly agreed on the need to carefully assess the implications of the plans for permanent cuts in social security contributions and the elimination of the solidarity tax. They emphasized that the recent increase in health spending and public investment should be preserved, while pressures to raise pensions and civil service wages should be resisted. Directors recommended further enhancing the Guaranteed Minimum Income scheme to form the basis for targeted support during adverse shocks.

Directors commended the authorities for the rapid reduction of non-performing loans in major banks and for their commitment to tackle the remaining challenges to enhance financial resilience. They emphasized that further progress in reducing distressed debt should come from implementing the new insolvency law, improving banks' credit risk management, and developing viable long-term restructurings. Directors also recommended strengthening capital buffers and the quality of capital, restoring sound profitability drivers, addressing medium-term funding challenges, and adapting business models. They generally encouraged the authorities to prepare a conditions-based roadmap to guide the activation of macroprudential tools in the medium term should any systemic vulnerabilities emerge.

Directors agreed that the authorities' National Recovery and Resilience Plan, which is supported by Next Generation EU funds, is a key opportunity to cement past reform achievements; address remaining structural bottlenecks, including in the labor market; raise growth potential; and ensure sustainable, job-rich, and greener growth. While noting the positive impact of the minimum wage increase on households' purchasing power, Directors recommended monitoring its potential effects on inflation and youth unemployment. They welcomed the authorities' commitment to climate-friendly policies and stressed the need for a stronger social safety net—which could be financed by higher carbon taxes when conditions allow—to facilitate the green transition.

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)	27.4

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 CO_2 equivalent): 8.4

	2021	2022	2023
	(prel.)	(proj.)	
Output			
Real GDP growth (percent)	8.3	3.5	2.6
Employment			
Unemployment rate (percent)	15.0	12.8	12.4
Prices			
CPI inflation (period avg., percent)	0.6	6.1	1.2
General government finances (percent of GDP) 1/			
Revenue	48.9	48.4	47.4
Expenditure	56.9	52.9	49.3
Overall balance	-8.0	-4.5	-1.9

Primary balance	-5.5	-1.9	0.9
Public debt	199.4	183.4	177.4
Balance of payments			
Current account (percent of GDP)	-6.5	-6.5	-5.5
FDI (percent of GDP)	-2.2	-2.9	-2.5
External debt (percent of GDP)	310.1	287.0	279.6
Exchange rate			
REER (percent change) 2/	-2.0	-0.4	-1.1

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.

INTERNATIONAL MONETARY FUND

GREECE

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

May 23, 2022

KEY ISSUES

Context and outlook. Greece has weathered the pandemic well, with a considerably stronger-than-expected recovery. Reforms progressed in several areas, including digitalization, privatization, improving the fiscal policy mix, and bank balance sheet repair. Greece finalized its early repayment to the IMF on April 4 and is expected to graduate from the quarterly European Institutions' Enhanced Surveillance framework on schedule by August 2022. Despite the adverse impact of the war in Ukraine, growth is projected to remain robust at 3.5 percent this year. High energy prices are expected to push up average inflation to 6.1 percent. Public debt is on a downward trajectory and rollover risks appear manageable. The external position last year was moderately weaker than that consistent with fundamentals and desirable policies.

Fiscal Policy. This year's planned adjustment is appropriate but subject to significant downside risks. Medium-term fiscal consolidation should be gradual and growth friendly. Plans for permanent cuts in social security contributions and the elimination of the solidarity tax for all taxpayers should be reversed or at least fully funded through benefit adjustments and base-broadening measures, respectively. The increase in health spending and public investment should be preserved while pressures to raise pensions and civil service wages should be resisted. Accelerating fiscal structural reforms and enhancing the Guaranteed Minimum Income scheme would support these efforts.

Financial policy. The rapid reduction of non-performing loans is notable, but risks have largely migrated to the non-bank financial sector and to a lesser extent to the state. Further progress should come from implementing the new insolvency law, improving banks' credit risk management, and developing viable long-term restructurings. More efforts are needed to rebuild banking sector resilience, including through strengthening capital buffers, enhancing the quality of capital, and addressing medium-term funding challenges. The authorities should prepare a conditions-based roadmap to guide the activation of macroprudential tools. A major business model adaptation would better prepare the financial system for structural transformation.

Structural policy. While the minimum wage increase supports purchasing power and consumption, it risks entrenching wage-price pressures and high youth unemployment. Effective execution of reforms supported by Next Generation EU funds will be key to raising convergence prospects. To meet ambitious climate goals and protect vulnerable groups during the green transition, a gradual increase in carbon taxes could be considered to finance targeted transfers and green investment while addressing gaps in social protection.

Approved By
Phil Gerson (EUR) and Kenneth Kang (SPR)

Discussions were held during March 17–31, 2022. The hybrid 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), S. Hua, M. Jarmuzek, W. Shi, and X. Xu (all EUR), J. Schauer (SPR), K. Chen, C. DeLong (all LEG), A. Boher (MCM). M. Massourakis (OED) participated in key meetings. M. Louis (COM) supported the mission. D. Murphy Pineda (all EUR) provided assistance.

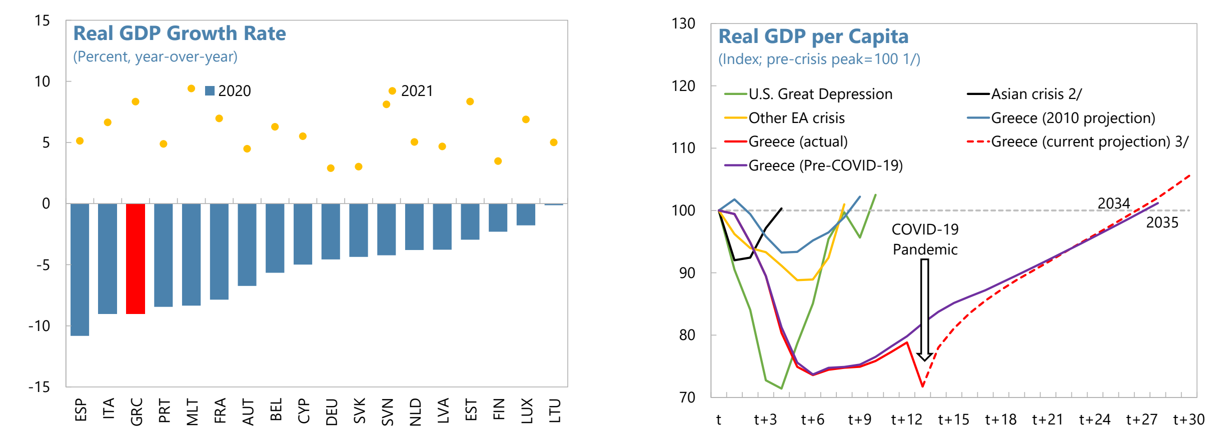
CONTENTS

ANNEXES

CONTEXT

1. Greece still faced significant crisis legacies when COVID-19 hit. The sovereign debt crisis left a legacy of high structural unemployment, public debt, and non-performing loans (NPLs), with the recovery of per capita GDP to its pre-Global-Financial-Crisis level expected to take decades amid an unfinished reform agenda. Nonetheless, the economy weathered the pandemic well (text figure 1). Greece is expected to graduate from the European Institutions' Enhanced Surveillance (ES) framework on schedule by August 2022 with the final release of ANFA-SMP debt relief likely by year-end. The authorities finalized the repayment of all outstanding credit (using part of the SDR allocation equal to 1.51 billion, or around €1.9 billion) to the IMF on April 4, 2022, two years ahead of schedule. The early repayment terminated the Post-Financing Assessment. Greece also received the waiver for an early loan repayment to Greek Loan Facility (GLF) lenders of €2.65 billion (principal payment originally due in 2023), which it plans to execute in late 2022.

Text Figure 1. Greece: The Economic Impact of the Pandemic



Sources: Eurostat; Haver Analytics; IMF, WEO database; and IMF staff projections.
1/ Pre-crisis peaks are 1929 for the Great Depression; 1996–97 for the Asian Crisis; 2007 for Greece, Ireland, and Spain; 2008 for Cyprus and Portugal.
2/ Indonesia, Republic of Korea, and Thailand.
3/ Long-term growth has been revised up by 0.2 percentage points relative to the 2021 Article IV report and the pre-COVID-19 projections, reflecting improved demographic projections in the 2021 Ageing Report.

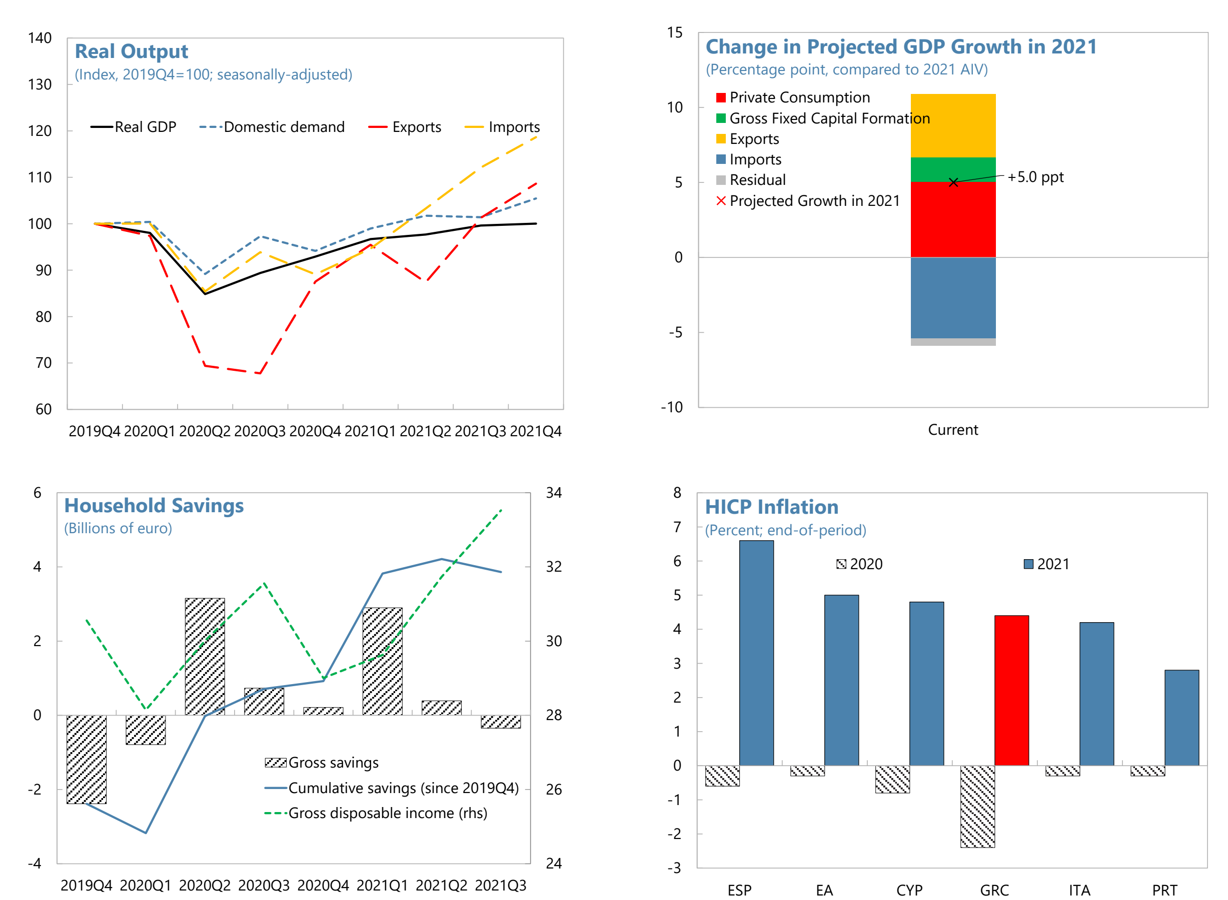
RECENT DEVELOPMENTS

2. Greece's recovery was much stronger than expected with output returning to the pre-pandemic level in 2021. Growth reached 8.3 percent, significantly exceeding expectations at the time of the 2021 Article IV consultation (text figure 2). Positive surprises mainly came from exports—travel receipts reached close to 60 percent of their 2019 level—and private consumption as incomes rose and pandemic-related savings started to unwind.[1] Unemployment has declined

[1] Also see Selected Issues Paper, *Can Greece's Savings Be Saved?—Trend, Drivers, and Policy Implications*, forthcoming.

steadily, while labor productivity remained around its pre-pandemic level despite cyclical fluctuations. Though average inflation (HICP) was moderate at 0.6 percent in 2021 given deflation during 2021:H1, high oil and natural gas prices drove up inflation to 9.4 percent in April 2022. Core inflation (excluding energy and unprocessed food) increased to 3.3 percent in March, reflecting some pass-through from energy to other prices and the low base (a deflation of 2 percent) in early 2021. The COVID-19 situation has remained precarious with the recent Omicron wave pushing up infections and mortality (figure 1).

Text Figure 2. Greece: Evolution of Output and Major Components



Sources: ELSTAT; Eurostat; Haver Analytics; and IMF staff calculations.

3. **The fiscal policy response to the pandemic was timely and forceful.** Cumulative on-budget COVID-19 measures amounted to about 14½ percent of GDP during 2020–21, the largest figure in the eurozone, while loans and guarantees were more limited (text figure 3). The 2021 primary deficit declined to about 5½ percent of GDP, with cyclical revenue gains and windfalls from the

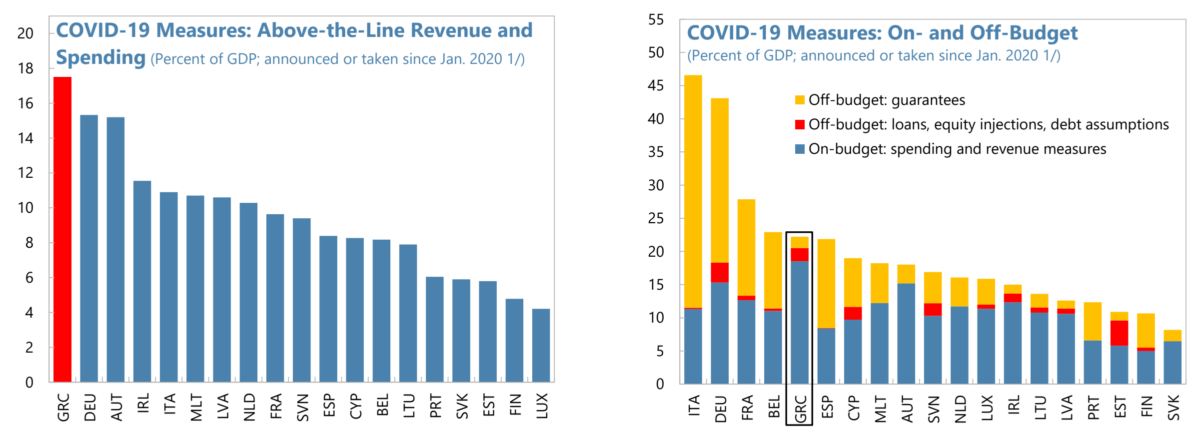
Contributions to Changes in Primary Balance, 2020–21
(Percent of GDP)

	2019	2020	2021
Primary balance	3.2	-7.9	-5.5
Change in primary balance		-11.1	2.4
Discretionary measures		-6.5	-2.5
o.w. Covid-19 response		-6.5	-1.6
o.w. Natural disaster relief			-0.3
o.w. Energy subsidies*			-0.5
ETS revenues*			0.3
Automatic stabilizers		-4.6	4.5

Sources: IMF staff estimates.
*Increases in energy subsidies were largely financed by revenue increases from the Emissions Trading System (ETS) account.

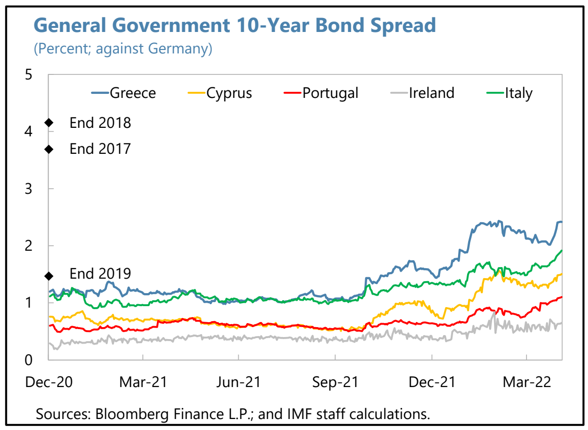
auctioning of carbon emission allowances more than offsetting additional costs for COVID-19, disaster relief, and energy subsidies (text table).

Text Figure 3. Greece: The Fiscal Response to COVID-19



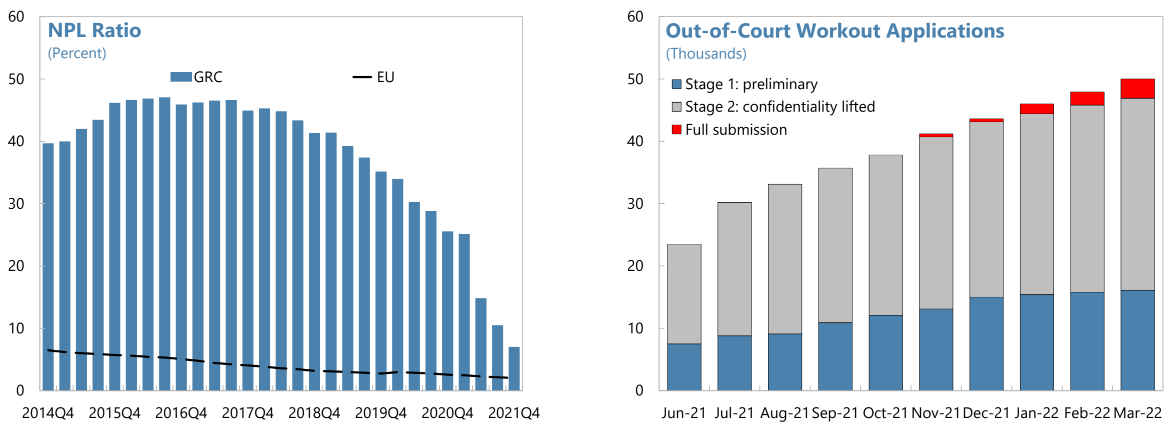
Sources: Ministry of Finance; National Authorities; IMF, Fiscal Monitor Database; and IMF staff calculations.
1/ Numbers include the implemented measures in 2020–21 and announced measures for 2022.

4. The public debt to GDP ratio declined in 2021 as the large fiscal deficit was offset by a favorable interest-growth differential. Greece tapped the bond market seven times in 2021 raising €15.8 billion at historically low funding costs and received several sovereign rating upgrades. This allowed the authorities to retain comfortable cash reserves at €31.6 billion at end-2021 and reduce outstanding PSI (Private Sector Involvement) bonds by €2.9 billion. Since late 2021, financing conditions have started to tighten despite the ECB announcement that the proceeds from its Pandemic Emergency Purchase Program (PEPP) could be reinvested into Greek government bonds if needed. Bond issuances in 2022 have remained limited so far, with one 10-year issuance in January and the re-opening of a 7-year bond in April. Staff welcomes the advance repurchase of all outstanding IMF credit as it reduces gross financing needs and rollover risks.



5. Banking sector stability has so far been preserved, accompanied by a significant acceleration of NPL reduction. Securitizations and loan sales under the 'Hercules' program involving state guarantees reduced the system-wide NPL ratio from 25.5 percent at end-2020 to 7 percent at end-2021. The NPL reduction took a significant toll on profitability and capital and the quality of capital deteriorated further with Deferred Tax Credits (DTCs) increasing to 64 percent of total capital at end-2021. Bank liquidity reached record levels at end-2021 on the back of increased savings and the ECB's TLTROIII operations and PEPP program. This liquidity, together with loan moratoria, guarantees, and forbearance led to a pickup in credit growth, especially to non-financial corporates. The new Insolvency Code, operational as of end-2021, makes Greece one of the first countries to implement the European Directive on Preventive Restructuring and Insolvency, and is a meaningful step to support debt restructuring activity. Reflecting the improved outlook, investors' valuations of the four Greek Significant Institutions (SI) have increased significantly since the beginning of 2021.

Text Figure 4. Greece: The Banking Sector is Healing



Sources: Bloomberg Finance L.P.; European Banking Authority; and IMF staff projections.

6. **The current account (CA) balance recovered modestly in 2021, but external imbalances remain significant.** Robust recoveries in travel receipts and goods exports were partially offset by strong import growth, resulting in a CA deficit of 6.5 percent of GDP in 2021. FDI surged above pre-pandemic levels, financing the current account together with official flows, including through the ECB's asset purchase program and initial Next Generation EU (NGEU) funds. Greece's external position in 2021 was moderately weaker than that consistent with medium-term fundamentals and desirable policies, with the CA gap estimated around -1.7 percent of GDP, corresponding to a 5.0 percent Real Effective Exchange Rate (REER) overvaluation (see Annex II).

OUTLOOK AND RISKS

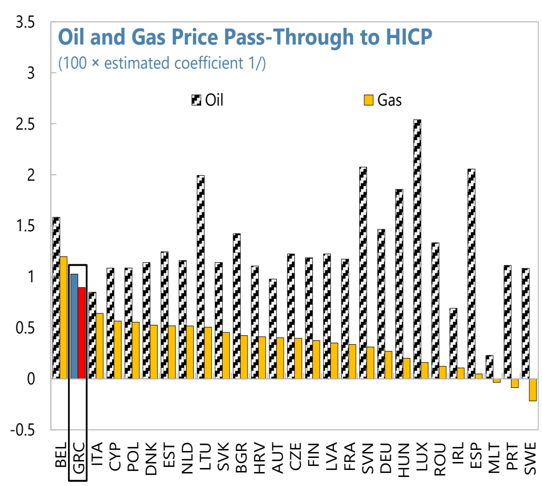
7. **Growth is expected to be robust despite the adverse impact of the war in Ukraine and high inflation.** Notwithstanding sizeable energy imports from Russia, other direct trade and financial linkages with Russia and Ukraine are limited.[2] Indirect effects through spillbacks from trading partners, sanctions on Russia,[3] and the impact of higher inflation on disposable income and

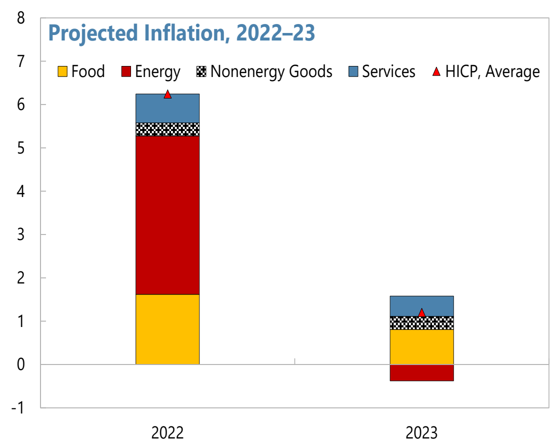
[2] Russia accounts for 6–7 percent of imports, less than 1 percent of goods exports, 2–3 percent of travel receipts; however, about one quarter of fuels, oil, and related products and 40 percent of natural gas are imported from Russia. Foreign direct and portfolio investment from Russia and the overall exposure to Ukraine are very limited.

[3] Greece has followed the EU and imposed sanctions on Russia, including bans or restrictions on the financial sector, transport, and trade activities, and bans on exports and investment in the energy sector. Greece also follows the EU with sanctions on selected individuals, including travel bans and asset freezes/seizures.

consumption are more substantial.[4] Further, elevated risk aversion and weaker consumer confidence are expected to delay investment and dent the tourism recovery. All combined, these factors are expected to reduce growth this year by a full percentage point to 3½ percent. Over the medium term, growth is expected to converge to 1½ percent, supported by NGEU funds, including the channeling of NGEU loans into private investment (see box 1), while the output gap is expected to close around 2023–24. The stronger than anticipated economic rebound in 2021 and NGEU investments are projected to mostly eradicate the scarring effects from the pandemic. Average inflation is projected at 6.1 percent in 2022, mainly as a result of the relatively strong pass-through of oil and especially natural gas prices in Greece (text figure 5). Inflation is expected to decelerate in 2023:H2, settling at an average of 1.2 percent in 2023 and 1.9 percent over the medium term. The sharp near-term decline is predicated on a normalization of energy prices, a moderation of food inflation, no substantial further increases in wages, and a smooth green transition without causing significant energy supply disruptions. The CA deficit is projected to remain elevated in 2022 on account of high energy prices and narrow thereafter as travel receipts recover to pre-pandemic levels in 2023 and imports normalize.

Text Figure 5. Greece: Projected Inflation





Sources: ELSTAT; Haver Analytics; IMF, WEO database; and IMF staff calculations.

Sources: ELSTAT; Haver Analytics; IMF, WEO database; and IMF staff calculations.
1/ Coefficients are estimated by regressing the log-difference of HICP on the log differences of oil and natural gas prices. Monthly dummies are included.

8. **Uncertainties and downside risks continue to cloud the outlook, including from a further intensification of the war in Ukraine** (Annex I)**.** High international energy prices and supply chain disruptions prompted by the war, as well as intensification of sanctions, may lead to stronger-than-anticipated spillbacks from trading partners and domestic inflation pressures, while a prolonged shut-off of Russian natural gas would significantly dent growth. Price pressures and shortages associated with energy sanctions and an uneven green transition could further increase

[4] See analysis in the IMF World Economic Outlook Chapter 1, April 2022.

inflation and entrench the wage-price spiral. While vaccination is progressing, future COVID-19 variants may lead to renewed mobility restrictions and economic disruptions. Heightened risk aversion and a faster-than-expected reversal of global accommodative financial conditions prompted by the monetary tightening from major advanced economies may cause capital outflows, raise financing costs, and lead to renewed debt sustainability concerns, although the ECB is expected to continue providing some support until end-2024, which would be a mitigating factor. The recovery prospects may also be dampened by weaker-than-anticipated absorption of NGEU funds, a slower recovery of tourism activities, further intensifying geopolitical risks, and extreme weather events.

9. Public debt is falling and rollover risks appear manageable over the medium term. Debt is expected to decline faster than previously projected and drop below pre-pandemic levels by 2022, with gross financing needs declining following fiscal normalization. The sizable improvement is largely driven by stronger growth in 2021, higher growth and stronger fiscal adjustment in the medium-term, and higher inflation amid the very large share of fixed rate debt. [5] Greece's overall risk of sovereign stress is assessed to be moderate, with key risks stemming from its future interest-growth differential and the feasibility of the large and sustained fiscal consolidation (see Annex III) as Greece starts to replace official financing with market funding. Despite the government's large cash buffer and active liability management, Greece's ability to service its debt under a severe shock depends on continued regional support.

Authorities' Views

10. The authorities broadly agreed with staff's assessment of the outlook and risks but stressed the high uncertainty around projections. The authorities expected the impact of the war in Ukraine to reduce growth in 2022 by 1 to 2 percentage points from a pre-war baseline of around 5 percent. They pointed to continued structural reforms, high consumer and producer sentiment, successive credit rating upgrades, the favorable debt profile and financing conditions as well as sufficiently contained spreads amidst global circumstances, high early bookings consistent with a very strong tourism year, and improvements in banking sector balance sheets as evidence of improved economic resilience. They also highlighted the existence of buffers supporting economic activity in 2022 and beyond, including increased private bank deposits (both for firms as well as households) and increasing inflows from EU funds. They expected average inflation to accelerate to over 5 percent due to surging energy costs, with the BoG noting risks of second-round effects from the pass-through of the recent minimum wage adjustment to average wages. Nonetheless, the authorities stressed that uncertainty remained elevated and agreed that risks to growth were squarely to the downside especially from persistently high inflation or a tourism-sector disruption. They concurred with staff that the risk of sovereign stress is moderate and highlighted that the large cash buffer, long maturities, and large share of fixed rate debt are important mitigating factors. In addition, they noted that the recent prepayment of all outstanding IMF credit and the planned prepayment of a portion of GLF loans by end-2022 will further help reduce rollover risks and gross

[5] NGEU loans and net SDR holdings have been added to the debt stock.

financing needs and contribute to their target to reach investment grade in 2023. The authorities welcomed the improved external sector assessment and stressed the structural nature of improvements in the export of goods. They expected external imbalances to narrow further over the medium term as imports normalize and exports strengthen further, boosted by productivity gains as NGEU funding and reforms take hold and the economy further rebalances towards tradeable sectors.

POLICY DISCUSSIONS

A. Fiscal Policy Discussions

11. Despite the large headline consolidation, the fiscal stance in 2022 remains accommodative (text figure 6)**.** The budgeted consolidation, the largest in the eurozone, reflects the roll-off of most COVID-19 support. Pandemic-related measures that were extended include reductions of social security contributions (SSC) and the solidarity tax for private sector employees, VAT cuts in selected service sectors, and a few employment support programs. To mitigate the social and economic impact of high energy prices, the government introduced substantial support measures, including general electricity and gas bill discounts to households and firms as well as targeted subsidies to vulnerable groups (see table). The total cost of these energy-related measures is estimated at about 2½ percent of GDP, while the direct budget impact is limited to about ½ percent of GDP as the bulk is expected to be financed by higher ETS revenues. To ensure budget-neutrality, the government is calibrating the electricity and gas discounts to match the increase in ETS revenues on a monthly basis. In addition, the government announced a 13 percent permanent reduction in the Single Property Tax rate (ENFIA) amid the move to higher market values. Excluding temporary measures, the underlying fiscal policy stance is accommodative.[6]

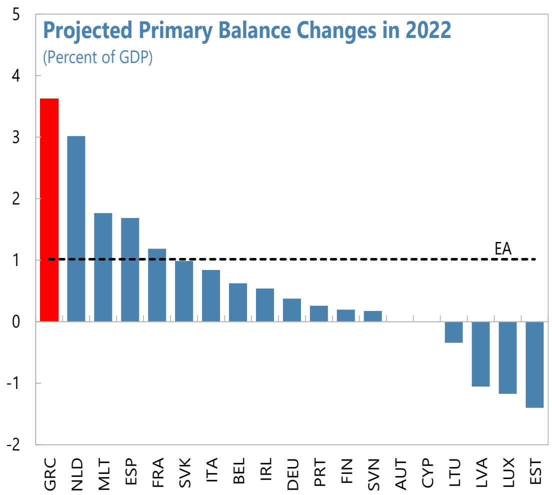
Energy-related Support Measures 2021–2022
(In percent of GDP)

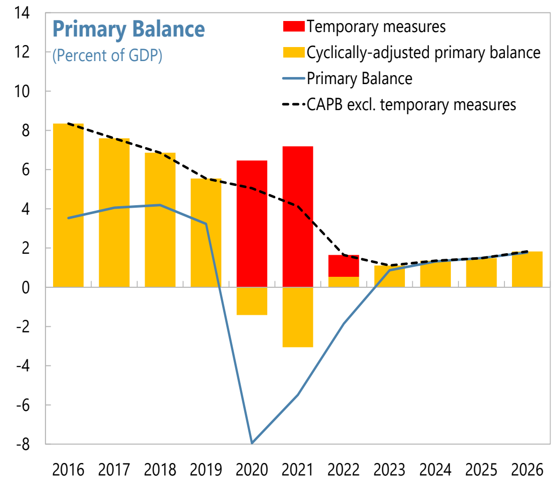
	2021	2022
Subsidies to households and firms for electricity and natural gas consumption funded by the Green Transition Fund	0.3	2.1
Increased allowances to vulnerable citizens (low income pensioners, non-insured elderlies, minimum income beneficiaries, disability & child benefits)	0.1	0.2
Prepaid card for fuels to households	0.0	0.1
Other	0.0	0.2
Total Cost	**0.5**	**2.6**
Net Cost of State Budget	**0.2**	**0.5**

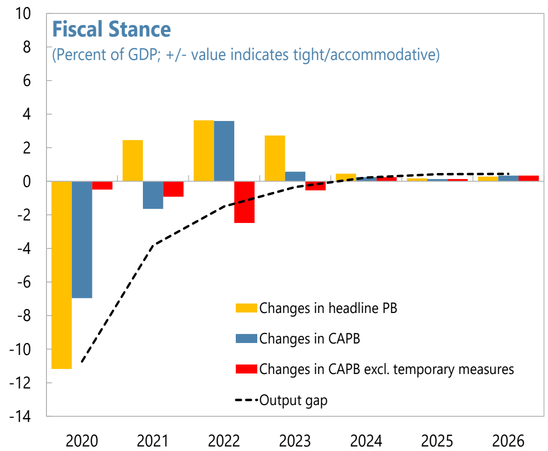
Sources: The Greek authorities and IMF staff calculations.
Note: Data may not add up due to rounding.

[6] The assessment of the fiscal stance is subject to considerable uncertainty associated with the output gap estimate and the absorption of NGEU funds.

Text Figure 6. Greece: Fiscal Stance and Measures







Medium-term Fiscal Measures
(Percent of GDP, +/- increase/reduce balance)

Planned permanent measures 1/	**-1.2**
Maintenance of SSC reductions for the private sector	-0.3
Maintenance of the solidarity tax cut for the private sector	-0.4
Expansion of SSC reductions to retirees and civil servants	-0.1
Expansion of the solidarity tax cut to retirees and civil servants	-0.2
ENFIA tax reductions	-0.1
Offsetting items that improve fiscal balance	**0.3**
Positive revenue effects from SSC and solidarity tax reductions	**0.1**
Savings from social benefits due to income increases	**0.1**
Spending review actions	**0.0**

Sources: The Greek authorities and IMF staff estimates.
1/ According to the 2022 Stability Programme, the reductions of SSC and the solidarity tax cut are contingent on the compliance with the European fiscal rules applicable from 2023 onwards.

Source: Ministry of Finance; National Authorities; IMF, WEO database; and IMF staff calculations.

12. **The fiscal adjustment and policy mix are subject to considerable downside risks.** While pandemic-related uncertainties remain large, key fiscal risks stem from higher-than-expected energy prices that result in additional fiscal spending, including higher subsidies that exceed the increase in ETS revenues, pensions, and public sector wages. Materialization of these risks would lead to a significant fiscal cost and a deterioration in the fiscal policy mix. Other risks include the materialization of contingent liabilities from the bank-sovereign nexus (unexpected losses from Hercules and potential DTC conversion costs), outstanding state guarantees, and adverse court rulings on past pension and wage reforms. Staff estimates that the realization of these contingent liabilities could raise the debt level in the medium-term by 14 percentage points and gross financing needs by up to 4 percentage points compared to the baseline (see annex III).

13. Policy discussions focused on:

- **Maintaining an accommodative fiscal stance in 2022 but improving targeting.** The rebound in private activity, the normalization of the health situation, and improving labor market conditions suggest the recovery has matured sufficiently to unwind pandemic-related temporary support measures, with the sizable private savings providing an additional buffer. Staff recommended targeting a primary deficit below 2 percent of GDP this year and accommodating greater-than-expected downside risks from the war in Ukraine through automatic stabilizers. Across-the-board subsidies announced for electricity and gas consumption should be phased out and replaced with targeted support for vulnerable groups and viable firms while allowing a gradual pass-through of higher prices to consumers. Staff encouraged the authorities to identify and address gaps in the mean-tested Guaranteed Minimum Income (GMI) scheme and raise its benefit levels at least in line with inflation to make it the "go-to" safety net during adverse shocks.[7]

- **Aiming for a gradual, growth-friendly, but credible fiscal adjustment over the medium term.** Staff's baseline projects the primary balance to gradually increase to 2 percent of GDP by 2027 (text figure 6), with more conservative assumptions on revenue buoyancy than in the authorities' latest Medium-Term Fiscal Strategy which envisages a primary surplus of 2½ percent of GDP by 2026. Staff's baseline is also the recommended path, guided by its estimate of the long-term sustainable level of the primary surplus of 1.5 percent of GDP and the slightly positive output gap over the medium term.[8] Plans for permanent cuts in SSCs and the elimination of the solidarity tax for all taxpayers (see table in text figure 6) should be reversed, as they shift the burden to future generations and are poorly targeted, or at least fully funded through benefit adjustments and base-broadening measures, respectively, including through streamlining sizable tax incentives. Improvements in the fiscal mix achieved during the pandemic, notably higher health care spending and public investment, improved VAT collections, and lower tax wedge for corporates (financed by higher fees on diesel) should be preserved. Spending pressures on pensions and civil service wages should be contained, including by respecting the pension freeze this year and the indexation formula from next year onwards.[9] Drawing on international experience, there remains ample scope to improve the fiscal policy mix further by phasing out transfers to public enterprises and fuel subsidies that were provided prior to the war in Ukraine over the medium term to make room for critical social spending and recurrent investment needs once NGEU funding ends. Further improvements are needed to tackle the narrow tax base, address tax evasion by the self-employed, and narrow social protection gaps (figures 5 and 8). Staff also stressed the need for continued application of anti-money laundering tools by utilizing

[7] The coverage of the GMI scheme (effective since February 2017) is confined to households living in extreme poverty, due to strict eligibility criteria. The amount of the benefit (€200 per month for a single-person household) is insufficient to ensure a dignified standard of living.

[8] See analysis on the long-term primary balance in the DSA box iii.2 of the 2021 Article IV report.

[9] According to the law, after a freeze this year, pension is expected to follow an indexation formula from 2023, which is equal to the minimum of the CPI and the average of CPI and GDP growth.

the information in the registry of beneficial ownership of legal persons in the context of investigations into potential tax crimes.

- **Advancing fiscal structural reforms.** Staff welcomed recent progress in public sector accounting reforms and the use of the Unified Chart of Accounts, consolidation and digitalization of the pension system, modernization of the Independent Authority for Public Revenue (IAPR), and the long-delayed clearance of government arrears. The Public Investment Management Assessment (PIMA) has resumed following a long delay due to the pandemic. Staff encouraged further efforts to modernize the IAPR, including by undertaking a business process review and pursuing planned IT modernization. Additional revenue administration measures should include improving tax compliance risk management, consolidating debt collection in a few enforcement centers and further enhancing taxpayers' electronic services.

- **Enhancing safeguards of COVID-related spending**. The authorities have published a special report on pre-contractual audits of high-value public procurements during the pandemic covering March 2020 to early November 2021. The audits did not reveal any significant irregularities. A separate audit of government grants associated with the pandemic is underway and expected to be concluded in April 2022. Selected information on all public procurement contracts is published online.[10] Staff strongly encouraged the authorities to require that awardees provide information on their beneficial owners and to publish that information. Staff also recommended conducting audits of emergency-related public procurement contracts that are not covered in the pre-contract audits and publish the findings.

Authorities' Views

14. The authorities concurred with staff on the fiscal consolidation path but differed on the composition of measures. They were aiming for a primary deficit up to 2 percent of GDP this year and a return to primary surpluses from 2023 onwards but noted risks that energy subsidies to low-income and vulnerable groups might have to be maintained for longer, considering the uncertain economic situation. They would consider addressing GMI coverage gaps once an internal evaluation of the social protection system was completed, conditional upon fiscal space and priorities. Over the medium-term, they would target a gradual, credible, and prudent consolidation path. They plan to make cuts in SSCs and the elimination of the solidarity tax permanent, aiming to reduce the tax burden on labor and corporate operating income while also partially compensating civil servants and retirees for higher inflation and preventing spending pressures. They expected to cover part of the fiscal cost through revenue buoyancy and declining labor informality. They intended to prioritize maintaining a high level of public investment and health care spending and reiterated their commitment to respect the pension freeze this year and not introduce any pension indexation scheme, but from 2023 onwards, as legislated. The authorities highlighted significant progress in fiscal structural reforms, including the clearance of government arrears and IAPR functional and IT modernization, and they intended to further advance the reform agenda. The

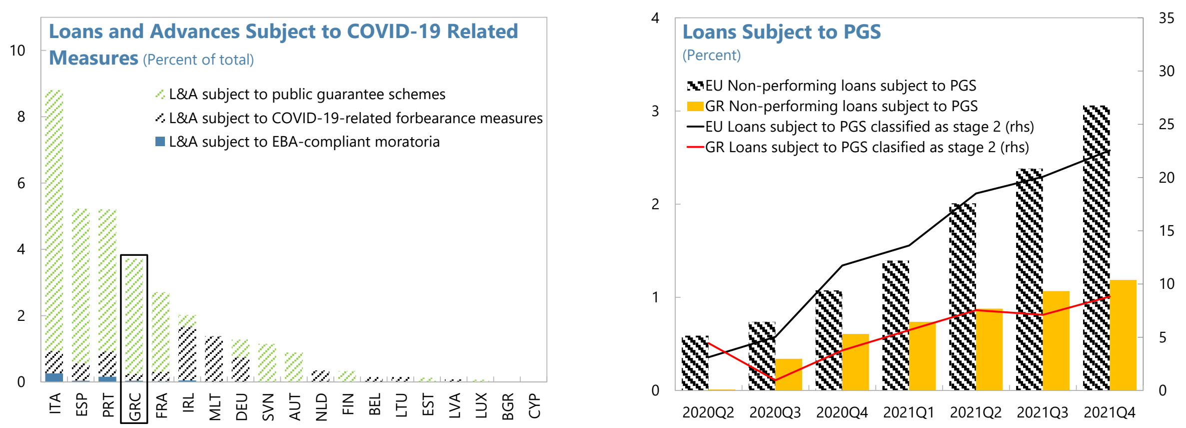
[10] www.eprocurement.gov/gr

authorities noted measures taken to safeguard the accountability and transparency of pandemic-related expenditures, including pre-contractual audits of high-value public procurement contracts, audits of emergency grants, and the publication of all public procurement contracts online.

B. Financial Policy Discussions

15. Significant uncertainty remains about the impact of the pandemic on banks' asset quality once policy measures are fully withdrawn, with some emerging signs of increasing credit risk. While most measures have lapsed, around €15 billion in outstanding loans receive support from moratoria, public guarantees, step-up products, and repayment subsidy programs, with further support from the extension of the Hercules scheme during the pandemic. Forward-looking metrics of credit risk and pandemic related NPL inflows indicate increasing risks to asset quality and ensuing expected credit losses (text figure 7). In addition, in absence of a comprehensive asset quality review, there is also some uncertainty over the adequacy of credit classification and loan-loss provisioning. Further challenges to asset quality and liquidity may arise when PEPP and TLTROIII operations expire. The results of the 2021 EBA stress test for Greek banks suggest considerable losses under the adverse scenario.[11]

Text Figure 7. Greece: Uncertainty about the pandemic's impact on banks' asset quality



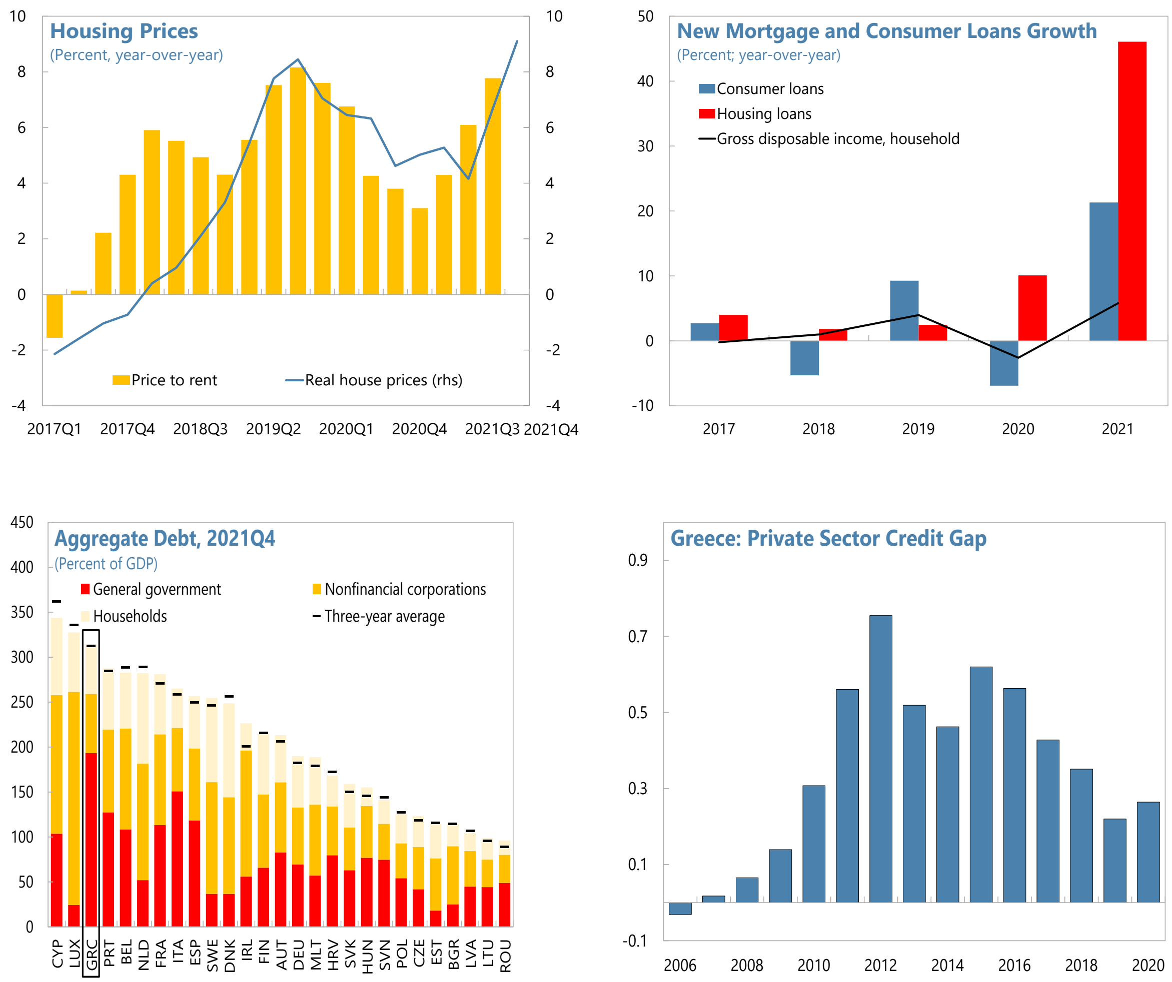
Source: European Banking Authority; European Central Bank; and IMF staff calculations.

16. There are nascent signs of emerging systemic vulnerabilities. Residential real estate prices have rebounded by almost 25 percent since 2018, accompanied by a significant increase in price-to-rent and income ratios. Commercial real estate prices have also rebounded, albeit to a weaker extent. Household credit expansion has surpassed disposable income growth, with demand for mortgage and corporate loans expected to mirror the recent rise in new lending to households and corporates, although after a period of pronounced private sector deleveraging (text figure 8).

[11] See IMF Financial Sector Background Note.

Model-based analyses suggest positive private sector credit gaps for Greece.[12] A further acceleration of credit growth is anticipated from NGEU loans being channeled through the banking system.

Text Figure 8. Greece: Signs of Emerging Systemic Vulnerabilities



Note: Private sector credit gap is expressed in per capita terms and estimated using the framework developed by IMF (2015) and refined by Baba and others (2020).
Source: Bank of Greece; European Central Bank; Haver Analytics; OECD; and IMF staff estimates.

17. Policy discussions focused on:

- **Restoring sound bank asset quality.** With the expiration of the Hercules Asset Purchase Program (HAPS) in October 2022, securitizations and sales will be less attractive in terms of risk weighting.[13] While the NPL ratio of SIs is projected to reach 5 percent in 2023, approaching the

[12] See IMF Selected Issues Paper, *Enhancing Macroprudential Capital Buffers in Greece*, forthcoming.

[13] The scheme has an unutilized amount of state guarantees up to € 5.5 billion, which is estimated to be sufficient to address the NPL legacy issue and complete the planned securitization deals for 2022.

average of EU countries with relatively higher NPL levels, progress with restructuring NPLs has been limited given continued backlogs in the court system, delayed application of the insolvency law (including continued inability to enforce against primary residences), and limited use of out of court procedures. Staff recommended (a) close monitoring of new NPL inflows associated with COVID-19-related policy withdrawal; (b) accelerating NPL workouts through resolving delays in the implementation and application of the new insolvency law and further judicial system reforms; (c) ensuring adequate credit classification and loan-loss provisioning; (d) improving bank credit risk management practices and developing viable long-term restructurings; and (e) close monitoring of risks that may be associated with credit servicers, with slow NPL recovery potentially generating additional loan losses in the future.[14]

- **Rebuilding banking sector resilience**

- <u>Enhancing the quality of capital</u>. The excessive share of DTCs in bank capital increases complexity in the loss-absorption capacity of the banking system and undermines its attractiveness for investors during downturns. Staff encouraged the authorities to work with European partners to reduce reliance on DTCs. 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.

- <u>Strengthening capital buffers</u>. While the pandemic suggests that releasable buffers should be strengthened for future stress episodes, there is also a need to ensure adequate levels of structural buffers that would mitigate the impact of shocks originating from systemically important banks.[15]

  - *Structural capital buffers*. As Greece's banking sector is highly concentrated and with relatively low buffers for other systemically important institutions (O-SII), staff encouraged the authorities to phase in the envisioned buffer increases.

  - *Preparing a conditions-based roadmap to guide the activation of countercyclical capital buffers*. Given the relatively low level of private sector indebtedness following prolonged deleveraging and the ongoing rapid clean-up of balance sheets, immediate activation of this macroprudential tool is not needed in the near term. However, the emerging signs of systemic risk build-up warrant close monitoring and point to the need to rebuild resilience over time. Staff recommended that the authorities consider introducing a positive countercyclical capital buffer (CCyB) rate gradually over the medium term, under the following preconditions: (a) a firm economic recovery; (b) advanced clean-up of bank NPLs;

[14] See IMF Selected Issues Paper, *Financial Risks Relating to the Workout by Credit Servicers of Non-performing Loans Offloaded from the Banking Sector in Greece*, forthcoming.

[15] See IMF Financial Sector Background Note and Selected Issues Paper, *Enhancing Macroprudential Capital Buffers in Greece*, forthcoming.

and (c) favorable financing conditions. Staff also recommended developing a similar roadmap for borrower-based measures depending on sectoral systemic risk build-up.

- Ensuring sustainable bank profitability. The NPL disposal combined with the pandemic has weakened profitability. The challenges associated with weak structural profitability entail eroded ability to build buffers against unexpected shocks, limited capacity to fund loan growth, and low attractiveness for investors to inject capital. While some improvement in profitability is expected over the medium term, staff encouraged banking supervisors to ensure that banks effectively adapt business models to face strategic challenges and restore sustainable profitability drivers, using their prerogatives under the supervisory review and evaluation process (SREP) framework.[16]

- Addressing medium-term funding challenges. The planned phasing out of the ECB extraordinary monetary policy measures along with the need for further debt issuances to meet the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) require banks to build additional buffers and satisfy regulatory requirements over the medium term.

- **Preparing for structural transformation of the financial system**

- Facing increasing competition from non-banks and Fintech. Major Greek banks have already launched strategies to identify new business opportunities and offer innovative banking and payment services, while less significant institutions (LSIs) lag behind. Staff recommended that the authorities ensure the highest standards of sound governance and risk management for non-bank competitors.

- Tackling climate-related financial risks. Staff recommended that the authorities build on the Network for Greening the Financial System guidance to (a) assess the financial system's exposure to climate-related financial risks and identify the key transmission channels, and then (b) establish and implement structured and tailor-made supervisory strategies to mitigate such risks.

Authorities' Views

18. The authorities noted significant progress made in restoring banking sector stability and reiterated their commitment to addressing remaining challenges to enhance the sector's resilience. They pointed to the continuous successful implementation of the "Hercules" securitization program, which would lapse this year, and expressed confidence in achieving a single-digit NPL ratio in 2022. Supervisors expressed optimism that the impact of the pandemic up until now has been limited and that the effect of geopolitical risks on banks' asset quality seems contained under a short conflict scenario. The authorities noted progress with the continuous

[16] See IMF Selected Issues Paper, *Bank Profitability Drivers and Challenges in Greece*, forthcoming

implementation of the new insolvency code, while recognizing that stronger data collection and analysis is essential to address any bottlenecks. Operationalizing the sale and lease back scheme and accelerating court modernization plans remain additional priorities to address the debt overhang. The authorities agreed with the SSM that, in the short term, the focus is on share capital increases for some small banks and on the sustainability of banks' business models to replenish capital buffers organically, which would also improve banks' capital markets access in the medium term. The BoG agreed with staff's advice that bank capital used to absorb losses from NPL securitizations needs to be replenished to ensure adequate buffers to mitigate future shocks and requested close collaboration with staff to prepare a conditions-based roadmap to activate countercyclical capital buffers and borrower-based measures over the medium term. The BoG shared the view that the continued increase in the share of DTCs in bank capital contributed to low capital quality and amplified risks from an intensifying bank-sovereign nexus.

C. Structural Policies

19. The authorities' Recovery and Resilience plan (RRP) is a good opportunity to cement past reform achievements and address remaining structural bottlenecks. The economy weathered the COVID-19 crisis in part because of the reforms undertaken over the past decade, including improvements in corporate balance sheets and in product and labor market flexibility. These changes prevented a surge of zombie firms during the pandemic,[17] attracted FDI and boosted private investment, enabled a job-rich recovery, and strengthened the resilience of goods exports which cushioned the hard-hit tourism sector. Further reforms envisaged under the national plan ("Greece 2.0") aim to tackle structural under-employment, insufficient investment, and low productivity growth, with a special focus on the green and digital transition. Proposed policies include re-skilling and up-skilling programs and new investment supported by NGEU funding (Box 1) and structural reforms to enhance the efficiency of public administration and business processes. Recently, prompted by surging energy costs and inflation, the government proposed a second minimum wage increase by €50 to €713 per month, effective on May 1, to support the disposable income of low-income households. The cumulative rise in the minimum wage amounts to 7.5 percent relative to the level at end-2021.

Box 1. Greece: An Update on the National Plan of Recovery and Resilience[1]

Greece has started to implement its recovery and resilience plan after a positive assessment by the European Commission (EC) in mid-2021. As of end-2021, 98 projects worth €6.2 billion have been approved under the grant portion, mainly for investment. Despite some delays, project implementation is expected to accelerate significantly during 2022–26, adding 0.6 percentage points to annual growth. The Greek authorities presented milestones for energy efficiency, transport, human capital, public administration and submitted the first payment request (€3.6 billion) to the EC in December. The EC disbursed the first payment to Greece in early April.

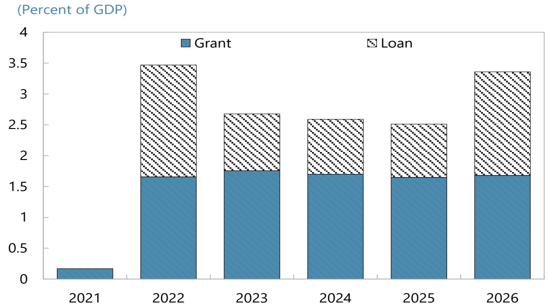
[17] See Selected Issues Paper, *Corporate Vulnerabilities in the Wake of COVID-19*, IMF Country Report No. 21/155.

Box 1. Greece: An Update on the National Plan of Recovery and Resilience[1] (Concluded)

Greece also opted to use the loan portion of the EU funds with an allocation of €12.7 billion over 2022–26. These loans will be used to finance private investment at competitive rates. Operational agreements between the government and the four systemic banks as well as international financial institutions (IFIs) such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) were signed in early 2022. So far, €1.4 billion has been distributed—€800 million to the four Greek banks and €600 million to the EBRD and the EIB. Banks and IFIs will channel the loans to private investors and co-finance projects; in addition, the EIB will also manage €5 billion of loans of the Recovery and Resilience Facility (RRF) on behalf of the government. Private investors are expected to cover at least 20 percent of the project cost, the RRF loans will provide 30–50 percent of the needed financing with the rest from banks/IFIs. Banks received the first applications in early February and expect to sign the first contracts in May. According to the plan, by end-2022, contracts for €1–1.5 billion will have been signed with an expected disbursement of €400 million by year-end.

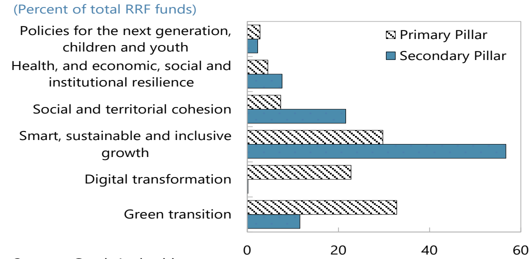
Staff has updated the macroeconomic framework to include NGEU loans. Relative to the authorities' baseline, staff uses more conservative assumptions on the deployment of loans and the extent to which it will finance new investment. Specifically, 90 percent of the NGEU loans is expected to be absorbed, of which 50 percent will stimulate new investment. Applying the same investment multiplier as for NGEU grants, this will add an additional 0.2 percentage point on average to growth during 2022–26.

Planned Disbursement of Available Funds
(Percent of GDP)



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

Use of Funds
(Percent of total RRF funds)



Sources: Greek Authorities.
Note: This graph displays the share of the recovery and resilience plan's estimated contribution to each policy pillar. Each measure contributes towards two policy areas of the six pillars (primary and secondary assignments).

Next Generation EU (NGEU) Recovery Grants, 2021–27 1/
(Billions of euro, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	Total	% GDP
	(IMF baseline)								
NGEU Grants	0.8	3.1	3.4	3.6	3.6	3.8	0.0	18.3	*10.0*
o.w. New spending	0.3	3.1	3.4	3.6	3.6	3.8	0.0	17.8	*9.7*
o.w. Existing spending 2/	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.5	*0.3*
NGEU Loans 3/	0.0	1.5	1.7	1.8	1.9	2.4	2.2	11.5	*6.3*
	(Authorities' Baseline)								
NGEU grants 4/	0.8	3.2	3.5	3.5	3.5	3.7		18.3	*10.0*
NGEU loans	0.0	3.5	1.8	1.8	1.8	3.7		12.7	*7.0*
Memo items:									
IMF Parameters for new spending	*Investment*		*Consumption*						
Multiplier (%)	*0.8*		*0.3*						
Persistence (%)	*0.6*		*0.3*						
Share of NGEU loans spent on new investment	*0.5*								
Nominal GDP (2021)	*183*								

Sources: The Greek authorities; and IMF staff estimates.
1/ Includes the recovery and resilience facility, ReactEU, 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/ Reflects the projected NGEU loan absorption. The abosorption rate is assumed to be 75 percent in 2022 and gradually increase to 90 percent by 2027.
4/ Assumptions from the Ministry of Finance as of January 2022. Number in 2021 includes new spending financed by RRF (0.3 bln) and COVID-19 measures funded by REACT-EU (0.5 bln).

Sources: Greek Authorities; EU, Recovery and Resilience Scoreboard; IMF, WEO database; and IMF staff calculations.
[1] This box updates Box 1 of the 2021 Article IV staff report.

20. The government has adopted a far-reaching National Energy and Climate Plan (NECP) and an ambitious new Climate Law is currently in public consultation. Greece has made progress in cutting emissions, although mainly due to reductions in energy demand stemming from its economic crisis, while its energy structure remains carbon intensive (figure 7). Policy initiatives under the new Climate Law include phasing-out lignite plants by 2028, zero emissions for all new vehicles by 2030, and more than doubling the share of renewables in final energy consumption (text table). Achieving these targets requires a substantial boost in green investment during 2020-2030, estimated at € 43.8 billion (over 20 percent of 2021 GDP) according to the NECP. While NGEU provides part of the funding, a significant financing gap remains. Meanwhile, climate change and climate policies are expected to disproportionately affect vulnerable groups (rural, low-income households and low-skilled workers), posing challenges to the already weak social protection system (figure 8)[18].

Climate Targets in Greece

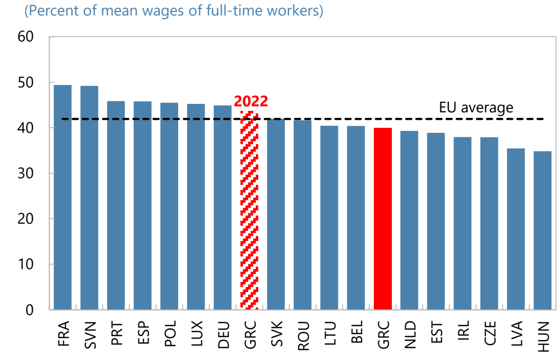
Target year:2030	New Climate Law (in consultation)	NECP (2019)	Latest available
Total greenhouse gas emissions	55% reduction from 1990 levels	42% reduction from 1990 levels	14% reduction from 1990 levels
RES share in gross final energy consumption	50%	> 35%	19.7%
Final energy consumption	min. 50% reduction from 2007 projections	min. 38% reduction from 2007 projections	36.0%
Share of lignite in electricity generation	0 % by 2028	0 % by 2028	23.6%
Zero emissions for all new vehicles	0 By 2030	NA	NA

Sources: The Greek authorities and IMF staff calculations.

21. Policy discussions focused on:

- **Ensuring a job-rich recovery.** The minimum wage adjustment of 7.5 percent came on top of the 10.9 percent increase in mid-2019. While the increase lent support to purchasing power and consumption in the near term, staff saw risks that it may entrench wage-price pressures and high youth unemployment and recommended that future increases should be consistent with productivity growth, taking into account the difficult operating environment facing firms and workers, widespread informality, and the need to avoid reducing returns to skills and education by flattening the wage curve. The direct impact on the public wage bill would be limited given that most civil servants are earning higher income than the minimum wage. Staff supported the authorities' re-skilling and up-skilling programs, including general training to enhance digital skills, and called for more tailored policies for vulnerable groups including the youth, long-term unemployed, and females given existing significant employment gaps and the relatively moderate spending in the RRP

Minimum Wage, 2020
(Percent of mean wages of full-time workers)



Sources: OECD; and IMF staff calculations.

[18] See IMF Selected Issues Paper, *Is Greece's Social Protection System Fit for the Green Transition,* forthcoming.

targeting gender equality and children and youth. Staff emphasized that the key to success of these programs lies in effective implementation, which requires modernizing the public employment agency, improving the active labor market policy framework, and reviewing and reforming vocational education and training programs to better serve the needs of the labor market. In addition, continued efforts to ensure sound governance and transparency and to foster a more friendly business environment would also support sustained growth and raise income convergence prospects. Staff continued to call on the authorities 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.

- **Assisting the green transition.** Staff recommended introducing a new carbon tax in non-ETS sectors and gradually increasing it over time to finance targeted transfers and green investment. This will help achieve climate goals while also supporting growth and protecting vulnerable groups during the green transition. Staff considered a strong social safety net as a critical part of climate change adaptation and encouraged the authorities to improve social protection through (a) expanding coverage of health care, housing, and education benefits (where coverage is low); (b) boosting spending on child-care and the GMI (where the targeting accuracy is relatively higher); and (c) further simplification and consolidation of social assistance schemes.[19]

- **Anti-corruption efforts.** The authorities' self-evaluation found that a majority of the action items in the National Anti-Corruption Action Plan (NACAP) for 2018–2021 have been completed. The NACAP for 2022–25 has been approved by the Ministerial Council and will shortly be published. It notably envisages the establishment of a committee responsible for coordinating and monitoring the implementation of the NACAP. The authorities should consider the findings of the latest OECD Baseline Report on Greece's NACAP [20], in particular regarding developing specific, measurable and realistic indicators that allow for quarterly monitoring and evaluation.

Authorities' Views

22. The authorities noted their strong ownership of the structural reform agenda which ensured effective implementation so far. They stressed that corporate sector balance sheets remained healthy following deleveraging and structural transformation since the global financial crisis, which helped firms survive the pandemic and rebound in 2021. Going forward, the authorities viewed the NGEU resources and RRF reform agenda as a catalyst for tackling the remaining structural bottlenecks to close productivity gaps. They pointed out that reforms to modernize the public employment agency, enhance digital skills, and align vocational education and training with the needs of the labor market would reduce structural unemployment and support accordingly the re-skilling and up-skilling of the labor force. The authorities also welcomed staff's positive assessment of their Recovery and Resilience Plan and the inclusion of investment funded through NGEU loans into staff's baseline and noted that timely and effective execution remained a top

[19] See IMF Selected Issues Paper, *Is Greece's Social Protection System Fit for the Green Transition*, forthcoming.

[20] See: https://www.oecd.org/governance/ethics/baseline-report-greece-national-anti-corruption-action-plan-en.pdf.

priority. Regarding the minimum wage increase of 7.54 percent which became effective on May 1, the government emphasized that the increase is prudent, striking the right economic balance between protecting workers against the rising cost of living while preserving competitiveness and employment gains, without risking triggering an inflation-wage spiral. However, given rising inflationary pressures, the BoG pointed at the danger of second round effects on inflation due to a strong pass-through from minimum wages to the average wage level, estimated at close to 50 percent. On climate policies, they concurred with staff on the need to protect vulnerable groups during the green transition. They intended to continue upgrading civil protection capacities to deal with the climate crisis relying on EU resources while stressing the political challenge in raising carbon taxes during a period of high energy prices. The authorities also highlighted the 2022–2025 National Anti-Corruption Action Plan, continued judicial reforms, and initiatives to update the national assessment of anti-money laundering and terrorist financing risks.

STAFF APPRAISAL

23. The Greek economy recovered strongly from the severe COVID-19-induced recession in 2020. Output returned to its pre-pandemic level in 2021, reflecting a faster-than-expected tourism recovery, rising private consumption as households started to unwind pandemic-related savings, and robust private investment supported by surging foreign direct investment. The strong fiscal response, accommodative monetary policy and prudential policies, and sizable EU support have been key to fostering the recovery. Meanwhile, commendable progress has been achieved in addressing crisis legacies despite the challenging environment, including a sharp decline in NPLs under the 'Hercules' program, lower unemployment, and improvements in the fiscal policy mix. The authorities completed the early repayment of all outstanding IMF credit on April 4, which terminated the Post-Financing Assessment framework.

24. Despite the adverse impact of the war in Ukraine and high inflation, growth is expected to remain robust. Notwithstanding sizable energy imports from Russia, other direct trade and financial linkages with Russia and Ukraine are limited. Indirect effects through spillbacks from trading partners, sanctions on Russia and the impact of higher inflation on disposable income and consumption are more substantial. Further, elevated risk aversion and weaker consumer confidence are expected to delay investment and dent the tourism recovery. All combined, these factors are expected to reduce growth this year by a full percentage point to 3.5 percent. Stronger and more persistent energy price growth is expected to push up average inflation to 6.1 percent in 2022, before it settles at 1.9 percent over the medium term.

25. Uncertainties and downside risks continue to cloud the outlook. The war in Ukraine and intensification of sanctions could trigger energy shortages and add stronger-than-expected pressures on domestic inflation, tourism, and risk aversion, and prompt a faster tightening of global financial conditions. Other risks include new waves of COVID-19 infections causing economic disruptions and NGEU grant and loan implementation risks. While the continued supportive stance by the ECB is a mitigating factor, spending pressures and unfunded tax cuts could jeopardize the medium-term fiscal adjustment path, increasing public debt and widening spreads.

26. Public debt is expected to decline and rollover risks appear manageable over the medium term. The debt-to-GDP ratio is expected to drop below pre-pandemic levels by 2022, reflecting robust growth, fiscal adjustment, and higher inflation amid the very large share of fixed-rate and long-maturity debt. Though the overall risk of sovereign stress is moderate, considerable uncertainty remains about Greece's ability to sustain high primary surpluses and the future path of interest rates once Greece starts to replace official financing with market funding. Despite the government's large cash buffer and active liability management, Greece's ability to service its debt under a severe shock depends on continued regional support.

27. Staff recommends maintaining an accommodative fiscal stance in 2022 and reaching a primary surplus in 2023. Staff supports phasing out pandemic-related temporary measures by end-2022 and targeting a primary deficit below 2 percent of GDP this year, which still implies an accommodative underlying fiscal stance. This stance is appropriate given the negative output gap as the handover from public support to private activity remains incomplete. Staff recommends aiming for a primary surplus in 2023 while accommodating downside risks through automatic stabilizers. Across-the-board subsidies for high energy prices should be phased out and replaced with targeted support for vulnerable groups and viable firms while allowing a gradual pass-through of higher prices to consumers. Greater priority should be given to addressing coverage gaps in the means-tested Guaranteed Minimum Income scheme and raising its benefit levels at least in line with inflation so that it can become the "go-to" safety net against adverse shocks like the ongoing energy crisis.

28. The fiscal adjustment should be gradual and growth friendly. Staff recommends a gradual consolidation path to achieve a primary surplus of 2 percent of GDP by 2027, underpinned by credible measures. Plans for permanent cuts in social security contributions and the elimination of the solidarity tax for all taxpayers should be reversed or at least fully funded through benefit adjustments and base-broadening measures, respectively. Staff welcomes improvements in the fiscal mix achieved during the pandemic, notably higher health care spending and public investment, and emphasizes that these gains should not be sacrificed to achieve consolidation targets. Instead, spending pressures on pensions and civil service wages should be contained, including by respecting the pension freeze this year and the indexation formula from next year onwards. There remains ample scope to improve the fiscal policy mix further by phasing out transfers to public enterprises and fuel subsidies that were provided prior to the war in Ukraine over the medium term and tackling tax evasion by the self-employed to make room for critical social spending and recurrent investment needs once NGEU funding ends. Accelerating fiscal structural reforms would facilitate these efforts.

29. The rapid clean-up of the balance sheets of major banks is welcome, but challenges remain. Following the successful securitization of NPLs, risks have largely migrated to the non-bank financial sector and to a lesser extent to the state. However, progress in NPL workout has remained limited. Further reduction of the distressed debt overhang and NPLs should come from implementing the new insolvency law, improving banks' credit risk management frameworks, and developing viable long-term restructurings. The authorities should closely monitor risks stemming from new NPL inflows once policy measures are fully withdrawn, ensure adequate credit classification and provisioning, and supervise risks arising from credit servicers active in the distressed debt market.

30. **More efforts are needed to rebuild banking sector resilience.** Capital used to absorb losses from NPL securitizations needs to be replenished to ensure adequate buffers to mitigate future shocks. In the short term, this may require share capital increases and stronger structural capital buffers. The authorities should prepare a conditions-based roadmap to guide the activation of countercyclical capital buffers and borrower-based measures over the medium term. The authorities should work with European partners to address the high share of deferred tax credits (DTCs) in bank capital. Supervisors should ensure that banks effectively adapt their business models to restore sustainable profitability amid increased Fintech competition and climate-related financial risks and that banks meet their substantial funding needs over the medium term.

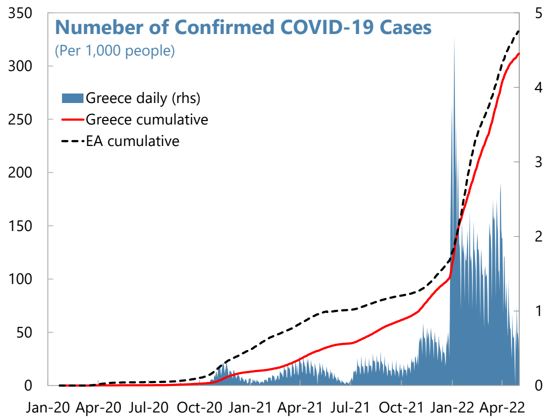
31. **Past structural reforms helped Greece weather the COVID-19 crisis and facilitated a job-rich recovery.** Resilient goods exports have cushioned the hard-hit tourism sector, and Greece's external position recovered in 2021, but remained moderately weaker than a level consistent with medium-term fundamentals and desirable policies. While the recent minimum wage increase supports purchasing power and consumption in the near term, it may risk entrenching wage-price pressures and high youth unemployment. The authorities' Recovery and Resilience Plan offers a good reform blueprint, but implementation will be key to realizing the potential benefits of green and digital investments and labor market re-skilling and up-skilling programs. Raising convergence prospects requires more efficient public investment management, sound governance, transparency, and a more business-friendly environment. The authorities should 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.

32. **Greece's commitment to climate-friendly policies is welcome but should be complemented with social protection reforms to facilitate the green transition.** The draft Climate Law sets ambitious goals supported by a substantial boost in green investment, partially financed by NGEU resources. As climate change and climate policies would disproportionately affect vulnerable groups, staff views a strong social safety net as a critical part of the adaptation strategy. Introducing a new carbon tax and gradually increasing it over time could also be considered to finance targeted transfers and green investment.

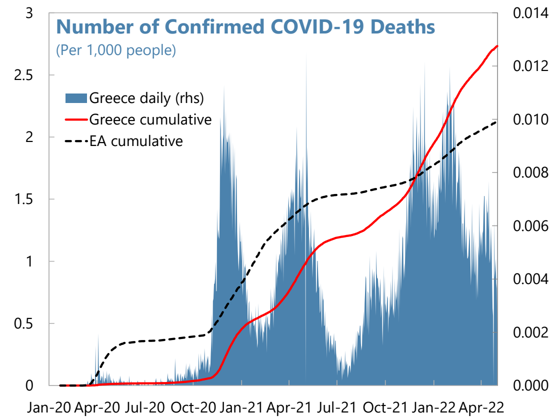
33. **It is proposed that the next Article IV consultation take place on the standard 12-month cycle.**

Figure 1. Greece: Health Developments

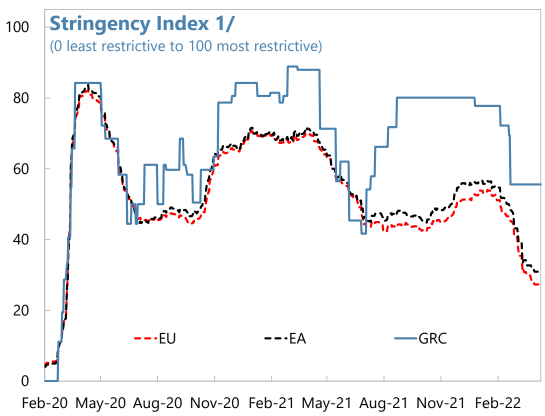
Cases and mortality in Greece rose sharply in the Omicron wave…



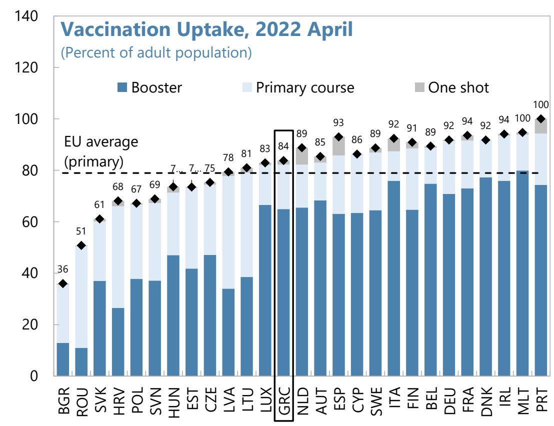
…with the latter exceeding the regional average recently…



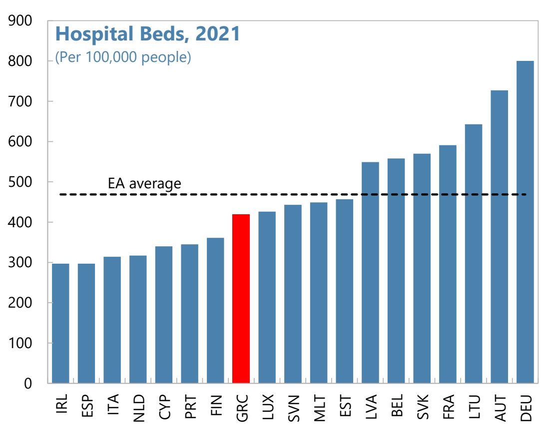
… despite relatively stringent containment measures.



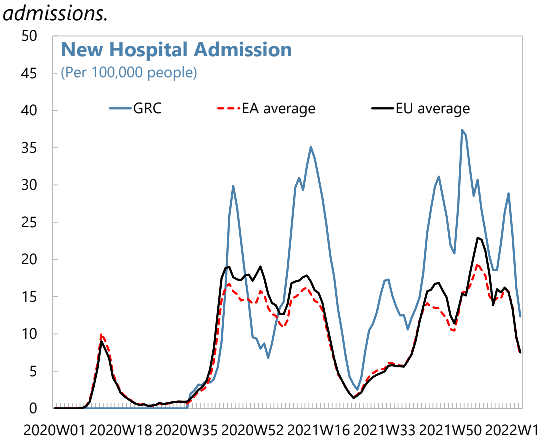
Vaccination progress is in line with peers…



…but capacity constraints to deal with severe cases remain…



… especially given the more elevated level of hospital admissions.

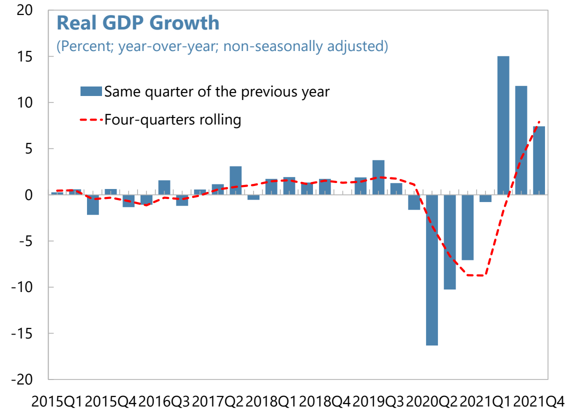


Sources: Blavatnik School of Government at the University of Oxford; Bloomberg Finance L.P.; European Center for Disease Prevention and Control; Eurostat; Greek Authorities; Haver Analytics; Johns Hopkins University; Kalavrezou et al (2021); and IMF staff calculations.

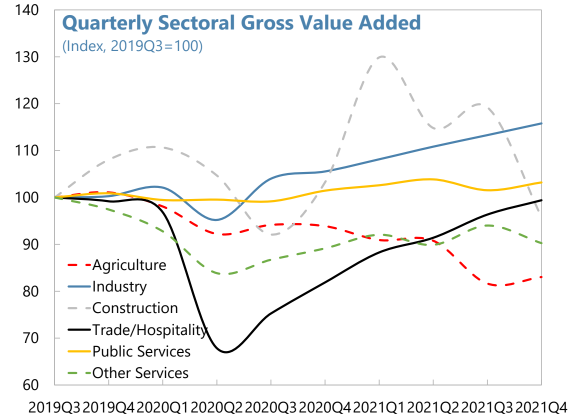
1/ The stringency index records the strictness of containment and closure policies that primarily restrict people's behavior.

Figure 2. Greece: Recent Macroeconomic Developments

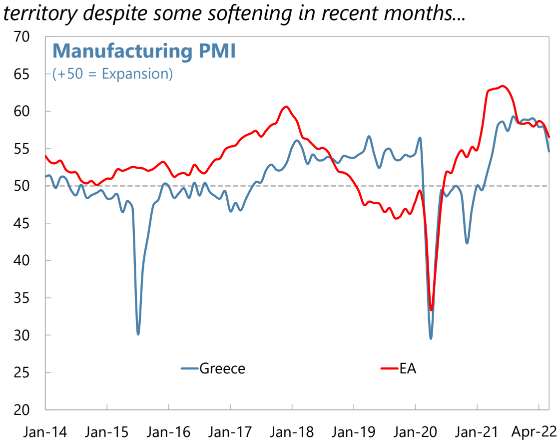
Growth recovered strongly in 2021 despite repeated lockdowns....



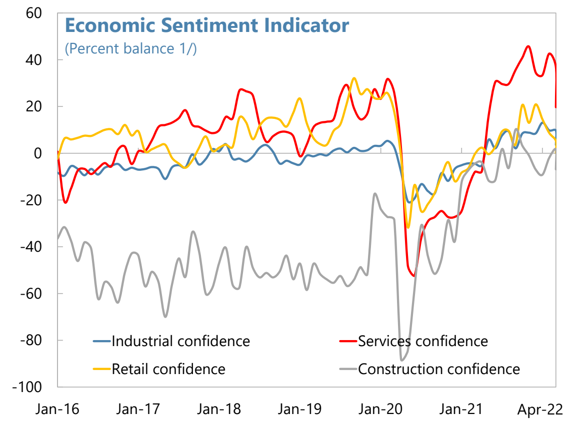
...supported by construction, industry and trade/hospitality, which is regaining the lost ground.



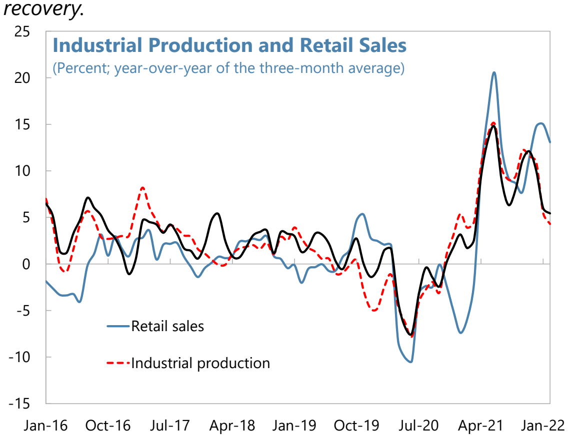
Manufacturing expectations remained in the expansionary territory despite some softening in recent months...



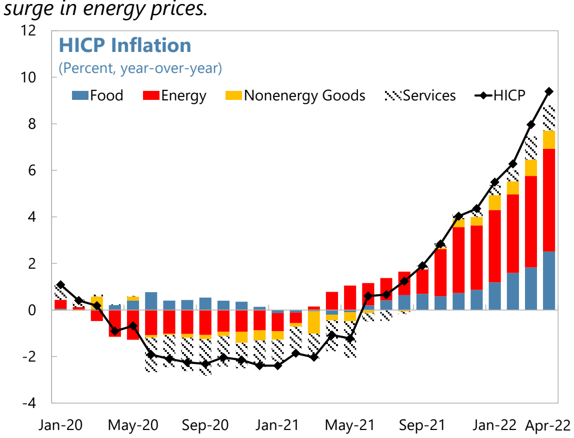
...and confidence indicators were improving until the Omicron wave and the war in Ukraine.



Industrial production and retail trade have started a volatile recovery.



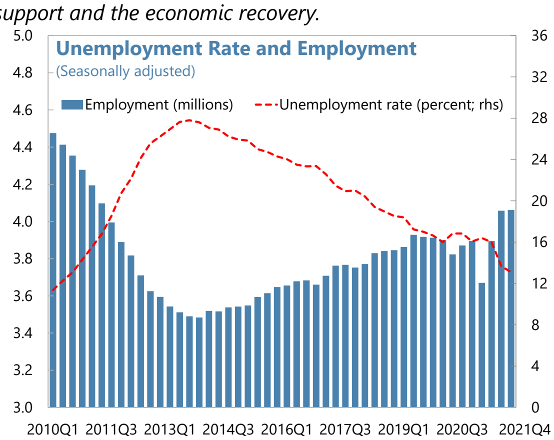
Inflation picked up sharply, from a low base, driven by the surge in energy prices.



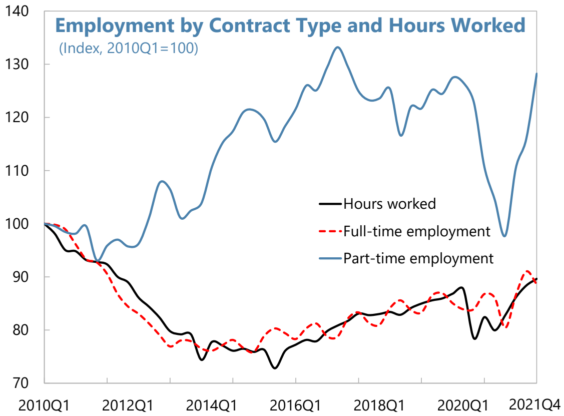
Sources: ELSTAT; Eurostat; Greek Authorities; Haver Analytics; IHS Markit; and IMF staff calculations.

Figure 3. Greece: Labor Market Developments

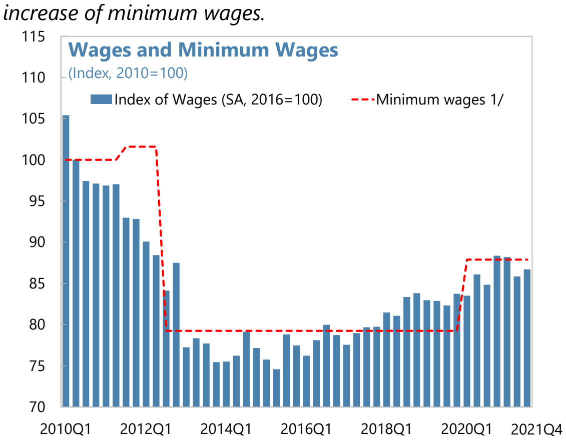
The unemployment rate continued to decline due to policy support and the economic recovery.



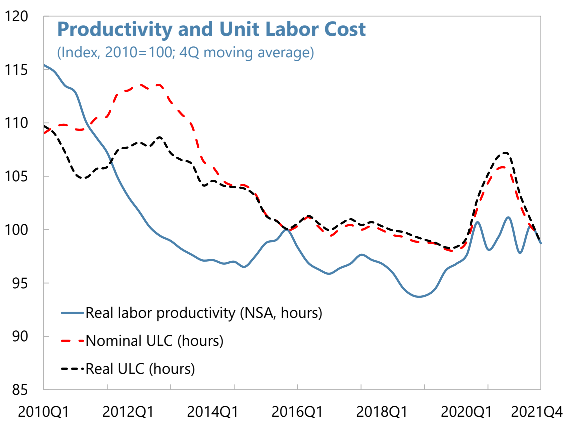
Both full-time and part-time jobs are on the rise, supporting the rebound in hours worked.



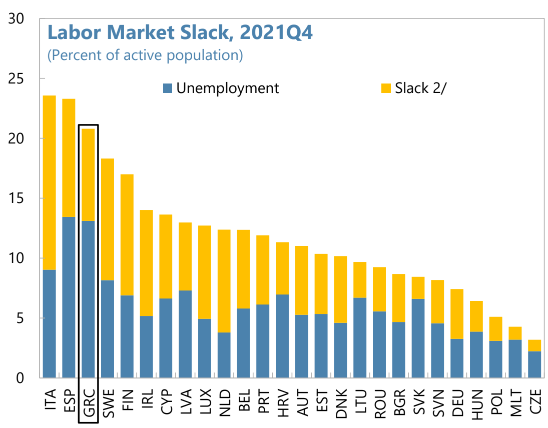
The rise in average wages was more subdued despite the increase of minimum wages.



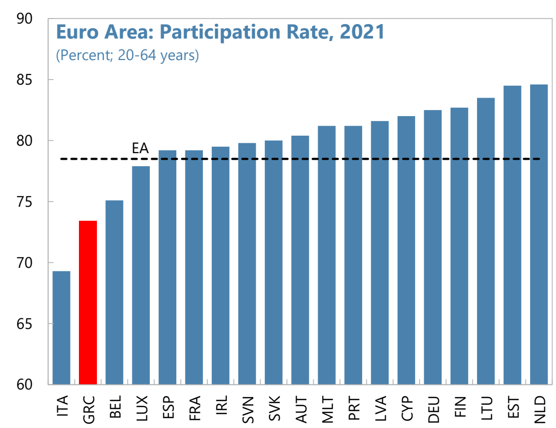
Unit labor costs have reverted to the pre-pandemic level...



Labor market slack remains one of the highest in the EA...



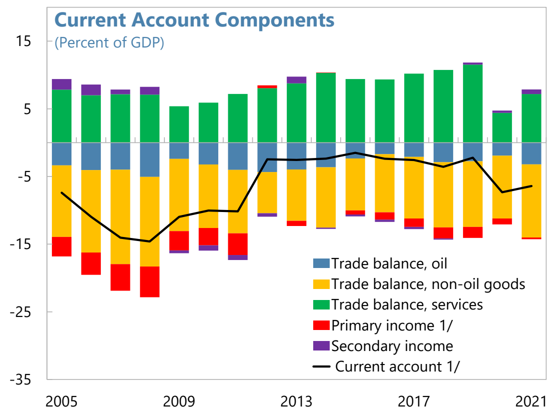
...and labor force participation rates are among the lowest.



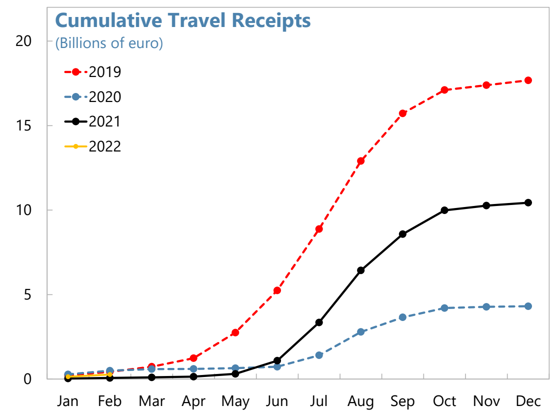
Sources: ELSTAT; Eurostat; Haver Analytics; ILO, Global Wage Report; and IMF staff calculations.
1/ Based on annual data.
2/ Slack includes underemployment of part-time workers, persons available but not seeking work and persons seeking work but not immediately available.

Figure 4. Greece: External Sector Development

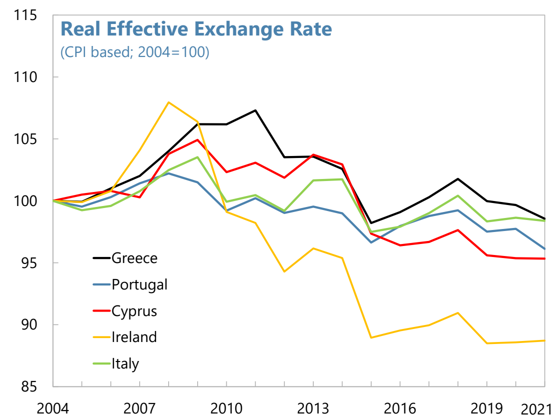
The current account started to gradually recover in 2021…



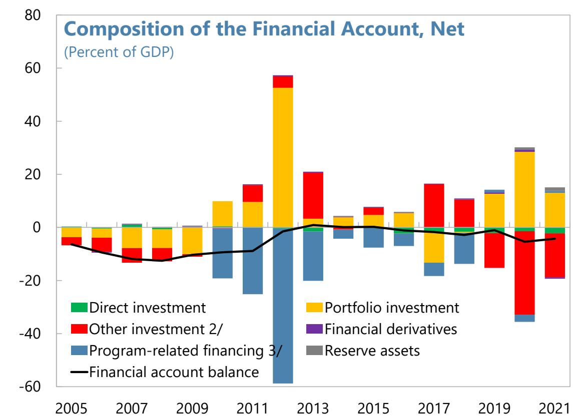
…as travel receipts rose to close to 60 percent of 2019 levels.



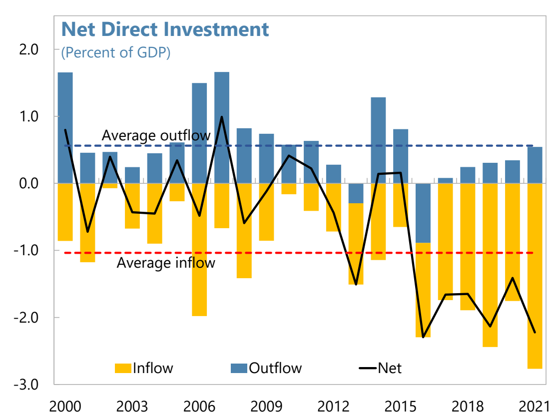
The CPI-based REER depreciated in 2021, falling to its lowest level since 2002.



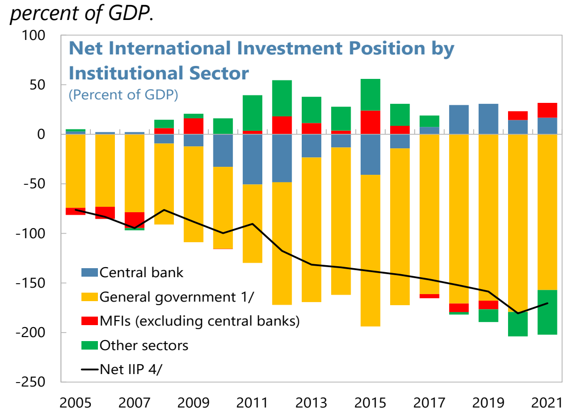
Other investment and FDI broadly offset portfolio outflows.



Incoming FDI flows rose above pre-pandemic levels.



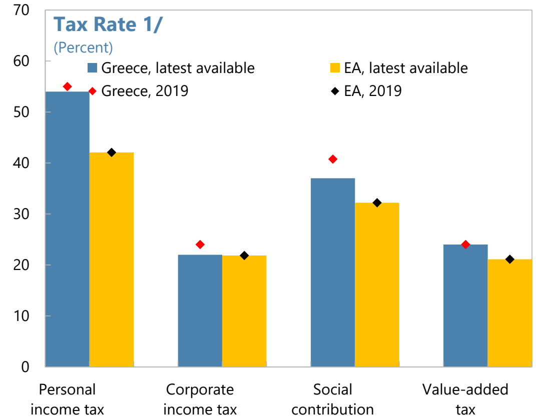
The NIIP stabilized as external government debt declined in percent of GDP.



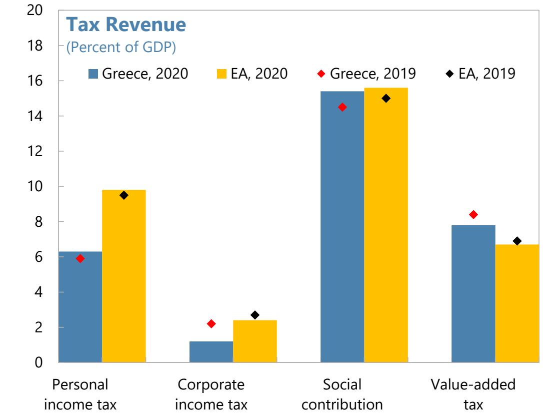
Sources: Bank of Greece; ELSTAT; Eurostat; European Central Bank; Haver Analytics; and IMF staff calculations.
1/ Includes deferred interest payments on EFSF loans (adjusted for compliance with the System of National Accounts).
2/ Includes liabilities to Eurosystem related to TARGET2. Excludes official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

Figure 5. Greece: Fiscal Policy Mix

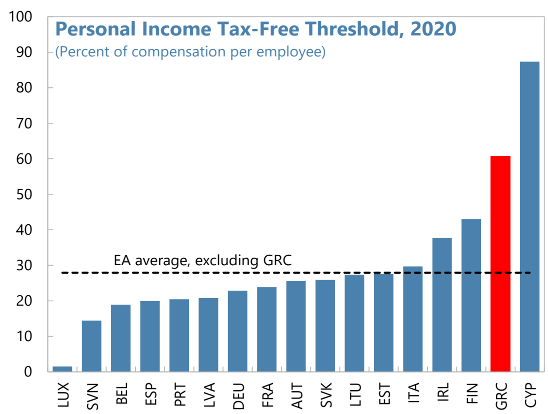
The government has reduced tax rates for labor and corporates during the pandemic.



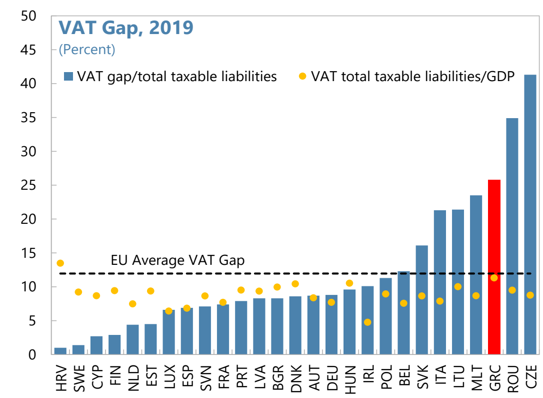
But revenue gaps with EA peers remain large, especially for direct taxes…



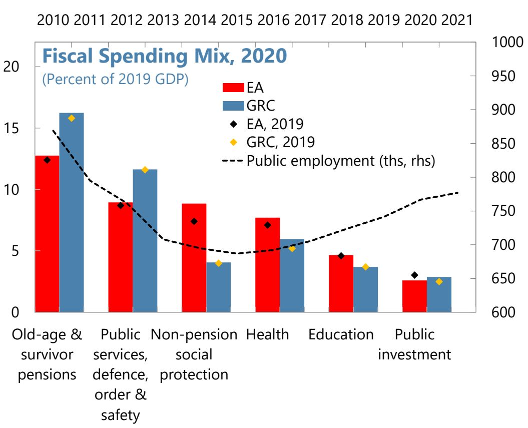
… reflecting the narrow PIT tax base



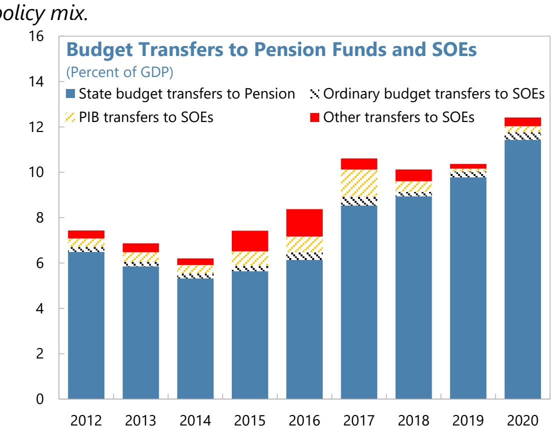
Tax compliance is still weak, especially in VAT.



Pandemic-related increases in health spending and public investment are welcome…



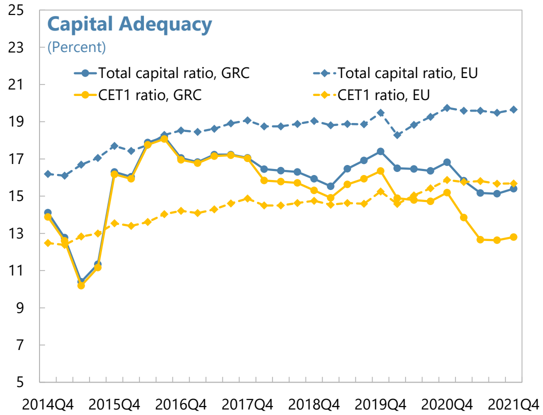
…but increasingly large state transfers to pension funds and still sizable transfers to SOEs are indicative of an inefficient policy mix.



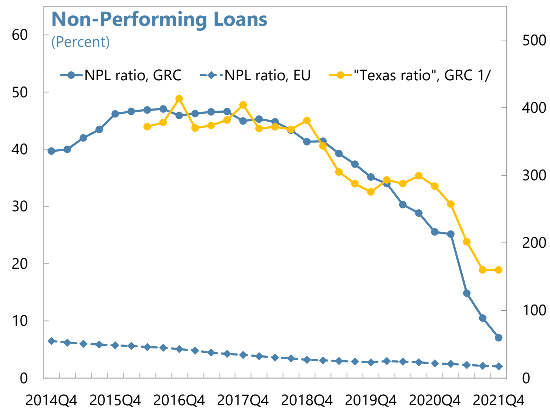
Source: Center for Social and Economic Research; Eurostat; Haver Analytics; OECD; and IMF staff calculations.
1/ Personal Income Tax—top marginal rate; Social Contribution—including both employee's an employer's contribution; Corporate Income Tax and Value-added Tax—the standard rate. Latest available 2021 data for Greece.

Figure 6. Greece: Financial Sector Developments

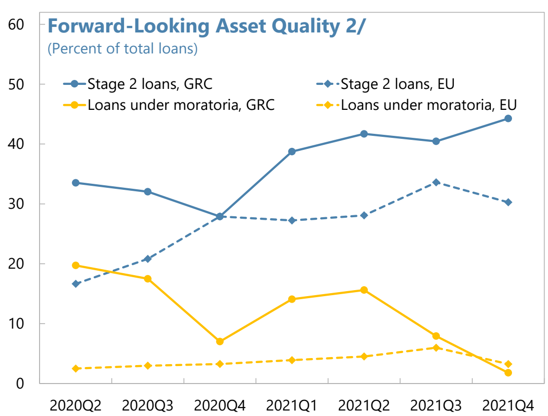
Banks' capital base has been impacted by NPL offloading but stayed resilient.



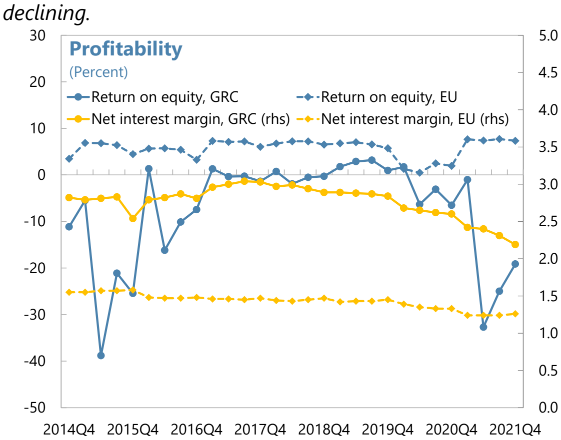
NPLs have been drastically reduced, although they remain relatively high.



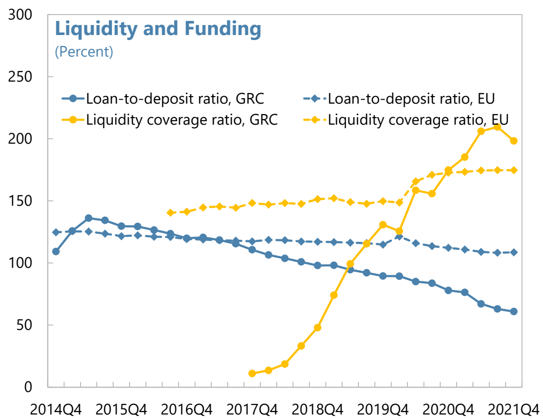
Impaired and restructured loans are significant.



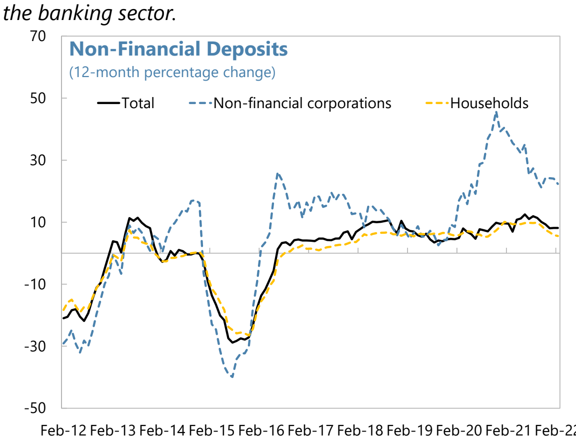
Credit cost generated huge net losses, while the margin ratio is declining.



Banks' liquidity and funding risks have notably decreased.



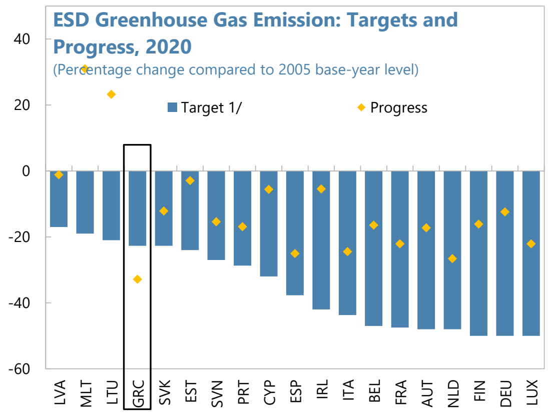
Steady deposits inflows demonstrate customers' confidence in the banking sector.



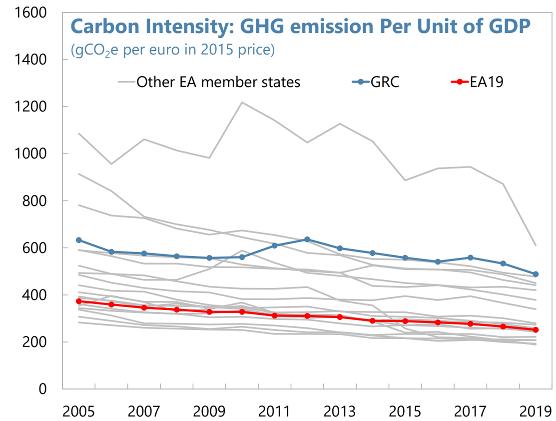
Sources: Bank of Greece; European Banking Authority; European Central Bank; Haver Analytics; and IMF staff calculations.
1/ Gross NPLs/(CET1 + loan-loss provisions).
2/ Loans and advances with non-expired EBA-compliant moratoria.

Figure 7. Greece: Tackling Climate Change

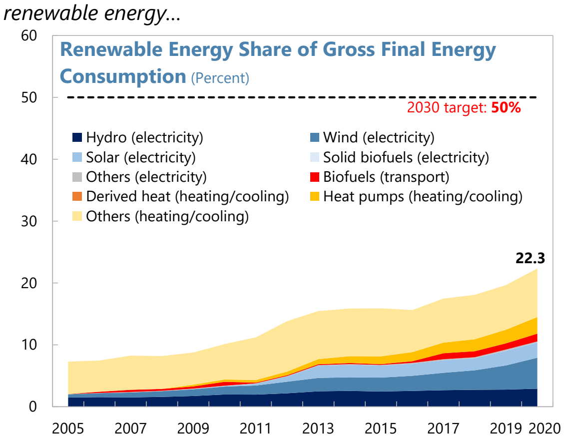
Greece has made progress in reducing emissions.



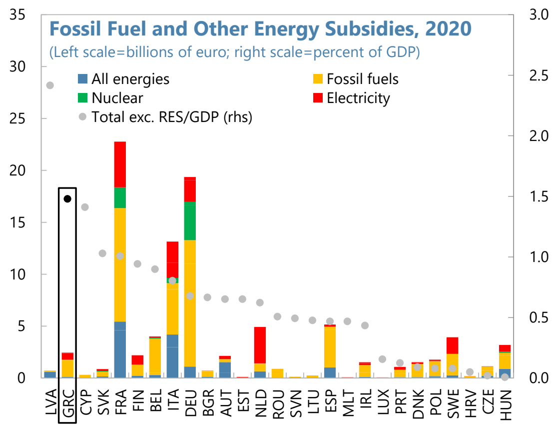
But carbon intensity is the 2nd highest in EA.



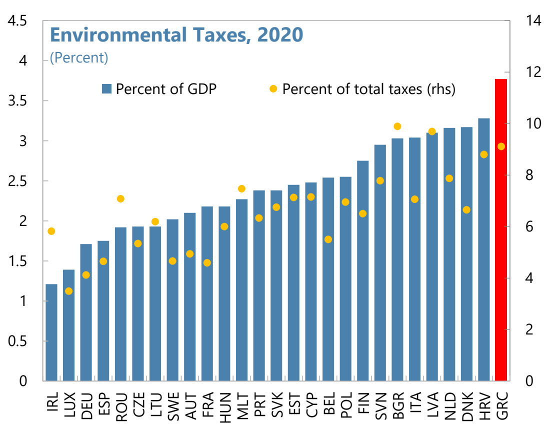
Considerable efforts are needed to boost the share of renewable energy...



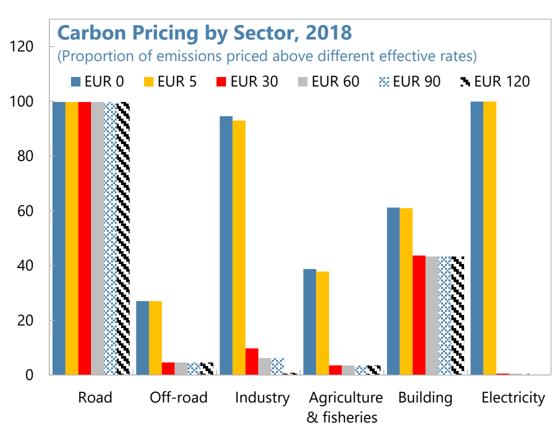
...and phase out fossil fuel subsidies.



While environmental taxes are high...



...significant carbon pricing gaps exist in certain sectors.

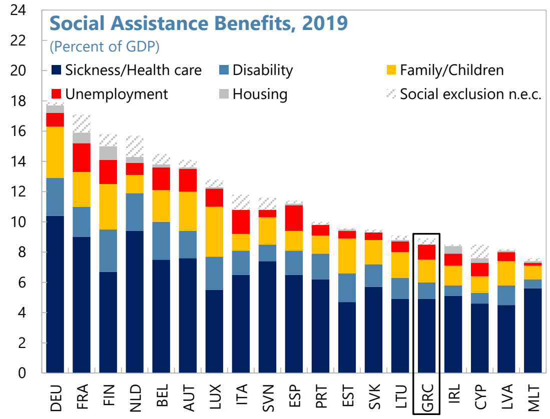


Sources: European Commission; Eurostat; Greece National Energy and Climate Plan; OECD; and IMF staff calculations.

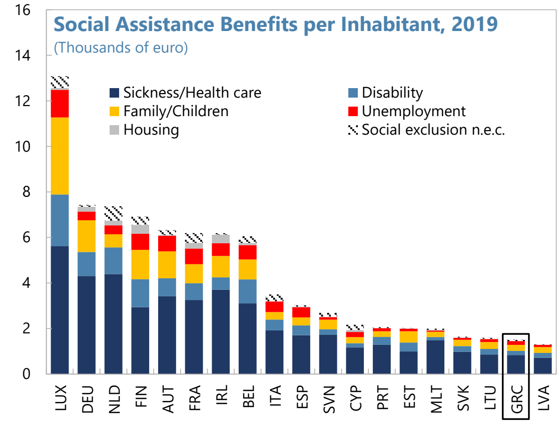
1/ Targets under the European Commission's 2021 proposal to amend the Effort Sharing Regulation (EU) 2018/842, excluding ETS sectors. These targets are currently under revisions to align with carbon-neutral by 2050.

Figure 8. Greece: Social Protection Gaps

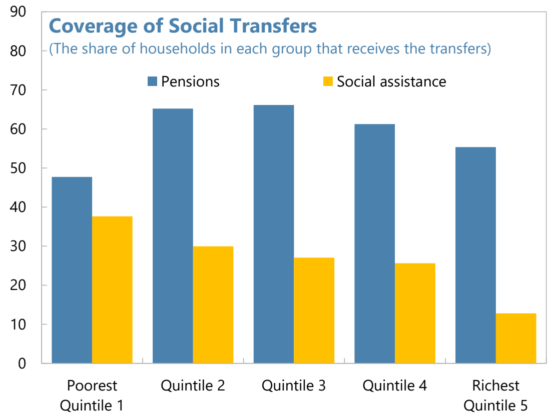
Social assistance spending is one of the lowest, both in percent of GDP…



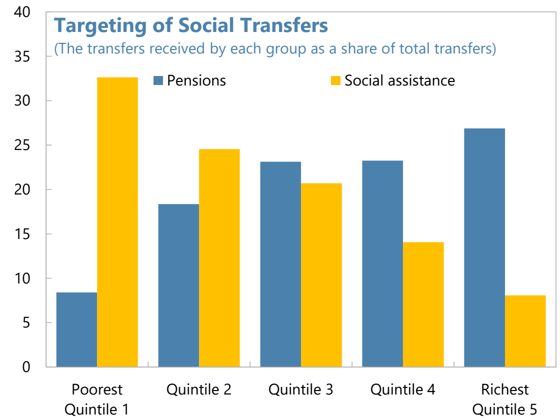
…and in per capita terms.



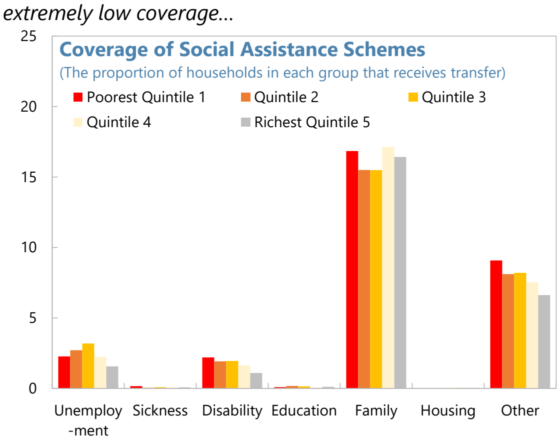
Costly pensions crowd out critical social assistance…



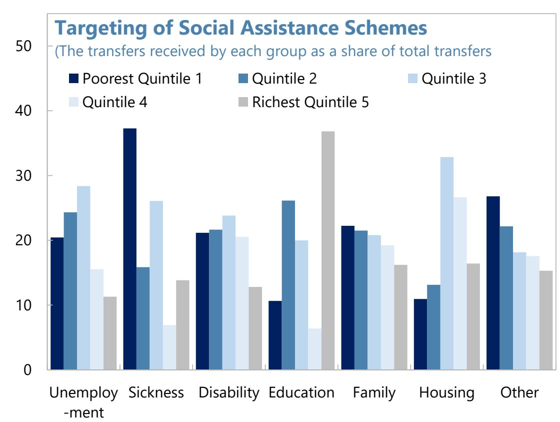
…that is better targeted at low-income groups.



Notably, sickness, housing and education benefits have extremely low coverage…



…and are also poorly targeted.



Sources: Eurostat; Haver Analytics; 2020 EU-SILC survey dataset and IMF staff calculations.

Table 1. Greece: Medium-Term Macro Framework, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
	(Percentage change, unless otherwise indicated)								
Real GDP	1.8	-9.0	8.3	3.5	2.6	2.0	1.6	1.4	1.2
Total domestic demand	1.1	-3.5	7.1	1.8	1.5	1.9	1.2	0.9	1.2
Private consumption	1.8	-7.9	7.8	0.3	1.1	1.1	0.5	0.6	1.0
Public consumption	1.7	2.6	3.7	1.8	-3.1	0.6	0.6	0.6	0.8
Gross fixed capital formation	-3.3	-0.3	19.6	10.6	10.5	7.5	5.4	2.5	2.5
Net exports									
Exports of goods and services	4.9	-21.9	21.4	5.9	5.7	2.5	2.5	2.3	1.2
Imports of goods and services	3.1	-7.8	16.1	1.5	2.5	2.2	1.4	1.0	1.2
Final consumption (contribution)	1.6	-4.9	6.3	0.6	0.1	0.8	0.4	0.5	0.8
Gross fixed capital formation (contribution)	-0.4	0.0	2.3	1.4	1.4	1.1	0.8	0.4	0.4
Change in inventories (contribution)	0.0	1.3	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance (contribution)	0.6	-5.3	0.7	1.5	1.1	0.0	0.4	0.5	0.0
Resource utilization									
Potential GDP	-1.1	-1.3	0.5	1.1	1.4	1.4	1.5	1.4	1.4
Output gap (percent of potential)	-3.1	-10.7	-3.8	-1.5	-0.3	0.3	0.5	0.5	0.3
Employment	2.2	-0.9	1.4	2.2	0.6	0.9	0.3	0.0	0.0
Unemployment rate, period average (percent) 1/	17.3	16.4	15.0	12.8	12.4	11.6	11.2	10.9	10.6
Prices									
GDP deflator	0.2	-0.8	2.1	6.9	1.2	1.4	1.8	1.8	1.9
Consumer prices (HICP), period average	0.5	-1.3	0.6	6.1	1.2	1.6	1.8	1.9	1.9
Unit labor costs	0.3	7.7	-6.0	6.7	1.2	1.4	1.7	1.8	1.9
	(Percent of GDP, unless otherwise indicated)								
Current account 2/	-2.2	-7.3	-6.5	-6.5	-5.5	-4.9	-4.0	-3.5	-3.2
Trade balance	-0.9	-6.8	-6.9	-6.3	-4.4	-3.5	-2.5	-1.9	-1.4
Export of goods and services	39.6	31.2	40.5	44.3	44.9	43.7	42.8	42.0	41.3
Export of goods	17.7	17.5	21.4	24.3	23.9	22.7	21.7	20.7	19.8
Exports of services	21.9	13.7	19.1	20.0	21.0	20.9	21.1	21.3	21.6
Imports of goods and services	40.6	38.0	47.4	50.6	49.2	47.2	45.4	43.9	42.8
Imports of goods	30.2	28.7	35.4	39.4	38.1	36.3	34.7	33.4	32.4
Imports of services	10.4	9.3	12.0	11.2	11.1	10.9	10.7	10.5	10.4
Primary income 2/	-1.6	-0.9	-0.3	-0.5	-0.8	-1.1	-1.3	-1.4	-1.5
Secondary income 3/	0.3	0.3	0.7	0.3	-0.3	-0.3	-0.1	-0.2	-0.2
Net international investment position 4/	-158.7	-180.7	-181.0	-168.6	-166.1	-164.0	-161.0	-157.9	-154.9
Gross external debt 4/	249.2	304.8	310.1	287.0	279.6	272.5	265.7	258.8	252.1
Private sector capital flows (net)	-2.3	-44.4	-30.8	-8.8	-1.0	1.3	1.2	2.6	3.3
Fiscal Indicators (general government)									
Total revenues	48.0	49.0	48.9	48.4	47.4	47.3	46.4	45.9	44.9
Total expenditures	47.8	59.9	56.9	52.9	49.3	48.7	47.6	46.9	45.7
Primary expenditures	44.8	56.9	54.4	50.3	46.5	46.0	44.9	44.2	43.0
Primary balance	3.2	-7.9	-5.5	-1.9	0.9	1.3	1.5	1.8	2.0
Cyclically-adjusted primary balance	5.5	-1.4	-3.1	0.5	1.1	1.4	1.5	1.8	2.2
Overall balance	0.2	-10.9	-8.0	-4.5	-1.9	-1.4	-1.2	-0.9	-0.7
Gross public debt 4/	185.6	212.4	199.4	183.4	177.4	171.1	166.3	163.3	158.8
Memorandum item:									
Nominal GDP (billions of euros)	183.3	165.3	182.8	202.3	210.2	217.4	224.9	232.2	239.4
Consumer prices (HICP core), period average	0.8	-1.2	-1.1	1.6	0.9	1.5	1.8	1.9	1.9
Consumer prices (HICP), EOP	1.1	-2.4	4.4	3.5	1.1	2.8	1.2	1.6	1.4
General government debt excl. stock of deferred interests (billions of euros)	332.1	342.0	354.3	359.8	360.8	358.9	360.1	364.5	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, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
				(Billions of euros)					
Current account balance 1/	-4.1	-12.1	-11.9	-13.1	-11.6	-10.7	-8.9	-8.0	-7.6
Balance of goods and services	-1.7	-11.2	-12.6	-12.8	-9.2	-7.6	-5.7	-4.4	-3.5
Goods balance	-22.8	-18.5	-25.6	-30.5	-29.9	-29.4	-29.2	-29.6	-30.3
Exports	32.4	28.9	39.1	49.1	50.2	49.4	48.8	48.0	47.3
Imports	55.3	47.4	64.7	79.7	80.2	78.9	78.0	77.6	77.6
Services balance	21.1	7.3	13.0	17.7	20.7	21.9	23.5	25.2	26.9
Credit	40.2	22.7	35.0	40.5	44.1	45.5	47.5	49.5	51.7
Debit	19.0	15.4	22.0	22.7	23.3	23.7	24.0	24.3	24.8
Primary income 1/	-3.0	-1.4	-0.5	-1.0	-1.7	-2.5	-2.9	-3.3	-3.7
Credit	6.2	6.3	7.0	7.3	7.6	7.6	7.7	7.8	7.9
Debit 1/	9.2	7.8	7.5	8.4	9.3	10.1	10.6	11.1	11.6
Secondary income	0.6	0.6	1.2	0.7	-0.7	-0.6	-0.3	-0.4	-0.4
Credit 2/	3.8	4.1	5.0	4.2	3.0	3.0	3.5	3.6	3.7
Debit	3.2	3.5	3.8	3.5	3.7	3.6	3.8	4.0	4.2
Capital account balance	0.7	2.7	4.0	3.4	3.5	3.3	3.5	3.4	3.5
Financial account balance	-3.5	-5.9	-7.3	-9.2	-7.1	-6.5	-4.6	-3.8	-3.2
Direct investment	-3.9	-2.3	-4.1	-5.8	-5.3	-6.9	-4.6	-4.8	-5.1
Portfolio investment	23.2	47.1	22.8	-2.0	-2.2	-1.0	-3.9	-2.8	-4.9
Financial derivatives	1.0	1.2	1.0	0.6	0.2	0.2	0.2	0.2	0.2
Other investment 3/	-23.8	-51.9	-27.0	-2.1	0.2	1.2	3.7	3.6	6.6
Net errors and omissions	1.5	0.5	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	1.6	-3.0	0.5	-0.5	-0.9	-0.9	-0.8	-0.8	-0.9
Reserve assets	0.1	1.5	2.5	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-4.2	0.0	-3.6	-1.8	0.0	0.0	0.0	0.0	0.0
Program-related financing 4/	2.7	4.6	5.7	2.3	0.9	0.9	0.8	0.8	0.9
				(Percent of GDP)					
Current account balance 1/	-2.2	-7.3	-6.5	-6.5	-5.5	-4.9	-4.0	-3.5	-3.2
Balance on goods and services	-0.9	-6.8	-6.9	-6.3	-4.4	-3.5	-2.5	-1.9	-1.4
Goods balance	-12.5	-11.2	-14.0	-15.1	-14.2	-13.5	-13.0	-12.7	-12.7
Services balance	11.5	4.4	7.1	8.8	9.9	10.1	10.4	10.8	11.2
Primary income 1/	-1.6	-0.9	-0.3	-0.5	-0.8	-1.1	-1.3	-1.4	-1.5
Secondary income 2/	0.3	0.3	0.7	0.3	-0.3	-0.3	-0.1	-0.2	-0.2
Capital account balance	0.4	1.7	2.2	1.7	1.7	1.5	1.5	1.5	1.5
Financial account balance	-1.9	-3.6	-4.0	-4.6	-3.4	-3.0	-2.1	-1.6	-1.3
Direct investment	-2.1	-1.4	-2.2	-2.9	-2.5	-3.2	-2.1	-2.0	-2.1
Portfolio investment	12.7	28.5	12.5	-1.0	-1.0	-0.4	-1.7	-1.2	-2.0
Financial derivatives	0.6	0.8	0.6	0.3	0.1	0.1	0.1	0.1	0.1
Other investment 3/	-13.0	-31.4	-14.8	-1.0	0.1	0.6	1.6	1.5	2.7
Net errors and omissions	0.8	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	0.9	-1.8	0.3	-0.2	-0.4	-0.4	-0.4	-0.4	-0.4
Reserve assets	0.0	0.9	1.4	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-2.3	0.0	-2.0	-0.9	0.0	0.0	0.0	0.0	0.0
Program-related financing 4/	1.5	2.8	3.1	1.1	0.4	0.4	0.4	0.4	0.4
Gross external debt	249.2	304.8	310.1	287.0	279.6	272.5	265.7	258.8	252.1
Public sector 5/	185.0	232.9	225.9	209.4	201.7	193.9	186.2	178.2	170.4
Private sector	64.2	71.9	84.2	77.7	77.9	78.6	79.4	80.6	81.8
Memorandum item:									
Current account balance in cash terms	-1.5	-6.6	-5.9	-6.0	-5.1	-4.5	-3.6	-3.1	-2.8
Deferred interest payments on EFSF loans	0.7	0.7	0.6	0.5	0.4	0.4	0.4	0.4	0.4

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, 2019–27 1/

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
				(Billions of euros)					
Revenue	88.0	81.0	89.4	98.0	99.6	102.9	104.4	106.7	107.6
Indirect taxes	31.7	27.2	30.4	34.1	34.5	35.2	35.2	35.9	36.9
Direct taxes	17.8	15.2	16.9	18.5	19.0	20.1	20.7	21.4	22.0
Social contributions	26.7	25.4	27.3	28.1	28.4	29.2	30.2	31.1	32.0
Other current revenue	3.4	3.5	3.8	3.8	4.1	4.2	3.9	4.1	4.4
Sales	5.4	5.1	5.4	5.3	5.9	6.0	5.9	6.2	6.4
Capital revenue	3.1	4.5	5.8	8.2	7.7	8.1	8.4	8.0	5.9
Primary expenditure	82.1	94.1	99.5	101.7	97.7	100.0	101.0	102.6	102.8
Social benefits	39.5	39.5	41.0	42.3	43.0	43.5	44.1	45.0	45.8
Subsidies	1.8	5.8	8.5	4.6	2.7	2.6	2.2	2.4	2.4
Other current expenditure	2.9	3.2	3.6	5.3	4.5	5.0	5.0	5.0	5.5
Compensation of employees	21.9	22.3	22.5	24.1	24.2	24.6	25.1	25.4	26.2
Intermediate consumption	8.6	9.1	10.2	12.2	10.4	10.7	11.0	11.2	11.3
Investment	4.6	5.3	6.6	11.1	10.9	11.6	11.8	11.6	9.6
Capital transfers payable	2.8	9.0	7.0	2.0	2.1	2.0	2.0	2.0	2.0
Primary balance (accrual)	5.9	-13.1	-10.0	-3.8	1.8	2.9	3.4	4.1	4.7
Cash basis	6.4	-16.0	-9.2	-6.4	-1.5	0.0	2.7	2.3	3.3
Interest 2/	5.5	5.0	4.5	5.4	5.8	5.9	6.0	6.3	6.5
Overall balance	0.4	-18.1	-14.5	-9.1	-4.0	-3.1	-2.7	-2.2	-1.8
Gross debt 3/	340.1	351.2	364.6	371.1	372.9	372.0	374.0	379.2	380.1
				(Percent of GDP)					
Total primary revenue	48.0	49.0	48.9	48.4	47.4	47.3	46.4	45.9	44.9
Indirect taxes	17.3	16.4	16.6	16.8	16.4	16.2	15.7	15.5	15.4
Direct taxes	9.7	9.2	9.2	9.1	9.0	9.2	9.2	9.2	9.2
Social contributions	14.5	15.4	14.9	13.9	13.5	13.5	13.4	13.4	13.4
Other current revenue	1.9	2.1	2.1	1.9	1.9	1.9	1.7	1.8	1.8
Sales	2.9	3.1	2.9	2.6	2.8	2.8	2.6	2.7	2.7
Capital revenue	1.7	2.8	3.2	4.1	3.7	3.7	3.7	3.4	2.5
Total primary expenditure	44.8	56.9	54.4	50.3	46.5	46.0	44.9	44.2	43.0
Social benefits	21.6	23.9	22.4	20.9	20.4	20.0	19.6	19.4	19.1
Subsidies	1.0	3.5	4.6	2.3	1.3	1.2	1.0	1.0	1.0
Other current expenditure	1.6	1.9	2.0	2.6	2.1	2.3	2.2	2.2	2.3
Compensation of employees	12.0	13.5	12.3	11.9	11.5	11.3	11.1	10.9	10.9
Intermediate consumption	4.7	5.5	5.6	6.0	4.9	4.9	4.9	4.8	4.7
Investment	2.5	3.2	3.6	5.5	5.2	5.3	5.2	5.0	4.0
Capital transfers payable	1.5	5.4	3.8	1.0	1.0	0.9	0.9	0.9	0.8
Primary balance (accrual)	3.2	-7.9	-5.5	-1.9	0.9	1.3	1.5	1.8	2.0
Interest 2/	3.0	3.0	2.5	2.7	2.8	2.7	2.7	2.7	2.7
Overall balance	0.2	-10.9	-8.0	-4.5	-1.9	-1.4	-1.2	-0.9	-0.7
Gross debt 3/	185.6	212.4	199.4	183.4	177.4	171.1	166.3	163.3	158.8
Memorandum item:									
Nominal GDP (billions of euros)	183.3	165.3	182.8	202.3	210.2	217.4	224.9	232.2	239.4

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.	Jun.	Sep.	Dec.
	(Billions of euros)							
Aggregated balance sheet of Monetary Financial Institutions (MFIs)								
Total assets	427.7	402.4	419.5	520.0	530.7	544.0	553.0	566.3
Cash (held by credit institutions)	1.8	1.8	2.1	1.9	1.7	1.8	1.8	2.0
Claims on Bank of Greece	2.0	6.9	9.1	27.3	31.3	36.7	41.2	49.1
Claims on other MFIs	50.7	27.9	21.2	56.1	58.9	60.6	61.2	65.3
Claims (loans) on non MFIs	201.0	186.1	172.1	159.9	157.6	150.8	139.8	129.2
Domestic	197.5	183.1	162.5	149.6	146.2	138.2	127.0	116.1
General government	13.7	12.9	8.4	8.0	6.5	9.0	8.9	7.5
Other sectors	183.8	170.2	154.1	141.6	139.6	129.2	118.1	108.6
Other countries	3.4	3.0	9.7	10.3	11.4	12.6	12.9	13.1
Securities 1/	103.4	105.6	136.7	192.3	200.6	214.7	226.1	234.6
Other assets	64.3	69.5	72.2	76.1	74.3	73.2	76.7	79.9
Fixed assets	4.5	4.6	6.1	6.4	6.2	6.2	6.2	6.2
Total Liabilities	427.7	402.4	419.5	520.0	530.7	544.0	553.0	566.3
Liabilities to Bank of Greece	33.7	11.1	7.7	41.2	44.6	47.0	46.9	50.8
Liabilities to other MFIs	79.2	62.1	56.4	116.6	128.5	136.7	141.6	160.2
Deposits and repos of non MFIs	157.6	185.3	195.2	207.9	208.8	218.6	232.1	232.3
Domestic	150.9	178.1	187.2	199.4	198.9	207.8	220.2	219.0
Other countries	6.7	7.2	8.0	8.5	10.0	10.8	11.9	13.4
Capital and reserves	83.5	69.9	69.1	63.4	61.3	54.0	49.5	43.9
Banknotes and coins in circulation	31.9	33.6	30.4	33.5	33.8	34.5	35.1	36.0
Other liabilities	41.8	40.5	60.8	57.4	53.6	53.1	47.9	43.0
Money and credit								
Broad money	171.0	178.4	185.9	208.4	210.5	217.3	223.2	229.2
Credit to the private sector 2/	183.4	169.8	153.7	141.2	139.2	128.8	117.7	108.1
Credit to government	18.9	18.2	19.7	27.4	28.8	33.5	33.6	29.9
	(Annual percentage change)							
Broad money	6.3	4.2	4.1	12.3	12.9	12.6	12.2	9.6
Domestic private sector deposits	4.2	6.3	6.1	12.9	12.5	13.4	12.8	9.4
Credit to the private sector 2/	-0.8	-1.1	-0.6	3.5	2.9	2.3	0.8	1.4
Credit to government	-7.8	-0.7	-5.4	25.7	30.7	36.2	34.3	13.5
	(Percent of GDP)							
Broad money	96.7	99.5	101.7	125.8	128.0	127.0	126.5	126.0
Domestic deposits	85.3	99.3	102.5	120.3	120.9	121.4	124.8	120.3
Credit to the private sector 2/	103.7	94.7	84.1	85.2	84.6	75.3	66.7	59.4
Credit to government	10.7	10.2	10.8	16.6	17.5	19.6	19.0	16.4
Memorandum items:	(Percent)							
Capital to assets	11.2	8.9	9.0	8.1	8.0	7.2	7.4	7.3
Loans to customer deposits	127.1	106.7	81.2	71.3	71.4	66.7	62.1	56.6
Velocity	1.0	1.0	1.0	0.8	0.8	0.8	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 for Deposit Taking Institutions, 2014–21

(Percent, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021		
								Mar.	Jun.	Sep.
Core set										
Regulatory capital to risk-weighted assets 1/	14.1	16.5	16.9	17.0	16.0	17.0	16.7	15.6	15.0	14.9
Regulatory Tier I capital to risk-weighted assets 1/	13.8	16.4	16.8	17.0	15.3	15.9	15.0	13.7	12.9	12.8
Nonperforming loans net of provisions to capital 2/	131.0	119.9	118.2	172.4	157.6	129.2	105.4	107.9	77.3	55.2
Nonperforming loans to total gross loans 2/	30.0	35.7	37.4	45.6	42.0	36.4	27.0	26.5	17.3	12.8
Bank provisions to nonperforming loans	55.8	67.6	68.9	46.8						
Return on assets (after taxes)	-2.1	-3.8	0.0	-0.6	-0.2	0.2	-0.4	0.1	-2.5	-1.9
Return on equity (after taxes)	-11.1	-29.0	0.8	-1.4	-0.4	0.7	-5.9	-0.3	-30.6	-23.5
Interest margin to gross income	81.8	85.3	79.6	78.4	71.9	67.5	57.4	48.8	98.0	85.6
Non-interest expenses to gross income	62.8	83.9	54.6	59.5	64.3	65.1	49.1	39.4	78.2	70.8
Liquid assets to total assets 3/	28.9	29.7	27.0	18.0	20.3	32.1	41.3	41.5	30.3	31.6
Liquid assets to short-term liabilities 3/	40.1	40.4	36.3	23.8	25.8	41.6	57.0	58.0	41.3	42.7
Net open position in foreign exchange to capital 1/	5.4	5.6	0.8	1.3	0.7	0.6	0.7	0.8	1.6	1.3
Encouraged set										
Spread between reference lending and deposit rates (end-of-period, basis points) 4/	622.3	593.8	558.5	528.6	497.7	469.1	438.0	431.7	429.8	353.0
Customer deposits to total (noninterbank) loans 3/	90.3	71.8	76.0	68.1	81.3	91.6	91.7	91.3	100.4	103.9
Foreign currency-denominated liabilities to total liabilities 3/	5.8	3.1	3.6	4.6	4.8	5.0	4.4	4.2	4.3	4.4
Market liquidity										
Average bid-ask spread in the securities market (basis points)	1.5	1.6	1.2	1.0	0.4	1.1	0.7	0.7		
Households										
Household debt to GDP	69.2	66.1	65.6	63.1	59.9	59.7	64.9	59.5	62.8	
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	23.1	19.8	18.1

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.

Annex I. Risk Assessment Matrix[1]

Source of Risk (Conjunctural (C)/Structural (S))	Relative Likelihood	Impact if Realized	Policy Response
Domestic			
Under-execution of the planned fiscal consolidation. (C) Permanent tax cuts and higher-than-expected spending on energy subsidies, pensions and public sector wages due to social and political pressures to compensate high inflation.	High	**Medium** Credibility of fiscal adjustment becomes in doubt, higher public debt and current account deficit, wider spreads, and a further deterioration in the fiscal policy mix dents growth.	• Fund extensions of tax cuts through base-broadening measures respectively benefit adjustments. • Budget reallocation to create fiscal space to adhere to fiscal adjustment targets while scaling up targeted support to vulnerable groups. • Contain pension spending and the public sector wage bill. • Save any fiscal overperformance as a contingency reserve to accommodate future downside risks.
Systemic risk build-up in the financial system. (C) Uncertainty about the pandemic impact on asset quality and risks to credit servicers.	Medium	**Medium** Less resilience of the banking sector and negative market sentiment towards banks with high levels of NPLs, would decrease banks' ability to access liquidity and capital markets, leading to higher funding costs and credit supply constraints.	• Accelerate bank clean-up and the build-up of capital buffers. • Stand-alone DTC conversions for banks that are unable to utilize existing tools.
Rapid credit growth and real estate price increases followed by a sharp correction.	Low	**Medium** Banks curtail lending to preserve capital, reducing consumption, particularly by highly indebted households, especially if accompanied by declines in employment and income.	• Close monitoring of emerging risks and prepare for upgrading macroprudential tools.
Reinforcement of the bank-sovereign nexus.	Low	**Medium** Large exposure of banks to government bonds limit banks' ability to borrow from capital markets, constraining their funding and hampering lending to the private sector. An increase in sovereign risk may lead to banks' losses and tighter funding and	• Accelerate current banking sector reforms, including steps to reduce risks from the sovereign-bank nexus by establishing an early warning system.

[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.

Source of Risk (Conjunctural (C)/Structural (S))	Relative Likelihood	Impact if Realized	Policy Response
		deleveraging by reducing credit to the private sector.	
Structural reform implementation. (S) **Downside.** Reform complacency given the stronger-than-expected recovery; delay or backtracking of key reforms. **Upside.** The RRF package is seized as an opportunity for deeper, faster reforms.	 Medium Low	 Medium Lower growth, slower convergence, wider CA deficit and higher debt-to-GDP ratio. High Growth above baseline, faster convergence, improved debt and CA 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. • Improve public investment management to ensure effective use of the RRF resources.
External			
Outbreaks of lethal and highly contagious COVID-19 variants lead to subpar/volatile growth, with increased divergence across countries. (C)	Medium	Medium Renewed containment measures including trade and travel restrictions undermine the recovery. Increased uncertainties may raise risk perception by markets, leading to repricing of risk assets.	• Further promote vaccination and strengthen healthcare capacities. • Provide targeted support to affected groups if the pandemic persists. • Seek continued flexibility from European partners to maintain a counter-cyclical policy stance.
Rising and volatile food and energy prices. (C) Commodity prices are volatile and trend up amid supply constraints, the war in Ukraine, export restrictions, and currency depreciations.	High	High Elevated energy and food prices lead to bouts of inflation, imposing a burden on still vulnerable households, denting investor confidence and deterring investment, and causing short-term disruptions in the green transition.	• Reallocate the budget to create fiscal space to adhere to fiscal adjustment targets while scaling up targeted support to affected groups. • Pursue policies to diversify energy sources and facilitate the green transition.
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. (C) Sanctions on Russia including those involving oil, gas, and food sectors, and Russia's countersanctions lead to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, affecting especially energy-importing	High	Medium Linkages with Russia and Ukraine are limited outside the energy sector. Nonetheless, the conflict and sanctions could divert focus/spending away from the reform agenda, undermine the recovery, stimulate capital outflows, and raise financing costs and hurt tourism through confidence channels. Disorderly migration flows could create fiscal and social pressures.	• Engage partners in dialogue. • Build contingency buffers; reallocate the budget to accommodate targeted support to affected groups. • Pursue policies to diversify energy sources and facilitate the green transition. • Continued monitoring and lowering of debt portfolio risk.

Source of Risk (Conjunctural (C)/Structural (S))	Relative Likelihood	Impact if Realized	Policy Response
countries with limited fiscal space.			
De-anchoring of inflation expectations in the U.S. and/or advanced European economies. (C) A fast recovery in demand amid a lagging supply-side response leads to a rapid de-anchoring of inflation expectations, prompting central banks to tighten policies abruptly.	**Medium/ Low**	**Medium** The tightening of financial conditions by the ECB could result in a risk premium spike, which would increase Greece's financing cost and expose its external, fiscal, and banking sector vulnerabilities. The faster tightening of monetary policy may also lead to financial market corrections and dampen global recovery prospects.	• Enhance the credibility of fiscal targets by rebalancing the policy mix to contain spreads. • Continued monitoring and lowering of debt portfolio risk.
Geopolitical tensions and de-globalization. (S) Intensified geopolitical tensions, security risks, and conflicts cause economic and political disruptions, disorderly migration, production reshoring, a decline in global trade, and lower investor confidence.	**High**	**Medium** Regional tensions would divert focus/spending away from the reform agenda and hurt tourism. De-globalization would reduce external demand, lower growth and widen external imbalances. Global supply chain disruptions worsen inflationary pressures. Disorderly migration flows could create fiscal and social pressures.	• Engage partners in dialogue. • Build contingency buffers. • Continued monitoring and lowering of debt portfolio risk. • Pursue policies to increase competitiveness, boost productivity, and expand the domestic market, (e.g. complete the liberalization of closed professions, open up product markets). Facilitate integration of qualified migrant workers.
Natural disasters related to climate change. (S) Higher frequency of natural disasters causes severe economic damage, further worsen supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.	**Medium**	**Medium** Disruptive and more frequent extreme events (forest fires, drought, rising sea levels, coastal erosion) lower growth and increase risks.	• 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 2021 was moderately weaker than that consistent with medium-term fundamentals and desirable policies—an improvement from the assessment staff made during the 2021 AIV consultation (for year 2020). The current account (CA) deficit improved gradually in 2021 as robust recoveries in travel receipts and goods exports were partially offset by strong import growth. The increase in the CA balance was driven by higher savings that more than offset higher investment, and it was financed mostly from other investments, FDI and the capital account. The CA deficit is expected to remain elevated in 2022 on account of high energy prices but narrow over the medium-term as the trade balance gradually normalizes and the economy continues to recover from the pandemic. Staff projects that the large negative net international investment position (NIIP) will 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 and private savings, facilitating private debt restructuring, reducing non-wage costs, including through reforms that reduce product market rigidities and increase competition, and continue 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 rebound in GDP growth and reduction in the current account deficit, Greece's NIIP remained stable at -181 percent of GDP at end-2021. [2] The official sector accounts for 66 percent of total external liabilities (with 47 percent attributed to the general government and 19 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 continue to recover from the large COVID-19 shock. The currency (largely euro-denominated), interest rate (largely fixed at low rates) and maturity (large share of long-term official debt) 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 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).					
2021 (% GDP)	NIIP: -181	Gross Assets: 162	Res. Assets: 7.0	Gross Liab.: 343	Debt Liab.: 294
Current Account					
Background. The current account deficit improved to -6.5 percent of GDP as robust recoveries in travel receipts and good exports to 58 percent and 120 percent of 2019 levels were partially offset by strong import growth. This was mirrored by higher savings more than offsetting higher investment. The CA and					

[1] Argyropoulos (2020).

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

trade deficits are projected to remain elevated in 2022 due to higher energy prices but recover gradually over the medium-term toward their pre-pandemic levels as global travel continues to normalize, fiscal policy consolidates, structural reforms continue to be implemented and the output gap closes. To support higher investment levels driven by the RRF, the savings rate will need to increase significantly to ensure the decline in the CA deficit.

Assessment. Staff estimates that Greece's external position in 2021 was moderately weaker than one consistent with medium-term fundamentals and desirable policies. With the cyclically-adjusted CA balance estimated at -7.3 percent of GDP (based on an estimated negative output gap of -4.3 percent) and the EBA norm of -4.0 percent, the EBA CA model indicates a CA gap of -3.3 percent of GDP. Staff applies COVID adjustor for temporary shocks on tourism (1.3 percent of GDP), transport (0.5 percent of GDP) and medical goods balance (0.4 percent of GDP) and for shifts in household consumption composition (0.3 percent of GDP) as well as an adjuster to account for external stability considerations (-0.9 percent of GDP), resulting in a final staff gap of -1.7 percent of GDP. The latter adjustor reflects staff views that a CA norm of -3.1 is required to ensure that the NIIP will recover to a more sustainable level of -70 percent of GDP (the average level over 2000–2010 in Greece's pre-crisis era). Accounting for uncertainty in the estimates, this implies a CA gap in the range of [-0.7 to -2.7] percent of GDP. The identified policy gap amounts to -0.4 percent of GDP, largely reflecting Greece's relatively wider cyclically-adjusted fiscal deficit compared to that of the rest of the world. The negative residual (-1.3 percent) has declined compared to previous years, possibly reflecting structural improvements in competitiveness. The remaining residual may reflect distortions in product and labor markets that hinder Greece's international competitiveness, which are not captured by the EBA model.

2021 (% GDP)	CA: -6.5	Cycl. Adj. CA: -7.3	EBA Norm: -4.0	EBA Gap: -3.3	COVID-19 Adj.: 2.5	Other Adj.: -0.9	Staff Gap: -1.7

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 21 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 in 2015–21 by 4 percent, as Greece's inflation generally lagged its trading partners. The REER-ULC declined by 3.6 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 3.1 percent (index model) and 27.0 percent (level model) in 2021. Staff considers the REER model results less reliable in the case of Greece given: (i) a large unexplained residual (4.5 percent in the index model and 39.9 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 -1.7 percent and a semi-elasticity of 0.34, the REER is assessed to be overvalued by 5.0 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The current account deficit in 2021 was financed mostly by other investment flows (16.8 percent of GDP), the capital account (2.2 percent of GDP) and net FDI inflows (2.2 percent of GDP). Gross FDI inflows in 2021 surged above pre-pandemic levels to 2.8 percent of GDP supported by various multi-year large-scale projects and privatizations. The increase in the capital account was driven by initial RRF disbursements. Financing conditions remained favorable in 2021 among continuation of the ECB's PEPP

program, three rating upgrades and historically low funding costs. However, financing conditions have started to tighten with interest rates for Greek government bonds now hovering around 2019 levels. **Assessment.** Rollover risks are contained by the government's large cash buffer, the large share of official loans with ultra-low interest rates and ultralong maturities and the ECB's announcement that PEPP proceeds could be reinvested into Greek government bonds if needed. 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 further.
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] Argyropoulos (2020). [2] This includes the stock of deferred interest payments on EFSF loans (IMF staff adjustment).

Annex III. Sovereign Stress and Debt Sustainability Assessment

Figure 1. Greece: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall		Moderate	Staff's assessment of "moderate" reflects moderate medium risk of sovereign stress.
Near term 1/			
Medium term	Moderate	Moderate	The medium mechanical risk signal is moderate. Mitigating factors include a large cash buffer and a large share of official loans with ultra-low interest rates and ultralong maturities. The mechanical medium-term signal for the fan chart indicates "high" risk, largely attributable to the debt fanchart's width. A customized contigent liability shock that accounts for various fiscal risks appears manageable.
Fanchart	High	…	
GFN	Moderate	…	
Stress test	Yes (customized CL shock)	…	
Long term			Greece's public debt comprises a large stock of official debt that only becomes due after the 10-year projection horizon. Key long term risks will thus stem from the development in long-term neutral rate and risk premia, Greece's ability to sustain high primary surplus targets and the scope and pace of structural reform implementation and its potential to more-than-offset demographic headwinds (see IMF Country Report No. 21/154).
Sustainability Assessment 2/			Not required for surveillance countries
Debt Stabilization in the Baseline			yes

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ Not applicable in nonprecautionary programs.
2/ Optional for surveillance countries.

DSA Summary Assessment

Staff commentary:Greece's overall risk of sovereign stress is assessed to be moderate, with public debt on a downward trajectory and rollover risks manageable over the medium term. This is consistent with the moderate medium-term final risk assessment. The medium-term mechanical signal flags high risk for the fanchart driven by Greece's high debt level and historical debt volatility. However the GFN module signals moderate risk, with a customized contingent liability shock appearing manageable.Mitigating factors include the substantial cash buffer (11 months of GFN), the large share of official loans with ultra-low interest rates and ultralong maturities and the ECB's announcement that PEPP proceeds could be reinvested into Greek government bonds if needed. Nevertheless, there is significant uncertainty around these projections, in particular with regards to whether reform momentum will be sufficient to close the investment gap and overcome adverse demographics, whether the European Union-wide fiscal rules going forward will be achievable and compatible with growth and to what extent interest rates on Greek Government Bonds will remain low amid an unprecedented handover from official to market funding over the longer term. In addition, geopolitical tensions and higher inflation could cause spreads to rise faster than anticipated and result in additional fiscal expenditure.

Figure 2. Greece: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes
				2	Extra budgetary funds (EBFs)	Yes
				3	Social security funds (SSFs)	Yes
				4	State governments	Yes
				5	Local governments	Yes
				6	Public nonfinancial corporations	Yes
				7	Central bank	No
				8	Other public financial corporations	Yes

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-government Debt Holdings

					Holder / Issuer	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

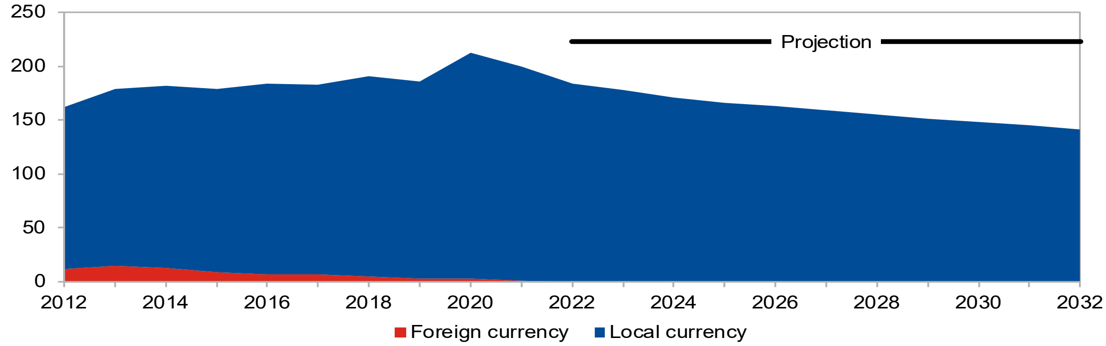
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Staff commentary: Debt coverage reported is general government and follows ESA 2010, thus not including other accounts payable and insurance, pensions and standardized guarantee schemes. Cross-holdings are netted out. The debt perimeter newly includes net SDR holdings as well as NGEU loans.

Figure 3. Greece: Public Debt Structure Indicators

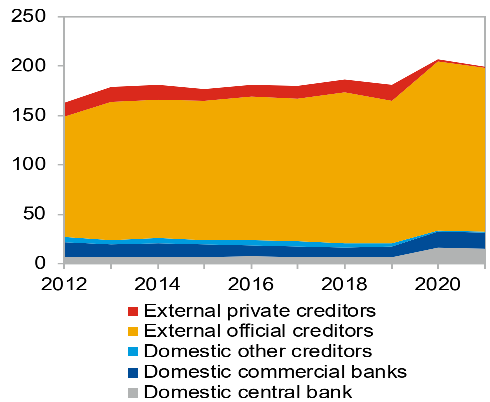
Debt by currency (percent of GDP)

Debt by Currency (Percent of GDP)



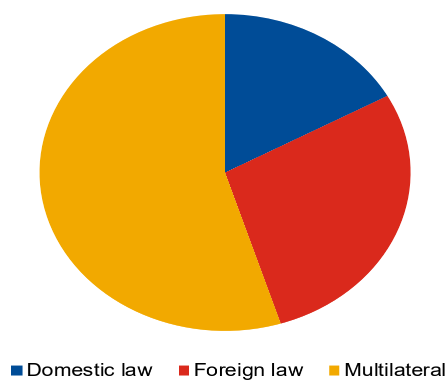
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



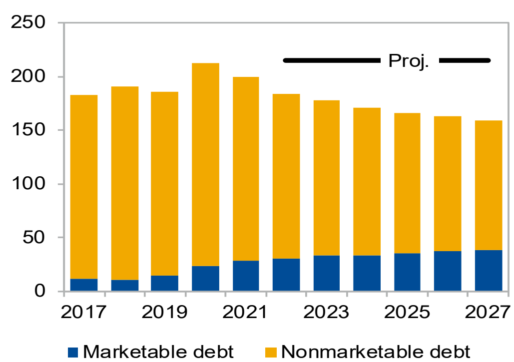
Note: The perimeter shown is general government.

Public Debt by Legal Basis, 2021 (Percent)



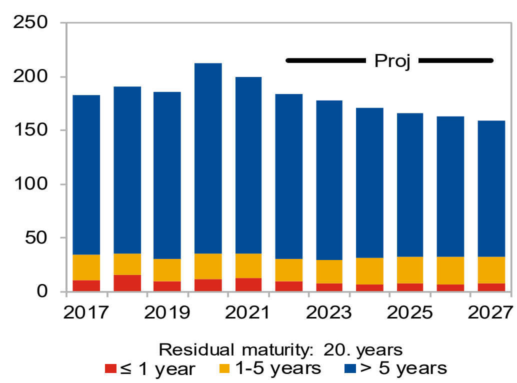
Note: The perimeter shown is general government.

Debt by Instruments



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Staff commentary: Public debt at end-2021 was almost entirely denominated in domestic currency and at fixed rates, with a weighted average maturity of 20 years. Most of the debt is held by external official creditors. Greece has also a sizeable cash buffer that stood at EUR 31.6 billion at end-2021.

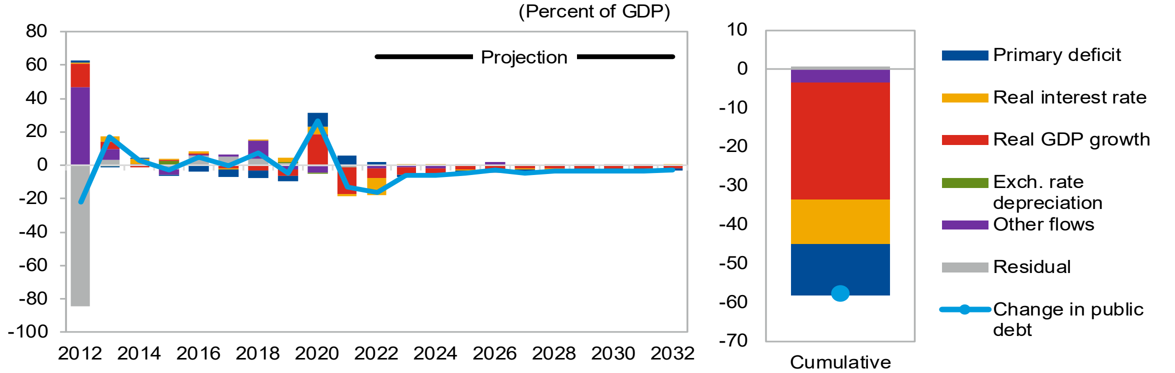
Figure 4. Greece: Baseline Scenario

(In percent of GPD unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	199.4	183.4	177.4	171.1	166.3	163.3	158.8	155.1	151.6	148.2	144.9	141.8
Change in public debt	-13.0	-16.0	-6.0	-6.3	-4.8	-3.0	-4.5	-3.7	-3.5	-3.4	-3.3	-3.2
Contribution of identified flows	-11.8	-16.0	-6.1	-6.4	-4.9	-3.1	-4.6	-3.8	-3.6	-3.4	-3.3	-3.1
Primary deficit	5.5	1.9	-0.9	-1.3	-1.5	-1.8	-2.0	-1.5	-1.5	-1.5	-1.5	-1.5
Noninterest revenues	48.9	48.4	47.4	47.3	46.4	45.9	44.9	44.9	44.9	44.9	45.1	45.3
Noninterest expenditures	54.4	50.3	46.5	46.0	44.9	44.2	43.0	43.4	43.4	43.4	43.6	43.8
Automatic debt dynamics	-17.6	-16.2	-4.0	-3.2	-3.3	-2.9	-2.5	-2.2	-2.0	-1.9	-1.7	-1.6
Int. rate-growth differential	-17.5	-16.3	-4.0	-3.2	-3.3	-2.9	-2.5	-2.2	-2.0	-1.9	-1.7	-1.6
Real interest rate	-1.5	-9.9	0.6	0.2	-0.5	-0.6	-0.6	-0.4	-0.2	-0.1	0.0	0.1
Real growth rate	-16.0	-6.3	-4.7	-3.4	-2.7	-2.3	-1.9	-1.8	-1.8	-1.7	-1.7	-1.7
Exchange rate	-0.1	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.3	-1.6	-1.2	-2.0	-0.1	1.6	-0.1	0.0	0.0	0.0	0.0	0.0
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
Other transactions	0.3	-1.6	-1.2	-2.0	-0.1	1.6	-0.1	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-1.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0
Gross financing needs	18.7	16.1	11.3	9.0	7.9	8.4	6.9	8.2	8.3	8.1	7.8	7.4
of which: debt service	13.2	14.3	12.1	10.3	9.3	10.2	8.9	9.7	9.8	9.6	9.3	8.9
Local currency	11.2	13.4	12.1	10.3	9.3	10.2	8.9	9.7	9.8	9.6	9.3	8.9
Foreign currency	2.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:												
Real GDP growth (percent)	8.3	3.5	2.6	2.0	1.6	1.4	1.2	1.2	1.2	1.2	1.2	1.2
Inflation (GDP deflator; percent	2.1	6.9	1.2	1.4	1.8	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Nominal GDP growth (percent)	10.6	10.7	3.9	3.4	3.4	3.2	3.1	3.0	3.0	3.0	3.5	3.5
Effective interest rate (percent)	1.5	1.6	1.6	1.6	1.5	1.5	1.5	1.6	1.7	1.7	1.9	1.9

Contribution to Change in Public Debt

(Percent of GDP)

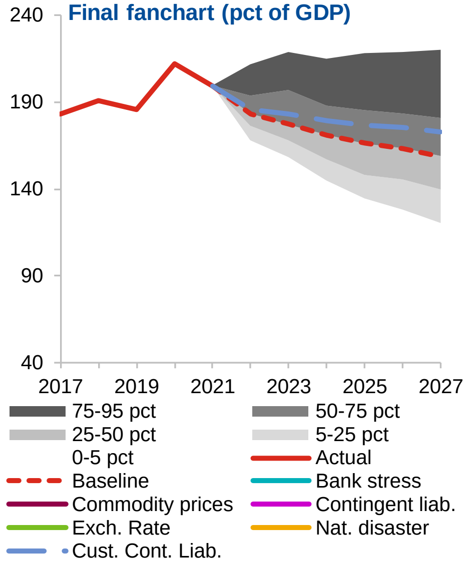


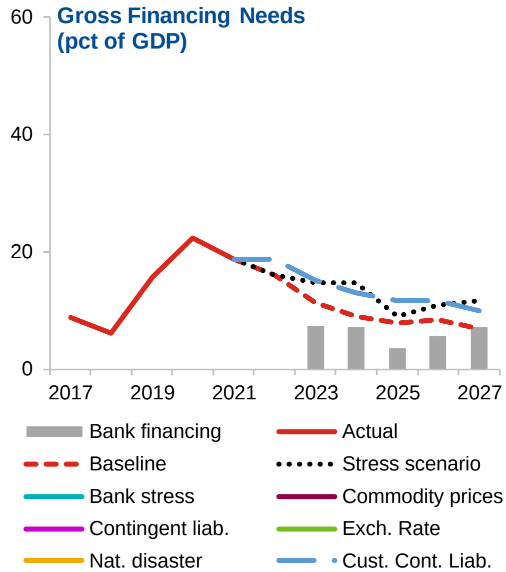
Staff commentary: Public debt is estimated at 199 percent of GDP at end-2021 and its trajectory over the medium-term is on a clear downward trend. This downward trend is driven by real GDP growth and the primary balance converging towards their long-run levels of 1.2 percent and 1.5 percent of GDP as well as some drawdown of the cash buffer. Public debt to GDP is expected to reduce faster than previously projected, driven by a stronger growth outturn in 2021 and higher potential growth in the medium-term, as well as a quicker fiscal adjustment and higher inflation. GFNs are projected to drop below 10 percent by 2024 and remain relatively stable thereafter.

Sources: Fund staff estimates and projections.

Figure 5. Greece: Risk Analysis

Greece: Medium-term risk analysis





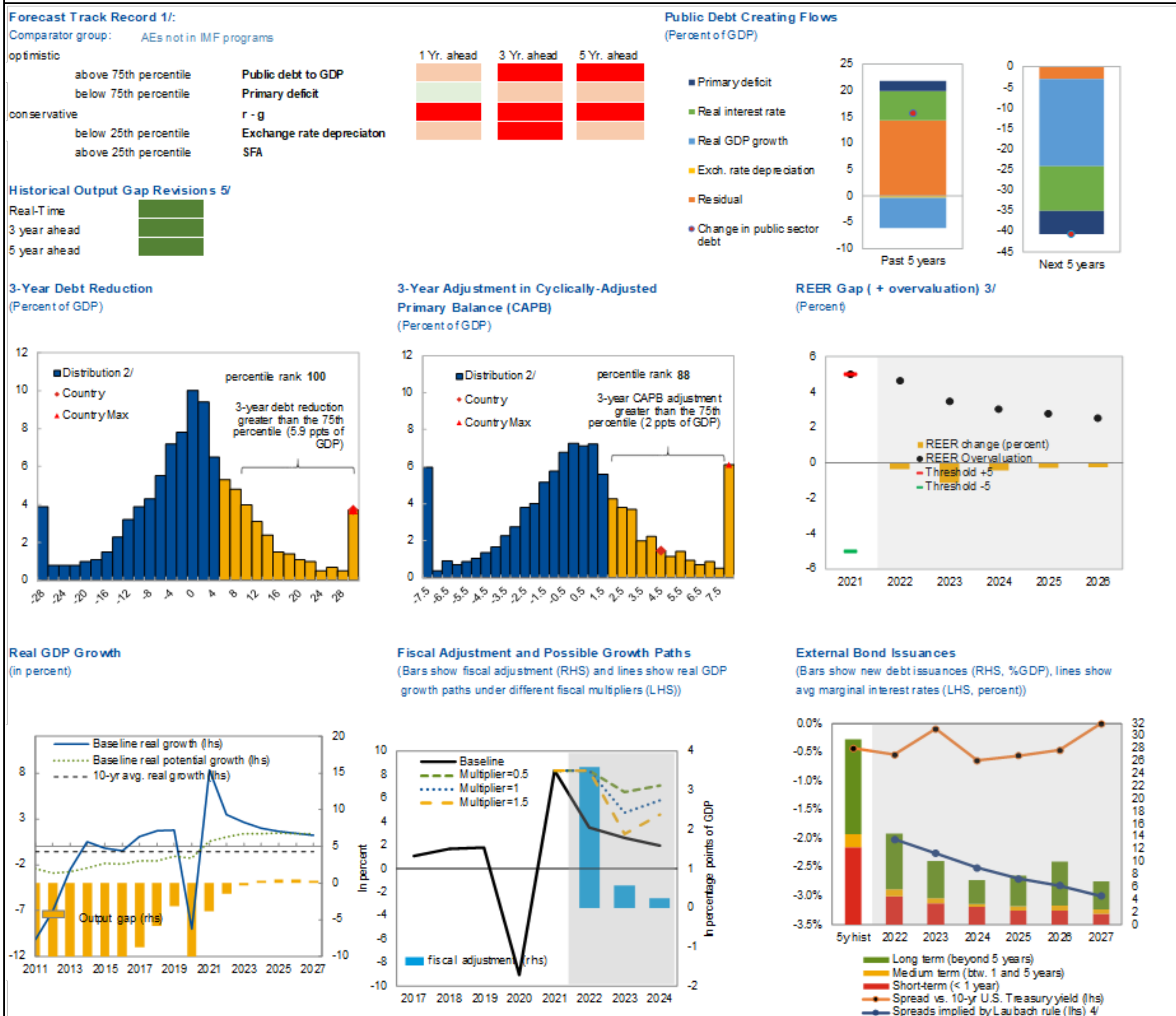
Staff commentary: The fanchart's mechanical signal is "high" owing to its relatively wide width and elevated debt level. However, a wide majority (83 percent) of simulated debt trajectories of Greece's public debt stabilize over the next 10 years. Debt levels in 2027 are projected to fall in the range of 120 to 230 percent of GDP with 90 percent probability. 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. 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 70 percent of Greece's public debt consists of official loans with ultra-low interest rates and ultralong maturities (which are reflected in low GFNs).

The GFN module's mechanical signal is "moderate". 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, averaging 9.9 percent of GDP from 2022-2027. GFNs can nevertheless increase under a stress scenario and leave a residual financing need (on average 5.1 percent of GDP annually after assuming the authorities draw on the sizable cash buffer), which under current rules could be absorbed by banks that would repo with the ECB.

A customized contingent liability shock scenario simulates the realization of legal challenges to past pension and wage reform, outstanding state guarantees (including from COVID-19 policy support packages), unfunded tax cuts, spending pressures from high inflation and unexpected losses from Hercules and potential DTC conversion costs. They are distributed over 2022-27 and amount to a total of 31 billion euros. The impact on the debt stock and its trajectory as well as on GFNs appears managable.

Overall the medium-term mechanical signal flags "moderate" risk which is also staff's final rating. This is further supported by the substantial cash buffer (11 months of GFN), the large share of official loans with ultra-low interest rates and ultralong maturities and the ECB's announcement that PEPP proceeds could be reinvested into Greek government bonds if needed.

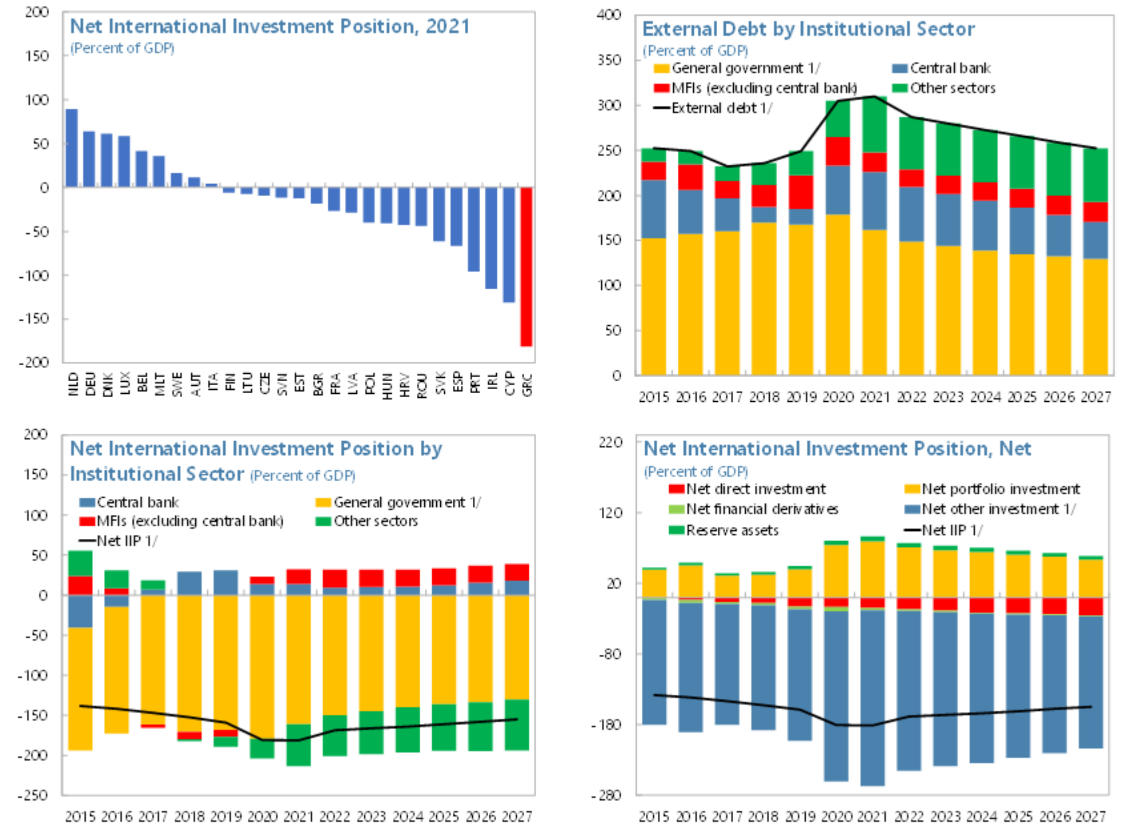
Figure 6. Greece: Realism of Baseline Assumptions



Staff commentary: Real growth is projected to be the largest contributor to the decline in Greece's debt going forward as the economy recovers further from the pandemic and benefits from NGEU funds and reforms, converging towards 1.2 percent in the medium-term. This is 0.2 percentage points higher than in the previous DSA, reflecting lower expected scarring and revised demographic projections. The magnitude of fiscal consolidation over the next three years is large, but below Greece's historical maximum adjustment and driven by the roll-off of temporary pandemic measures. The primary balance is projected to converge to 1.5 percent of GDP in the long-term, the maximum level that could be sustained for a prolonged period based on staffs previous analysis (Greece Article IV 2018 and 2021). Interest rate projections are pinned down by the neutral rate and Greece's bond spread, the former underpinned by an estimated long-run equilibrium real interest rate of about 3.4 percent and the latter based on a Laubach rule that accounts for Greece's large stock of official debt (see Greece Article IV 2021). The forecast track record highlights significant optimistic bias for the public debt to gdp level, r-g, exchange rate depreciation and the output gap. In addition, there is significant uncertainty around these estimates with regards to whether reform momentum will be sufficient to close the investment gap and overcome adverse demographics, whether the European Union-wide fiscal rules going forward will be achievable and compatible with growth and especially to what extent interest rates on Greek Government Bonds will remain low amid an unprecedented handover from official to market funding over the longer term. In addition, geopolitical tensions and higher inflation could cause spreads to rise faster than anticipated and result in additional fiscal expenditure.

Source : IMF Staff.
1/ Projections made in the October and April WEO vintage.
2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).
4/ The Lauback (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.
5/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

Figure 7. Greece: NIIP and External Debt Developments



1/ Includes the stock of deferred interest payments on EFSF loans (IMF staff revisions).
Sources: BoG, IMF WEO, Staff projections.

Staff commentary: Greece's NIIP remains lower than that of other European Economies. External debt and the NIIP remained broadly unchanged in 2021. A decline in public debt and net liabilities by the government were offset by increases in the central banks and other sectors, reflecting PEPP purchases and transfer of NPLs to debt servicers. Greece's external debt and NIIP are expected to improve gradually over the medium term, driven by a narrowing of the current account deficit and the post-pandemic recovery in GDP.

Table 1. Greece: External Debt Sustainability Analysis
(In percent of GDP unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt** (includes the stock of deferred interest)	232.3	235.8	249.2	304.8	310.1			**287.0**	**279.6**	**272.5**	**265.7**	**258.8**	**252.1**	**-9.2**
2 Change in external debt	-17.1	3.5	13.4	55.6	5.3			-23.0	-7.5	-7.0	-6.9	-6.9	-6.7	
3 Identified external debt-creating flows (4+8+9)	-2.7	-1.3	-4.8	33.4	-26.0			-9.6	-6.5	-6.3	-4.1	-3.8	-3.6	
4 Current account deficit, excluding interest payments	-0.4	0.5	-0.8	4.4	4.6			4.5	3.4	2.6	1.8	1.3	1.0	
5 Deficit in balance of goods and services	1.0	1.8	0.9	6.8	6.9			6.3	4.4	3.5	2.5	1.9	1.4	
6 Exports	34.9	38.7	39.6	31.2	40.5			44.3	44.9	43.7	42.8	42.0	41.3	
7 Imports	35.9	40.5	40.6	38.0	47.4			50.6	49.2	47.2	45.4	43.9	42.8	
8 Net non-debt creating capital inflows (negative)	-1.9	-1.6	-2.1	-1.0	-3.4			-5.7	-4.8	-5.9	-3.7	-3.6	-3.7	
9 Automatic debt dynamics 1/	-0.4	-0.3	-1.8	30.0	-27.2			-8.4	-5.0	-3.0	-2.1	-1.5	-0.9	
10 Contribution from nominal interest rate	3.0	3.0	3.1	2.9	1.9			2.0	2.2	2.3	2.2	2.2	2.2	
11 Contribution from real GDP growth	-2.6	-3.7	-4.4	24.4	-22.2			-10.4	-7.2	-5.3	-4.3	-3.6	-3.0	
12 Contribution from price and exchange rate changes 2/	-0.7	0.4	-0.5	2.6	-7.0			-19.6	-3.6	-4.0	-4.7	-4.7	-4.8	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-14.5	4.8	18.2	22.2	31.3			6.1	2.6	3.2	1.9	1.6	1.7	
External debt-to-exports ratio (in percent)	666.2	609.0	629.1	976.3	765.3			648.1	623.3	624.0	620.7	616.2	609.9	
Gross external financing need (in billions of US dollars) 4/	171.4	141.7	123.4	147.7	212.5			227.6	229.7	228.8	228.0	227.2	214.9	
in percent of GDP	85.8	66.8	60.1	78.3	98.2	10-Year	10-Year	100.9	96.7	91.8	87.7	84.0	77.1	
Scenario with key variables at their historical averages 5/								**289.7**	**305.1**	**321.9**	**336.8**	**351.1**	**363.8**	**9.8**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	1.1	1.7	1.8	-9.0	8.3	-0.6	4.8	3.5	2.6	2.0	1.6	1.4	1.2	
GDP deflator in US dollars (change in percent)	2.3	4.5	-5.0	1.1	5.9	-1.7	6.7	0.7	2.7	2.8	2.7	2.5	1.9	
Nominal external interest rate (in percent)	1.2	1.4	1.3	1.1	0.7	0.9	0.5	0.7	0.8	0.8	0.8	0.8	0.9	
Growth of exports (US dollar terms, in percent)	15.7	17.9	-1.1	-27.5	48.8	4.6	21.5	13.9	6.7	2.1	2.3	2.0	1.5	
Growth of imports (US dollar terms, in percent)	15.6	19.8	-3.2	-13.8	43.0	3.6	20.1	11.2	2.5	0.4	0.4	0.6	0.5	
Current account balance, excluding interest payments	0.4	-0.5	0.8	-4.4	-4.6	-1.0	2.3	-4.5	-3.4	-2.6	-1.8	-1.3	-1.0	
Net non-debt creating capital inflows	1.9	1.6	2.1	1.0	3.4	2.4	1.2	5.7	4.8	5.9	3.7	3.6	3.7	

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.

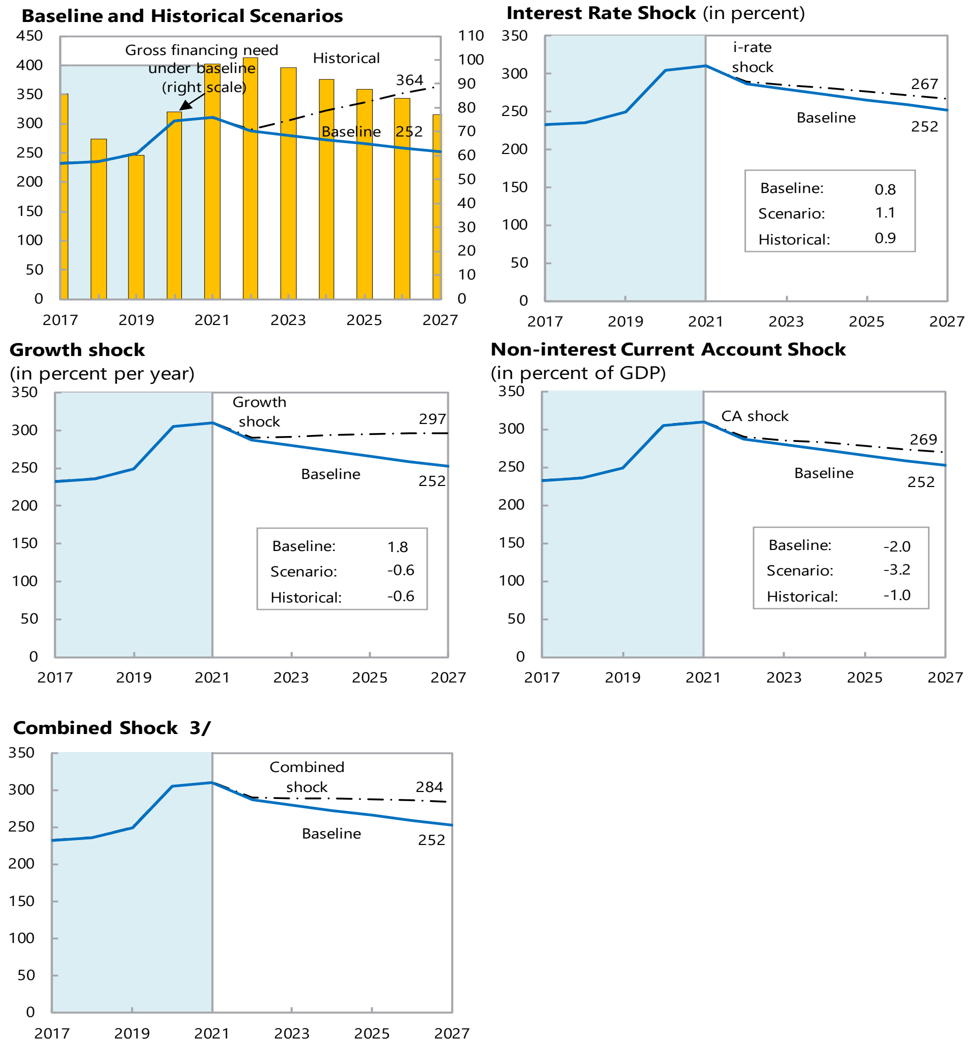
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure 8. Greece: External Debt Analysis: Bound Test 1/2/

External debt in percent of GDP



Staff commentary: A 30-basis point interest rate shock (or 100 bp shock on 30 percent of Greece's external debt portfolio) or a deteriation in the current account by 1.2 percentage point of GDP over the projection horizon would raise the debt ratio by around 15 percent of GDP, still significantly below the 2021 debt ratio. A decline in average growth by 2.4 percentage points over the projection horizon or a combined shock involving higher interest rates, lower growth, and current account balances (but to a milder degree compared to the individual shocks), would lead to more adverse debt dynamics, raising the debt level by up to 45 percentage points compared to the baseline.

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

Inorganic actions backed by government-supported securitizations have enabled banks to sharply reduce non-performing loans (NPLs). The associated significant losses and capital depletion have been partially offset by share capital increases, but the quality of capital has deteriorated further. Continued improvements in liquidity and funding conditions were underpinned by robust deposit growth and the ECB policy support. The near-term outlook continues to be clouded by substantial uncertainty about the impact of the pandemic on banks once support measures are fully withdrawn, with some emerging signs of rising credit risk. Although measures cushioning banks have helped preserve financial stability, it has reinforced the bank-sovereign nexus. The delayed implementation of the "sale and lease back" scheme has contributed to further delays in NPL resolution. To prepare for structural transformation over the medium- to long-term, bank business models need to adapt to ensure sustainable profitability amid increasing competition from non-banks and Fintech, tackle climate-related financial risks, and upgrade risk management practices.

A. Policy Support Measures

1. While most policy support measures to cushion the pandemic's impact on banks have been withdrawn, some remain in place.

- *Moratoria*. Moratoria to households and corporates for amortization and interest payments dropped to €0.1 billion at end-2021 from a peak of €28 billion in 2020:Q3. Two Significant Institutions (SI) still have some active non-EBA compliant moratoria on corporate exposure mainly to the hotel sector that are expected to expire in 2022. [1]

- *Step-up products*. The step-up products altering the repayment terms of loans amounted to €1.6 billion at end-2021. These products are expected to expire in 2022.

- *Gefyra programs*. The two Gefyra programs introduced to support mortgage and corporate loans through instalment subsidies amounted to €7.8 billion at end-2021. While the vast majority of the Gefyra I program is envisaged to end in 2022:Q1 and Gefyra II in 2022:Q2, the implications can only be assessed after 3 months.

- *Public guarantee scheme*. The scheme provided support to corporates amounting to €5.5 billion at end-2021 and is expected to expire in 2022. This is in addition to the Hercules Asset Protection Scheme (HAPS) that received the NPL securitization guarantees of up to €24 billion until 2022, of which the unutilized amount is around €5.5 billion.

- *Monetary policy support*. The inclusion of Greek Government Bonds (GGBs) under the ECB's PEPP program reactivated the interest-rate channel and generated gains on holdings of those bonds

[1] The European Banking Authority defined the criteria for moratoria in its guidelines (EBA, 2020).

for Greek banks. TLTROIII operations provided an effective liquidity backstop and lowered considerably funding costs for Greek banks. Although net PEPP purchases will stop from end-March 2022, the ECB will nevertheless continue its PEPP reinvestments until end-2024, which could be adjusted in periods of market stress. This could include purchasing bonds issued by Greece over and above rollovers or redemptions. While the TLTROIII operations are expected to cease starting from 2022:Q3, GGBs are going to be accepted as eligible collateral at least as long as PEPP reinvestments continue, which should help with easing funding and liquidity pressures for Greek banks over the course of 2022–24.

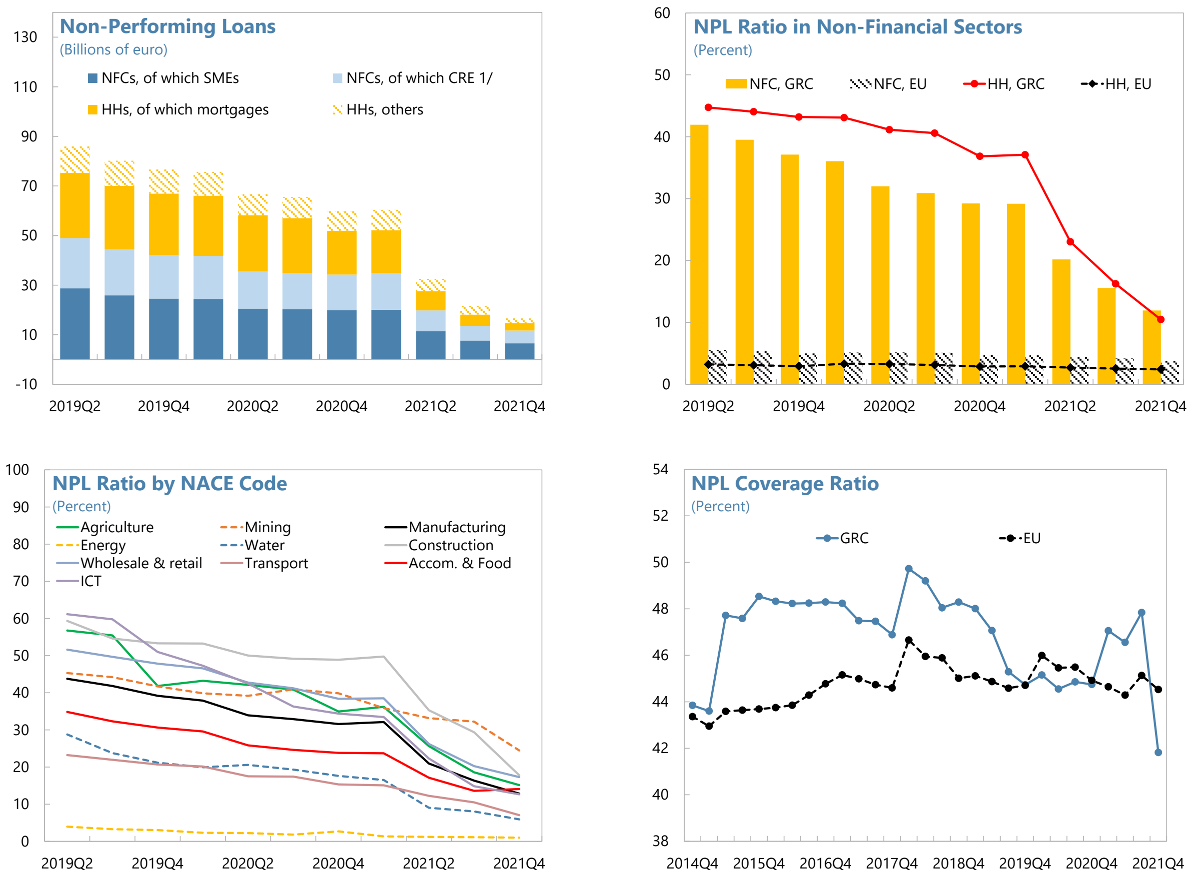
- *Prudential policy relief*. The SSM has temporarily loosened its enforcement of supervisory requirements, so SIs can temporarily operate below the Pillar 2 Guidance buffer, the capital conservation buffer, and the liquidity coverage ratio. The SSM has also allowed flexibility in classifying and provisioning for NPLs that are covered by public guarantees and pandemic-related payment moratoria. The relief is expected to remain in place until end-2022.

B. Recent Developments in the Banking System Across Key Risks

Asset Quality

2. The accelerated NPL reduction has been driven predominantly by inorganic actions. The NPL ratio dropped from 25 percent in 2020 to 7 percent at end-2021 on the back of securitizations and sales of NPL portfolios underpinned by the government-sponsored Hercules scheme providing guarantees on the senior note tranches. For SIs, which account for around 97 percent of total banking sector assets, the reduction was modestly faster for the household sector compared to the corporate sector, with the latter driven by manufacturing, construction, and trade. The contribution from collateral liquidations and repossessions, write-offs, and collections continued to be very limited, given the slow progress made with structural financial sector reforms, including implementation of the new insolvency law and improving judicial system efficiency. There was also some further inflow of new NPLs associated with the pandemic, although offset partially by curing. Less Significant Institutions (LSI) made little progress with NPL reduction, but securitizations are planned in 2022. While Greece still has the highest NPL ratio in the EU, there has been rapid convergence and all the SIs will likely achieve a single-digit level ratio in 2022. Further reductions in NPLs will increasingly need to rely on organic actions because the Hercules scheme is scheduled to lapse in 2022, so securitizations and sales will likely be less feasible given current SSM guidance or attractive in terms of risk weighting. The coverage ratio reached 42 percent at end-2021, close to the EU average.

Greece: Asset Quality

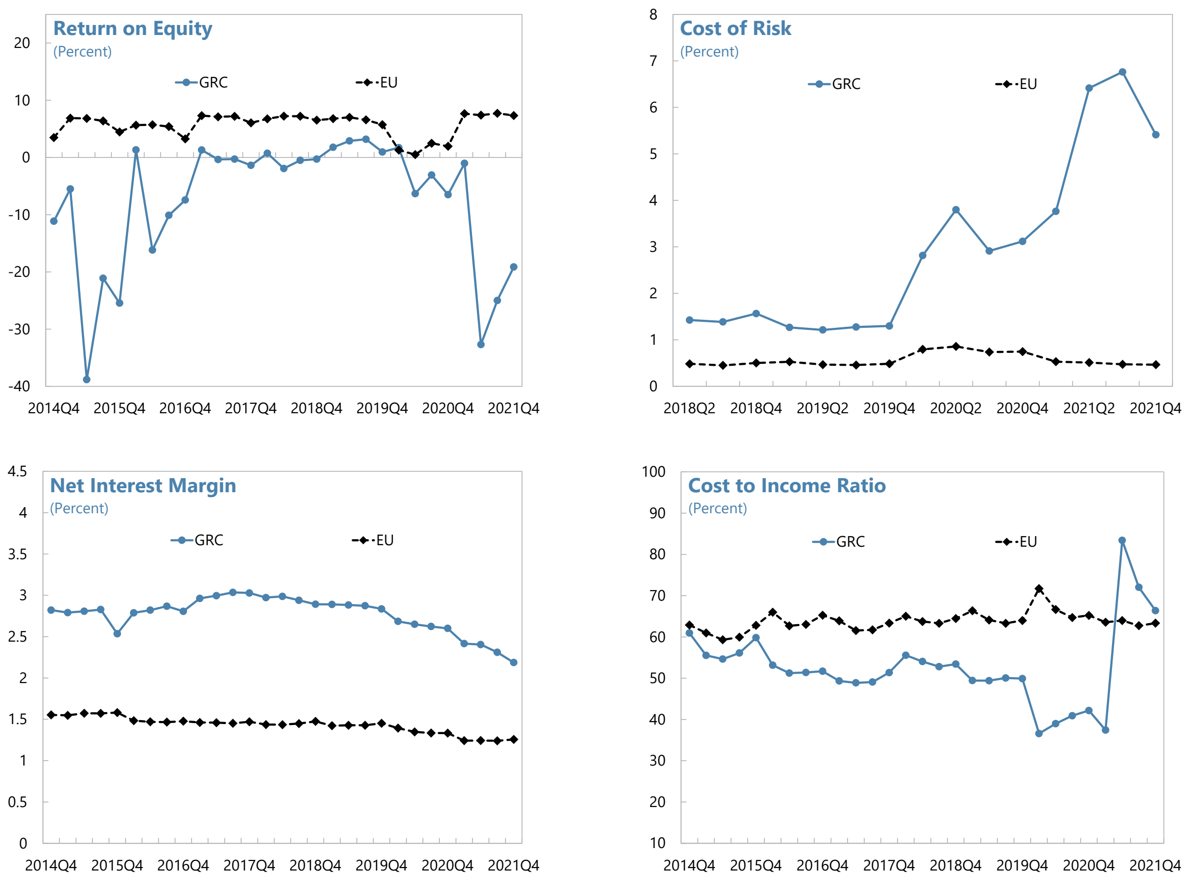


Source: European Banking Authority; and IMF staff calculations.
1/ Commercial real estate.

Profitability

3. Profitability continued to suffer from substantial losses associated with NPL offloading and temporary increases in operating expenses. The return on equity declined sharply to – 19 percent at end-2021, which was primarily due to a significant increase in loan loss provisions for credit risk from NPL portfolio sales. As a result, the cost of risk reached 5 percent, considerably above the EU average. The net interest margin, which constitutes the main source of profitability for the Greek banking system, continued to decline as loan portfolios contracted due to the sale of loans and increasing assets, which was partially offset by lower interest expenses associated with lower deposit rates and TLTROIII operations. Net fee and commission income increased markedly from new loan disbursements, payments and transfers of funds, credit cards and bank insurance. Operating expenses were impacted by one-off costs associated with provisions for voluntary redundancy schemes, corporate transformations, and impairment of goodwill and intangible assets. With the envisaged NPL reduction to a single-digit level in 2022, Greek banks are expected to restore their profitability in 2023[2], but will have to proceed swiftly with adapting their business models to be able to face the challenge of increasing competition from non-banks, including Fintech. Restoring a sound customer base and solid profit drivers has become a key strategic challenge for ensuring the sustainable development of the banking sector.

Greece: Profitability



Source: European Banking Authority; and IMF staff calculations.

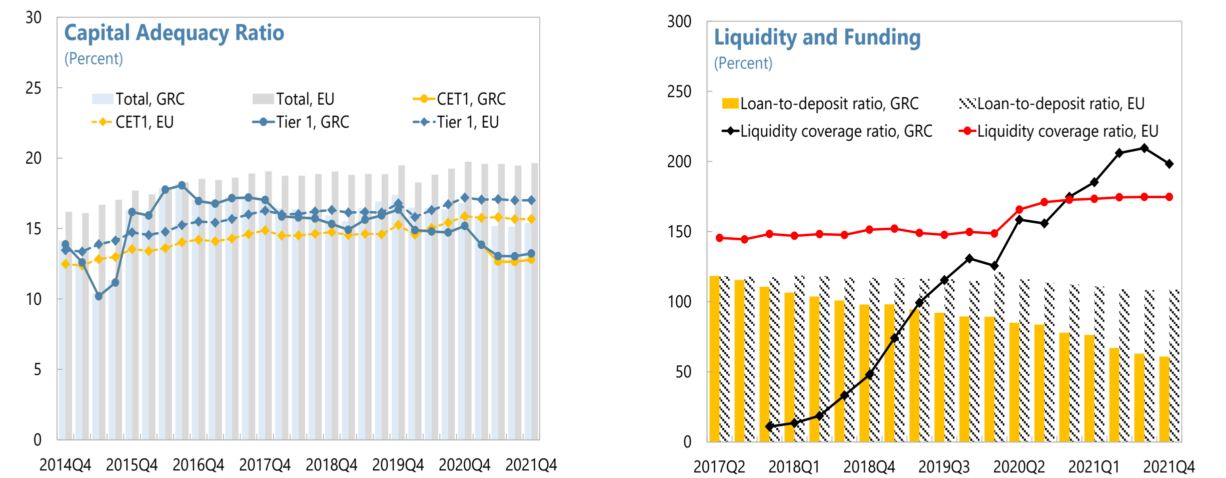
Capital Adequacy

4. While capital adequacy has been preserved, capital quality has deteriorated further. Greece continued to have the lowest capital adequacy in the EU across various metrics in 2021, which declined further following NPL sales, higher provisions, and the application of the transitioned provisions of IFRS9. The decline was, however, consistent with the aforementioned prudential capital relief measures introduced by the ECB in 2020. Banks were able to raise capital through additional Tier 1 bonds counting towards the minimum capital requirements and eligible liabilities (MREL). Capital quality deteriorated further with Deferred Tax Credits (DTCs) amounting to €15 billion,

[2] See IMF Selected Issues Paper, *Bank Profitability Drivers and Challenges in Greece*, forthcoming.

representing 64 percent of prudential capital, up by 11 percentage points compared to 2020.[3] Significantly reducing the share of DTCs' in capital through organic means and amortization will be a lengthy process.[4]

Greece: Capital Adequacy and Liquidity



Source: European Banking Authority; and IMF staff calculations.

Liquidity and Funding

5. Liquidity and funding conditions improved further, underpinned by robust deposits and policy support. Given the continued increase in deposits, policy support from the ECB, and NPL offloading, the liquidity coverage ratio improved significantly above the regulatory requirements in 2021, reaching 198 percent at end-2021 and surpassing the EU average that stood at 175 percent. Household and corporate deposits rose further due to precautionary savings and cash hoarding, extensions and deferrals of payments for debt service and tax obligations, working capital subsidies, and direct state aid. Policy support measures in the form of PEPP and TLTROIII operations ensured liquidity and provided very favorable funding terms to banks, allowing them to substitute interbank market funding which had been the main source of market funding prior to the pandemic. The loan-to-deposit ratio declined further, reaching 61 percent, which was substantially lower than the EU average of 109 percent. All considered, the Greek banking system has now stronger liquidity and funding shock absorption capacity, although achieving the MREL requirements may pose some medium-term challenges.

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[3] For a more in-depth presentation of Greek banking sector's linkages to the government via DTCs, see the 2019 IMF Country Report No. CR/19/341 on Greece, Selected Issues, "Cost-Effectiveness of State Support for Banks".

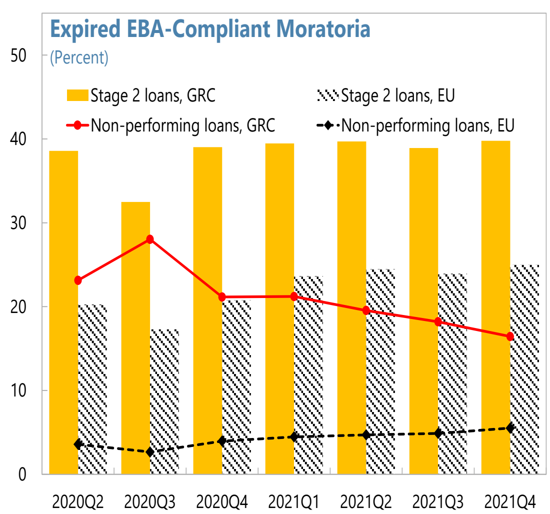
[4] Under Greek legislation, DTAs may be converted into DTCs against the State. DTCs may be offset against the income tax due for a period of 20 years, with the same period provided for the gradual amortization of losses due to write-offs and disposals of non-performing loans. In addition, the Tax Code was amended to allow for an extended amortization of the losses associated with the private sector involvement over a 30-year period through recording DTAs in banks' balance sheets.

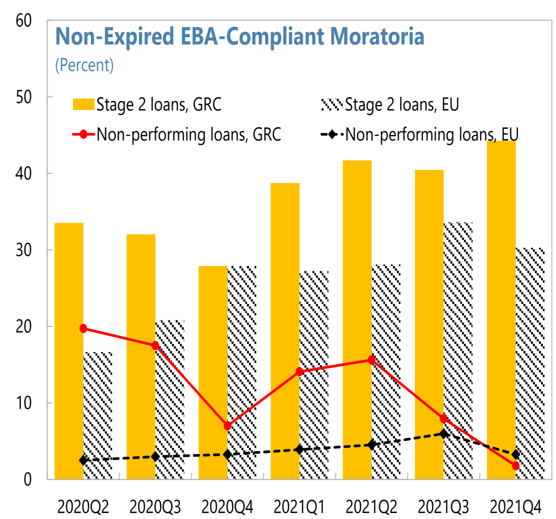
C. Outlook and Challenges for the Financial Sector

Impact of the Pandemic on Banks

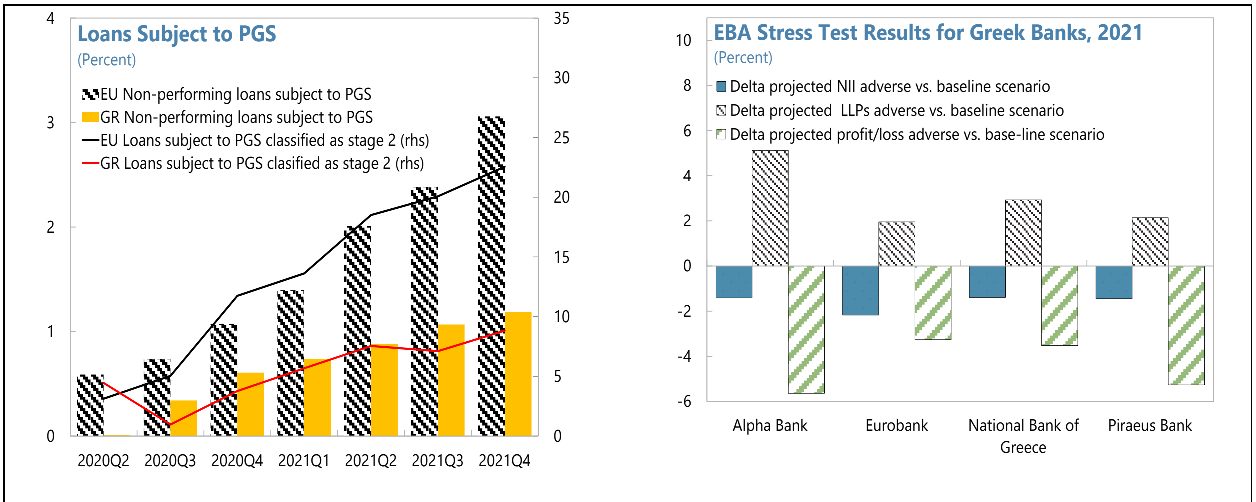
6. There is substantial uncertainty about the full impact of the pandemic on banks once support measures are withdrawn, with some emerging signs of credit risk increase. In the absence of a comprehensive asset quality review, a credit risk assessment for SIs is based on forward-looking metrics grounded in IFRS9 standards. For expired moratoria, stage 2 loans that have increased credit risk remained broadly unchanged, while non-performing loans slightly declined, although the levels for those two metrics for Greece were significantly higher compared to the EU average. For non-expired moratoria, stage 2 loans and non-performing loans were higher for Greece than the EU average, with the former recording a significant increase. For newly originated loans covered by the public guarantee scheme, both stage 2 loans and non-performing loans increased significantly in Greece but remained below the EU average. The results of the 2021 EBA stress test for Greek SIs suggest considerable losses under the adverse scenario assuming a prolonged and severe impact of the pandemic.[5] Some of the LSIs face significant challenges because of strong inflows of new NPLs and inadequate provisioning.

Greece: Forward-looking credit risk metrics





[5] The EBA stress test is subject to conservative assumptions that include a static balance sheet, no curing of loans in stage 3, and no moratoria (except public guarantee schemes) over the stress test horizon.

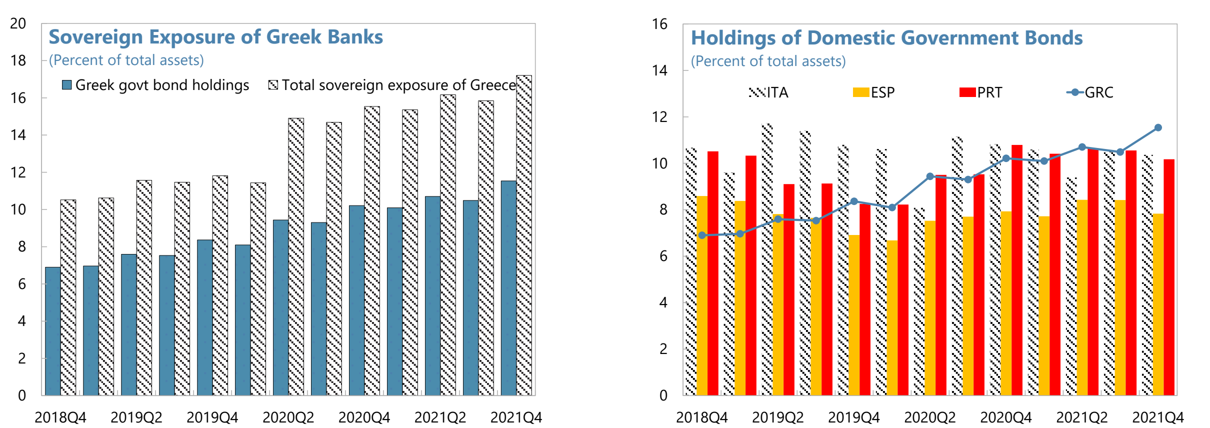


Source: European Banking Authority; and IMF staff calculations.

Intensifying Bank-Sovereign Nexus

7. Sovereign exposures increased significantly. Greek banks increased considerably their holdings of Greek government bonds as a share of assets as well as their total exposures to governments between 2020 and 2021. Comparing these two metrics for Greece to the average for euro area countries shows divergent trends, although the average masks significant heterogeneity across euro area countries, with Italy, Spain, and Portugal exhibiting similar high exposure as Greece. While the elevated exposure can provide important relief to governments in time of stress, it can also make bank balance sheets sensitive to fluctuations in sovereign risk, leading potentially to lower bank credit and economic activity as well as amplifying the initial shock.

Greece: Sovereign Exposure of Greek Banks



Source: European Central Bank; and IMF staff calculations.

8. The dependence on the public sector-sponsored safety net also increased considerably. Given the protracted nature of the pandemic, the level of government guarantees remained at elevated levels in Greece compared to the pre-pandemic period. In addition, the share of DTCs in regulatory capital increased to 64 percent at end-2021 and the sovereign has considerable ownership in the banking system through the Hellenic Financial Stability Fund. Furthermore, there is also elevated dependance from the accommodative monetary policy through PEPP and TLTROIII operations that allowed the sovereign and banks to benefit from low cost of funding and increased liquidity. When the support from monetary policy is reduced and ultimately unwound, it may pose a challenge to the sovereign and banks, resulting in higher funding costs for corporates and households, and eventually lower economic activity.

Delayed Implementation of the "Sale and Lease Back" Scheme

9. The delayed implementation of the scheme has contributed to further delays in NPL resolution. As part of the overhaul of the insolvency system last year, Greece adopted a sale and lease back scheme (SLBO) to protect vulnerable debtors from losing their primary residence in the event of insolvency. Under the scheme, a privately funded investment vehicle set up by the government would buy the residences, and then lease them back to debtors for a maximum of 12 years with the option to repurchase the residence. The authorities will provide indirect financing to the SPV through a housing benefit towards the lease payments by the debtor. However, continued delays in the SLBO (currently estimated to be implemented in 15 months) have prevented creditors from enforcing on primary residences, even in the event of non-payment. A government scheme has bridged the gap by providing subsidies for mortgage payments of vulnerable debtors, but there is no requirement that a restructuring agreement on the loan be reached. This confluence of factors discourages both financial institutions and debtors from finding a mutual agreement on lasting restructuring solutions.

Structural Challenges

10. Non-bank financial sector developments, including Fintech, in Greece have so far not raised supervisory concerns, yet credit servicers are being monitored more closely. Conventional banks have left space for new payment service providers (PSPs) to enter the Greek market for digital payment services after the Payment Systems Directive II was transposed. Competition is expected to increase between banks and specialized PSPs, with newly regulated entities having to reach the highest standards of sound risk management. The BoG is closely overseeing this evolving sector among LSIs, whereas Fintech risks have not been significant in Greece. In contrast, credit servicers, regulated entities that are specialized in distressed debt collection purchased from banks, are of a more systemic nature in Greece (with more than €120 billion NPLs under recovery) and are facing challenges to implement their business plans and reach their objectives within the pandemic environment (SIP).

11. Climate-related financial risks are receiving greater scrutiny even though potential exposures are estimated as being low. In tune with global developments to address climate change, Greece has formulated a national strategy that was reaffirmed during COP26 in November 2021 (see also 2021 ECB/SSM guidelines to banking supervisors and institutions). The BoG was a frontrunner in this area, preparing a comprehensive assessment of environmental, economic and social impact of climate change as early as 2011. The BoG has committed to explore how to assess the financial system's exposure to climate-related and environmental risks (physical risks and transition risks) and identify the transmission channels. This work is in progress, and more structured supervisory strategies are expected to follow. So far, the banking and insurance sectors are not expected to face major climate-related financial risks, in part because Greece has one of the highest insurance protection gaps in Europe. Nevertheless, Greek banks are at an early stage in addressing environmental, social and governance (ESG) issues.

12. Cybersecurity and operational risk management within the banking sector are being improved. Authorities are committed to enhancing the operational risk management framework of banking institutions, including implementing the EBA guidelines on information and communication technology and security risk management, supplemented by close monitoring of LSIs' plans to upgrade their cybersecurity frameworks and business continuity plans. Operational risk is also part of the regular ECB/SSM supervision of SIs.

Table 1. Greece: EU: Macroprudential Measures

		Country																										
Categories	**Type of measure**	AUT	BEL	BGR	CYP	CZE	DEU	DNK	EST	ESP	FIN	FRA	GRC	HRV	HUN	IRL	ITA	LTU	LUX	LVA	MLT	NLD	POL	PRT	ROU	SWE	SVN	SVK
Capital Buffers	Capital conservation buffer (CCoB)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Countercyclical capital buffer (CCyB)			X		X	X	X	X					X					X						X	X		X
	G-SII						X			X		X					X					X						
	O-SII	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Systemic risk buffer (SyRB)	X		X		X		X						X								X			X	X		
	Leverage ratio																											
Risk weights & other capital measures	Large exposures											X																
	Risk weights for RRE and CRE	X							X		X															X		
	Risk weights on CRE													X		X				X			X		X	X		
	Risk weights on RRE													X		X					X		X				X	
	LGD for retail exposures on RRE																											
	Risk weights (other)																		X							X		
Borrower-based measures	Debt-service-to-income (DSTI)	X	X		X				X			X			X			X		X	X		X	X	X		X	X
	Debt-to-income (DTI)		X																	X								X
	Loan amortisation					X																				X		X
	Loan maturity	X				X			X			X						X		X	X	X	X	X	X		X	X
	Loan-to-income (LTI)							X								X												
	Loan-to-value (LTV)	X	X		X	X		X	X		X				X	X		X	X	X	X	X	X	X	X	X	X	X
	Stress test / Sensitivity test			X	X	X					X					X									X			

Note: Bulgaria, Croatia, the Czech Republic, Denmark, Estonia, Germany, Romania, and Sweden have announced the CCyB rate increases, which are subject to the phase-in period.

Source: European Systemic Risk Board; and IMF staff assessment.

INTERNATIONAL MONETARY FUND

GREECE

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 23, 2022

Prepared By

European Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(as of April 30, 2022)

Membership Status: Joined December 27, 1945.

Exchange Arrangements: The currency of Greece is the euro. The exchange rate arrangement of the euro area is free floating. Greece participates in a currency union (EMU) with 18 other members of the EU and has no separate legal tender. The euro, the common currency floats freely and independently against other currencies. Greece has accepted the obligations of Article VIII, Sections 2, 3, and 4. As of March 31, 2022, it maintains an exchange system free of restrictions on payments and transfers for current international transactions and multiple currency practices, 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	1,855.86	76.41
Reserve Tranche Position	575.02	23.67

SDR Department:

	SDR Million	Percent Allocation
Net Cumulative Allocation	3,110.35	100.00
Holdings	821.59	26.41

Outstanding Purchases and Loans: None

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				
	2022	2023	2024	2025	2026
Principal					
Charges/Interest	9.76	11.35	11.35	11.34	11.35
Total	9.76	11.35	11.35	11.34	11.35

Article IV Consultations:
The last Article IV was concluded on July 16, 2021 following consultation discussions that ended on May 28, 2021. Greece is on the standard 12-month consultation cycle.

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: 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: Workshop on Enterprise Resource Planning Financial Accounting Central Administration (GAO) (V)	March–April 2021
FAD	Public Financial Management: Chart of Accounts: Resident Advisor (Kirchmann) (V)	September 2020–August 2021
FAD	Public Financial Management: SAP Asset Accounting Training (Kirchmann)	July 2021
FAD	Revenue Administration: IAPR organizational structure (Story STX)	September 2021
FAD	Revenue Administration: IAPR IT modernization (Poulin STX)	September 2021
FAD	Revenue Administration: IAPR reform assessment (Stoyan Markov)	March 2022
FAD	Public Financial Management: PIMA	May 2022

STATISTICAL ISSUES

As of May 4, 2022

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 5, 2022)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	May 4, 2022	May 4, 2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	March, 2022	April 20, 2022	M	M	M
Reserve/Base Money	March, 2022	May 3, 2022	M	M	M
Broad Money	March, 2022	May 3, 2022	M	M	M
Central Bank Balance Sheet	March 2022	May 4, 2022	M	M	M
Consolidated Balance Sheet of the Banking System	February 2022	March 29, 2022	M	M	M
Interest Rates[2]	April 2022	May 2, 2022	M	M	M
Consumer Price Index	April 2022	April 29, 2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	March 2022	May 4, 2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	March 2022	May 4, 2022	M	M	M

Table 1. Greece: Common Indicators Required for Surveillance (concluded)
(As of May 5, 2022)

Stocks of Central Government and Central Government-Guaranteed Debt[5]	2021Q4	Feb 21, 2022	Q	Q	Q
External Current Account Balance	February 2022	April 20, 2022	M	M	M
Exports and Imports of Goods and Services	February 2022	April 20, 2022	M	M	M
GDP/GNP	2021Q4	March 4, 2022	Q	Q	Q
Gross External Debt	2021Q4	March 31, 2022	Q	Q	Q
International Investment Position[6]	2021Q4	March 31, 2022	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).

Statement by Michael Massourakis,
Alternate Executive Director for Greece
June 8, 2022

Macroeconomic Developments

On behalf of the Greek authorities, we thank staff for the thorough assessment of the economic situation, outlook, challenges, and risks. We broadly share the staff's appraisal and many of their policy recommendations.

The government's response to the pandemic has been swift and proactive, saving lives and jobs, and preventing a deterioration in corporate balance sheets. In line with the gradual weakening of the pandemic, prospects for resuming growth with fewer, if any, health-related restrictions in economic activity, seem rather promising at this juncture. This is more so, especially now that vaccination/immunization cover has surpassed average European levels, following successful campaigns to dent vaccination hesitancy among various segments in the population, including mainly vulnerable age groups.

After almost fully recouping pandemic-related output and income losses in 2021, Greece is expected to grow faster than the euro area in 2022, broadly in line with staff projections. Economic activity continues to be robust going into a stronger tourist period this year, with real GDP growth in the first quarter of 2022 surpassing that in the eurozone by a significant margin. Economic sentiment and PMI in manufacturing indicators have to date already recovered to pre-Covid levels. Exports of goods (EUR 40 billion in 2021) rise rapidly surpassing by almost 20 percent the 2019 pre-pandemic level, despite supply chain disruptions. The volume of building permits increased by 27 percent in 2021 following an increase of 13 percent in 2020, boding well for residential investment activity in 2022. Finally, investment in equipment and construction investment are expected to surge by almost 20 and 15 percent respectively this year, topping the EU Commission's Spring forecast charts, despite a rather weak global investment dynamic due to increasing uncertainty. In this context, the authorities project growth of 3.1 percent and 4.8 percent in 2022 and 2023 respectively, before settling to 3-3.5 percent over the medium term. On the other hand, staff see growth at 3.5 percent in 2022, decelerating to 2.6 percent in 2023 and returning gradually to potential growth of 1.2 percent by 2027, staying there for decades, as implied by staff's comments in page 4 of the staff report about gains in per capita GDP amid an unfinished reform agenda. In the event, according to the European Commission's Spring forecasts, Greece's per capita real GDP is expected to grow at a rate almost double the euro area average during 2022-23.

Undoubtedly, going back to normalcy is still hindered, as elsewhere, by global pandemic-related supply-side constraints in view of pent-up demand boosting inflationary pressures, as compounded by the effects of the war in Ukraine raising overall uncertainty and pushing up global food and energy prices. This weighs on real disposable incomes and business operating costs. To alleviate these adverse effects, the authorities currently provide temporary fiscal support, consisting mainly of energy subsidies for the increased cost of electricity consumption and of gas used in heating. Moreover, a statutory minimum wage increase came into effect May 1, 2022 raising monthly pay to EUR 713, or a wage increase of 7.1 percent on an annual basis compared to 2021. This increase, without accommodating inflationary pressures, is in line with equilibrium nominal and real wage-setting conditions in the economy accounting for productivity growth, thus broadly preserving employment and competitiveness. In this context, both the authorities and staff project inflation in 2022 to reach an average level of about 6 percent, before settling to levels below 2 percent in 2023-24. According to staff, during the period 2015-21, competitiveness, as measured by Real Effective Exchange Rate indices, based on Consumer Prices and Unit Labor Costs, improved by 4 percent and 3.6 percent respectively.

Overall, the authorities maintain that medium-term growth may well turn out to be higher than assumed by staff on the back of the transformative process that the Greek economy undergoes, as inflationary pressures and the rise in overall uncertainty subside, and the implementation of the authorities' ambitious reform agenda continues. In this context, productivity growth may indeed benefit over the medium term from a sustained surge in private and public investment, supported by structural reforms embedded in Greece 2.0, the National Recovery and Resilience Plan (NRRP). The plan includes 68 structural reforms and 106 investment projects designed to catalyze the structural transformation of the Greek economy in the period to 2026 under the Next Generation EU (NGEU) Program. The total envelope of the Greek NRRP amounts to EUR 31 billion (in 2018 values) in loans and grants, of which EUR 13 billion in loans, to be provided through the Recovery and Resilience Facility (RRF) of the NGEU. Resources from the NRRP come on top of the EU budget structural funds under the Multiannual Financial Framework for 2021-27, bringing the total amount of EU funds to be received by Greece in the forthcoming years to EUR 70 billion (in 2018 values). The authorities estimate that the impact of NGEU will add about 1 percentage point in real GDP growth annually on average, broadly in line with staff calculations.

It is to be noted that last year staff did not include the loan component of the funding, i.e., 40 percent of the total, in their impact calculations, being apprehensive about the lack of established lending mechanisms. By now, however, agreements have been signed between the Ministry of Finance and six commercial banks, as well as the two European Institutions EIB and EBRD, and the Hellenic Development Bank of Investments (HDBI). Based on these agreements, RRF loan funds of EUR 1.6 billion are already being disbursed in the market. Moreover, the HDBI actively manages EUR 500 million of the loan segment of the NRRP through an equity platform instrument, including venture capital or private equity funds to finance innovative SMEs in rapidly growing sectors of the economy.

In undertaking reforms and channeling targeted EU investment funds to the economy, it is important that due attention must be paid to mitigating implementation risks. It is encouraging, therefore, that Greece was among the first EU countries to which NGEU funds have been disbursed to date. This implies an advanced state of NRRP project maturity and preparation, on the back of already fully functioning, specialized public investment implementation government units. In April 2022, Greece received EUR 3.6 billion, of which EUR 1.8 billion in loans, on top of EUR 4 billion in pre-financing amounts disbursed in 2021.

Notwithstanding uncertainties, the authorities concur with staff that NGEU-supported investments and reforms will eradicate pandemic-related scarring effects. Furthermore, they believe that a reallocation of resources, to address structural changes accelerated by the pandemic, is needed if the economy is to be propelled forward into a higher and sustainable growth trajectory. In this context, a new law, passed recently through the Parliament, provides tax incentives for business transformation operations and corporate restructurings, targeted at scaling-up the activity of Greek firms and, thus, raising their productivity, export orientation and, overall, resilience. Moreover, a state-of-arts debt workout scheme is in place to help reduce indebtedness of viable firms, while active labor market policies and occupational training reforms aiming at labor force up-skilling and reskilling are implemented under the NRRP.

These initiatives complement key labor market reforms already adopted by Parliament, overhauling job seeking and training policies and modernizing labor relations including trade union decision-making, while protecting and expanding worker rights. The new legal framework provides for the introduction of the digital work card to enable digitalization of individual employment registries and, thus, reducing informality practices. Moreover, the unemployment benefits organization under the new law becomes a fully-fledged public agency for employment creation by designing individual digital action plans for job seekers.

The authorities consider that taking full advantage of the growth-cum-reform opportunities emanating from NGEU will constitute a paradigm shift for the Greek economy. This will enable Greece to achieve a significant boost in potential output and strengthen economic and social resilience by building a more inclusive, green, and digitalized future. It is thus important to channel effectively public investment funds in priority areas while, at the same time, encourage private sector investment, in line with staff recommendations. Moreover, removing existing impediments to growth through structural reforms will also help anchoring debt sustainability and financial stability, restoring investment grade ratings, and facilitating foreign direct investment, which in 2021 reached a historic high of EUR 5 billion. In this overall context, the authorities broadly concur with staff's views in their Selective Issues Paper on a social protection system fit for the green transition. A more effective social safety net is being gradually established to address households' needs from climate change downside risks and raise affordability of rising carbon prices for the most vulnerable groups. This is paramount, for the green transition to be considered not only effective but just as well.

Debt Sustainability

We welcome the staff's assessment that Greece's overall risk of sovereign stress is moderate and public debt is on a downward trajectory with rollover risks manageable over the medium term, while a customized contingency liability shock to account for various fiscal risks appears also manageable. The impact of Greece's large stock of legacy debt is mitigated because of a large cash buffer (11 months of Gross Financing Needs) and ultra-long maturities with presently ultra-low interest rates, and effectively zero foreign exchange risk. In the long term, risks will depend on the evolution in neutral rate and risk premia, the ability to sustain high primary surpluses and implement structural reforms, and the potential to counter demographic pressures. According to staff's baseline, public debt levels are indeed expected to decline to less than 150 percent of GDP by 2030 from current levels while, at the same time, Gross Financing Needs to remain on average below 10 percent of GDP throughout the period.

The authorities consider the public debt to be sustainable over the medium term, due to its favorable structure and despite maturing debt being replaced at higher market rates than the ultra-low official rates in effect. The authorities project public debt to decline to below 150 percent of GDP by 2025 due to faster growth, while they consider the transition to market terms to be a gradual process, adding to the depth and liquidity of the secondary market, and thus allowing for continuation of the effective liability management.

The authorities, moreover, emphasize the proven capacity of Greece in recent years to sustain consistent primary surpluses, as well as significant upside risks, including potential output and incomes being raised in the years to come due to the timely implementation of the NRRP, with reforms removing structural impediments to growth, and, as a corollary, enhanced economic policy credibility. In this context, the authorities remain committed to maintain **sustainable primary surpluses of 2.2 percent of GDP on average over the**

medium-term.

Moreover, the authorities note that Greece was able to raise EUR 28 billion in the capital markets during the pandemic, at relatively low spreads, notwithstanding the more recent tightening of global market conditions and the impact of the war in Ukraine. The progress made by Greece has been noted, with **sovereign ratings upgrades** reaching one notch below investment grade in the case of S&P in April 2022, and DBRS in March 2022, reflecting continuous improvement in policy effectiveness. In this context, **Greece is expected to graduate from the quarterly European Institutions' Enhanced Surveillance framework by August 2022**, thus further improving its chances to reach investment grade levels.

On the back of this low-cost borrowing, prudent fiscal and liquidity management policies have been pursued. Greece was able to finance a sizable pandemic-related fiscal support package of 14.5 percentage points of GDP in 2020-21, ending the fiscal year 2021 with a primary deficit of 5.0 percent of GDP in ESA terms, lower by about 2 percentage points of GDP than budgeted, with growth exceeding expectations as well by a substantial margin. At the same period, Greece managed to **increase the government's cash buffer**, standing currently at EUR 38 billion, from EUR 31 billion at the conclusion of the ESM Program in August 2019. Greece, also, last year made **a second prepayment** of EUR 3.4 billion to the Fund, regarding repurchases carrying high interest rate charges and surcharges. Moreover, this year Greece **settled its remaining obligations to the Fund due by end-2024**, making a final payment of EUR 1.8 billion using part of the SDR allocation proceeds, **terminating thus the IMF's Post-Financing Assessment procedure**. Moreover, in the same vein, later this year, and as endorsed by the Eurogroup meeting of February 2022, Greece plans to proceed with principal repayments of EUR 2.65 billion due in 2023, of loans granted from euro area countries participating in the Greek Loan Facility (GLF) agreed in May 2010. **These operations reduce gross financing needs and rollover risks, further improving Greece's public debt profile.**

The authorities also note that the long-term sustainability of the pension system stands to strengthen, despite unfavourable demographic trends, due to the substantial pension system reforms in recent years. These reforms will mature in the coming decades, reducing pension expenditure by 3.7 percentage points of GDP between 2019 and 2060, according to the 2021 EU Ageing Report, with all savings assumed to cover debt repayments. The reform impact will to be further enhanced as the new, fully funded, defined contribution, supplementary pension system is deployed from 2022 onwards for new entrants into the labour market, while maturing gradually to cover 90 percent of insured employees by 2065. Based on the macroeconomic assumptions of the Foundation for Economic and Industrial Research, it is projected that public debt could be reduced by 6.3 percentage points of GDP cumulatively by 2070 due to the introduction of the supplementary pension reform.

Fiscal Policy

According to the authorities' Stability Program 2022-25, the budgetary process in the near term puts emphasis on gradual fiscal consolidation allowing for growth-enhancing measures, while considering the emerging needs stemming from the war in Ukraine and simultaneously unwinding pandemic-related fiscal support as the recovery matures. Over the medium-term, the authorities recognize the need to prioritize the rebalancing of the policy mix and ensure additional fiscal space to address long-neglected pension needs, as well as to raise health and public investment spending.

In this framework, **the fiscal policy stance in 2022 will remain appropriately accommodative, with the primary fiscal balance expected to be reduced to a deficit of up to 2 percent of GDP, as suggested by staff, from a 5.0 percent of GDP deficit in 2021.** This is primarily due to the phasing out of Covid-related fiscal support measures (from 8.3 percent of GDP in 2021 to 2.1 percent of GDP in 2022), while, at the same time, temporary and targeted energy subsidies have been granted to households and businesses, including support to vulnerable groups, given the lingering impact on energy and food prices from the war in Ukraine. The latter are expected to have a fiscal impact of 1.4% of GDP, whereas additional discounts provided on electricity bills are covered by CO2 Emissions Trading System revenues and windfall revenues due to increased electricity prices. Moreover, the temporary Covid-related, growth-friendly, and labor tax wedge-reducing waiver of the solidarity tax and cuts by 3 percentage points in social security contribution rates, are planned to become permanent from 2023. Meanwhile, the authorities are committed not to introduce any pension indexation scheme this year, but only from 2023 onwards as planned.

Overall, the primary balance is expected to turn into a surplus of close to 1 percent of GDP in 2023, implying an almost 3 percentage points of GDP further adjustment, broadly in line with staff projections. The primary surplus will be further increased to more than 2 percent of GDP levels in 2024 and 2025 onwards, in line with the authorities' commitments vs. Greece's European partners for debt stabilization purposes. The longer-term target of over 2 percent of GDP is expected by staff to be achieved by 2027 and only on the back of additional fiscal action, mainly to compensate for the permanent cuts in the solidarity tax and the social security contributions introduced during the pandemic as temporary measures. To fund these needs, in addition to economic growth impact effects, the authorities rely in expanding the tax base by tackling VAT compliance gaps and rendering informality in the labor market less attractive, as well as better targeting entitlement programs, in line with staff's suggestions. This plan of action can ensure the return to sustainable primary surpluses, without sacrificing past fiscal consolidation gains. This is feasible through digitalization projects under implementation, including the tax authorities' establishing real-time interconnectivity with firms and the government's improving the effectiveness of labor market controls in fighting undeclared or partially declared work, on top of using digital tools for the provision of social assistance to the less vulnerable. The authorities are confident that these measures are sufficient to cover the above needs.

Financial Issues

We share staff's assessment that in past years deep-seated institutional and policy constraints accounted for the slow progress in reducing the large stock of bank Non-Performing Loans (NPLs), accumulated predominantly during the sovereign debt crisis and its aftermath. However, significant progress towards restoring health in the banking sector was registered in 2020, and especially in 2021 when NPLs were reduced by EUR 28.8 billion, to EUR 18.4 billion. Indeed, at end-2021 the NPL ratio stood at 12.8 percent, implying a more than halving of the NPL ratio during 2021 from 30.1 percent at end-2020, and 40.6 percent at end-2019. Moreover, the prospects are good for the NPL ratio to be further reduced to single digit levels during 2022, despite this being the year of lifting all pandemic-related support to banks.

This has been the first tangible result of the adoption by the **authorities of a multi-pronged, multistage approach to deal with legacy bank NPLs,** including:

a) **a securitization strategy, the Hercules Asset Protection Scheme,** supported by market-based government guarantees fully complying with EU state-aid rules, and accompanied by bank corporate restructuring operations within a framework approved by European partners. The scheme has been successful in transferring NPLs off the banks' balance sheets to specialized non-bank financial institutions experienced in loan recoveries through restructurings and liquidations. The authorities agree with staff that efforts to strengthen the supervisory framework and increase market transparency and financial disclosure on such credit servicers, are of the essence.

b) **a comprehensive insolvency law reform** supported by fully operational online platforms, providing debt relief through private sector distressed debt resolution transactions, while facilitating household insolvency procedures and corporate restructuring of viable firms. The new insolvency code makes Greece one of the first EU countries to have transposed into national law the European Directive on Preventive Restructuring and Insolvency.

The authorities are aware of the challenges in efficiently operationalizing NPL debt workouts and recovery processes in a reasonable timeframe. During the pandemic, priority was given to saving lives and livelihoods. Now that the pandemic recedes, priority is given to reforms to enhance the institutional capacity of the courts in delivering justice, to activate the program of purchases of primary residences of the most vulnerable debtors and then lease them back to them, to facilitate enforcement procedures of e-auctions of foreclosed properties and, finally, to streamline procedures in implementing out-of-court debt workouts. These actions are especially important as Hercules is scheduled to lapse later in 2022 and the banks will have to rely more on organic actions to further reduce NPLs.

To fully restore the capacity of the banking system to provide credit to the economy, bank profitability must be increased to strengthen the banks' capital base. In this context, according to the staff's Selected Issues Paper on bank profitability, macroeconomic factors play a dominant role, and they are indeed expected to be the primary motor to raise bank profitability in the years ahead. Robust sustainable growth in the Greek economy will help underpin banks' organic profitability, to offset overall impairment losses as they clean up their loan portfolios to reduce the still large stock of NPLs vs. that of European peers. Increased profitability will boost Tier 1 capital adequacy ratios (12.6 percent at end-2021), which may also benefit from banks' tapping into the capital markets made easier in the context of a growing economy with good prospects, albeit in an increasingly more risk-averse conjunctural economic environment.

The authorities agree with the staff's view as above; however, they point out that recent bank rating upgrades reflect not only the improving economic environment but also the impact of the strengthening of relevant non-macroeconomic bank-related profitability drivers. As such, improved ratings are expected to strengthen investor confidence not only in the near term but also in the medium term. Nevertheless, the authorities agree with staff that Greek banks may continue enhancing risk management practices, as well as adapting their business model, to strengthen even further their capacity to raise organic profitability and capital in a sustainable way, especially in a period of global interest rate normalization and fintech challenges.

Moreover, the authorities share staff's view that a strengthened macroprudential framework will raise Greek banks' resilience and prepare them for any contingencies. However, the prospect for excessive household re-leveraging and overheated real estate markets, as alluded in the staff's Selected Issues Paper on macroprudential capital buffers, is a rather remote possibility not corroborated by evidence at this juncture. In this context, residential mortgage credit is still in a long-term downward trend declining by 3 percent on an annual basis at end-2021, new mortgage loans are granted at 2.8 percent as of March 2022 vs. 2.5 percent at end-2021, with an LTV ratio of 64.5 percent average as of the last quarter of 2021, while residential real estate market prices, though having risen by 25 percent cumulatively in the last four years, rose at a rate substantially lower than domestic disposable incomes, while being still 35 percent below the 2007 highs in real terms.

Structural reforms

The authorities agree with staff that structural reforms remain key to address scarring effects due to the pandemic and the impact of the war in Ukraine, and to maximize the effectiveness of the National Recovery and Resilience Plan. In the longer term, improved competitiveness requires structural reforms to boost productivity and close the investment gap.

To this end, the authorities pursue fit-for-purpose policies including, among others, the following:

> **creating a business-friendly environment** through simplifying licensing, increasing the ease of doing business, and supporting investment and trade facilitation

> **incentivizing private investment** through cutting corporate tax rates, facilitating corporate restructurings, improving access to investment finance, modernizing labor relations

> **increasing labor force participation** through increasing the capacity of the labor market to adapt flexibly to changing conditions, along with pursuing active labor market policies, upgrading and extending childcare infrastructure, up- and reskilling youth and older workers with emphasis on digital skills, increasing take-home pay by reducing non-wage costs through lowering social security contributions and the legacy solidarity levy

> **fostering inclusiveness** through reinforcing workers' rights, including among others with the issuance of the digital work card, deploying the Guaranteed Minimum Income scheme to tackle poverty through targeted support, revamping the unemployment insurance administration into an employment agency for the benefit of job seekers to reduce unemployment risks, and tackling labor informality and gender inequality

> **promoting digitalization (Digital Transformation Bible, 2020-25)** through investing in 5G, fast broadband connections, fiber optic infrastructure in buildings and, submarine fiber cables, while digitizing further public administration operations to offer quality service to businesses and households, in the areas of health, education, taxes, pensions, building permits, business licensing, vital records, etc. With respect to justice, initiatives include, for example, document digitization and digital skills training for judges and judicial personnel, to simplify court proceedings, reduce court case backlog and, thus, speed-up the administration of justice.

> **decarbonize the energy sector and invest in a green economy (National Energy and Climate Plan)** through phasing out all lignite plants by 2028, upgrading energy efficiency of buildings, improving electric interconnectivity of islands, and investing in energy storage, electric charge points, batteries and electric vehicles, while adopting climate change adaptation and mitigation reforms, with a view to raise the share of renewable energy in electricity consumption to 61% and in transport to 19% by 2030, from 29% and 7% respectively in 2018. Currently, the Greek Parliament considers draft legislation on climate change that introduces a framework for the gradual reduction of greenhouse gas emissions by

at least 55 percent by 2030 and 80 percent by 2040 before achieving zero-net emissions by 2050, compared to 2019 levels. The roadmap reaffirms the goal of weaning Greece off lignite use in electricity production by 2028 and even bringing forward the target to 2025, if energy security conditions permit. The framework provides inter alia for measures to promote the use of electric vehicles, to cut greenhouse gas emission from buildings, to eliminate the use of heavy low-quality oil fuels in electricity production in the Greek islands from 2030 and, lastly, to engage municipalities through drawing local community plans to reduce CO2 emissions by 10 percent by 2025 and 30 percent by 2030. With respect to buildings, from 2025 there will be a prohibition in the sale and installation of boilers using heating oil and, from 2030, in the use of heating oil unless combined at a ratio of 30 percent with renewable liquid fuels (biofuels, etc.), the latter being defined as low carbon footprint fuel from biomass, waste, etc. Also, from 2025 all new buildings near geographical areas of high risk from forest fires or floods must be insured before being hooked to the electricity grid. With respect to vehicles, in the urban centers of Athens and Salonica, from 2026 all the newly acquired taxis, and one third of rental cars, should be zero emission vehicles. Also, from 2024 one fourth of all newly acquired company cars for employees should be either electric or hybrid, and from 2030 all newly acquired passenger cars and small commercial vans should be zero emission vehicles.