# INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/308

# GREECE

November 2020

## SECOND POST-PROGRAM MONITORING DISCUSSIONS—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GREECE

In the context of the Second Post-Program Monitoring Discussions 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 November 20, 2020 consideration of the staff report that concluded the Second Post-Program Monitoring Discussions with Greece.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 20, 2020, following discussions that ended on October 2, 2020, 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 November 4, 2020.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Alternate Executive Director** for Greece.

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

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**International Monetary Fund**
**Washington, D.C.**

PRESS RELEASE

PR20/361

# IMF Executive Board Concludes Second Post-Program Monitoring Discussions with Greece

**FOR IMMEDIATE RELEASE**

**Washington, DC** – **November 30, 2020:** On November 20, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the Second Post-Program Monitoring Discussions with Greece.

The pandemic interrupted a modest recovery. The government's early implementation of travel restrictions, a ban on public events, and other social distancing measures helped contain the initial outbreak. GDP contracted by 7.9 percent in 2020H1, moderately better than the Euro Area weighted average (-9 percent) and a further hit is expected in Q3, the peak of Greece's tourism season. Overall, the economy is expected to contract sharply in 2020, before gradually recovering over the medium term, supported by a recovery in private consumption, investment linked to privatization and the first tranches of Next Generation EU (NGEU) grants, and higher goods exports.

Greece's public debt remains sustainable over the medium-term with the pandemic-induced rise in debt vulnerabilities largely mitigated by a sizable cash buffer and NGEU funds, resulting in an adequate repayment capacity. Nonetheless, COVID-19 brings unprecedented uncertainty and downside risks to all sectors of the economy, amplified by Greece's crisis legacies. The main risks arise from a prolonged pandemic that would derail the anticipated rebound in tourism, and a significant deterioration of bank balance sheets. Staff will reexamine its long-run debt sustainability assessment during the next Article IV Consultation, which is envisaged to take place in the first half of 2021.

**Executive Board Assessment**[1]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the authorities' policy response to the pandemic, which has been swift, sizable, and appropriately targeted at hard-hit households and businesses. Noting that substantial uncertainties and downside risks remain, they urged the authorities not to withdraw policy support prematurely.

Directors recommended maintaining targeted fiscal accommodation and making good use of fiscal space in the near term, while safeguarding medium-term sustainability. They encouraged frontloading fiscal support next year ahead of Next Generation EU (NGEU) grant disbursements, and ensuring effective use of these resources. Directors also underscored the importance of prioritizing health care spending, better targeting social support, and enhancing public investment execution. They welcomed the authorities' intention to rely progressively on viability assessments as the basis for targeting fiscal support to firms, debtors, and workers.

Directors noted that Greece's medium-term public debt repayment capacity remains adequate, but that it could be impacted if severe downside risks materialize. They highlighted

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[1] 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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that fiscal prudence, growth-friendly reforms, and continued regional support would be essential for long-term debt sustainability.

Directors agreed that the measures taken to cushion the pandemic's impact on banks should be gradually replaced by more tailored solutions to debtors in distress. They recommended a comprehensive approach to addressing long-standing weaknesses in banks, and a cost-benefit analysis of the asset management company under consideration to tackle non-performing loans. Directors stressed that effective implementation of the new insolvency code will be critical to facilitate debt restructuring while minimizing moral hazard.

Directors commended the authorities for advancing structural reforms despite the pandemic. They welcomed in particular progress in the areas of labor market flexibility and modernization, the business climate, digitalization, and green growth. Directors encouraged further efforts to facilitate re-skilling of the labor force, boost female labor force participation, and continue product market liberalization.

## Greece: Selected Economic Indicators

| | | | |
|---|---|---|---|
| Population (millions of people) | 10.7 | Per capita GDP (€'000) | 17.5 |
| IMF quota (millions of SDRs) | 2,428.9 | Literacy rate (percent) | 97.1 |
| (Percent of total) | 0.51 | Poverty rate (percent) | 31.8 |

Main products and exports: tourism services; shipping services; food/beverages; industrial products; petroleum and chemicals.
Key export markets: EU (Italy, Germany, Cyprus, Bulgaria, Spain), Turkey, Lebanon, USA, UK.

GHG emissions per capita (tonnes of CO2 equivalent): 8.2 (10.9)

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| | | (prel.) | (proj.) | |
| **Output** | | | | |
| Real GDP growth (percent) | 1.9 | 1.9 | -9.5 | 5.7 |
| **Employment** | | | | |
| Unemployment rate (percent) | 19.3 | 17.3 | 18.9 | 17.5 |
| **Prices** | | | | |
| CPI inflation (period avg., percent) | 0.8 | 0.5 | -1.1 | 0.6 |
| **General government finances (percent of GDP) 1/** | | | | |
| Revenue | 47.8 | 46.8 | 47.7 | 49.7 |
| Expenditure | 46.9 | 46.2 | 57.5 | 54.0 |
| Overall balance | 0.9 | 0.6 | -9.8 | -4.3 |
| Primary balance | 4.2 | 3.5 | -6.8 | -1.3 |
| Public debt | 184.8 | 180.9 | 208.1 | 199.1 |
| **Money and credit** | | | | |
| Broad money (percent change) | 4.3 | 4.2 | ... | ... |
| Credit to private sector (percent change) | -7.5 | -9.5 | ... | ... |
| 3-month T-bill rate (percent) | 1.1 | 0.6 | ... | ... |
| **Balance of payments** | | | | |
| Current account (percent of GDP) | -3.5 | -2.1 | -7.5 | -4.1 |
| FDI (percent of GDP) | -1.6 | -2.0 | -1.6 | -2.1 |
| External debt (percent of GDP) | 227.8 | 240.9 | 255.4 | 242.0 |
| **Memorandum item:** | | | | |
| Nominal GDP (billions of euros) 2/ | 184.7 | 187.5 | 168.2 | 179.3 |

Sources: ELSTAT; Ministry of Finance; Bank of Greece; 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/ On October 16 ELSTAT updated the national accounts including a change of base year to constant prices series and a downward revision to growth in 2018 to 1.6 percent (2019 remains unchanged). Staff will incorporate these modifications once quarterly revisions to the historical growth path are released.

INTERNATIONAL MONETARY FUND

# GREECE

## SECOND POST-PROGRAM MONITORING

November 4, 2020

## EXECUTIVE SUMMARY

**Context.** The pandemic interrupted a modest recovery. Following Greece's early and strict containment measures, GDP contracted by 7.9 percent in 2020H1, slightly worse than the Euro Area (EA) unweighted average excluding Luxembourg. A further hit is expected in Q3, the peak of Greece's tourism season. The fiscal response to the pandemic has been well-organized and has mitigated its impact, while Single Supervisory Mechanism (SSM) accommodation will delay the expected hit on banks, which were already vulnerable pre-COVID-19. In the context of the 2019 Article IV Consultation (November 2019), staff assessed that Greece's public debt is sustainable over the medium-term but its long-term public debt sustainability is not assured under a realistic set of macro-fiscal assumptions.

**Outlook and Risks.** The economy is expected to contract sharply in 2020 while the subsequent recovery could be protracted. Greece's public debt remains sustainable over the medium-term with the pandemic-induced rise in debt vulnerabilities largely mitigated by a sizable cash buffer and Next Generation EU funds (NGEU), resulting in still manageable gross financing needs and an adequate repayment capacity. Nonetheless, COVID-19 brings unprecedented uncertainty and downside risks to all sectors of the economy, amplified by Greece's crisis legacies. The main risks arise from a prolonged pandemic and a significant deterioration of bank balance sheets. In a downside scenario, Greece's capacity to repay could be impaired absent a strong procyclical fiscal contraction and/or further support from European partners.

**Key Policy Lines.** Given the unprecedented shock, Greece should make effective use of the NGEU funds and prioritize supporting the recovery through targeted fiscal stimulus in 2021 as risks to medium-term debt sustainability are mitigated by unprecedented EU-wide and ECB support. There is added urgency in implementing key policy recommendations highlighted in the 2019 Article IV Consultation, such as (i) contingency planning and improving the fiscal policy mix to reduce poverty risks, backed by fiscal structural reforms (higher health spending and better targeted social support; improving public investment execution); (ii) strengthening bank balance sheets, on the basis of a comprehensive financial sector strategy with all options on the table; (iii) accelerating selected structural reforms that can be credibly implemented in the current environment to prevent scarring.

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

Discussions were held virtually during September 22–October 2, 2020. The mission met with Finance Minister C. Staikouras, Central Bank Governor Y. Stournaras, other cabinet ministers, and their respective staffs. Mission members included: D. Botman (Head), M. Mendez, F. Parodi, C. Xu, (all EUR), M. Li (SPR), C. DeLong (LEG), T. Harjes (MCM), E. Argyropoulos, N. Kalavrezou, M. Kalimeri (IMF, Resident Representative Office). K Chen (LEG) and M. Louis (COM) supported the mission. M. Massourakis (OED) participated in key meetings. V. Bezerra de Menezes and M. Song (EUR) provided administrative support and research assistance.

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## ANNEXES

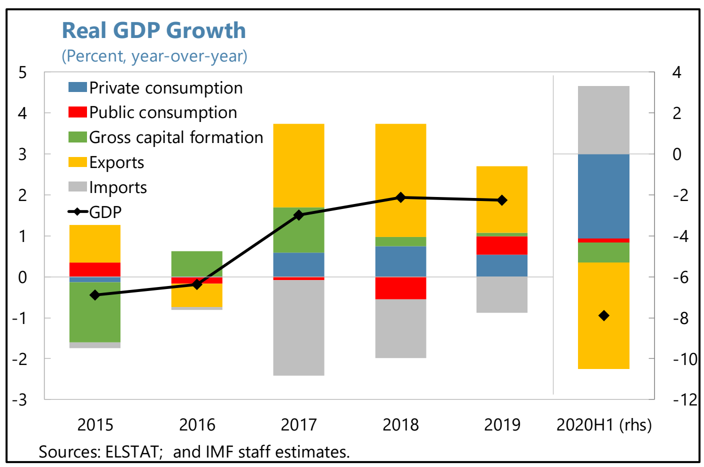
# CONTEXT

1. **COVID-19 has interrupted Greece's modest economic recovery.** Despite a weaker-than-expected Q4, 2019 growth came in above potential and the unemployment rate continued its downward trend. Following four years of overperformance, Greece met its Primary Balance (PB) target in 2019, but - under-execution of the public investment budget remains. Following significant policy reversals in the pre-election period, the new government launched a broad reform agenda focused on providing tax relief, accelerating privatizations, government digitalization, educational enhancements, climate change mitigation, and banking sector cleanup. Deposits remained stable after the removal of Capital-Flow Management measures in September 2019. Markets rewarded these positive developments with compressed spreads and lower yields.

2. **The pandemic adds to Greece's underlying vulnerabilities.** Crisis legacies, including a fiscal policy mix that supports neither growth nor targeted social protection, the large public and private debt overhang, high dependence on tourism amid a poor business climate, and a weak banking sector posed considerable challenges even pre-COVID-19. Overall, the pandemic adds unprecedented uncertainty and downside risks to all sectors of the economy (Annex I – RAM).

# RECENT DEVELOPMENTS AND OUTLOOK

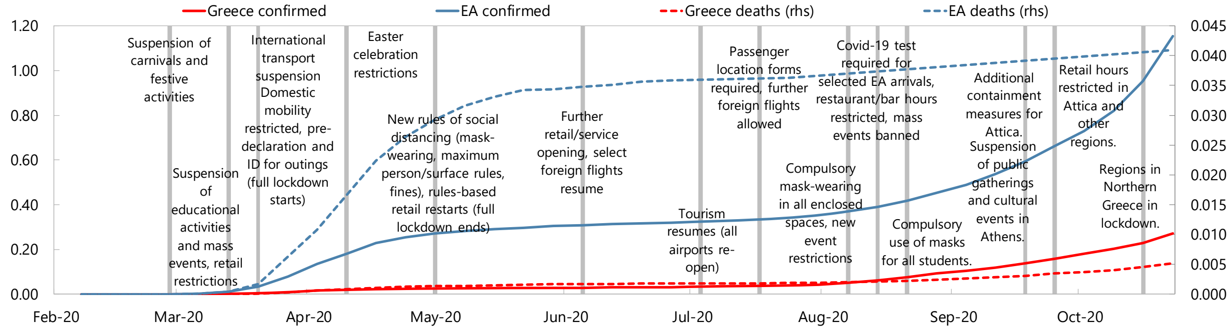
3. **Growth in 2019 met staff expectations.**[1] Real GDP growth reached 1.9 percent last year, (Figure 2) despite a cooling off in Q4 (-0.9 percent q/q). The seasonally-adjusted (SA) unemployment rate stood at 16.4 percent at end-2019 while youth unemployment was 34.7 percent (compared to 2013 peaks of 28 and 60 percent respectively). While there was uncertainty surrounding Greece's output gap, it was estimated to be wide (-4.4 percent, end-2019). The Current Account Deficit (CAD) narrowed, reflecting lower oil imports (Figure 5), while the authorities achieved the 3.5 percent of GDP Primary Balance (PB) commitment to European Institutions (EIs) (Figure 6).




[1] On October 16 the statistical agency published a downward revision to growth in 2017–18 (2019 remains unchanged). The release also included a change of the base year and methodological changes to ensure compliance with the European System of Accounts. Staff will incorporate these modifications once quarterly revisions to the historical growth path are released.

**Confirmed Cases, Death Cases, and Selected Containment Measures**

(Percent of total population)




Sources: Greek authorities; Johns Hopkins University; Haver Analytics; and IMF staff calculations.

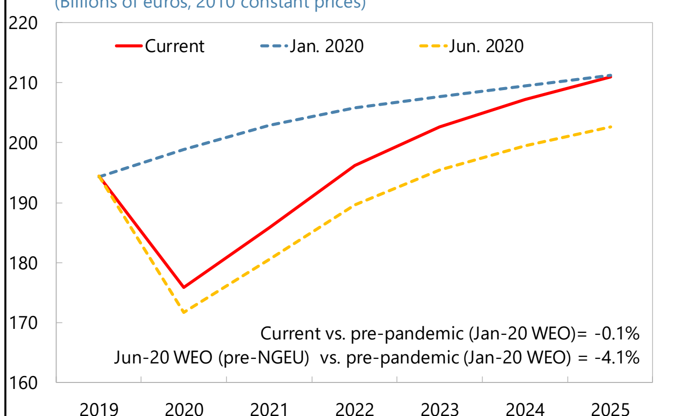
4. **The authorities responded early and in a well-organized manner to the pandemic.** They banned public events and imposed travel restrictions and social distancing measures relatively early. Compared to the European average, the per-capita number of cases and the fatality rate remain low.

5. **GDP contracted by 7.9 percent 2020H1 y/y, slightly worse than the EA unweighted average excluding Luxembourg** (Figure 3). The lockdown weighed heavily on consumption and investment, while the travel ban and lower foreign demand led to a contraction in net exports of goods and services. The SA unemployment rate initially continued to decline to 15.6 percent in March, in part reflecting the statistical treatment of furloughed workers, but climbed back to 16.8 percent in August despite large employment support measures. The CAD widened in 2020H1, reaching -4 percent of GDP due to the slump in tourism receipts (down 87.5 percent in 2020H1). Short-term indicators are mixed, with improved activity but still-weak sentiment. The headline HCPI declined by 2.3 percent y/y in September (-2.6 percent y/y decline in core).

6. **The economy is expected to contract by 9.5 percent this year, before gradually recovering over the medium term.** Estimates of Greece's overall dependence on tourism vary widely, but the sector accounts for nearly 20 percent of GDP by certain measures (Figure 4). For 2021, the baseline anticipates a gradual lifting of travel restrictions prior to the tourism season, with tourism receipts reaching around 50 percent of their 2019 level. Real GDP growth is expected to average 5.6 percent in 2021–22 supported by a recovery in private consumption, investment linked to privatization and the first tranches of European grants (see below), and higher exports of goods due to recovering trading-partner demand. Scarring effects from the pandemic imply about 4 percent cumulative output loss over the medium term (text

**Real Output Loss**

(Billions of euros, 2010 constant prices)




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

chart). In staff's baseline, this will be offset by the Recovery and Resilience Fund (RRF) with Greece receiving the highest share of grants in percent of GDP among Eurozone countries which will predominantly finance new projects. This allows the level of real output to return to its pre-COVID-19 path by end-2025. Long-term potential growth remains at 1 percent reflecting updated population growth forecasts, unchanged labor force participation assumptions, and anticipated completion of structural reforms.

7. **Substantial uncertainties and downside risks continue to cloud the outlook.** An accelerating number of COVID-19 cases in Greece and in key trading partners would extend social containment measures to more areas and derail the anticipated tourism recovery. In this case, unemployment could become more entrenched, with lower incomes constraining household consumption. Public investment and privatization execution could also be disrupted, delaying the recovery (see also adverse scenario, paragraph 37). In contrast, an early vaccine discovery and its swift mass distribution would imply a quicker and stronger rebound. Contingent government liabilities could materialize from new and existing state guarantees, potential additional support to banks and firms in a downside scenario, and ongoing court cases that challenge key program reforms. A new wave of Non-Performing Exposures (NPEs) could emerge in the banking sector if government support measures and supervisory accommodation are unwound abruptly.

8. **The growth implications of recently adopted European support packages are uncertain but could be meaningful.** The disbursement profile, allocation, absorption, additionality (the extent to which NGEU-financed investment is new rather than already planned), and multipliers and persistence of the NGEU funds will not be known for some time. Staff's baseline currently only includes the NGEU grant portion of the RRF (see text table), assuming full absorption by 2026. The authorities intend to channel NGEU loans through commercial banks and the Hellenic Development Bank to the private sector, including to fund Public-Private Partnerships (PPPs), but, at this point, these plans are not sufficiently mature to include in staff's baseline. The European deal requires 70 percent of RRF allocations to be identified in 2021–22 (with the rest depending on GDP outturns). Staff's baseline spreads spending through 2026, reflecting bottlenecks to public investment execution, which are expected to be gradually addressed through ongoing and planned technical assistance by the Fund and European partners. These structural challenges also explain the relatively conservative growth multiplier relative to the authorities' expectations of a unitary elasticity for public investment. The boost to medium-term growth in staff's baseline averages about 0.6 percentage points annually.

**Next Generation EU (NGEU) Recovery Grants 1/**

(Billions of euros)

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | Total | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | *Percent of 2020 GDP* |
| NGEU Grants | 4.7 | 3.0 | 3.0 | 3.4 | 3.4 | 1.8 | 19.3 | 11.5 |
| o.w. New spending | 3.4 | 3.0 | 3.0 | 3.4 | 3.4 | 1.8 | 18.0 | 10.7 |
| o.w. Existing spending 2/ | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.3 | 0.8 |
| *Memo items:* | | | | | | | | |
| *Parameters for new public spending* | *Investment* | | *Consumption* | | | | | |
| *Multiplier* | *0.8* | | *0.3* | | | | | |
| *Persistence* | *0.6* | | *0.3* | | | | | |
| *Nominal GDP (2020)* | *168* | | | | | | | |

Sources: Conclusions of the European Council (July 21, 2020); and IMF staff estimates.
1/ Includes the recovery and resilience facility (€16.2 bn), ReactEU (€2.2bn), just transition, rural development and other related funds.
2/ Reflects the ReactEU financing of the existing COVID-19 measures. The disbursement path is modeled based on discussion with the authorities and historical absorption.

***Authorities' Views***

9. **The authorities emphasized the economy's resilience and anticipate a stronger recovery, starting from 2021 and extending over the medium term**. The authorities agreed that the COVID-19 shock is unprecedented and noted that uncertainty remains high but were more optimistic than staff on growth in 2020, highlighting the economy's accelerating momentum and lean balance sheets before the pandemic. They also estimated a lower contribution of the tourism sector to gross value added and a bigger impact of adopted support measures. The authorities saw a much stronger rebound in 2021 and over the medium term as they assumed that public investment bottlenecks will be effectively addressed in time for NGEU funds to be fully and efficiently spent. As far as the NGEU is concerned, authorities highlighted the establishment of an efficient internal structure which is already well aligned with the corresponding EU structure. The authorities also pointed out that NGEU funds will finance National Growth Strategy (NGS) priorities, which were selected based on their potential to boost productivity, diversify the economy, and attract investment. The Bank of Greece added that phasing NGEU spending through 2026 implies a longer period of expansion, keeping growth well above potential over the forecast horizon.

10. **The authorities broadly shared staff's view of external risks, though they view domestic risks as contained**. The authorities attached a low probability to the risk of weak execution of NGEU funds. Moreover, they considered that appropriate policies are in place to mitigate most risks should they materialize. They pointed to the government's commitment to advance structural reforms in the midst of the pandemic as evidence that Greece is becoming more resilient to shocks. The BoG flagged important upside risks, such as the prospect of better-than-expected trading partners' growth and the likelihood of faster and more significant reform payoffs. The authorities also noted that the asset protection scheme, together with the new insolvency framework, and the support measures they had taken would mitigate the deterioration of bank balance sheets when supervisory accommodation ends. In support of the above, they pointed to recent successful issuances of Greek debt instruments as well as to developments in sovereign bond markets, where Greek bond yields of all maturities are at historically low levels.

# CAPACITY TO REPAY THE FUND

11. **The pandemic is projected to result in higher debt and Gross Financing Needs (GFNs) over the medium-term, compared to the November 2019 DSA, but Greece's capacity to repay the Fund is expected to be preserved under staff's baseline (see Annex II - DSA).** GFNs before government deposit drawdowns are projected to rise to 21.7 percent of GDP in 2020 and to average 11.4 percent of GDP during the period of Greece's repayments to the Fund (through June 2024). The government has dipped into its large cash buffer (which stood at €29.5 billion at end-2019; or €36.5 billion including general government entities' deposits at commercial banks that are accessible through repos) to cover part of its 2020 GFNs. Staff projects a net deposit drawdown up to €5 billion

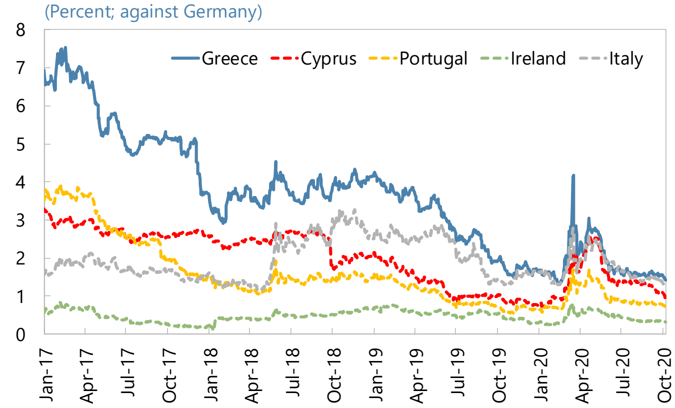
(about one-sixth of 2020 GFNs), still leaving an abundant amount to cover outstanding Fund credit (€5.7 billion, or SDR 4.55 billion/187.5 percent of quota).[2, 3]

***Liquidity Considerations***

**12. Liquidity pressures rose during the onset of the pandemic but normalized following ECB- and EU-wide measures.** Yields on Greek Government Bonds (GGBs) widened rapidly in February but have since narrowed to pre-pandemic lows thanks to GGB's eligibility for the ECB's Pandemic Emergency Purchase Program (PEPP).[4] With five GGB issuances year-to-date totaling €12 billion, the authorities' 2020 funding plan has been fully executed, allowing the government to largely preserve its cash buffer. Low-cost loans available under the NGEU (up to €12.5 billion) as well as the ESM credit line (about €3-4 billion) could further mitigate liquidity pressures under potentially adverse market conditions.

**General Government 10-Year Bond Spreads**

(Percent; against Germany)




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

**13. Greece is projected to stay current on Fund obligations.** Greece's annual payments to the Fund average SDR 1.4 billion over 2021–23 (plus a final SDR 0.3 billion payment in 2024). The originally planned partial prepayment to the Fund in 2020 (covering amortizations due in 2021 of SDR 1.6 billion) was shelved after the pandemic hit (see DSA annex). Greece could prepay in full its remaining Fund balance to reduce interest payments (5-year GGB yields are around 0.3 percent compared to 1.08 percent interest on outstanding Fund credit).

[2] This deposit drawdown is expected to have a limited impact on banking sector liquidity given banks' enhanced access to ECB liquidity windows and would not tap into the €15.7 billion ESM cash buffer.

[3] Greece has a minimal payment of €0.1 billion to the Fund in 2020 because the principal payment due this year was pre-paid in 2019.

[4] As of end-September, ECB holdings of GGBs were 2.53 percent of total PEPP holdings, compared to Greece's capital key of 2.0117 percent.

**General Government Financing Needs and Sources, 2018-24**

(Billion of euros unless otherwise specified)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|
| | Prel. | | | Proj. | | | |
| **Gross financing needs** | 35.9 | 20.8 | 29.8 | 23.2 | 18.9 | 15.0 | 14.9 |
| Overall deficit (cash) | -1.4 | -1.4 | 18.0 | 6.9 | 1.7 | 1.4 | 1.4 |
| Primary deficit (cash) | -6.1 | -6.4 | 13.1 | 1.9 | -3.4 | -3.6 | -3.5 |
| Amortization | 18.7 | 29.1 | 17.9 | 18.4 | 20.7 | 20.6 | 16.5 |
| o/w short-term principal payments (T-bills) | 14.3 | 11.2 | 11.8 | 13.0 | 11.0 | 9.0 | 7.0 |
| o/w medium and long-term principal payments 1/ | 4.4 | 17.9 | 6.1 | 5.5 | 9.8 | 11.6 | 9.5 |
| o/w to IMF | 1.8 | 4.4 | 0.0 | 2.0 | 2.0 | 1.4 | 0.3 |
| o/w to other official | 1.9 | 5.8 | 2.1 | 2.1 | 4.0 | 4.5 | 5.8 |
| Other 2/ | 0.7 | -1.7 | -1.2 | -1.6 | -2.5 | -0.1 | -0.1 |
| Government deposits: replenishment (+) / drawdown (-) | 17.9 | -5.3 | -4.9 | -0.5 | -1.0 | -6.9 | -2.8 |
| **Gross financing sources** | 35.9 | 20.8 | 29.8 | 23.2 | 18.9 | 15.0 | 14.9 |
| Short-term (T-bills) | 11.2 | 11.8 | 13.0 | 11.0 | 9.0 | 7.0 | 7.0 |
| Medium and long-term | 3.0 | 9.0 | 15.3 | 10.0 | 10.0 | 8.0 | 8.0 |
| Official sector | 21.7 | 0.0 | 1.5 | 2.2 | 0.0 | 0.0 | 0.0 |
| *Memo item:* | | | | | | | |
| Total deposits of general government | 38.4 | 36.4 | 32.5 | 31.2 | 29.4 | 21.7 | 18.1 |
| Deposits directly available to state government 3/ | 30.0 | 29.6 | 25.9 | 24.6 | 22.8 | 15.1 | 11.5 |
| in % of GDP | 16.2 | 15.8 | 15.4 | 13.7 | 11.9 | 7.5 | 5.5 |
| in % of T-bills | 210 | 263 | 221 | 190 | 208 | 169 | 166 |
| in months of next year's GFN | 17 | 12 | 13 | 16 | 18 | 12 | 9 |
| in % of next year's debt service | 88 | 130 | 111 | 95 | 89 | 71 | 58 |
| Debt service to IMF | 2.2 | 4.7 | 0.1 | 2.1 | 2.0 | 1.4 | 0.3 |
| in % of deposits directly available to state government 3/ | 7.3 | 15.8 | 0.5 | 8.5 | 8.9 | 9.3 | 2.8 |

Sources: Ministry of Finance; and IMF staff projections.

1/ The relatively large amortization in 2019 reflects the IMF prepayment, coming due of a large portion of the old GGBs purchased by the ECB under the ANFA/SMP, and a liability management exercise.

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

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

### *Solvency Considerations*

**14. NGEU resources available in the coming years will be critical for safeguarding Greece's medium-term debt sustainability.** The debt-to-GDP ratio is projected to rise to 208 percent in 2020 (from 181 percent in 2019) before resuming its downward trajectory toward a still elevated 153 percent of GDP in 2029.[5] Except for a one-off marginal breach in 2020, the GFNs-to-GDP ratio (after deposits drawdown) is projected to remain below the 15 percent of GDP medium-term benchmark in the next 10 years (averaging 10 percent, compared to 8 percent in the 2019 AIV) under staff's baseline, but could temporarily breach the threshold under adverse growth, primary balance, and real interest rate shocks. Staff assesses that Greece's public debt remains sustainable over the medium-term, but downside risks have increased due to higher levels of debt and GFNs that are partly mitigated by the temporary support provided by the EU and the ECB. Staff assessed Greece's long-term debt sustainability was not assured under a realistic set of macro-fiscal assumptions in the context of the 2019 AIV and will revisit this assessment during the next AIV cycle.

[5] The debt-to-GDP ratios cited in this staff report include the stock of deferred interests on EFSF loans that are not captured in the official debt statistics.

***Authorities' Views***

**15. The authorities are confident that they will fully meet their debt obligations, including to the Fund.** They noted that market conditions have normalized under the ECB's PEPP, enabling the government to undertake regular funding activities. They emphasized their prudent management of the government's cash buffer, which would be maintained until the sovereign restores its investment-grade rating. The authorities will consider another partial prepayment to the IMF (in consultation with its European official sector creditors given *pari passu* considerations) once the pandemic recedes. While they agreed with staff's bottom-line assessment that Greece's debt sustainability will be maintained over the medium-term, the authorities consider the underlying macro and fiscal assumptions as underestimating the potential growth dynamics building up as a result of transformative, green and digital high value-added investment projects, underpinned by considerable dedicated resources in the pipeline, matured privatizations and sustained private sector reforms. In this regard, they welcomed staff's proposal to revisit its long-run debt sustainability assessment during the next Article IV consultation.

# RISKS AND POLICY DISCUSSION

## A. Risks to Growth

**16. Greece already faced a long road to recovery from the 2010 crisis.** Greece entered the pandemic with ample economic slack and critical unmet social spending needs, notably in the health sector. Greeks face higher risks of poverty and social exclusion than regional peers (particularly among the working-age population, see Figure 1), in line with high levels of long-term and youth unemployment (Figure 2). Tourism, which underpinned much of the recent job recovery, is dominated by low-earning workers and is less amenable to teleworking (see heatmap, Figure 1). Greece's corporate sector liquidity is also expected to be severely hit by the pandemic (Annex III). By several measures—and despite recent improvements—Greece remains the least competitive economy in the EA, including in its digital integration (Figure 1).

**17. Government policies are protecting livelihoods.** Following containment measures in March, the authorities started monthly payments of €500–€800 per worker to firms, the self-employed, and freelancers to avoid labor shedding and protect incomes. At its peak, about a quarter of the labor force was participating in the suspension scheme, with support to hard-hit sectors extended through end-October. The authorities' short-term work scheme (SYNERGASIA) started operating in June. The authorities also directed €300 million to subsidize 100,000 full-time jobs, with added benefits if hiring is from the long-term unemployed pool. Tax relief and liquidity measures are limiting firm exits and job separations, though working hours have declined and hiring has slowed significantly. Among other measures, the government also introduced rent relief, extended key social benefits (housing, disability, unemployment), and increased transfers for the newly-long-term unemployed. While these measures are supporting disposable incomes, initial estimates by the authorities indicate the self-employed, the uninsured, and workers in retail trade and services are at higher risk of poverty.

**18. The government is rightly considering "day-after" policies.** The government's updated NGS aims to change Greece's production model and boost incomes via higher productivity, a more open economy, and a stronger link between production, technology, and innovation, including through simplification of business processes and improvement of the business climate. Policy proposals include lowering the labor tax wedge, reforming pension and insurance systems to stimulate private savings, and modernizing financial supervision and public and corporate governance. Other priorities include boosting female labor participation and combating climate change. The NGS is expected to guide the National Recovery plan, which will underpin NGEU-financed spending.

**19. Policy discussions focused on:**

- ***Poverty and hysteresis risks under downside scenarios.*** Staff encouraged enhanced monitoring of poverty and inequality risks and urged the authorities to accelerate the expansion of the means-tested Social Solidarity Income (SSI) and to make it more responsive to real-time shocks. Plans to expand vocational education and the new delivery model for labor market re-integration services (SSI Third Pillar) could encourage worker reallocation and prevent inactivity, but swift implementation of planned legislation and adequate staffing of the national employment services agency (OAED) will be key.

- ***The role of NGEU funds to finance reforms, attract investment, and boost growth***. The planned destination of NGEU funds (digital integration, green energy, re-skilling), will help encourage firm growth and absorb existing slack, but structural bottlenecks need to be addressed. In this respect, staff welcomed the action plan to improve public investment budget execution, including the newly-created Project Preparation Facility and the Strategic Project Pipeline Unit, which could improve sectoral ministry coordination and accelerate capital spending. Staff welcomed the acceleration of digital integration across a broad range of government services during the pandemic but noted that its success will hinge on parallel efforts to reduce bureaucracy and simplify business processes.

- ***Ongoing reforms to labor market regulation.*** Staff welcomed ongoing efforts to modernize legislation governing individual labor relations, mediation and arbitration, and the labor inspection agency.[6] Staff recommended generous opt-out conditions from sectoral collective bargaining agreements to enhance labor market flexibility, and a prudent minimum wage adjustment in early 2021 (postponed from June 2020).

***Authorities' Views***

**20. The authorities recognized that COVID-19 poses significant risks to growth, while noting that adopted policies and ongoing reforms will reduce scarring risks.** The authorities considered the measures they have implemented will allow Greece to weather the immediate impact

[6] See 2019 Article IV Consultation.

of COVID-19 and prevent poverty and inequality from increasing. The government agreed that the means-tested SSI should be scaled-up. The authorities expected that their pro-active response to the pandemic will moderate the latter's economic costs, by means of reducing disruptions in supply conditions (e.g. adverse effects on labor participation) and maintaining demand for face-to-face services. It could also boost the prospects of Greece becoming the tourism destination of choice, with authorities committed to plans to up- and re-skill the workforce. The authorities also cited recent efforts (including new legislation) to encourage telework and training in digital skills, which would help to address long-term and youth unemployment. The government noted targeted spending of NGEU funds, in combination with enhanced labour market conditions including active labor market policies, strengthening the business environment and improving bank balance sheets, will encourage the reallocation of resources reducing scarring risks.

**21. The authorities emphasized past and ongoing reforms to improve the business climate and competitiveness.** These included, inter alia, modernization of labor laws and institutions; expanding vocational training; encouraging female labor participation, including by expanding childcare and early childhood education options; tackling informality in the workforce and in firms; improving the energy mix and combatting climate change through the National Economic Climate Plan; implementing the Digital Bible (smart cities, modernizing IT systems in government functions); reducing the government's footprint in the economy by accelerating privatization; improving governance and reducing bureaucracy; reforms to the justice sector (including technological improvements and boosting human resources); and other business climate initiatives (spending on R&D, simpler licensing rules, and export promotion).

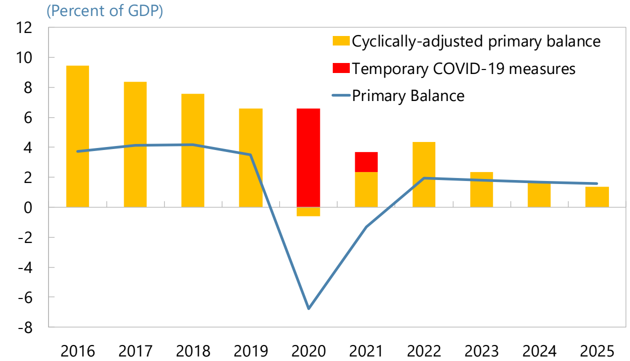
## B. Risks from Fiscal Policies

**22. Greece's fiscal position has significantly deteriorated since the COVID-19 outbreak.** Greece entered the crisis with a moderately expansionary fiscal stance and having met the 2019 PB target (3.5 percent of GDP). However, since the pandemic, automatic stabilizers and support measures resulted in a primary cash deficit of 2.7 percent of GDP in the first eight months of 2020, compared to a surplus of 2.3 percent of GDP during the same period of 2019 (Figure 6). European partners provided flexibility by suspending the Stability and Growth Pact and Greece's PB target as well as through more flexible state-aid rules. Further, a significant amount of existing EU funds (about 2.5 percent of GDP) has been reallocated or frontloaded to finance the government's COVID-19 measures, including from the public investment budget.

**23. The fiscal response to the crisis has been sizable (Annex IV).** The announced support package for 2020 includes about 5.1 percent of GDP in new spending, 2.5 percent of GDP in foregone and deferred revenues, and 1.5 percent of GDP loan guarantees (excluding leverage). About half of these measures had been implemented as of end-July. While design issues initially contributed to a weaker-than-expected take-up of the short-term employment scheme, these were subsequently addressed, and new programs (hiring subsidies) have been introduced to encourage participation by employers. The amount of budgetary measures is higher than the EA average while off-budget guarantees are considerably lower, which is appropriate given ongoing challenges with clearing state guarantees called by the banks as well as substantial government guarantees provided to financial institutions on NPE securitizations (project 'Hercules'). Most measures are temporary and targeted to affected groups, notably businesses with drops in turnover greater than 10 percent and their employees.[7]

**24. The fiscal balance will increase sharply in the near term due to unwinding of temporary COVID-19 measures and the economic recovery.** On current measures, a primary deficit of 6.8 percent of GDP (accrual basis) is expected for 2020, including one-off pension payments (0.8 percent of GDP) related to court rulings.[8] Prospects of further fiscal support pose a downside (upside) risk to the fiscal balance (growth). As the economy rebounds and temporary measures are phased out, the PB is expected to rebound sharply to -1.3 percent of GDP in 2021—an increase of 3 percentage points in cyclically-adjusted terms while the structural balance points to an accommodative fiscal stance after excluding temporary COVID-19 measures.[9] While new stimulus is assumed to come from the NGEU starting from mid-2021, the large output gap and risks of scarring warrant further temporary fiscal support next year. Staff recommends targeting a primary deficit of at least 2 percent of GDP in 2021 to avoid a sharp fiscal contraction. Fiscal support should be frontloaded ahead of NGEU disbursements to support the recovery. Over the medium term, as the shock subsides and the recovery fund fully takes effect, the PB is projected to recover to 2 percent of GDP in 2022 and settle at staff's long-standing view of a sustainable surplus close to of 1.5 percent of GDP by 2025.

**Primary Balance**
(Percent of GDP)




Sources: Ministry of Finance; and IMF staff estimates.

**25. Downside risks have significantly increased.** Uncertainty about the duration and intensity of the shock clouds the near-term outlook. A longer pandemic could lead to reinstatement of containment measures, extend the economic downturn and require further fiscal support, including by renewing temporary measures. Contingent liabilities could arise from materialization of new and existing state guarantees, potential additional support to banks and firms, unexpected losses from Hercules, and further costs from the recent court ruling on past pension and wage reforms (see paragraph 37).

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[7] Staff's baseline assumes that nearly all revenue reductions and spending increases are temporary, while about half of deferred revenues will be collected.

[8] On 14 July 2020, the Council of State issued a ruling to compensate pensioners for the reductions of the main pensions for the 11-month period of June 2015-May 2016. The gross cost is estimated at €1.3billion in 2020. However, there are risks that retroactive payments could be extended to supplementary pensions and seasonal bonuses, with an additional cost estimated at €1.6 billion in the downside scenario.

[9] Staff's baseline incorporates about €1.6 billion in new tax reductions in 2021, reflecting the planned cuts in the solidarity tax and social security contributions.

**26. In this context, discussions focused on:**

- ***Supporting the recovery in the near term*:** Staff recommended more expansionary fiscal policies in 2021 and targeting support, including from the recovery fund, where the impact is greatest. Prioritizing support for the economy despite debt sustainability concerns is justified given the unprecedented nature of the shock, potential hysteresis effects, ECB Greek government securities purchases, the NGEU, and the strong commitment by European partners to provide further debt relief if needed.

- ***Making good use of additional fiscal space:*** As the impact of COVID-19 dissipates, support for firms, debtors, and workers needs to become increasingly based on viability assessments and provide durable solutions to debt distress. In this regard, the new insolvency code, which integrates the corporate and personal insolvency regimes and transposes EU legislation on preventive restructuring frameworks, provides a comprehensive framework for facilitating debt restructuring schemes (see below and Annex VI). New installment schemes to alleviate pandemic-related debt distress should be based on strict eligibility criteria to protect the payment culture. To assist structural transition while also limiting scarring, the fiscal policy mix should be rebalanced towards expanding opportunities for reskilling the labor force (notably low-income workers in services sectors like tourism and hospitality), increasing health care spending (boosting intensive care capacity), and addressing coverage gaps in the SSI scheme. Despite some delays due to the pandemic, reforms in the areas of public financial management and revenue administration are ongoing and staff encouraged continued application of AML tools to help promote tax compliance.

- ***Preparing fiscal contingency plans*:** In line with staff's advice, the authorities plan to utilize contingency buffers and increase the deficit target to expand fiscal support, including by extending employment support schemes, in an adverse scenario. Should downside risks materialize, staff recommended that fiscal support remains in place until the pandemic is fully under control and the recovery is firmly underway (see also Annex I).

***Authorities' Views***

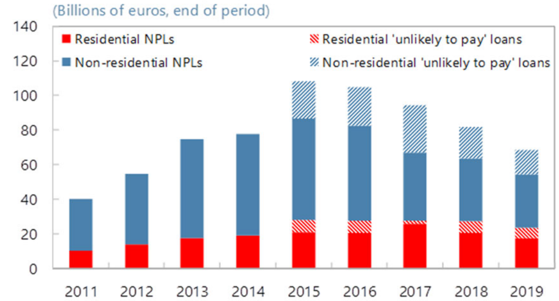
**27. The authorities agreed that more fiscal support would be needed in 2021 under an adverse scenario.** The authorities emphasized that they had delivered powerful and transparent fiscal support in 2020, while maintaining fiscal prudency. They also agreed that going forward there will be a need to avoid a fiscal cliff and aim for gradual consolidation. Specifically, they noted that the 2021 draft budget would target a primary deficit of 1.1 percent of GDP, underpinned by a baseline growth forecast of 7.5 percent. Noting large uncertainties, the authorities envisaged a higher primary deficit of 3 percent of GDP in an adverse scenario where growth was projected at 4.5 percent, favoring the extension of certain employment support schemes. Over the medium term, as in all EU countries, the authorities are committed to any new fiscal targets under the EU's Stability and Growth Pact. The government concurred with staff's recommendations to adjust the fiscal policy mix by increasing health care spending (early diagnostic), incentivizing female labor participation (childcare), and enhancing the social safety net (GMI). They noted the importance of strong NGEU absorption and planned to roll out the new project preparation facility and explore public private partnerships and other private sector initiatives to on- lend NGEU funds into the real economy while setting legally binding timelines for the implementation agencies.

## C. Risks from the Financial Sector

**28. Banks entered the COVID-19 shock with limited buffers (Annex V).** Poor asset quality still hampers banks' resilience (at 36 percent, Greece's banking sector has the highest NPE ratio in the EA). While all banks met end-2019 capital requirements, capital quality remains a concern as Deferred Tax Credits (DTCs) with limited loss-absorption capacity account for roughly 60 percent of CET1 capital. System-wide liquidity is adequate and private deposits (mainly by corporates) have increased by 6.7 percent since February while banks have gained access to new ECB liquidity instruments. Profitability relies on one-off items and volatile trading income. While net credit growth to corporates accelerated post COVID-19, reaching a peak in July 2020 (at the highest level since June 2010, partly because moratoria reduced loan repayments), credit to households continues to contract. Several banks have recently launched securitizations under the Hercules state-guaranteed securitization scheme, which, while capital-consuming, will significantly reduce their NPEs.

**Non-Performing Exposures**

(Billions of euros, end of period)




Source: Bank of Greece.

Note: NPLs only include loans 90 days past due and denounced loans; 'unlikely to pay' loans include all other loans compliant with the EBA NPE definition. No data on 'unlikely to pay' loans is available before 2015.

**29. A range of relief measures that cushion and delay the impact of the shock was put in place.** Most NPE recovery for corporate and household borrowers, including from independent servicers, has been suspended until end-December. Banks have launched loan moratoria for household and corporate borrowers through end-2020. Meanwhile, the authorities have granted interest payment subsidies on pre-existing business loans during March-December 2020, and will grant payment subsidies for performing and non-performing mortgages (including denounced loans, against staff advice as this scheme makes these loans temporarily performing and rewards strategic defaulters) during October 2020 -September 2021. Credit provision will be further supported by the new directed loans and loan guarantee programs that are targeted to corporates.

**30. The lifting of restrictions on Greek government securities holdings by the ECB and SSM accommodation provides further support.** This has so far activated the interest-rate channel (lowering rates), reduced uncertainty (compressing GGB spreads), and provided effective liquidity backstops and lowered funding costs for banks via LTRO/TLTROs. The SSM is temporarily lowering capital and liquidity requirements (the former until end-2022), allowing flexibility in classifying and provisioning for loans under moratoria and for NPEs that are covered by public guarantees. Moreover, the 2020 stress tests were suspended, and on-site inspections have been postponed. Going forward, the SSM will withdraw accommodation measures in consultations with the EBA and other stakeholders.

**31. Losses stemming from multiple channels may emerge starting in 2021 H2, if support measures are unwound abruptly.** Even before the pandemic, addressing the multiple banking sector challenges organically was going to be a lengthy process, during which the economy would remain credit constrained. COVID-19 will add further pressure on profitability through the lower rate environment, which will squeeze net interest margins; lower real estate portfolio valuations; and lower fee income (due to weaker economic activity). However, the main risk post-Covid-19 is that if government support measures and supervisory accommodation are unwound abruptly, borrowers' capacity to repay may be stretched, and a new wave of NPEs (including "strategic defaults") and provisioning could emerge.

**32. A more holistic response would help resolve both the crisis impact and long-standing weaknesses.** Hercules securitizations are a partial solution because they will only help reduce the *existing* stock of NPEs by close to 50 percent, at the cost of lower capital levels and weaker capital quality with further increases in the DTC share of capital. The government is considering expanding the securitization guarantees to help clean up remaining NPEs, but not all banks would have sufficient capital buffers and it would still leave the weak quality of capital unaddressed. In this respect, the BoG has tabled an initial proposal for an Asset Management Company (AMC) to accelerate the disposal of NPEs and deal simultaneously with the DTC issue (see Annex V). Consistent with past advise, staff urged the authorities to assess this proposal based on a comprehensive cost-benefit analysis including potential fiscal costs and hence DSA ramifications, impact on bank's balance sheets and business models, and compliance with state-aid rules, while ensuring sound AMC corporate governance and transparency.[10]

**33. When short-term relief measures are withdrawn, effective tools to resolve corporate and household debt distress will become paramount.** The new insolvency code includes revamped procedures to help businesses and consumers restructure their debts or receive a discharge upon liquidation of assets (Annex VI). While this is a welcome development, implementation of the law will be challenging, given the chronic inefficiency of the court system. Moreover, it is imperative that the law promotes meaningful restructuring solutions for those who need it rather than long-term reschedulings and that elements of the law designed to prevent moral hazard (limited stay on enforcement measures; robust information disclosure) are strictly enforced. These issues will be particularly important if downside risks materialize and debt distress reaches levels at which typical resolution tools may fall short. While the elimination of primary residence protection under the new law is commendable, the envisaged "sale and lease back" social support mechanism could pose fiscal, governance, and moral hazard concerns.

**34. The discussions focused on:**

- ***Avoiding "cliff effects" on banks.*** A sudden and un-coordinated withdrawal of support and accommodation measures may hamper banks' performance. Staff thus recommended the

[10] For additional details on cost-benefit analysis, see "Cost Effectiveness of State Support for Banks", 2019 Article IV Consultation Selected Issues Paper.

gradual lifting of government support and encouraged offering tailored solutions to distressed debtors to help smooth the impact of the pandemic on bank balance sheets.

- ***Implementing a coordinated and fully-costed strategy to clean up NPEs***. In line with 2019 Article IV recommendations, staff suggested that bank clean-up alternatives should be carefully considered, including the BoG-sponsored AMC. For those banks that are unable to fully utilize existing tools, stand-alone DTC conversion could be considered to accelerate further NPE reduction. Staff also urged the finalization and adoption of amendments to DTC legislation to clarify their role during resolution.

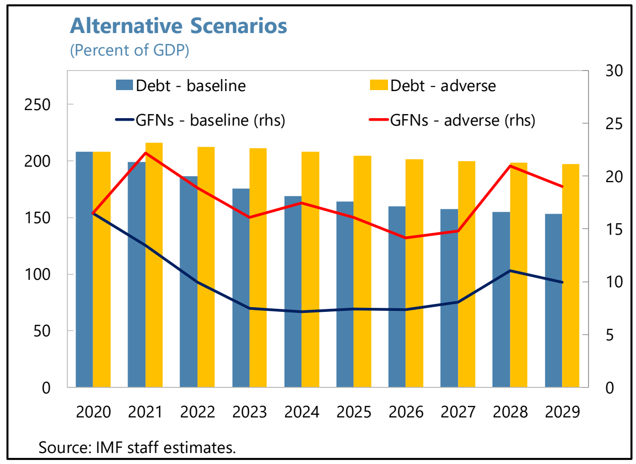
- ***Improving the insolvency framework.*** Staff recommended that the authorities ensure that sufficient tools are in place to resolve old and new debt distress while protecting the payment culture—particularly robust implementation of the new insolvency regime and well-tailored eligibility criteria for the envisaged "sale and lease back" scheme.

***Authorities' Views***

**35. The authorities noted that the banking sector entered the pandemic in much better shape than at the start of previous crisis.** The authorities emphasized that their actions had contributed to a significant decline in NPEs and that bank liquidity had greatly improved. Measures were taken to protect vulnerable households during the pandemic including the replacement of primary residence protection with a temporary mortgage-payment subsidy and the preparation of a more permanent sale-and-lease back scheme to help overindebted households to stay in their properties. Given that the duration and full impact of the pandemic remain uncertain, they stand ready to extend temporary support as needed while protecting the payment culture. They noted that Hercules securitizations were progressing well and that additional guarantees could be extended if needed. They also emphasized that complementary initiatives are under consideration, including the BoG's proposal to establish an AMC, the introduction of a new centralized credit registry, the digitalization of banking data submission to regulators, including granular credit data and the setup of a new "green" finance framework.

**36. The authorities viewed the new insolvency law as a critical aspect of their financial sector reform efforts.** They considered that it will address existing shortcomings by creating more opportunity for businesses to restructure preemptively and quickly, with limited court involvement and increased certainty; and by eliminating obstacles for creditors to agree to an out-of-court restructuring plan. With respect to individual debtors, they noted that the system allows a necessary discharge of debts for those needing debt relief, coupled with important safeguards to protect against moral hazard, while continuing to provide vulnerable debtors with necessary social support. They recognized, however, that key parameters of the insolvency legislation will need to be outlined promptly in secondary legislation and that implementation remains critical. Steps are being taken in parallel to increase awareness amongst users of the system, including judges, while ongoing court reforms are expected to increase efficiency and transparency.

## D. Capacity to Repay and Public Debt Sustainability Under Stress




**37. Medium-term debt sustainability remains robust under standard macro-fiscal stress tests, but Greece's capacity to service its debt could be impaired under an adverse COVID-19 scenario** (see RAM annex for elaboration of the downside risks)**.** Temporary shocks to growth, the PB, and interest rates would not significantly endanger Greece's capacity to repay the Fund because average GFNs would remain below 15 percent of GDP (albeit with some temporary breaches) over the next 10 years despite the higher debt path (Annex II). Small financing gaps could, however, emerge as early as 2024, as a more prolonged COVID-19 shock and in parallel the materialization of other idiosyncratic fiscal and financial sector risks (text figure and text tables) lead to a faster depletion of the cash buffer.[11] Under such a scenario (see Annex II, Figure 5, solid purple line), debt-to-GDP would rise to about 216 percent of GDP in 2021 and stay above 200 percent of GDP through 2026 before declining gradually in the outer years. GFNs-to-GDP would jump to 22.2 percent in 2021 and stay above the 15 percent threshold over the medium-term. Safeguards to Fund resources will continue to be provided by the Fund's long-standing de facto preferred creditor status, Greece's adequate cash buffer to cover outstanding Fund credit (even under the adverse scenario), and its current low sovereign borrowing costs. It is also expected that the EU and ECB would extend their pandemic support under such a generalized adverse Covid-19 scenario affecting the entire Europe, which could help close financing gaps and allow Greece to remain current on its debt service. This scenario illustrates that Greece's ability to service its debt depends critically on continued regional support. If access to this safety net became compromised (either because the common support by the EU-ECB was gradually withdrawn or because the materialization of idiosyncratic risks made Greek bonds again ineligible for ECB purchases), Greece's debt servicing capacity would be compromised. Policy options under these more extreme adverse scenarios would most likely entail a combination of a strong procyclical fiscal contraction and/or further financial support from European partners.

[11] The adverse scenario assumes a much milder growth recovery in the near-term and the government extends COVID-19 response measures into 2021 (at half of 2020 levels). The scenario assumes the financing envelope remains unchanged from the baseline (i.e. same market access and without further ECB support), so higher GFNs would lead to a faster depletion of government deposits

| Downside Scenario - Materialized Risks (Billions of euros) | | | | | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 |
| **Additional Covid response measures** | **6.0** | | | | |
| **Other downside risks** | **4.9** | **3.1** | **1.0** | **0.3** | **0.3** |
| Retroactive pension payment for 2012-16 | 1.6 | | | | |
| Legal challenges to past wage reforms | 0.6 | 0.3 | 0.3 | 0.3 | 0.3 |
| Outstanding state guarantees (other than Hercules) | 0.7 | 0.7 | | | |
| Unexpected losses from Hercules | | 0.7 | 0.7 | | |
| Potential DTC conversion costs | 2.0 | 1.5 | | | |
| ***Memo item:*** | | | | | |
| *Real GDP growth under adverse scenario (%)* | 2.0 | 3.7 | 4.1 | 2.3 | 2.3 |
| *Primary balance under adverse scenario (cash, % of GDP)* | -9.2 | 0.1 | 1.3 | 1.5 | 1.5 |
| *Public debt under adverse scenario (% of GDP)* | 215.8 | 212.5 | 210.9 | 208.1 | 204.4 |
| *GFNs under adverse scenario (% of GDP)* | 22.2 | 18.9 | 16.1 | 17.4 | 16.1 |

Sources: IMF staff projections.

| General Government Financing Requirements and Sources under the Downside Scenario, 2018–24 (Billions of euros) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| | Act. | Prel. | Proj. | | | | |
| **Gross borrowing needs** | **35.9** | **20.6** | **29.8** | **23.2** | **18.9** | **15.0** | **17.0** |
| Overall deficit (cash) | -1.4 | -1.4 | 18.0 | 17.8 | 4.8 | 2.4 | 1.7 |
| Primary deficit (cash) | -6.1 | -6.4 | 13.1 | 12.7 | -0.3 | -2.7 | -3.2 |
| Amortization | 18.7 | 29.1 | 17.9 | 18.4 | 20.7 | 20.6 | 16.5 |
| Short-term (T-bills) | 14.3 | 11.2 | 11.8 | 13.0 | 11.0 | 9.0 | 7.0 |
| Other | 18.7 | -7.1 | -6.1 | -13.0 | -6.6 | -7.9 | -1.1 |
| Govt deposits: replenishment (+) / drawdown (-) | 17.9 | -5.4 | -4.9 | -11.4 | -4.1 | -7.8 | -1.0 |
| **Gross financing sources** | **35.9** | **20.8** | **29.8** | **23.2** | **18.9** | **15.0** | **14.9** |
| Market access | 14.2 | 20.8 | 28.3 | 21.0 | 18.9 | 15.0 | 14.9 |
| Short-term (T-bills) | 11.2 | 11.8 | 13.0 | 11.0 | 9.0 | 7.0 | 7.0 |
| Medium and long-term | 3.0 | 9.0 | 15.3 | 10.0 | 10.0 | 8.0 | 8.0 |
| Official financing | 21.7 | 0.0 | 1.5 | 2.2 | 0.0 | 0.0 | 0.0 |
| **Financing gap** | **0.0** | **-0.1** | **0.0** | **0.0** | **0.0** | **0.0** | **2.1** |
| *Memo items:* | | | | | | | |
| Deposits of general government 1/ | 38.4 | 36.4 | 32.5 | 20.3 | 16.2 | 8.4 | 7.4 |
| directly available to state government 2/ | 30.0 | 29.6 | 25.9 | 13.7 | 9.6 | 1.8 | 0.8 |
| state government in BoG 3/ | 20.3 | 18.3 | 18.6 | 7.2 | 5.6 | 1.8 | 0.8 |
| state government in commercial banks | 6.5 | 5.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| general government entities in BoG | 3.2 | 6.1 | 7.3 | 6.5 | 4.0 | 0.0 | 0.0 |
| general government entities in commercial banks 4/ | 8.5 | 6.8 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |
| Primary deficit (accrual) | -7.7 | -6.6 | 11.4 | 7.3 | -0.6 | -2.7 | -3.2 |

Sources: Ministry of Finance; and IMF staff projections.

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

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

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

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

### *Authorities' Views*

38. **The authorities expected their repayment capacity to be preserved under a prolonged pandemic scenario**. They considered staff's adverse scenario assumptions overly pessimistic as the pandemic's impact on growth should become progressively weaker over time. The authorities also foresaw much more limited risks from past pension reforms and materialization of guarantees than staff considered. The government noted its commitment to prudent fiscal policy and expects its

ample cash buffer, market access and additional regional support following a common shock to cushion any plausible downside risks to the government's liquidity position and thereby allow it to remain current on its debt obligations.

# STAFF APPRAISAL

**39. The government's swift response to the pandemic is commendable.** Timely implementation of travel restrictions, a ban on public events, and other social distancing measures helped contain the initial outbreak. Compared to European peers, the per-capita caseload and the mortality rate remain low, but the recent increase in reported infections is of concern. The authorities' economic support package is sizable, timely, and appropriately composed mostly of temporary on-budget measures targeted to hard-hit households and businesses. Extraordinary EU and ECB responses have allowed Greece to undertake needed fiscal support measures, while Single SSM accommodation is cushioning the pandemic's immediate impact on banks.

**40. Policy support should not be withdrawn prematurely.** Given Greece's reliance on tourism and shipping, the economy is expected to continue to be hit hard. In the short term, the policy focus should remain firmly on fighting the health and economic crisis and avoiding permanent damage to the economy, including by providing additional fiscal stimulus next year.

**41. Substantial uncertainties and downside risks continue to cloud the outlook.** A prolonged pandemic accompanied by a permanent slump in global tourism would significantly worsen the outlook, while an early vaccine discovery and its swift mass distribution could help boost the rebound. Contingent government liabilities could materialize from new and existing state guarantees, potential additional support to banks and firms in a downside scenario, and ongoing court cases that challenge key program reforms. A new wave of NPEs could emerge in the banking sector if government support measures and supervisory accommodation are unwound abruptly.

**42. Greece's medium-term public debt repayment capacity remains adequate.** This reflects the manageable gross financing needs under the baseline, owing in part to increased support from the EU and the ECB, and a substantial precautionary cash buffer. Following a spike in 2020, Greece's public debt is projected to decline gradually over the medium-term, albeit remaining at higher levels than previously forecast. Staff's assessment of Greece's long-term debt sustainability remains unchanged (not assured under a realistic set of macro-fiscal assumptions) and will be updated during the next Article IV Consultation. The sovereign's repayment capacity could be compromised if significant downside risks materialize, which would require a strong procyclical fiscal adjustment and/or further support from European partners.

**43. Maintaining accommodation and making good use of fiscal space should be the near-term priority.** Given the large output gap and in order to minimize the risk that the pandemic causes permanent economic damage, the authorities should avoid a sharp fiscal contraction in 2021 and target a primary deficit of at least 2 percent of GDP. Fiscal support should be frontloaded ahead of the release of NGEU resources (expected around the middle of 2021) and the fiscal policy mix should be improved by prioritizing health care spending, addressing coverage gaps in the SSI scheme, and expanding opportunities for reskilling the labor force. Public investment execution should be enhanced to boost the effectiveness of NGEU financing. As the impact of COVID-19 dissipates over the medium-term, fiscal support to firms, debtors, and workers should increasingly be based on viability assessments. Staff encouraged continued application of AML tools to help promote tax compliance and to ensure proper safeguards for COVID-19 emergency spending.

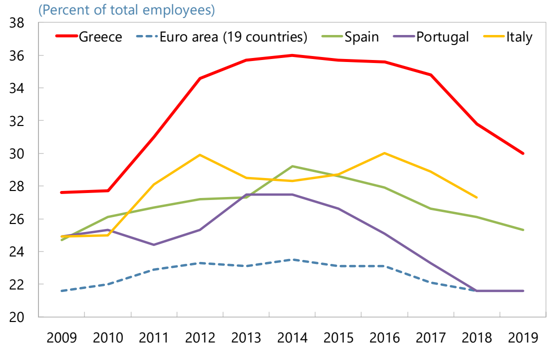
**44. A broad range of support measures will cushion and delay the pandemic's impact on banks, but a comprehensive strategy to address long-standing weaknesses remains a priority.** In addition to the ECB's monetary and supervisory accommodation, interest and mortgage payment subsidies introduced by the Greek authorities will help support both borrowers and banks in 2020-21. These measures should be gradually replaced by more tailored solutions to debtors in distress to help smooth the impact of the pandemic on bank balance sheets and firms. While the provision of state guarantees on bank securitizations (project Hercules) is welcome and progressing, it is not a comprehensive solution as it leaves a significant amount of NPEs on bank balance sheets and the weak quality of bank capital unaddressed. In this context, the BoG's proposal to establish an AMC could be an important addition to the toolkit, but a comprehensive cost-benefit analysis of the proposal is needed. The pandemic could add further strain to the banking sector and could undermine the improvement in firms' balance sheets that occurred during the past decade, requiring effective tools to resolve corporate and household debt distress. In this regard, the authorities' new bankruptcy code is a promising and timely initiative, although implementation to facilitate restructuring and minimize moral hazard will be critical to its effectiveness.

**45. Progress with structural reforms is commendable and should be accelerated, especially in areas that help foster the recovery.** The goals and ambition of the NGS are laudable and could help boost productivity and promote innovation. The government deserves praise for advancing its reform agenda in the midst of a pandemic, and their push for simplification of business processes, improvement of the business climate, digitization reform, and improvements in the environment deserves support. The authorities are rightly placing labor market flexibility and modernization—including encouraging female labor participation—as legislative priorities. Once adopted, policies on paper should be swiftly implemented to support the recovery and start untangling rigidities in the labor market, particularly skills mismatch and youth unemployment. Other reforms that could be implemented in the current environment (subject to any pandemic-related delays), such as continued product market liberalization including investment licensing simplification, would also lead to a faster recovery and a higher growth path.

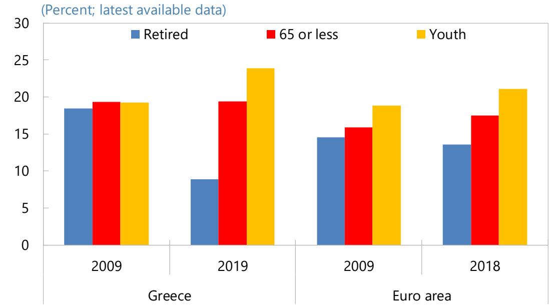
## Figure 1. Poverty Risks, Telework Ability, and Digital Integration

*Greeks face higher risks of poverty and social exclusion than regional peers, particularly among youth.*

**People at Risk of Poverty and Social Exclusion**
(Percent of total employees)



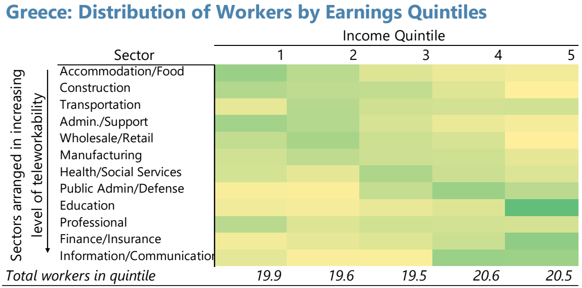

**Poverty Rate**
(Percent; latest available data)




Note: Share of population below 60 percent of median equivalized income after social transfers.

*Low-earning and tourism industry workers are less able to telework.*

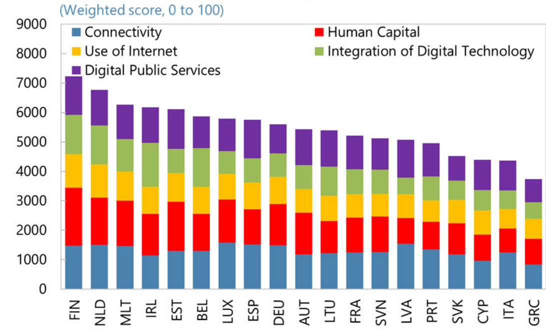
**Greece: Distribution of Workers by Earnings Quintiles**




Note: Sectors are ordered by level of tele-workability from lowest to highest. Darker colors indicate higher concentration of workers in a given sector in an hourly earnings quintile from bottom (1) to top (5).

*And despite recent progress, Greece ranks lowest in digital integration compared to peers.*

**Digital Economy and Society Index**
(Weighted score, 0 to 100)

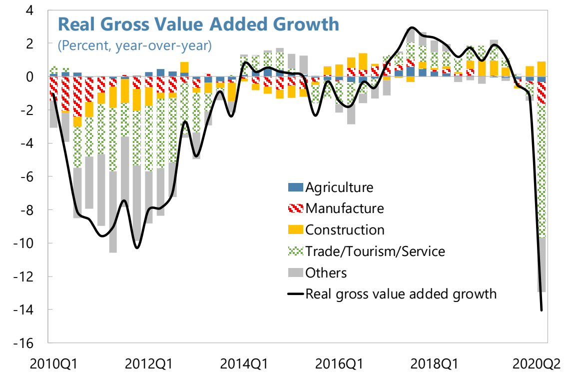



Source: European Commision, Digital Scoreboard.

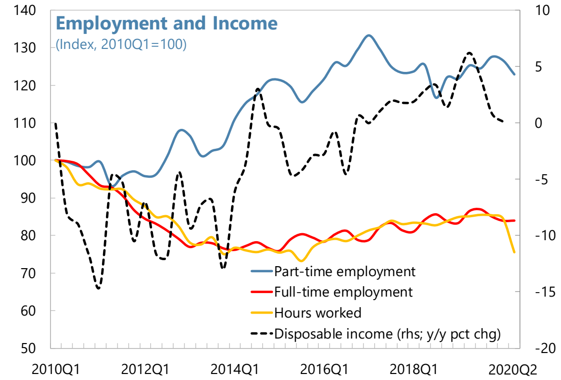
Sources: Brussevich et al (2020); European Commission, Digital Scoreboard; Eurostat; OECD; and IMF staff calculations and estimates.

## Figure 2. Macroeconomic Developments

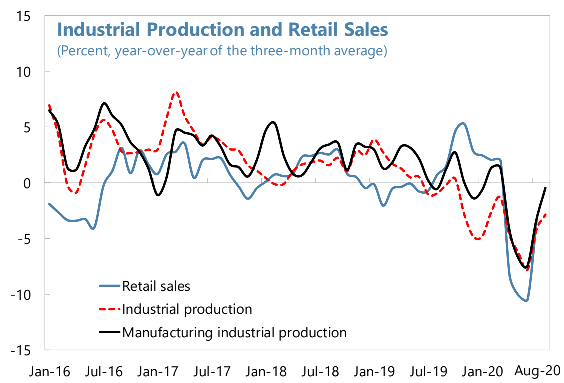
*The economy was cooling already prior to the pandemic...*

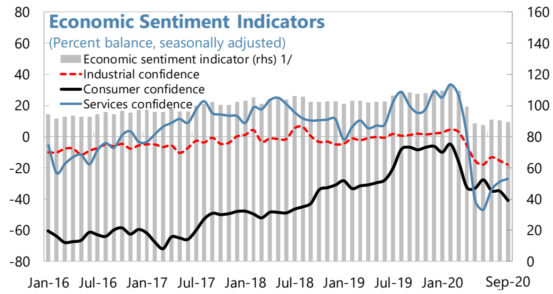



*...but employment was growing, partly due to part-time jobs.*



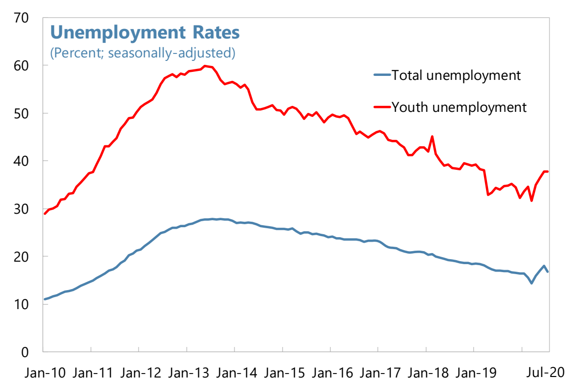

*High frequency indicators dipped sharply since the outbreak started, but activity has started to recover.*



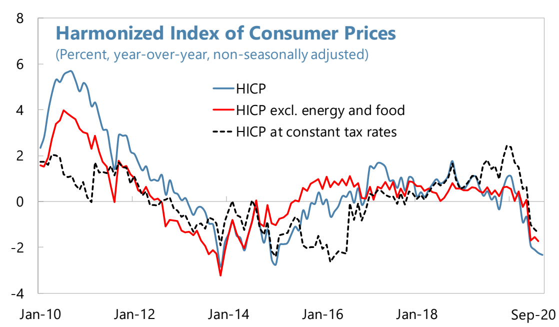




1/ The overall economic sentiment indicator (ESI) is derived from five sectoral confidence indicators with the following weights: industrial (40 percent), service (30 percent), consumer (0 percent), construction (5 percent) and retail trade (5 percent).
Note: Percent balance is the difference between weighted percentages of positive and negative replies.

*... and unemployment gains have started to be reversed.*




*Growing slack, low oil prices, and tax cuts, are driving deflation.*

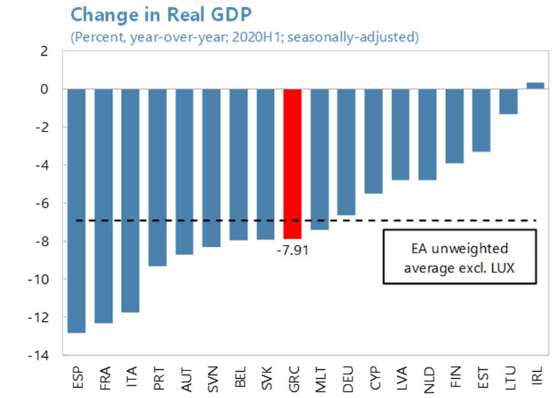



Note: The HICP at constant tax rates measures inflation without the impact of changes in taxes on products to assess the contribution to inflation of changes in taxes on products.

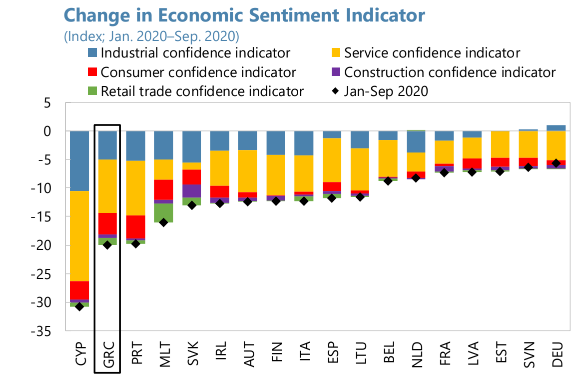
Sources: ELSTAT; European Commission; Eurostat; Haver Analytics; OECD; and IMF staff calculations.

## Figure 3. Short-Term Indicators Relative to Peers

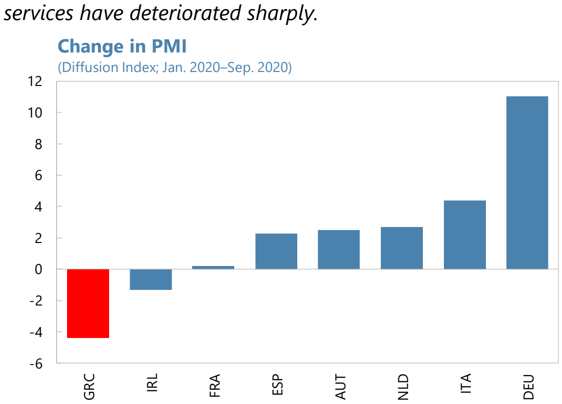
*In line with the EA, the pandemic severely disrupted economic activity in the 2020H1.*



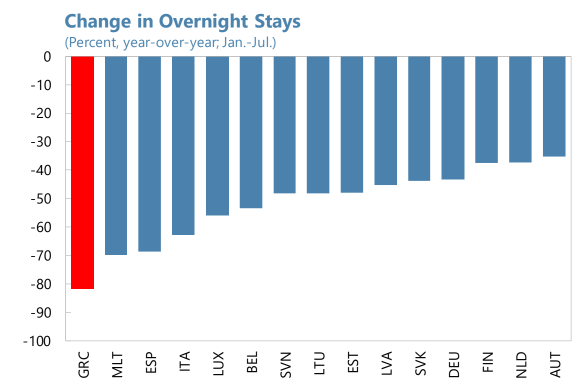

*Sentiment was initially resilient due to early containment efforts but has since dipped given rising cases.*



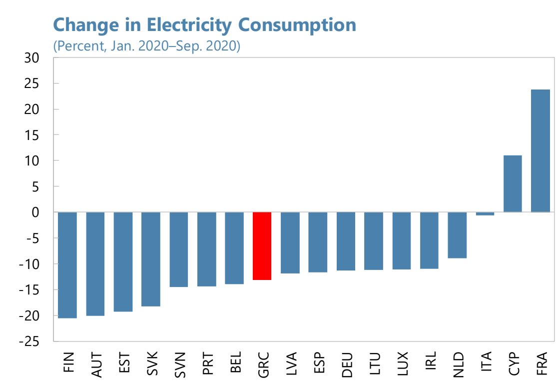

*Perceptions of market conditions in manufacturing and services have deteriorated sharply.*

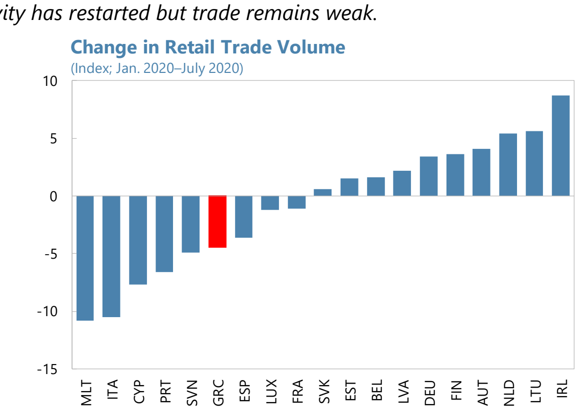



*The slump in global travel is impacting the hotel sector.*




*With the lifting of restrictions, domestic activity has restarted but trade remains weak.*



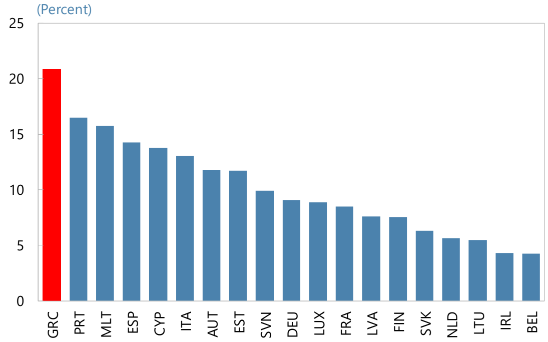




Sources: Country authorities; Entsoe; European Commission; Eurostat; Haver Analytics; IHS Markit; and IMF staff calculations.

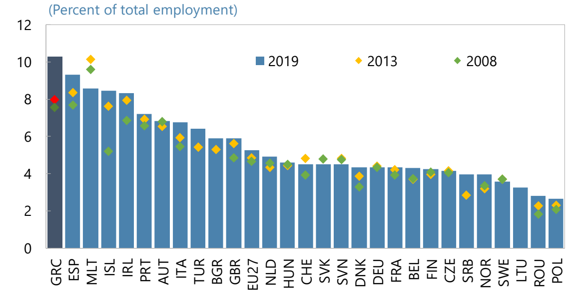
## Figure 4. Tourism and Employment Risks

*Tourism is a key economic sector and an important source of employment.*

**Tourism as a Share of GDP, 2019**
(Percent)



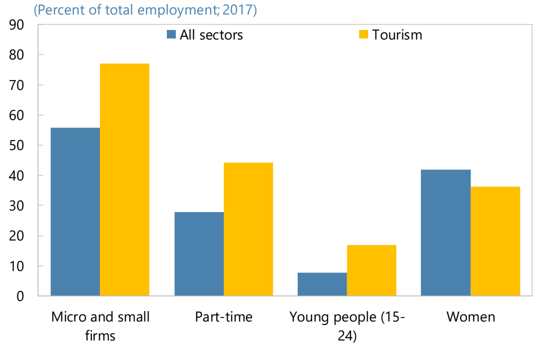

**Employment in Tourism Sectors**
(Percent of total employment)




Note: Tourism sector is defined as air travel; accommodation; food and beverage service activities; and travel agency, tour operator and other reservation service and related activities.

*Small firms, part-time and young workers, and the self-employed will be hit the hardest by the slump in global travel.*

**Greece: Employment in Tourism Industries**
(Percent of total employment; 2017)

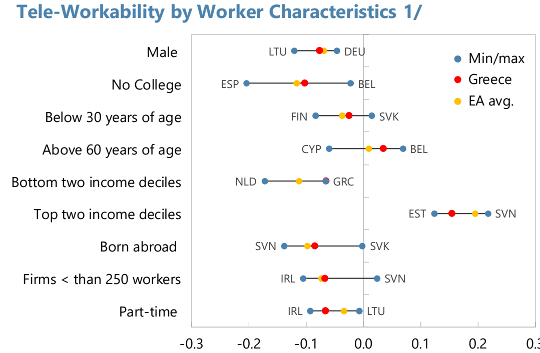



**Greece: Hours Worked**
(Percent, year-on-year growth)

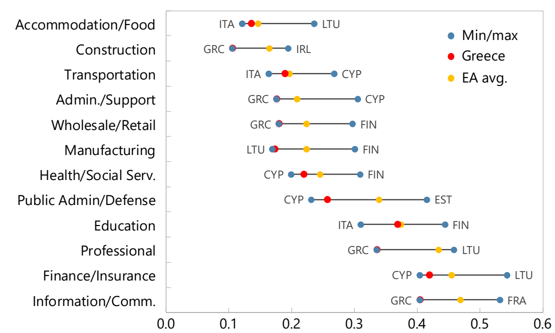

*Low income, low skilled workers are also vulnerable to COVID-19, being less able to telework.**

*Administrative, transport, and sales jobs are also at risk, highlighting the importance of re-skilling.*

**Tele-Workability by Worker Characteristics 1/**




**Tele-Workability by Sector 1/**

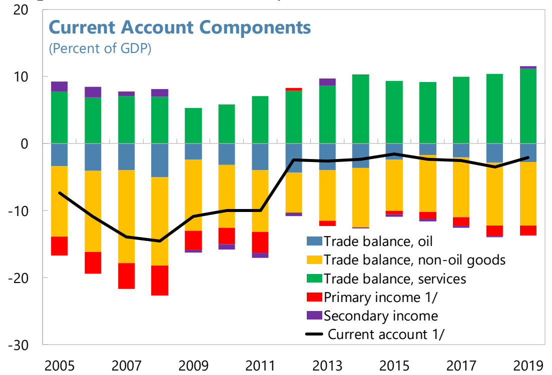



Sources: Brussevich, M., E. Dabla-Norris, S. Khalid, 2020, "*Who will bear the brunt of lockdown policies? Evidence from tele-workability measures across countries.*" IMF Working Paper WP/20/88; and IMF staff estimates. ERGANI; Eurostat; Haver Analytics; International Labor Organization; World Travel and Tourism Council; and IMF staff calculations.

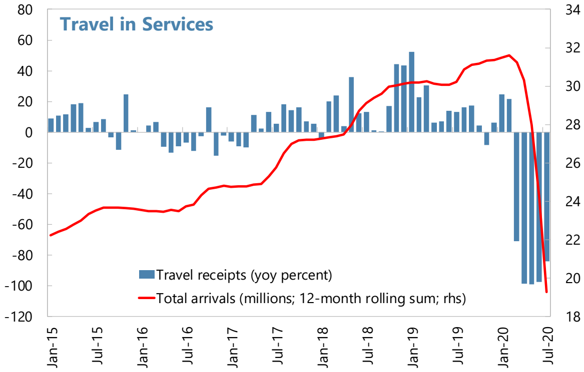
1/ Based on Brussevich et al (2020) Work-From-Home (WFH) feasibility index. Dots represent estimates of group differences from cross-country regressions where the tele-workability index is regressed on worker/sector characteristics. A positive coefficient indicates higher WFH feasibility; end points represent the min/max coefficients from regressions.

## Figure 5. External Sector Developments

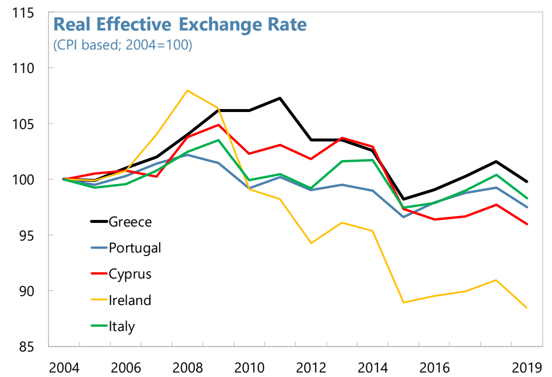
*The current account deficit narrowed in 2019 owing to a strong increase in tourism receipts, …*



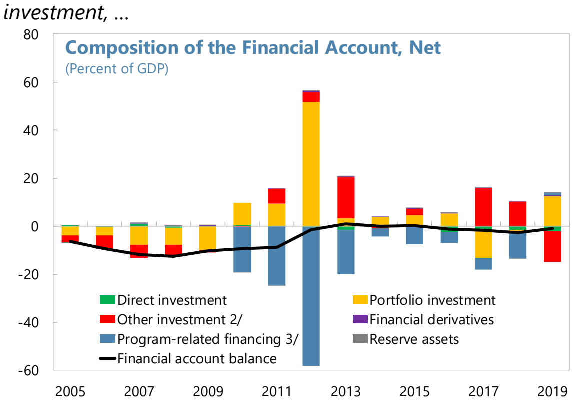

*… which have collapsed in the wake of the COVID-19 pandemic.*



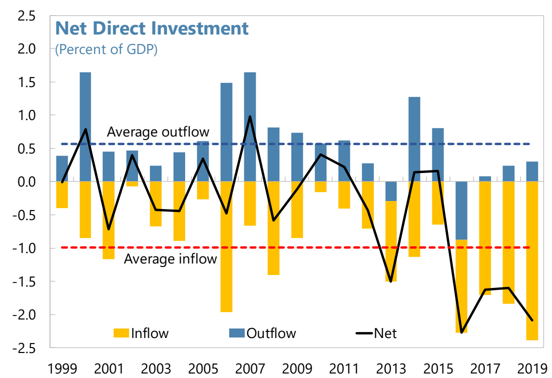

*The REER (CPI-based) reversed its recent appreciation trend in 2019 along with other EA countries.*



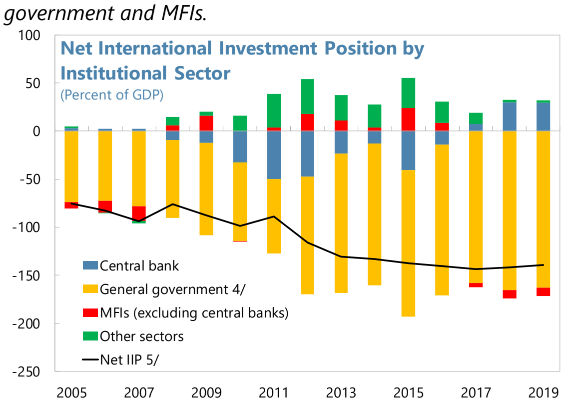

*As official sector program-related financing tapered off and Greece restored market access, financial account dynamics have been increasingly driven by portfolio and other investment, …*




*… along with a continued recovery in FDI, driven by investment in tourism and transportation (incl. privatization), real estate purchases, and financial sector M&As.*




*Following a long period of deterioration, the NIIP position has stabilized with higher net foreign assets of the monetary authorities offsetting higher net foreign liabilities of the government and MFIs.*

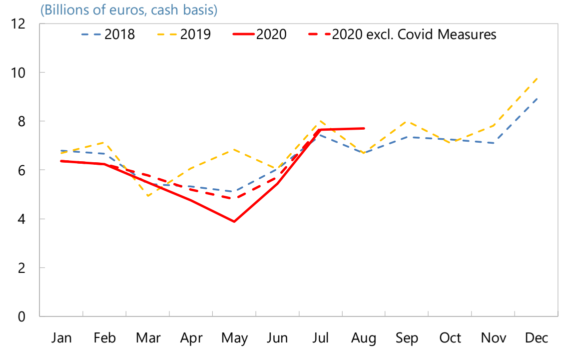



Sources: Bank of Greece; ELSTAT; Eurostat; European Central Bank; Haver Analytics; and IMF staff calculations.
1/ Includes deferred interest payments on EFSF loans (IMF staff revisions).
2/ Includes liabilities to Eurosystem related to TARGET2. Excludes official financing (IMF staff revisions).
3/ Includes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

## Figure 6. Fiscal Developments

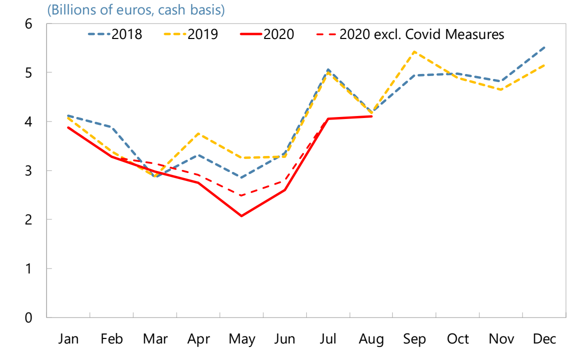
*Revenues have dropped since the COVID-19 outbreak...*

**General Government Revenue**
(Billions of euros, cash basis)



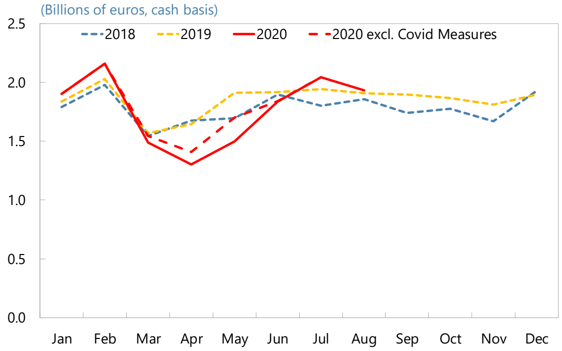

*...most notably in tax revenues...*

**General Government Tax Revenue**
(Billions of euros, cash basis)



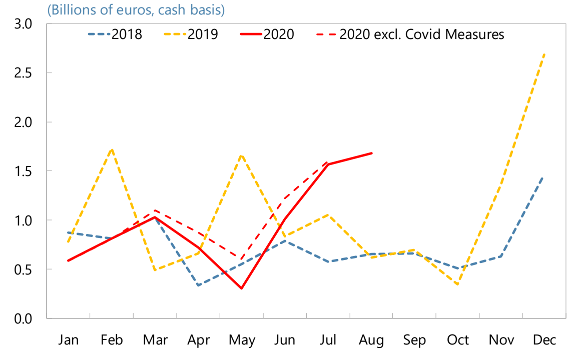

*...followed by social security contributions...*

**General Government Social Contributions**
(Billions of euros, cash basis)



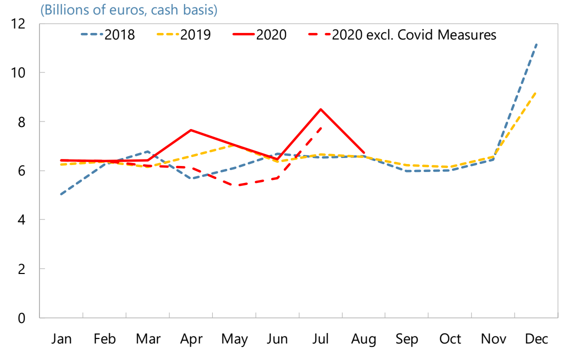

*...and other revenues.*

**General Government Other Revenue**
(Billions of euros, cash basis)



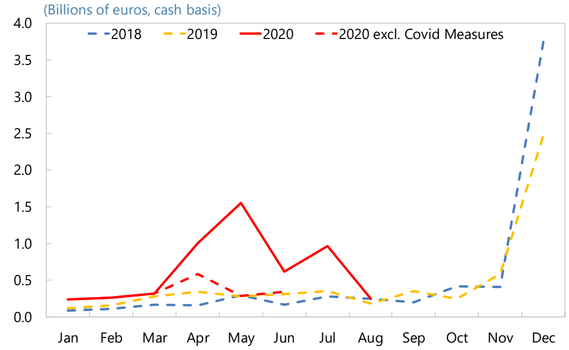

*Spending has increased on the back of COVID-19 expenditures...*

**General Government Expenditure**
(Billions of euros, cash basis)




*...with significant PIB reallocation to finance COVID-19 measures.*

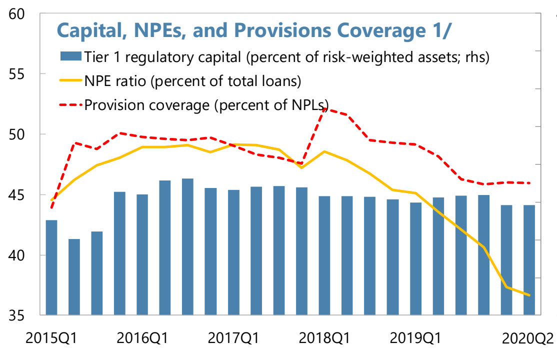
**Public Investment Budget Expenditure**
(Billions of euros, cash basis)




Sources: Ministry of Finance; and IMF staff calculations.

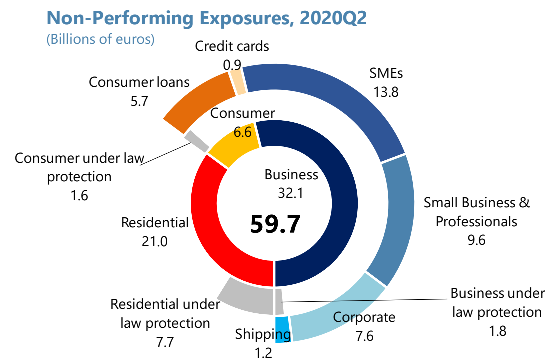
## Figure 7. Financial Sector Developments

*NPEs remain high, while provision coverage is low…*



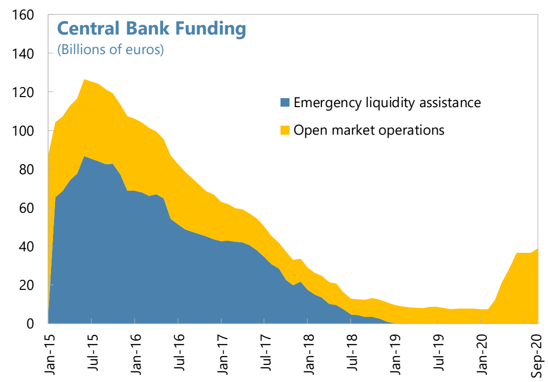

1/ Non-performing Exposures are defined as loans that are 90 days or more past due, unlikely to be repaid in full without realizing collateral, and impaired according to accounting rules, as well as loans that have been restructured for

*… and about one-quarter of residential NPEs remain under legal protection by June 2020.*

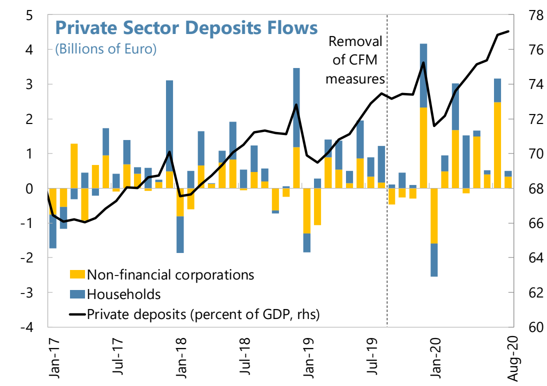



Note: On balance sheet non-performing exposures, solo basis.

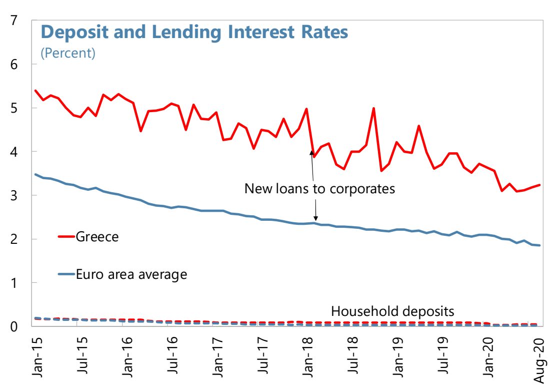
*Banks have replaced market REPOs with ECB liquidity.*



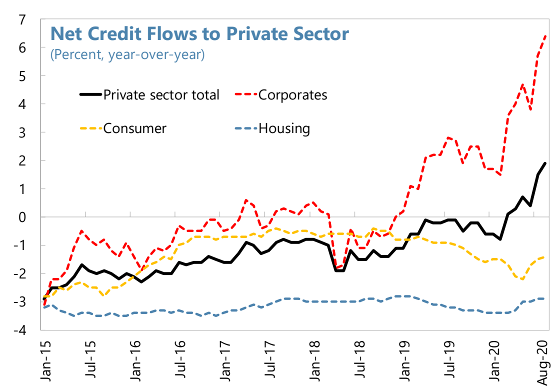

*Private deposits continued to increase since the outbreak*




*Lending interest rates remain high while…*




*…credit to corporates has increased substantially on the back of credit guarantees and lending moratoria*




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

## Table 1. Greece: Medium-Term Macro Framework, 2018–25

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| | | | Projections | | | | | |
| | (Percentage change, unless otherwise indicated) | | | | | | | |
| Real GDP | 1.9 | 1.9 | -9.5 | 5.7 | 5.6 | 3.3 | 2.3 | 1.8 |
| Total domestic demand | -1.3 | 1.5 | -4.5 | 3.1 | 4.5 | 3.2 | 2.3 | 1.9 |
| Private consumption | 1.1 | 0.8 | -5.8 | 2.5 | 2.1 | 1.9 | 1.5 | 1.4 |
| Public consumption | -2.5 | 2.1 | 4.1 | -2.0 | 1.7 | 1.4 | 1.2 | 0.8 |
| Gross fixed capital formation | -12.2 | 4.7 | -15.1 | 18.3 | 23.2 | 12.2 | 7.4 | 5.2 |
| Net exports | | | | | | | | |
| Exports of goods and services | 8.7 | 4.8 | -22.5 | 16.3 | 12.2 | 6.8 | 3.7 | 2.8 |
| Imports of goods and services | 4.2 | 2.5 | -8.7 | 6.9 | 8.4 | 5.1 | 3.8 | 3.0 |
| Final consumption (contribution) | 0.2 | 1.0 | -3.0 | 1.3 | 1.8 | 1.6 | 1.2 | 1.1 |
| Gross fixed capital formation (contribution) | -1.6 | 0.5 | -1.7 | 2.0 | 2.8 | 1.7 | 1.1 | 0.8 |
| Change in inventories (contribution) | 1.8 | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign balance (contribution) | 1.3 | 0.8 | -4.8 | 2.4 | 1.0 | 0.5 | -0.1 | -0.1 |
| Resource utilization | | | | | | | | |
| Potential GDP | -0.6 | -0.4 | -1.8 | 0.6 | 0.9 | 1.1 | 1.1 | 1.3 |
| Output gap (percent of potential) | -6.5 | -4.4 | -11.9 | -7.5 | -3.2 | -1.1 | 0.0 | 0.6 |
| Employment | 2.0 | 2.2 | -5.7 | 2.0 | 2.0 | 2.0 | 1.0 | 0.2 |
| Unemployment rate, period average (percent) 1/ | 19.3 | 17.3 | 18.9 | 17.5 | 15.9 | 14.3 | 13.1 | 12.6 |
| Prices | | | | | | | | |
| GDP deflator | 0.5 | -0.4 | -0.8 | 0.9 | 0.9 | 1.7 | 1.6 | 1.8 |
| Consumer prices (HICP), period average | 0.8 | 0.5 | -1.1 | 0.6 | 1.1 | 1.2 | 1.7 | 1.9 |
| Unit labor costs | 1.2 | 4.1 | -1.1 | 0.8 | 0.8 | 1.6 | 1.6 | 1.8 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | |
| Current account 2/ | -3.5 | -2.1 | -7.5 | -4.1 | -3.0 | -3.1 | -3.2 | -3.2 |
| Trade balance | -1.7 | -0.9 | -6.2 | -3.2 | -2.1 | -1.5 | -1.5 | -1.6 |
| Export of goods and services | 37.6 | 38.7 | 30.8 | 33.6 | 35.7 | 36.8 | 37.3 | 37.7 |
| Export of goods | 17.5 | 17.3 | 16.6 | 16.5 | 16.5 | 16.6 | 16.6 | 16.7 |
| Exports of services | 20.1 | 21.4 | 14.2 | 17.1 | 19.2 | 20.2 | 20.7 | 21.0 |
| Imports of goods and services | 39.4 | 39.6 | 37.0 | 36.8 | 37.8 | 38.3 | 38.8 | 39.2 |
| Imports of goods | 29.7 | 29.5 | 27.1 | 26.7 | 27.4 | 27.7 | 28.0 | 28.3 |
| Imports of services | 9.7 | 10.2 | 9.9 | 10.1 | 10.4 | 10.6 | 10.8 | 10.9 |
| Primary income 2/ | -1.6 | -1.5 | -1.4 | -1.5 | -1.4 | -1.4 | -1.4 | -1.5 |
| Secondary income 3/ | -0.2 | 0.3 | 0.2 | 0.6 | 0.5 | -0.3 | -0.3 | -0.2 |
| Net international investment position 4/ | -147.3 | -155.0 | -178.7 | -170.1 | -161.3 | -155.7 | -151.4 | -148.1 |
| Gross external debt 4/ | 227.8 | 240.9 | 255.4 | 242.0 | 228.6 | 219.4 | 212.3 | 206.9 |
| Private sector capital flows (net) | 14.3 | -2.2 | -13.8 | -0.7 | 1.4 | -0.3 | 0.9 | -0.4 |
| Fiscal Indicators (general government) | | | | | | | | |
| Total revenues | 47.8 | 46.8 | 47.7 | 49.7 | 49.5 | 48.6 | 47.6 | 46.7 |
| Total expenditures | 46.9 | 46.2 | 57.5 | 54.0 | 50.4 | 49.7 | 48.7 | 48.0 |
| Primary expenditures | 43.6 | 43.3 | 54.5 | 51.0 | 47.5 | 46.8 | 45.9 | 45.1 |
| Primary balance | 4.2 | 3.5 | -6.8 | -1.3 | 2.0 | 1.8 | 1.7 | 1.6 |
| Cyclically-adjusted primary balance | 7.6 | 6.6 | -0.6 | 2.3 | 4.4 | 2.3 | 1.7 | 1.3 |
| Overall balance | 0.9 | 0.6 | -9.8 | -4.3 | -0.9 | -1.1 | -1.2 | -1.3 |
| Gross public debt 4/ | 184.8 | 180.9 | 208.1 | 199.1 | 186.6 | 175.6 | 168.8 | 163.9 |
| Memorandum item: | | | | | | | | |
| Nominal GDP (billions of euros) | 184.7 | 187.5 | 168.2 | 179.3 | 191.0 | 200.5 | 208.4 | 215.9 |
| General government debt excl. stock of deferred interests (billions of euros) | 334.6 | 331.1 | 341.0 | 346.7 | 344.9 | 339.3 | 337.8 | 338.4 |

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.

3/ Includes transfers related to ANFA/SMP profits.

4/ Includes the stock of deferred interest payments on EFSF loans.

## Table 2. Greece: Summary of Balance of Payments, 2018–25

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| | | | Projections | | | | | |
| | | | | (Billions of euros) | | | | |
| Current account balance 1/ | -6.4 | -3.9 | -12.6 | -7.4 | -5.8 | -6.3 | -6.6 | -7.0 |
| Balance of goods and services | -3.2 | -1.7 | -10.5 | -5.8 | -3.9 | -2.9 | -3.1 | -3.4 |
| Goods balance | -22.5 | -22.8 | -17.6 | -18.4 | -20.7 | -22.2 | -23.7 | -25.2 |
| Exports | 32.4 | 32.4 | 28.0 | 29.6 | 31.6 | 33.2 | 34.6 | 35.9 |
| Imports | 54.9 | 55.3 | 45.6 | 48.0 | 52.3 | 55.5 | 58.4 | 61.1 |
| Services balance | 19.3 | 21.1 | 7.1 | 12.6 | 16.8 | 19.3 | 20.6 | 21.7 |
| Credit | 37.2 | 40.2 | 23.8 | 30.7 | 36.7 | 40.6 | 43.1 | 45.3 |
| Debit | 17.9 | 19.0 | 16.7 | 18.1 | 19.9 | 21.2 | 22.5 | 23.6 |
| Primary income 1/ | -2.9 | -2.8 | -2.4 | -2.6 | -2.7 | -2.8 | -2.9 | -3.1 |
| Credit | 6.1 | 6.0 | 6.2 | 6.4 | 6.7 | 7.0 | 7.3 | 7.7 |
| Debit 1/ | 9.0 | 8.8 | 8.6 | 9.0 | 9.4 | 9.8 | 10.3 | 10.8 |
| Secondary income | -0.3 | 0.6 | 0.3 | 1.0 | 0.9 | -0.6 | -0.5 | -0.4 |
| Credit 2/ | 2.2 | 3.8 | 3.7 | 4.4 | 4.5 | 3.3 | 3.3 | 3.6 |
| Debit | 2.5 | 3.2 | 3.4 | 3.4 | 3.7 | 3.9 | 3.9 | 4.1 |
| Capital account balance | 0.4 | 0.7 | 1.3 | 3.6 | 3.5 | 3.6 | 3.4 | 2.8 |
| Financial account balance | 16.0 | -3.5 | -8.9 | -3.4 | -1.8 | -2.9 | -2.2 | -2.7 |
| Direct investment | -3.0 | -3.7 | -2.8 | -3.8 | -4.3 | -3.3 | -4.3 | -3.7 |
| Portfolio investment | -0.7 | 23.2 | -34.6 | -3.6 | -2.4 | -1.5 | -2.7 | -4.8 |
| Financial derivatives | 0.7 | 1.0 | 0.4 | 0.3 | 0.4 | 0.3 | 0.2 | 0.2 |
| Other investment 3/ | 18.9 | -24.0 | 28.1 | 3.7 | 4.5 | 1.7 | 4.6 | 5.6 |
| Net errors and omissions | 1.0 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserves and related items | -21.2 | 1.8 | -2.5 | -0.4 | -0.4 | 0.2 | -1.0 | -1.5 |
| Reserve assets | -0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| IMF credit and loans | -1.8 | -4.4 | 0.0 | -2.0 | -2.0 | -1.4 | -0.3 | 0.0 |
| Program-related financing 4/ | 22.9 | 2.7 | 2.5 | 2.4 | 2.4 | 1.2 | 1.3 | 1.5 |
| | | | | (Percent of GDP) | | | | |
| Current account balance 1/ | -3.5 | -2.1 | -7.5 | -4.1 | -3.0 | -3.1 | -3.2 | -3.2 |
| Balance on goods and services | -1.7 | -0.9 | -6.2 | -3.2 | -2.1 | -1.5 | -1.5 | -1.6 |
| Goods balance | -12.2 | -12.2 | -10.5 | -10.2 | -10.8 | -11.1 | -11.4 | -11.7 |
| Services balance | 10.5 | 11.3 | 4.2 | 7.0 | 8.8 | 9.6 | 9.9 | 10.1 |
| Primary income 1/ | -1.6 | -1.5 | -1.4 | -1.5 | -1.4 | -1.4 | -1.4 | -1.5 |
| Secondary income 2/ | -0.2 | 0.3 | 0.2 | 0.6 | 0.5 | -0.3 | -0.3 | -0.2 |
| Capital account balance | 0.2 | 0.4 | 0.8 | 2.0 | 1.9 | 1.8 | 1.6 | 1.3 |
| Financial account balance | 8.7 | -1.9 | -5.3 | -1.9 | -0.9 | -1.4 | -1.0 | -1.2 |
| Direct investment | -1.6 | -2.0 | -1.6 | -2.1 | -2.3 | -1.6 | -2.1 | -1.7 |
| Portfolio investment | -0.4 | 12.4 | -20.6 | -2.0 | -1.2 | -0.8 | -1.3 | -2.2 |
| Financial derivatives | 0.4 | 0.5 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| Other investment 3/ | 10.2 | -12.8 | 16.7 | 2.1 | 2.4 | 0.8 | 2.2 | 2.6 |
| Net errors and omissions | 0.5 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserves and related items | -11.5 | 1.0 | -1.5 | -0.2 | -0.2 | 0.1 | -0.5 | -0.7 |
| Reserve assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| IMF credit and loans | -1.0 | -2.3 | 0.0 | -1.1 | -1.0 | -0.7 | -0.1 | 0.0 |
| Program-related financing 4/ | 12.4 | 1.4 | 1.5 | 1.3 | 1.3 | 0.6 | 0.6 | 0.7 |
| Gross external debt | 227.8 | 240.9 | 255.4 | 242.0 | 228.6 | 219.4 | 212.3 | 206.9 |
| Public sector 5/ | 180.8 | 179.1 | 209.2 | 197.3 | 185.2 | 176.9 | 170.3 | 165.2 |
| Private sector | 47.0 | 61.7 | 46.2 | 44.8 | 43.4 | 42.5 | 42.0 | 41.7 |
| Memorandum item: | | | | | | | | |
| Current account balance in cash terms | -2.8 | -1.4 | -6.8 | -3.5 | -2.4 | -2.5 | -2.5 | -2.6 |
| Deferred interest payments on EFSF loans | 0.6 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 |

Sources: Bank of Greece; and IMF staff estimates.

1/ Includes deferred interest payments on EFSF loans (IMF staff revisions).

2/ Includes transfers related to ANFA/SMP profits (IMF staff revisions).

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

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

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

## Table 3. Greece: General Government Operations, 2018–25 1/

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| | | | Projections | | | | | |
| | | | (Billions of euros) | | | | | |
| Revenue | 88.3 | 87.7 | 80.3 | 89.1 | 94.5 | 97.4 | 99.1 | 100.8 |
| Indirect taxes | 31.3 | 31.8 | 27.9 | 30.6 | 31.4 | 32.4 | 32.8 | 33.7 |
| Direct taxes | 18.6 | 17.8 | 15.4 | 16.2 | 18.6 | 19.7 | 20.4 | 21.1 |
| Social contributions | 26.3 | 26.7 | 24.1 | 25.6 | 27.3 | 27.8 | 28.8 | 29.8 |
| Other current revenue | 4.1 | 3.4 | 5.1 | 3.5 | 3.9 | 3.9 | 3.5 | 3.7 |
| Sales | 5.3 | 4.8 | 5.2 | 5.3 | 5.6 | 5.6 | 5.8 | 6.0 |
| Capital revenue | 2.7 | 3.1 | 2.7 | 7.9 | 7.7 | 8.0 | 7.8 | 6.5 |
| Primary expenditure | 80.6 | 81.1 | 91.7 | 91.5 | 90.8 | 93.8 | 95.6 | 97.4 |
| Social benefits | 38.3 | 38.9 | 40.7 | 40.2 | 40.1 | 40.8 | 41.3 | 41.8 |
| Subsidies | 1.6 | 2.0 | 2.0 | 1.9 | 1.9 | 1.9 | 1.7 | 1.7 |
| Other current expenditure | 3.4 | 3.0 | 10.4 | 5.3 | 3.7 | 4.3 | 4.5 | 4.7 |
| Compensation of employees | 21.7 | 21.9 | 22.5 | 23.2 | 23.6 | 24.4 | 25.3 | 26.2 |
| Intermediate consumption | 8.4 | 8.3 | 9.0 | 9.5 | 9.7 | 10.3 | 10.4 | 10.4 |
| Investment | 4.3 | 4.2 | 4.8 | 9.2 | 9.4 | 9.5 | 10.0 | 10.2 |
| Capital transfers payable | 2.9 | 2.7 | 2.3 | 2.2 | 2.3 | 2.5 | 2.3 | 2.3 |
| Primary balance | 7.7 | 6.6 | -11.4 | -2.4 | 3.7 | 3.6 | 3.5 | 3.4 |
| Cash basis | 6.1 | 6.4 | -15.3 | -3.8 | 2.0 | 2.9 | 3.4 | 3.4 |
| Interest 2/ | 6.1 | 5.5 | 5.1 | 5.3 | 5.5 | 5.8 | 6.0 | 6.3 |
| Overall balance | 1.6 | 1.1 | -16.5 | -7.7 | -1.8 | -2.1 | -2.4 | -2.9 |
| Gross debt 3/ | 341.3 | 339.1 | 350.2 | 357.0 | 356.3 | 352.0 | 351.7 | 353.8 |
| | | | (Percent of GDP) | | | | | |
| Total primary revenue | 47.8 | 46.8 | 47.7 | 49.7 | 49.5 | 48.6 | 47.6 | 46.7 |
| Indirect taxes | 17.0 | 17.0 | 16.6 | 17.0 | 16.5 | 16.2 | 15.7 | 15.6 |
| Direct taxes | 10.1 | 9.5 | 9.2 | 9.1 | 9.7 | 9.8 | 9.8 | 9.8 |
| Social contributions | 14.2 | 14.3 | 14.3 | 14.3 | 14.3 | 13.9 | 13.8 | 13.8 |
| Other current revenue | 2.2 | 1.8 | 3.0 | 1.9 | 2.0 | 1.9 | 1.7 | 1.7 |
| Sales | 2.9 | 2.6 | 3.1 | 3.0 | 2.9 | 2.8 | 2.8 | 2.8 |
| Capital revenue | 1.5 | 1.6 | 1.6 | 4.4 | 4.0 | 4.0 | 3.7 | 3.0 |
| Total primary expenditure | 43.6 | 43.3 | 54.5 | 51.0 | 47.5 | 46.8 | 45.9 | 45.1 |
| Social benefits | 20.7 | 20.7 | 24.2 | 22.4 | 21.0 | 20.4 | 19.8 | 19.4 |
| Subsidies | 0.8 | 1.1 | 1.2 | 1.1 | 1.0 | 1.0 | 0.8 | 0.8 |
| Other current expenditure | 1.8 | 1.6 | 6.2 | 3.0 | 1.9 | 2.1 | 2.2 | 2.2 |
| Compensation of employees | 11.8 | 11.7 | 13.4 | 12.9 | 12.4 | 12.2 | 12.2 | 12.1 |
| Intermediate consumption | 4.6 | 4.4 | 5.4 | 5.3 | 5.1 | 5.1 | 5.0 | 4.8 |
| Investment | 2.3 | 2.2 | 2.9 | 5.1 | 4.9 | 4.8 | 4.8 | 4.7 |
| Capital transfers payable | 1.6 | 1.5 | 1.3 | 1.2 | 1.2 | 1.3 | 1.1 | 1.1 |
| Primary balance | 4.2 | 3.5 | -6.8 | -1.3 | 2.0 | 1.8 | 1.7 | 1.6 |
| Interest 2/ | 3.3 | 2.9 | 3.0 | 3.0 | 2.9 | 2.9 | 2.9 | 2.9 |
| Overall balance | 0.9 | 0.6 | -9.8 | -4.3 | -0.9 | -1.1 | -1.2 | -1.3 |
| Gross debt 3/ | 184.8 | 180.9 | 208.1 | 199.1 | 186.6 | 175.6 | 168.8 | 163.9 |
| Nominal GDP (billions of euros) | 184.7 | 187.5 | 168.2 | 179.3 | 191.0 | 200.5 | 208.4 | 215.9 |

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, 2017–20

| | 2017 | 2018 | 2019 | | | | 2020 | |
|---|---|---|---|---|---|---|---|---|
| | | | Mar. | Jun. | Sep. | Dec. | Mar. | Jun. |
| | | | (Billions of euros) | | | | | |
| Aggregated balance sheet of Monetary Financial Institutions (MFIs) | | | | | | | | |
| Total assets | 427.7 | 402.4 | 389.7 | 392.7 | 422.3 | 419.5 | 429.2 | 487.1 |
| Cash (held by credit institutions) | 1.8 | 1.8 | 1.5 | 1.7 | 1.8 | 2.1 | 1.7 | 1.7 |
| Claims on Bank of Greece | 2.0 | 6.9 | 4.5 | 5.2 | 5.5 | 9.1 | 12.1 | 18.8 |
| Claims on other MFIs | 50.7 | 27.9 | 23.3 | 23.0 | 22.1 | 21.2 | 27.3 | 50.8 |
| Claims (loans) on non MFIs | 201.0 | 186.1 | 179.6 | 167.9 | 173.9 | 172.1 | 164.5 | 164.0 |
| Domestic | 197.5 | 183.1 | 169.5 | 167.9 | 164.1 | 162.5 | 154.8 | 154.1 |
| General government | 13.7 | 12.9 | 7.4 | 6.8 | 6.9 | 8.4 | 7.2 | 6.6 |
| Other sectors | 183.8 | 170.2 | 162.1 | 161.1 | 157.2 | 154.1 | 147.6 | 147.5 |
| Other countries | 3.4 | 3.0 | 10.1 | 0.0 | 9.9 | 9.7 | 9.7 | 9.8 |
| Securities 1/ | 103.4 | 105.6 | 108.1 | 114.1 | 136.3 | 136.7 | 141.8 | 168.8 |
| Other assets | 64.3 | 69.5 | 68.0 | 75.1 | 76.6 | 72.2 | 75.7 | 76.6 |
| Fixed assets | 4.5 | 4.6 | 4.7 | 5.7 | 6.0 | 6.1 | 6.2 | 6.3 |
| Total Liabilities | 427.7 | 402.4 | 389.7 | 402.5 | 422.3 | 419.5 | 429.2 | 487.1 |
| Liabilities to Bank of Greece | 33.7 | 11.1 | 8.4 | 8.6 | 7.5 | 7.7 | 12.4 | 36.8 |
| Liabilities to other MFIs | 79.2 | 62.1 | 52.9 | 52.4 | 51.1 | 56.4 | 69.7 | 95.7 |
| Deposits and repos of non MFIs | 157.6 | 185.3 | 188.4 | 189.6 | 192.6 | 195.2 | 194.4 | 195.7 |
| Domestic | 150.9 | 178.1 | 180.9 | 181.2 | 184.5 | 187.2 | 186.0 | 186.2 |
| Other countries | 6.7 | 7.2 | 7.6 | 8.4 | 8.2 | 8.0 | 8.3 | 9.5 |
| Capital and reserves | 83.5 | 69.9 | 71.0 | 72.3 | 67.5 | 69.1 | 65.9 | 67.4 |
| Banknotes and coins in circulation | 31.9 | 33.6 | 28.6 | 29.1 | 29.4 | 30.4 | 30.7 | 31.8 |
| Other liabilities | 41.8 | 40.5 | 40.4 | 50.5 | 74.0 | 60.8 | 56.2 | 59.6 |
| Money and credit | | | | | | | | |
| Broad money | 171.0 | 178.4 | 175.8 | 181.0 | 183.3 | 185.9 | 186.5 | 193.0 |
| Credit to the private sector 2/ | 183.4 | 169.8 | 161.7 | 160.7 | 156.8 | 153.7 | 147.2 | 147.1 |
| Credit to government | 18.9 | 18.2 | 16.1 | 17.0 | 18.3 | 19.7 | 21.0 | 24.4 |
| | | | (Annual percentage change) | | | | | |
| Broad money | 5.7 | 4.3 | 4.9 | 5.3 | 4.3 | 4.2 | 6.1 | 6.6 |
| Domestic private sector deposits | 4.2 | 6.3 | 6.6 | 6.3 | 6.0 | 6.1 | 7.2 | 7.1 |
| Credit to the private sector 2/ | -5.8 | -7.5 | -10.1 | -9.9 | -11.2 | -9.5 | -9.0 | -8.5 |
| Credit to government | -0.7 | -3.8 | -3.1 | 4.6 | 13.5 | 8.2 | 30.5 | 44.0 |
| | | | (Percent of GDP) | | | | | |
| Broad money | 95.1 | 96.9 | 94.9 | 97.0 | 98.0 | 99.5 | 100.4 | 108.5 |
| Domestic deposits | 84.0 | 96.7 | 97.6 | 97.1 | 98.6 | 100.2 | 100.1 | 104.7 |
| Credit to the private sector 2/ | 102.0 | 92.2 | 87.3 | 86.1 | 83.8 | 82.2 | 79.2 | 82.7 |
| Credit to government | 10.5 | 9.9 | 8.7 | 9.1 | 9.8 | 10.5 | 11.3 | 13.7 |
| Memorandum items: | | | (Percent) | | | | | |
| Capital to assets | 11.2 | 8.9 | 9.7 | 10.0 | 9.6 | 9.0 | 8.3 | 8.1 |
| Loans to customer deposits | 127.1 | 106.7 | 104.1 | 96.1 | 83.7 | 81.2 | 79.1 | 78.4 |
| Velocity | 1.1 | 1.0 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 0.9 |

Sources: Bank of Greece; and IMF staff calculations.

1/ Holdings of securities other than shares

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 Indicators (Deposit Taking Institutions), 2014–20

(Percent, unless otherwise indicated)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 Mar. |
|---|---|---|---|---|---|---|---|
| Core set | | | | | | | |
| Regulatory capital to risk-weighted assets 1/ | 14.1 | 16.5 | 16.9 | 17.0 | 16.0 | 17.0 | 16.2 |
| Regulatory Tier I capital to risk-weighted assets 1/ | 13.8 | 16.4 | 16.8 | 17.0 | 15.3 | 15.9 | 14.6 |
| Nonperforming loans net of provisions to capital 2/ | 120.5 | 80.8 | 81.6 | 172.4 | 157.6 | 129.2 | 132.1 |
| Nonperforming loans to total gross loans 2/ | 33.8 | 36.6 | 36.3 | 45.6 | 42.0 | 36.4 | 35.3 |
| Bank provisions to nonperforming loans | 55.8 | 67.6 | 68.9 | 46.8 | | | |
| Return on assets (after taxes) | -1.0 | -2.5 | 0.1 | -0.2 | 0.0 | 0.1 | 0.1 |
| Return on equity (after taxes) | -10.4 | -29.3 | 0.8 | -1.3 | -0.4 | 0.7 | 1.3 |
| Interest margin to gross income | 81.8 | 85.3 | 79.6 | 78.4 | 71.9 | 67.5 | 51.7 |
| Non-interest expenses to gross income | 61.1 | 61.0 | 53.6 | 59.5 | 64.3 | 65.1 | 44.9 |
| Liquid assets to total assets 3/ | 28.9 | 29.7 | 27.0 | 17.7 | 19.6 | 29.6 | 31.6 |
| Liquid assets to short-term liabilities 3/ | 40.1 | 40.4 | 36.3 | 24.3 | 26.5 | 44.4 | 45.8 |
| Net open position in foreign exchange to capital 1/ | 5.4 | 5.6 | 0.8 | 1.3 | 0.7 | 0.6 | 0.7 |
| Encouraged set | | | | | | | |
| Spread between reference lending and deposit rates (end-of-period, basis points) 4/ | 6.2 | 5.9 | 5.6 | 5.3 | 5.0 | 4.7 | 4.6 |
| Customer deposits to total (noninterbank) loans 3/ | 90.3 | 71.8 | 76.0 | 68.1 | 81.3 | 91.6 | 91.8 |
| Foreign currency-denominated liabilities to total liabilities 3/ | 5.6 | 3.1 | 3.5 | 4.3 | 4.4 | 4.3 | 4.4 |
| Market liquidity | | | | | | | |
| Average bid-ask spread in the securities market (basis points) | 157.0 | 173.0 | 149.0 | 100.0 | 67.0 | 95.0 | 112.0 |
| Households | | | | | | | |
| Household debt to GDP | 63.0 | 62.3 | 60.2 | 57.0 | 52.4 | 53.3 | 59.0 |
| Real estate markets | | | | | | | |
| Residential real estate loans to total loans 3/ | 26.8 | 27.6 | 27.2 | 29.1 | 30.4 | 29.2 | 28.3 |
| Memorandum items: | | | | | | | |
| Assets (billions of euros) | | | | | | | |
| Banks | 375.0 | 367.8 | 342.2 | 292.2 | … | … | … |
| Branches of foreign banks | 9.1 | 5.8 | 5.9 | 5.3 | … | … | … |
| General insurance companies 5/ | 16.3 | 16.6 | 15.9 | 16.9 | … | … | … |
| Other credit institutions | 13.0 | 12.0 | 3.2 | 3.3 | … | … | … |
| Deposits (billions of euros) | | | | | | | |
| Banks | 174.3 | 128.7 | 134.6 | 138.7 | … | … | … |
| Branches of foreign banks | 2.5 | 2.8 | 3.6 | 3.4 | … | … | … |

Source: Bank of Greece.

1/ Data on a consolidated basis.

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

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

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

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

## Table 6. Greece: General Government Financing Requirements and Sources, 2018–25

(Billions of euros)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| | | | Proj. | | | | | |
| Gross borrowing need | 35.9 | 20.8 | 29.8 | 23.2 | 18.9 | 15.0 | 14.9 | 16.0 |
| Overall deficit | -1.4 | -1.4 | 18.0 | 6.9 | 1.7 | 1.4 | 1.4 | 1.0 |
| Primary deficit (cash) | -6.1 | -6.4 | 13.1 | 1.9 | -3.4 | -3.6 | -3.5 | -3.4 |
| Interest payments (cash) 1/ | 4.7 | 5.0 | 5.0 | 5.0 | 5.1 | 5.1 | 4.9 | 4.5 |
| Amortization | 18.7 | 29.1 | 17.9 | 18.4 | 20.7 | 20.6 | 16.5 | 15.3 |
| Short-term (T-bills) | 14.3 | 11.2 | 11.8 | 13.0 | 11.0 | 9.0 | 7.0 | 7.0 |
| Medium and long-term (non-official) | 2.6 | 13.5 | 5.4 | 1.4 | 5.1 | 5.8 | 4.8 | 3.9 |
| ECB holdings | 1.9 | 5.8 | 1.4 | 0.0 | 1.3 | 0.0 | 1.3 | 0.1 |
| Official creditors | 1.8 | 4.4 | 0.7 | 4.1 | 4.6 | 5.8 | 4.8 | 4.5 |
| IMF | 1.8 | 4.4 | 0.0 | 2.0 | 2.0 | 1.4 | 0.3 | 0.0 |
| GLF/EFSF/ESM | 0.0 | 0.0 | 0.7 | 2.1 | 2.6 | 4.5 | 4.5 | 4.5 |
| Other | 18.7 | -7.0 | -6.1 | -2.2 | -3.5 | -7.0 | -2.9 | -0.4 |
| Arrears clearance | 1.9 | 0.0 | 0.6 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Privatization | -0.8 | 0.0 | -0.4 | -0.8 | -1.1 | -0.1 | -0.1 | -0.1 |
| ECB related income (SMP/ANFA) | -0.3 | -1.6 | -1.5 | -1.5 | -1.4 | -0.1 | 0.0 | 0.0 |
| Reimbursement of the step-up margin 2/ | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Government deposits: replenishment (+) / drawdown (-) | 17.9 | -5.3 | -4.9 | -0.5 | -1.0 | -6.9 | -2.8 | -0.3 |
| Gross financing sources | 35.9 | 20.8 | 29.8 | 23.2 | 18.9 | 15.0 | 14.9 | 16.0 |
| Market access | 14.2 | 20.8 | 28.3 | 21.0 | 18.9 | 15.0 | 14.9 | 16.0 |
| Short-term (T-bills) | 11.2 | 11.8 | 13.0 | 11.0 | 9.0 | 7.0 | 7.0 | 7.0 |
| Medium and long-term | 3.0 | 9.0 | 15.3 | 10.0 | 10.0 | 8.0 | 8.0 | 9.0 |
| Official financing | 21.7 | 0.0 | 1.5 | 2.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| European institutions 3/ | 21.7 | 0.0 | 1.5 | 2.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| IMF | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Memo items:* | | | | | | | | |
| Deposits of general government 4/ | 38.4 | 36.4 | 32.5 | 31.2 | 29.4 | 21.7 | 18.1 | 17.0 |
| Directly available to state government 5/ | 30.0 | 29.6 | 25.9 | 24.6 | 22.8 | 15.1 | 11.5 | 10.4 |
| State government in BoG 6/ | 20.3 | 18.3 | 18.6 | 18.1 | 17.1 | 10.2 | 7.4 | 7.1 |
| State government in commercial banks | 6.5 | 5.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| General government entities in BoG | 3.2 | 6.1 | 7.3 | 6.5 | 5.7 | 4.9 | 4.1 | 3.3 |
| General government entities in commercial banks 7/ | 8.5 | 6.8 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |

Sources: Ministry of Finance; and IMF staff projections.

1/ Includes swaps-related cash flows.

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

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

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

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

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

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

## Table 7. Greece: External Financing Requirements and Sources, 2018–25

(Billions of euros, unless otherwise indicated)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| | | | Projections | | | | | |
| Gross financing requirements | 120.1 | 106.3 | 128.4 | 118.9 | 115.2 | 118.8 | 123.2 | 124.8 |
| Current account deficit | 6.4 | 3.9 | 12.6 | 7.4 | 5.8 | 6.3 | 6.6 | 7.0 |
| Medium and long-term debt amortization | 7.7 | 22.1 | 11.5 | 10.8 | 13.7 | 16.9 | 14.5 | 13.4 |
| Public sector | 4.4 | 16.9 | 5.6 | 5.0 | 7.9 | 11.1 | 8.8 | 7.8 |
| *Of which:* GLF/EFSF/ESM/IMF | 1.8 | 4.4 | 0.7 | 4.1 | 4.6 | 5.8 | 4.8 | 4.5 |
| Banks | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Other | 1.8 | 3.7 | 4.3 | 4.3 | 4.2 | 4.1 | 4.1 | 4.0 |
| Short-term debt amortization | 106.0 | 80.2 | 104.3 | 100.7 | 95.8 | 95.6 | 102.2 | 104.4 |
| Public sector and Bank of Greece | 70.6 | 34.3 | 35.6 | 43.1 | 37.3 | 36.1 | 41.8 | 43.4 |
| Bank of Greece 1/ | 64.4 | 28.7 | 28.6 | 35.7 | 29.8 | 29.4 | 36.0 | 38.4 |
| Public sector | 6.2 | 5.5 | 7.0 | 7.5 | 7.5 | 6.7 | 5.9 | 5.1 |
| Banks 2/ | 27.6 | 35.9 | 59.2 | 48.2 | 49.4 | 50.6 | 51.6 | 52.4 |
| Other | 7.8 | 10.1 | 9.5 | 9.3 | 9.1 | 8.9 | 8.8 | 8.6 |
| Source of financing | 99.1 | 108.0 | 125.9 | 118.5 | 114.8 | 119.0 | 122.2 | 123.3 |
| Capital account (net) | 0.4 | 0.7 | 1.3 | 3.6 | 3.5 | 3.6 | 3.4 | 2.8 |
| Foreign direct investment (net) | 3.0 | 3.7 | 2.8 | 3.8 | 4.3 | 3.3 | 4.3 | 3.7 |
| Equities (net) | 0.7 | 0.0 | -0.1 | -0.1 | -0.1 | -0.2 | -0.3 | -0.4 |
| Assets drawdown (- increase) | 3.6 | -24.4 | 30.2 | -3.3 | -3.5 | -2.8 | -2.5 | -2.4 |
| Bank of Greece | -6.5 | -6.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Government | -0.5 | -0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Banks | 2.2 | -21.9 | 29.8 | -2.3 | -2.5 | -2.0 | -1.7 | -1.7 |
| Other sector | 8.4 | 5.1 | 0.4 | -0.9 | -1.0 | -0.8 | -0.7 | -0.7 |
| New borrowing and debt rollover | 90.5 | 126.5 | 91.8 | 114.4 | 110.5 | 115.0 | 117.2 | 119.6 |
| Medium and long-term borrowing | 11.0 | 19.5 | -8.9 | 18.6 | 14.9 | 12.9 | 12.8 | 13.6 |
| Public sector | 5.6 | 13.8 | 12.8 | 12.2 | 8.5 | 6.5 | 6.5 | 7.3 |
| Banks | 2.1 | 2.4 | -25.6 | 2.5 | 2.5 | 2.6 | 2.6 | 2.7 |
| Other | 3.4 | 3.3 | 4.0 | 3.9 | 3.9 | 3.8 | 3.8 | 3.7 |
| Short-term borrowing | 79.5 | 107.0 | 100.7 | 95.8 | 95.6 | 102.2 | 104.4 | 106.0 |
| Public sector and Bank of Greece | 34.4 | 36.8 | 43.1 | 37.3 | 36.1 | 41.8 | 43.4 | 44.4 |
| Bank of Greece 1/ | 28.8 | 28.5 | 35.7 | 29.8 | 29.4 | 36.0 | 38.4 | 39.3 |
| Public sector 3/ | 5.5 | 8.2 | 7.5 | 7.5 | 6.7 | 5.9 | 5.1 | 5.1 |
| Banks 2/ | 37.5 | 60.3 | 48.2 | 49.4 | 50.6 | 51.6 | 52.4 | 53.2 |
| Other | 7.6 | 10.0 | 9.3 | 9.1 | 8.9 | 8.8 | 8.6 | 8.4 |
| Other | 1.0 | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Program-related financing 4/ | 22.9 | 2.7 | 2.5 | 2.4 | 2.4 | 1.2 | 1.3 | 1.5 |
| *Of which:* interest deferral | 1.2 | 1.4 | 1.2 | 1.1 | 1.1 | 1.2 | 1.3 | 1.5 |

Sources: Bank of Greece; and IMF staff estimates.

1/ Includes liabilities to Eurosystem related to TARGET2.

2/ Includes currency and deposits and securitized loans.

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

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

## Table 8. Greece: Indicators of Fund credit, 2020–25
(Millions of SDRs, unless otherwise indicated)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| (Projected debt service to the Fund) | | | | | | |
| Amortization | 0 | 1,603 | 1,587 | 1,112 | 251 | 0 |
| Total charges and fees | 69 | 44 | 26 | 11 | 2 | 1 |
| Total debt service | 69 | 1,647 | 1,614 | 1,123 | 254 | 1 |
| Percent of exports of goods and services | 0.2 | 3.4 | 2.9 | 1.9 | 0.4 | 0.0 |
| Percent of GDP | 0.1 | 1.1 | 1.0 | 0.7 | 0.2 | 0.0 |
| Percent of general government revenues | 0.1 | 2.3 | 2.1 | 1.4 | 0.3 | 0.0 |
| Percent of deposits available to state government 1/ | 0.4 | 8.5 | 9.0 | 9.7 | 2.9 | 0.0 |
| (Projected level of credit outstanding) | | | | | | |
| Outstanding stock | 4,554 | 2,951 | 1,363 | 251 | 0 | 0 |
| Percent of quota | 188 | 121 | 56 | 10 | 0 | 0 |
| Percent of GDP | 3.3 | 2.0 | 0.9 | 0.2 | 0.0 | 0.0 |
| Memorandum items: | | | | | | |
| Exports of goods and services (billions of euros) | 52 | 60 | 68 | 74 | 78 | 81 |
| GDP (billions of euros) | 168 | 179 | 191 | 200 | 208 | 216 |
| Quota (millions of SDRs) | 2,428.9 | ... | ... | ... | ... | ... |

Source: IMF staff estimates.

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

# Annex I. Risk Assessment Matrix

| Source of Risk | Likelihood of Risk and Transmission | Expected Impact if Realized | Recommended Policy Response |
|---|---|---|---|
| | | **Domestic** | |
| **Higher spending needs, insufficient impact of monetary and fiscal policies.** | **Medium**<br><br>Lower fiscal space due to higher-than-expected COVID-19 spending needs or one-off payments linked to pension rulings, use of cash buffers. Weak execution of NGEU funds results in a limited growth impact, higher financing needs, and deteriorated debt dynamics. | **High**<br><br>Deteriorated public finances could hurt confidence and weigh on investment and economic activity, economic activity remains sluggish without adequate stimulus, hurting medium-term growth and convergence prospects. | • Ensure policy measures—including NGEU funds—are adequately targeted and executed efficiently towards growth-friendly, socially-inclusive policies (e.g. investment, health, education) with a view towards ensuring long-term fiscal sustainability, boosting potential growth, and increasing economic resilience.<br>• Design a phase-out strategy from COVID-19 measures that balances macro effects with fiscal sustainability concerns.<br>• Incorporate lessons from the COVID-19 shock and recent pension rulings into a formal strategy to deal with large contingent fiscal shocks. |
| **Sharp deterioration of bank balance sheets** | **High**<br><br>Delays in addressing already-weak private sector balance sheets undermines the recovery, further deteriorates asset quality, lowers deposit levels and weakens investor sentiment. | **High**<br><br>Liquidity pressures and accelerated capital depletion exacerbated by the bank-sovereign nexus. Lower credit growth undermines growth and increases informality. | • Accelerate bank clean-up and the build-up of capital buffers.<br>• Communicate a credible and ambitious strategy (aimed at restoring bank resilience).<br>• Strengthen operational preparedness for crisis management. |
| **Structural reform implementation**<br><br>**Downside.** Fallout from the pandemic reduces reform appetite.<br><br>**Upside.** The COVID-19 crisis is seized as an opportunity for deeper, faster reforms. | **Medium**<br><br>Delays in implementing pending or backtracking of previously-implemented structural reforms, social opposition to dismantling rent-extracting sectors that resist competition.<br><br>Structural reforms could support reallocation of labor and capital towards higher value-added sectors, innovation, and positive market trends, boosting consumer and investor confidence. Structural reforms could contribute to faster and more effective absorption of NGEU funds. Adequate channeling of NGEU loans to the private sector could cover the credit gap and boost investment. | **Medium**<br><br>Lower growth, slower convergence.<br><br>**Medium**<br><br>Growth above baseline, faster convergence, improved debt dynamics. | • While recognizing implementation challenges linked to the pandemic, put in place an implementation plan for the revamped National Growth Strategy, including prioritization and sequencing, diagnosis of current policies, funding plans, and identification of inter-linkages between reform sectors (e.g. financial sector reform and firm dynamics).<br>• Engage in social dialogue amongst reform stakeholders to ensure ownership and take-up. |

| External | | | |
|---|---|---|---|
| **Unexpected shift of the COVID-19 outbreak.**<br>**Downside**. Longer pandemic, reinstatement of containment measures.<br>**Upside**. Faster recovery thanks to an effective/ widely available vaccine and/or a faster-than-expected behavioral adjustment to the virus. | **High**<br>Repeated supply shocks as containment measures are reinstated. Higher risk perception by markets, repricing of risk assets, unmasking of debt-related vulnerabilities, and weaker financial intermediary balance sheets. Slower deleveraging and lower credit provision. Trade and travel disruptions, declines in FDI flows, restricted access to global value chains.<br>**Low**<br>Higher confidence, faster recovery of global economic activity. | **High**<br>Lower global travel increases unemployment; the long-term unemployed leave the workforce and prospects for youth employment worsen increasing risks of hysteresis. Worsened external position due to reduced export demand and weaker investment. Weaker potential growth, worsened debt dynamics, slower convergence. | • Seek continued flexibility from European partners to maintain a counter-cyclical buffer to tackle spillovers from the global downturn.<br>• Accelerate structural reforms that increase resilience to global shocks and future pandemics, including investing in the health sector, formulating hazard mitigation strategies, and expanding active labor market policies to mitigate hysteresis risks. |
| **Intensified geopolitical tensions.** | **High**<br>Regional tensions, disorderly migration, higher commodity prices and lower confidence. | **High**<br>Regional tensions displace focus/spending away from the reform agenda. | • Continue engaging regional and EU partners in dialogue.<br>• Make fiscal space available to address costs related to migration flows.<br>• Consider reforms to facilitate integration of qualified migrant workers. |
| **Accelerating de-globalization.** | **High**<br>Geopolitical competition and fraying consensus about the benefits of globalization lead to further fragmentation. | **Medium**<br>Reshoring, less trade, lower travel displaces existing labor and hurts potential growth. | • Accelerate reforms to ensure broad-based growth and cushion risks to external demand (i.e. boost investment and private incomes). |
| **Higher frequency and severity of natural disasters related to climate change.** | **Medium**<br>Disruptive and more frequent events (forest fires, drought, rising sea levels). Lower global GDP due to natural disasters, recalculation of risk and growth prospects. Trade disruptions, higher commodity prices and volatility. | **Medium**<br>Lower growth, displaced population, lower quality of human capital due to health and environmental concerns. | • Implement the Just Transition to improve the energy mix, prioritize reforms that support green sectors and green employment to ensure broad-based growth and cushion risks to external demand (i.e. boost investment and private incomes).<br>• Improve and accelerate urban planning and cadaster reforms. |

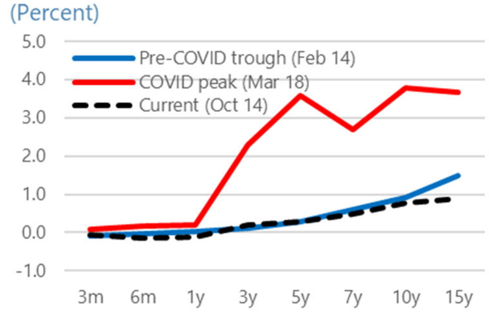
# Annex II. Public Debt Sustainability Analysis

*This public sector DSA update focuses on the medium-term debt sustainability assessment while staff's assessment on Greece's long-term debt sustainability remains unchanged compared to the 2019 Article IV Consultation (November 2019). In staff's baseline, the COVID-19 shock is expected to lead to an increase in Greece's public debt-to-GDP ratio in 2020 before it resumes its downward trend over 2021–29 at levels higher than that of the November 2019 DSA. The shock also leads to a noticeable increase in Gross Financing Needs (GFNs), especially in the near-term, which would however remain manageable over the medium-term. In the context of market normalization, the government's large cash buffer and the eligibility of Greek government securities in the ECB's Pandemic Emergency Purchase Program (PEPP) helped the government to weather the shock. Going forward, resources made available to Greece under the Next Generation EU (NGEU) recovery fund are critical for putting public debt on a firmly downward trajectory consistent with low rollover risks and for safeguarding Greece's medium-term debt sustainability against increased risks. Materialization of risks from weaker growth, lower fiscal primary balances, higher borrowing costs, and contingent liabilities could raise debt and GFNs ratios above staff's baseline projections.*[1]

## Recent Developments

1. **The authorities' 2020 Funding Strategy (FS)—articulated before the pandemic—aims at enhancing market access, lowering funding costs, and containing portfolio risks.** The government expects to issue €4-8 billion medium- to long-term debt in 2020 through regular funding activities to maintain market exposure. Following a sovereign rating upgrade in January 2020 (to two notches below investment grade), Greece issued its first post-crisis 15-year bonds (€2.5 billion) at a yield of 1.91 percent (or spreads of 165 basis points over German bunds). This maturity extension allowed the government to lock-in low rates and reduce roll-over risks. The funding strategy envisaged another partial prepayment of IMF credit, totaling SDR 1.6 billion (about €2.7 billion), in 2020. Under the existing payment schedule (the current baseline assumption), this amount is to be paid back during 2021.[2]

**Yield Curve Transformation during COVID-19**
(Percent)




2. **Greece's sovereign spreads experienced volatile movements at the onset of the pandemic; but have since returned to pre-COVID-19 levels (text figure).** The pre-pandemic yield compression of

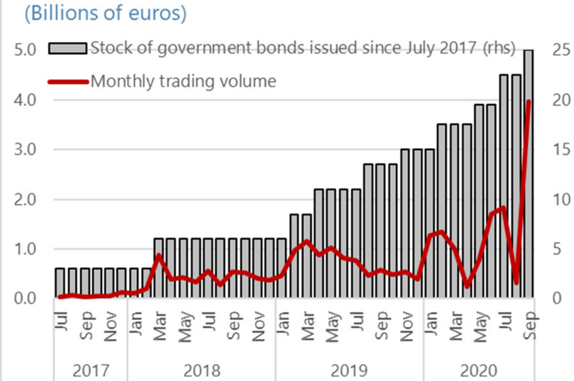
[1] Greece's external debt is high and expected to decline only gradually over the medium-term. Macroeconomic shocks and policy slippages are main risks to external debt dynamics. Staff's assessment of Greece's external debt sustainability remains unchanged from that of the 2019 Article IV. A full update of the external DSA will be included in the next Article IV report.

[2] The execution of the prepayment depends on market conditions and would again require a *pari passu* waiver by the EFSF/ESM. Greece prepaid €2.7 billion of its Fund credit in November 2019. Such prepayment could reduce Greece's interest payments and share of FX debt to the extent it could be accommodated within the authorities' funding strategy without undue impact on its liquidity and funding costs.

GGBs started in mid-2019 and continued into early 2020. The 10-year yield reached its record low of 92 bps on February 14 before widening rapidly amid market turbulence caused by the COVID-19 outbreak in Europe and peaking around 380 bps on March 18. GGB yields started to normalize following the announcement of ECB's PEPP on March 19—which is open to Greek securities (also made qualified as collateral for ECB's liquidity provision programs).[3] While GGB yields have now recovered to their pre-COVID-19 levels, the volatility during the pandemic nevertheless attests to Greece's debt vulnerabilities.

3. **The authorities are adapting their FS to market conditions.** PEPP allocation to Greece (based on its capital key at the ECB equal to 2.0117 percent) amounts to about €27 billion, which amounts to a large share of total effectively tradable GGBs of about €40 billion and is likely to surpass the size of the Greek government's regular funding activities through June 2021. ECB PEPP's cumulative net purchases, at market price, of GGBs stood at €13 billion at end-September 2020 (2.5 percent of total PEPP net purchases—slightly above Greece's capital key) and contributed to a substantial demand boost for GGBs in both the primary and secondary markets (text figure). Improved market conditions allowed the government to successfully access the bond market four times since the pandemic with a €2 billion 7-year issuance in April, a €3 billion 10-year issuance in June, a reopening of the 10-year issuance for €2.5 billion in September, and a reopening of the 15-year issuance for €2 billion in October (which attracted historically low yields). The government has now fully executed its funding plan for 2020 with a YTD total issuance of €12 billion, which allowed it to largely preserve its cash buffer (projected by staff to decline modestly by up to €4 billion this year).

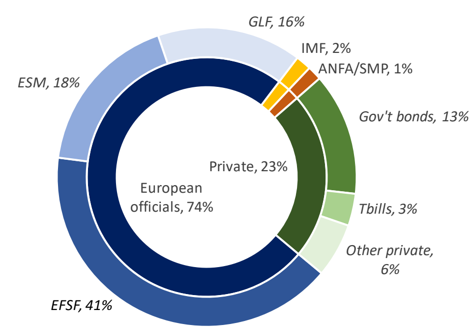
**Monthly Trading Volume on HDAT**
(Billions of euros)




## Debt Profile

4. **Greece's public debt structure is unique.** Greece's public debt is presently largely comprised of low interest rate, ultra-long maturity official sector debt (text figures). This unique feature allows Greece to have relatively manageable rollover risks despite elevated debt levels. ECB support and Greece's large cash buffer proved essential in helping the government weather the market turbulence and execute its funding strategy in an opportunistic way during the pandemic. However, it remains untested whether the large (and now increasing under the ECB's pandemic purchase program) share of

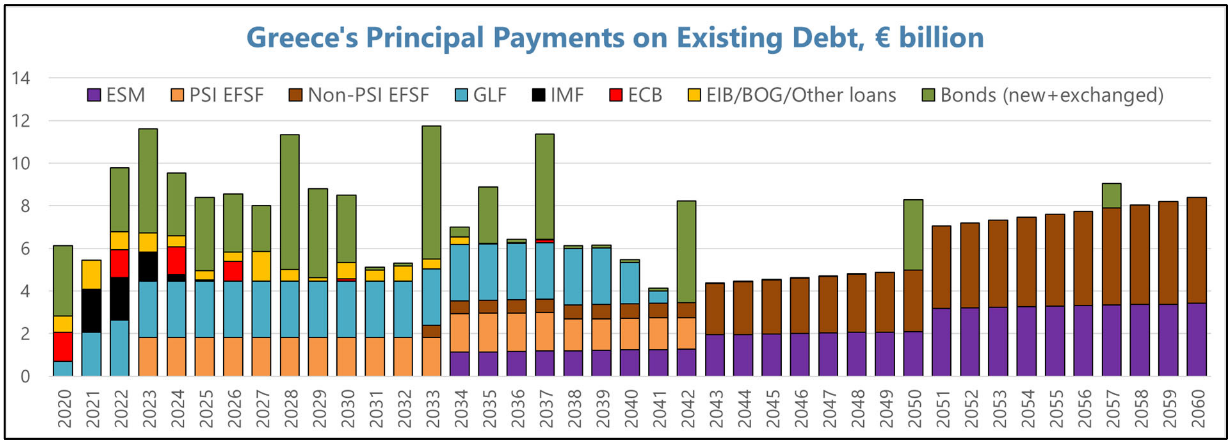
**Creditor Composition of General Government Debt**
(Percent of total €339.1 billion, consolidated; end-2019)




Source: PDMA.

[3] Following the augmentation and extension on June 4, the PEPP now has an overall envelope of €1,350 billion and a horizon for net purchases through (at least) June 2021. A waiver for eligibility was granted for Greek government securities (previously not meeting ECB's collateral requirements) for their inclusion under the program.

officially held debt, which poses subordination risks to private creditors, may discourage market access beyond a certain level/period.




## Macro Assumptions

5. **Macro and financing assumptions underpinning the DSA are as follows**:

- ***Growth and inflation***. The COVID-19 pandemic is expected to cause a 9½ percent contraction in real GDP in 2020. Growth is projected to recover to 5.7 percent in 2021 and 5.6 percent in 2022 before gradually converging toward its long-run equilibrium level of about 1 percent. GDP deflator inflation (anchored by production costs) is projected to gradually increase from -0.4 percent in 2019 to its long-run equilibrium of 1.6 percent over the medium-term. Thus, the projected nominal GDP path is about 4 percent below that of the November 2019 DSA.

- ***Fiscal policy.*** The near-term fiscal position has significantly deteriorated due to adverse effects of the pandemic and the costly stimulus packages. On a cash-basis, the primary deficit is expected to reach 7.8 percent of GDP in 2020 before returning to a surplus in 2022 and gradually converging to a long-run equilibrium level of 1½ percent of GDP by 2026, as the crisis impact subsides and temporary stimulus measures phase out. The NGEU grants, which are included under the baseline, play an important role in partly undoing the pandemic's adverse impacts on the public debt and GFNs paths.

- ***Arrears***. The DSA assumes that the remaining stock of arrears (€1.2 billion as of end-2019) will be cleared in two years between 2020 and 2021, broadly in line with the authorities' action plan agreed with the EIs in the context of the Seventh Enhanced Surveillance review.

- ***Privatization***. Staff projects revenues from privatization (excluding concessions which are recorded above the line) to total €2.7 billion over the next 10 years (broadly unchanged from the November 2019 DSA, while the execution of some projects has been delayed due to the pandemic).

- ***Use of cash buffer and market borrowing***. The state government's cash buffer stood at about €29½ billion at end-2019, or €36½ billion including general government entities' deposits at commercial banks that are accessible through repos.[4] Staff projects that the authorities would draw down up to €5 billion of their deposits in 2020, and a further €12 billion over 2022-25 (including from the €15.7 billion provided through ESM loans).[5] The large cash buffer provides an important liquidity backstop for the government before it restores its investment grade sovereign rating and establishes a more reliable market access. The annual amount of market issuances, anchored by projected financing needs and liability management operations, is projected to average around €9 billion a year between 2021-25, somewhat higher than levels envisaged in the November 2019 DSA. NGEU loans of potentially up to €12.5 billion in total made available to Greece, which are currently not included under staff's baseline, could potentially reduce Greece's reliance on market debt issuances.

- ***Interest rates***. Staff have maintained the same projection methodology as in the November 2019 DSA but revised slightly the baseline market interest rate projections to reflect latest market developments and the lengthening of average GGB maturities.[6] The projected effective interest rate trajectory remains broadly in line with that of the November 2019 DSA. Staff will continue reassessing its interest rate projections periodically as market conditions evolve.

**Outlook**

6. **Due to the COVID-19 shock, the trajectories of projected public debt and GFNs are both above that of the November 2019 DSA.** Debt-to-GDP is projected to briefly rise to 208 percent of GDP in 2020 (from 181 percent of GDP in 2019) before resuming its downward trend over the medium-term, ending at 153 percent of GDP in 2029.[7] This is about 8 percentage points higher than the level projected in the November 2019 DSA, with fiscal balances and nominal GDP growth each explaining roughly half of the difference. The GFNs-to-GDP ratio (after deposit drawdowns) would remain below 15 percent of GDP over the 10-year projection period (except for a one-off marginal breach in 2020), but now averages around 10 percent (assuming the stock of short-term treasury bills is gradually reduced through liability management exercises – similar to the assumption made in the November 2019 DSA), compared to 8 percent in the November 2019 DSA. Larger fiscal deficits and lower GDP levels explain the bulk of this increase.

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[4] The broader measure reflects the entirety of liquid assets available to the government to discharge debt or meet other financing needs.

[5] The projected net reduction in general government deposits would be just under €6 billion in 2020, as the drawdown of state government deposits (up to €7 billion) is partially offset by a slight increase in general government entities' deposits at the Bank of Greece (which are directly accessible by the state government).

[6] Projections for official interest rates are slightly below those in the November 2019 DSA reflecting the pass-through of lower EFSF/ESM funding costs.

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

## Realism of Baseline Assumptions

**7. Staff's past macro assumptions have been optimistic, particularly during the crisis years**. The optimism bias in staff's growth projections is more prominent than in the majority of Greece's peers. This could be attributed in part to an underestimation of the fiscal multiplier, which also adversely affected the fiscal performance relative to projections (as evidenced by large negative forecast errors during the crisis years) through second-round effects. The realism tools for projected fiscal adjustment do not suggest an optimism bias as staff's projected three-year adjustment and average level of the cyclically adjusted primary balance fall outside the top quartile of their respective benchmarking distributions.

## Risks and Stress Tests

**8. The IMF's 10-year DSA assessment finds Greece's public debt remains sustainable over the medium-term but signals important downside risks from potentially weaker growth, lower primary balances, higher interest rates, and/or the materialization of contingent liabilities** (see DSA tables and figures including stress scenarios).

### *Macro-Fiscal Stress Test*

- A primary balance shock that assumes a lower cash primary balance by about 2 percent of GDP (half standard deviation of the past 10 years) on average in 2021-2022 would raise debt-to-GDP by about 6½ percentage points relative to the baseline by 2023. GFNs would be on average 1½ percent of GDP higher than the baseline in 2020-29 and would imply a marginal breach of the 15 percent medium-term threshold in 2021.

- A real GDP growth shock that reduces growth by 4 percentage point (one standard deviation of the past 10 years) on average in 2021 and 2022 would raise debt-to-GDP by about 30 percentage points relative to the baseline by 2023. GFNs would be on average 3½ percent of GDP higher than the baseline in 2020-29 and would imply a marginal breach of the 15-percent medium-term threshold in 2021-22.

- A persistent real interest rate shock that raises effective interest rates by about 400 basis points a year on average over 2021–29 would raise debt-to-GDP by 7 percentage points relative to the baseline by 2029. Due to higher financing costs, GFNs would be on average 1 percent of GDP higher than the baseline in 2020-29 but would remain below 15 percent of GDP threshold over the medium-term. The impact of higher borrowing costs is, however, expected to be more profound in the longer term due to the snowball effect.

- Under a more severe macro-fiscal stress test (that combines all the shocks mentioned above), the debt-to-GDP ratio would hover above 200 percent thru 2024 and the GFNs-to-GDP ratio would breach the 15 percent medium-term threshold in 2021-22 and rise close to the 20 percent long-term threshold toward the end of the 10-year projection horizon.

### *Comprehensive Fiscal Risks and Contingent Liabilities Shock Under an Adverse COVID-19 Scenario*

- This scenario assumes that, amid a prolonged COVID-19 shock, the near-term growth recovery is much slower than that assumed under staff's baseline and the government extends its crisis response measures into 2021 (at half of their 2020 levels), while some idiosyncratic fiscal and financial risks materialize (as outlined in the main text of the policy note). Under such a scenario (solid purple lines in Annex II Figure 4), debt-to-GDP would rise to about 216 percent of GDP in 2021 and stay above 200 percent of GDP through 2026 before declining gradually in the outer years. GFNs-to-GDP would jump to 22.2 percent in 2021 and stay above the 15 percent threshold over the medium-term. Risks to medium-term debt sustainability could be partly mitigated by Greece's access to NGEU loans (currently not included under staff's baseline) which could at the minimum help lower the government's borrowing costs. It is also expected that, under a prolonged global pandemic, additional regional support would be made available to reduce Greece's gross financing needs.

**Downside Scenario - Materialized Risks**
(Billions of euros)

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| **Additional Covid response measures** | **6.0** | | | | |
| **Other downside risks** | **4.9** | **3.1** | **1.0** | **0.3** | **0.3** |
| Retroactive pension payment for 2012-16 | 1.6 | | | | |
| Legal challenges to past wage reforms | 0.6 | 0.3 | 0.3 | 0.3 | 0.3 |
| Outstanding state guarantees (other than Hercules) | 0.7 | 0.7 | | | |
| Unexpected losses from Hercules | | 0.7 | 0.7 | | |
| Potential DTC conversion costs | 2.0 | 1.5 | | | |
| ***Memo item:*** | | | | | |
| *Real GDP growth under adverse scenario (%)* | 2.0 | 3.7 | 4.1 | 2.3 | 2.3 |
| *Primary balance under adverse scenario (cash, % of GDP)* | -9.2 | 0.1 | 1.3 | 1.5 | 1.5 |
| *Public debt under adverse scenario (% of GDP)* | 215.8 | 212.5 | 210.9 | 208.1 | 204.4 |
| *GFNs under adverse scenario (% of GDP)* | 22.2 | 18.9 | 16.1 | 17.4 | 16.1 |

Sources: IMF staff projections.

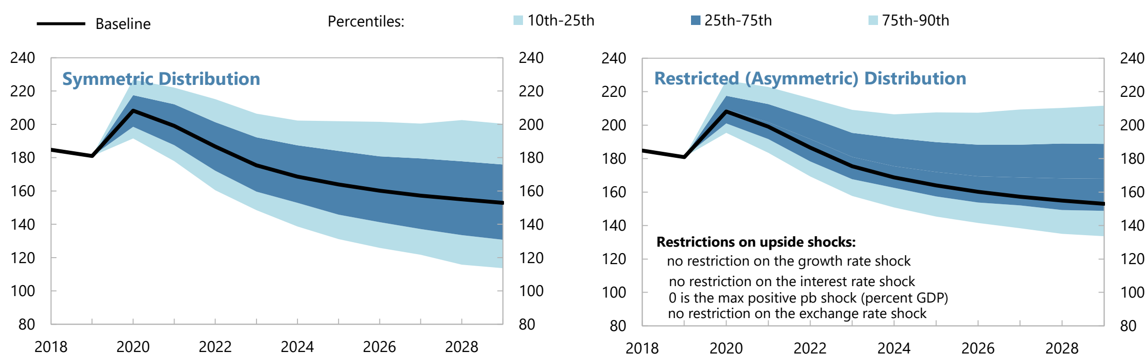
## Annex II. Figure 1. Greece Public DSA Risk Assessment (Baseline Scenario)

### Heat Map

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

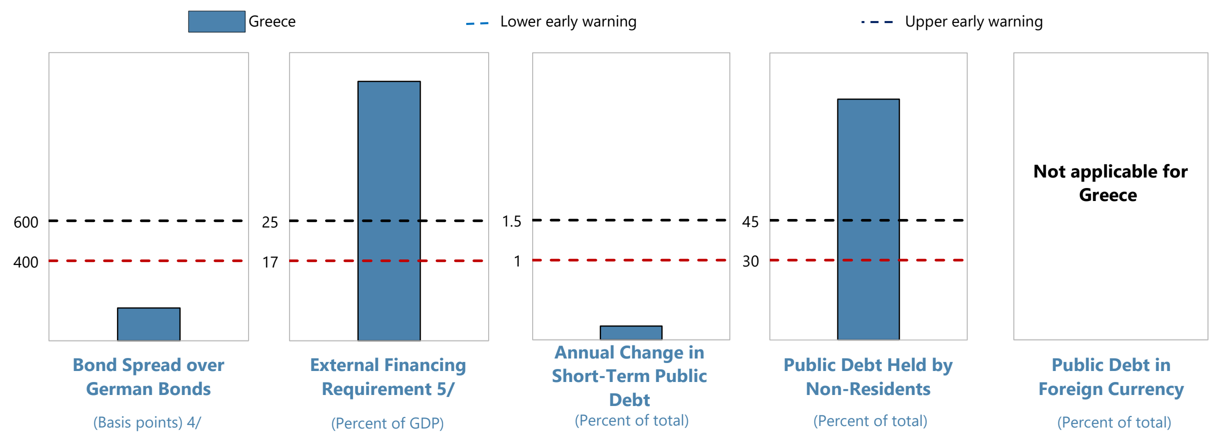
### Evolution of Predictive Densities of Gross Nominal Public Debt

(Percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)




Source: IMF staff.

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

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

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

Lower and upper risk-assessment benchmarks are:

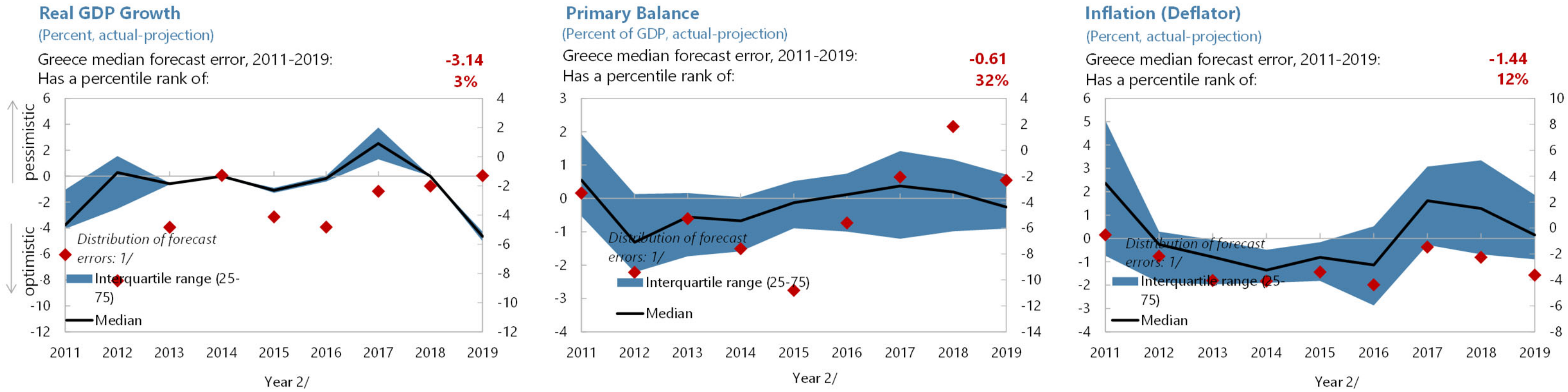
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ An average over the last 3 months, 30-May-20 through 28-Aug-20.

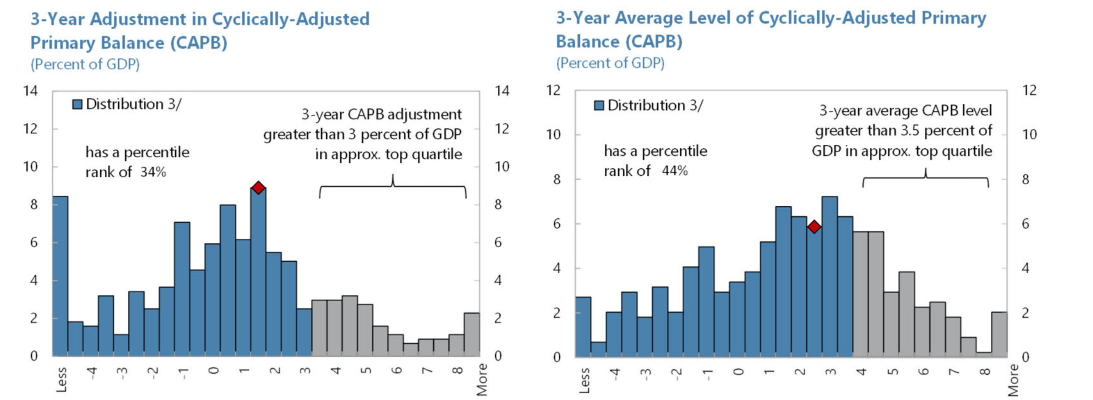
5/ Includes liabilities to the Eurosystem related to TARGET.

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

### Forecast Track Record, versus program countries



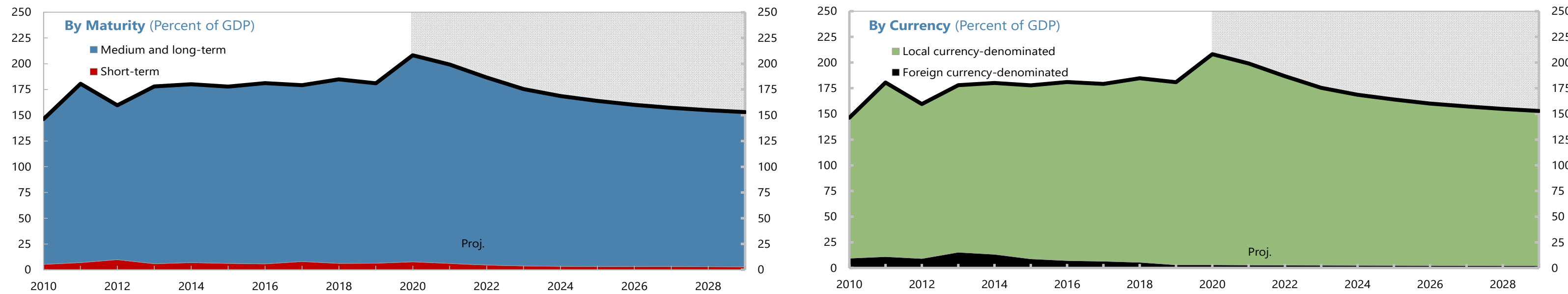

### Assessing the Realism of Projected Fiscal Adjustment



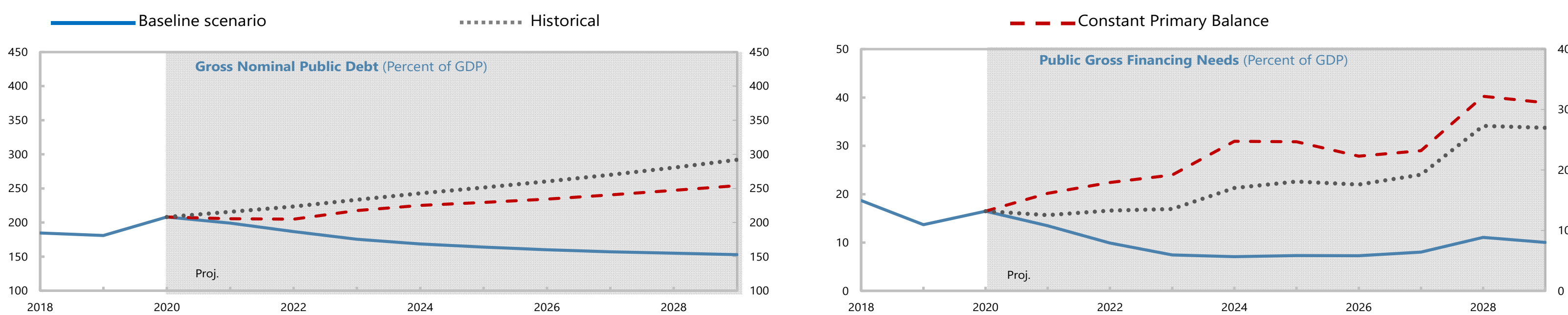

Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

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

### Composition of Public Debt




### Alternative Scenarios




### Underlying Assumptions

(Percent)

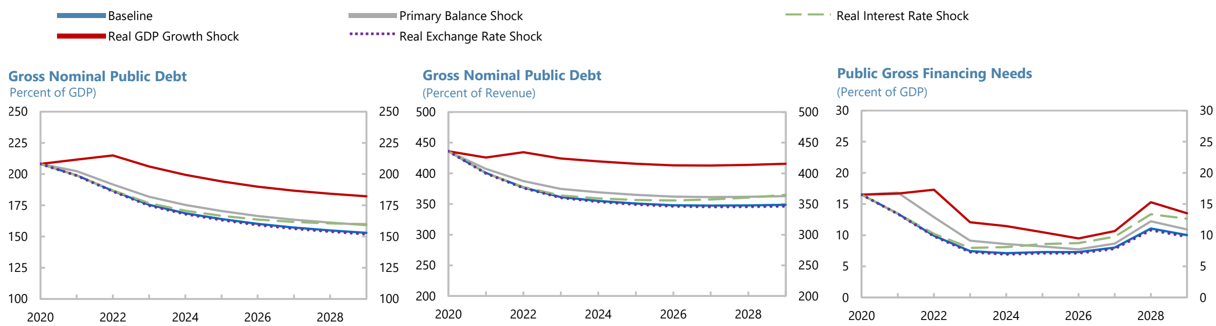
| **Baseline scenario** | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2029 |
|---|---|---|---|---|---|---|---|---|
| Real GDP growth | -9.5 | 5.7 | 5.6 | 3.3 | 2.3 | 1.9 | 1.5 | 0.9 |
| Inflation | -0.8 | 0.9 | 0.9 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -1.0 | 1.8 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 |
| Effective interest rate | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.6 | 1.7 | 2.2 |
| **Constant primary balance scenario** | | | | | | | | |
| Real GDP growth | -9.5 | 5.7 | 5.6 | 3.3 | 2.3 | 1.9 | 1.5 | 0.9 |
| Inflation | -0.8 | 0.9 | 0.9 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -7.8 | -7.8 | -7.8 | -7.8 | -7.8 | -7.8 | -7.8 |
| Effective interest rate | 1.8 | 1.8 | 1.7 | 1.6 | 1.6 | 1.6 | 1.7 | 2.3 |

| **Historical scenario** | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2029 |
|---|---|---|---|---|---|---|---|---|
| Real GDP growth | -9.5 | -2.0 | -2.0 | -2.0 | -2.0 | -2.0 | -2.0 | -2.0 |
| Inflation | -0.8 | 0.9 | 0.9 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -2.3 | -2.3 | -2.3 | -2.3 | -2.3 | -2.3 | -2.3 |
| Effective interest rate | 1.8 | 1.8 | 1.8 | 1.8 | 1.9 | 2.0 | 2.2 | 3.0 |

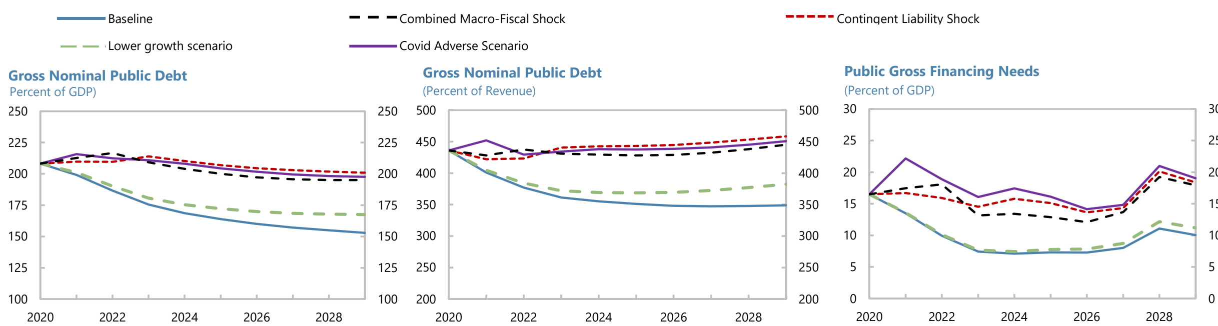
Source: IMF staff.

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

### Macro-Fiscal Stress Tests




### Additional Stress Tests




### Underlying Assumptions

(Percent)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2029 |
|---|---|---|---|---|---|---|---|---|
| **Primary Balance Shock** | | | | | | | | |
| Real GDP growth | -9.5 | 5.7 | 5.6 | 3.3 | 2.3 | 1.9 | 1.5 | 0.9 |
| Inflation | -0.8 | 0.9 | 0.9 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -4.4 | 0.4 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 |
| Effective interest rate | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.6 | 1.7 | 2.2 |
| **Real Interest Rate Shock** | | | | | | | | |
| Real GDP growth | -9.5 | 5.7 | 5.6 | 3.3 | 2.3 | 1.9 | 1.5 | 0.9 |
| Inflation | -0.8 | 0.9 | 0.9 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -1.0 | 1.8 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 |
| Effective interest rate | 1.8 | 1.8 | 1.9 | 1.9 | 2.0 | 2.1 | 2.2 | 3.1 |
| **Combined Shock** | | | | | | | | |
| Real GDP growth | -9.5 | 1.6 | 1.5 | 3.3 | 2.3 | 1.9 | 1.5 | 0.9 |
| Inflation | -0.8 | -0.1 | -0.1 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -4.4 | -3.2 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 |
| Effective interest rate | 1.8 | 1.8 | 1.9 | 2.0 | 2.2 | 2.3 | 2.5 | 3.4 |
| **Lower Growth Scenario** | | | | | | | | |
| Real GDP growth | -9.5 | 4.7 | 4.6 | 2.3 | 1.3 | 0.9 | 0.5 | -0.1 |
| Inflation | -0.8 | 0.9 | 0.9 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -1.0 | 1.8 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 |
| Effective interest rate | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.6 | 1.7 | 2.2 |

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2029 |
|---|---|---|---|---|---|---|---|---|
| **Real GDP Growth Shock** | | | | | | | | |
| Real GDP growth | -9.5 | 1.6 | 1.5 | 3.3 | 2.3 | 1.9 | 1.5 | 0.9 |
| Inflation | -0.8 | -0.1 | -0.1 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -3.6 | -3.2 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 |
| Effective interest rate | 1.8 | 1.8 | 1.7 | 1.8 | 1.7 | 1.6 | 1.7 | 2.2 |
| **Real Exchange Rate Shock** | | | | | | | | |
| Real GDP growth | -9.5 | 5.7 | 5.6 | 3.3 | 2.3 | 1.9 | 1.5 | 0.9 |
| Inflation | -0.8 | 1.2 | 0.9 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -1.0 | 1.8 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 |
| Effective interest rate | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.6 | 1.7 | 2.2 |
| **Contingent Liability Shock** | | | | | | | | |
| Real GDP growth | -9.5 | 1.6 | 1.5 | -0.7 | 2.3 | 1.9 | 1.5 | 0.9 |
| Inflation | -0.8 | 0.8 | 0.8 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -3.8 | 0.1 | 1.3 | 1.5 | 1.5 | 1.5 | 1.5 |
| Effective interest rate | 1.8 | 1.8 | 2.8 | 2.8 | 2.7 | 2.5 | 2.6 | 2.9 |
| **Adverse scenario** | | | | | | | | |
| Real GDP growth | -9.5 | 2.0 | 3.7 | 4.1 | 2.3 | 2.3 | 1.9 | 1.5 |
| Inflation | -0.8 | 0.0 | 0.9 | 0.9 | 1.7 | 1.6 | 1.6 | 1.6 |
| Primary balance | -7.8 | -9.2 | 0.1 | 1.3 | 1.5 | 1.5 | 1.5 | 1.5 |
| Effective interest rate | 1.8 | 1.8 | 3.1 | 3.1 | 2.9 | 2.7 | 2.8 | 2.8 |

Source: IMF staff.

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

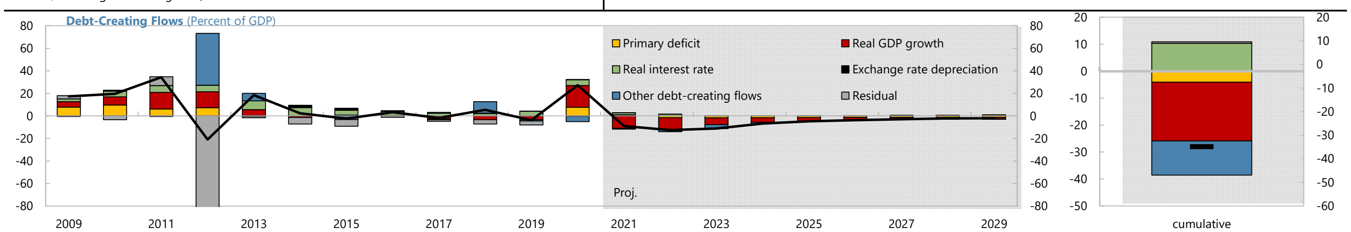
## (Percent of GDP, unless otherwise indicated)

**Debt, Economic and Market Indicators 1/**

| | Actual | | | Projections | | | | | | | | | | As of October 15, 2020 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009–2017 2/ | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | Sovereign Spreads | | |
| Nominal gross public debt 3/ | 167.7 | 184.8 | 180.9 | 208.2 | 199.1 | 186.6 | 175.4 | 168.7 | 164.0 | 160.1 | 157.2 | 154.9 | 152.9 | Spread (bp) 4/ | | 141 |
| Public gross financing needs | 21.8 | 18.7 | 13.7 | 16.5 | 13.5 | 9.9 | 7.5 | 7.2 | 7.4 | 7.4 | 8.1 | 11.1 | 9.9 | CDS (bp) | | 133 |
| Real GDP growth (percent) | -3.1 | 1.9 | 1.9 | -9.5 | 5.7 | 5.6 | 3.3 | 2.3 | 1.9 | 1.5 | 1.1 | 0.9 | 0.9 | Ratings | Foreign | Local |
| Inflation (GDP deflator, percent) | -0.1 | 0.5 | -0.4 | -0.8 | 0.9 | 0.9 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | Moody's | B1 | B1 |
| Nominal GDP growth (percent) | -3.2 | 2.5 | 1.5 | -10.3 | 6.6 | 6.5 | 5.1 | 3.9 | 3.5 | 3.2 | 2.7 | 2.5 | 2.5 | S&Ps | BB- | BB- |
| Effective interest rate (percent) 5/ | 2.9 | 1.8 | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.6 | 1.7 | 1.8 | 2.0 | 2.2 | Fitch | BB | BB |
| Memorandum item: | | | | | | | | | | | | | | | | |
| Gross financing need 6/ | ... | 10.4 | 14.8 | 21.7 | 14.5 | 11.8 | 11.0 | 8.6 | 7.6 | ... | ... | ... | ... | | | |

**Contribution to Changes in Public Debt**

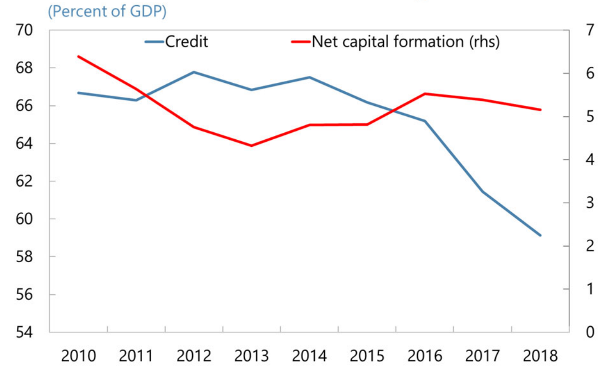
| | Actual | | | Projections | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009–2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | Cumulative | Debt-stabilizing primary balance 11/ |
| Change in gross public sector debt | 7.8 | 5.5 | -3.8 | 27.2 | -9.0 | -12.5 | -11.2 | -6.8 | -4.7 | -3.9 | -2.9 | -2.3 | -2.0 | -28.0 | -0.4 |
| Identified debt-creating flows | 19.1 | 9.3 | -0.3 | 27.0 | -9.1 | -12.5 | -11.2 | -6.8 | -4.8 | -4.0 | -3.0 | -2.3 | -1.9 | -28.5 | |
| Primary deficit | 3.4 | 0.0 | 0.0 | 7.8 | 1.0 | -1.8 | -1.8 | -1.7 | -1.6 | -1.5 | -1.5 | -1.5 | -1.5 | -4.0 | |
| Primary (noninterest) revenue and grants | 45.6 | 47.8 | 46.8 | 47.7 | 49.7 | 49.5 | 48.6 | 47.5 | 46.7 | 46.0 | 45.3 | 44.5 | 43.8 | 469.4 | |
| Primary (noninterest) expenditure | 49.0 | 47.8 | 46.8 | 55.5 | 50.7 | 47.7 | 46.8 | 45.8 | 45.1 | 44.5 | 43.8 | 43.0 | 42.3 | 465.4 | |
| Automatic debt dynamics 7/ | 10.1 | -0.9 | 0.8 | 24.0 | -9.5 | -8.9 | -5.9 | -3.7 | -3.0 | -2.3 | -1.4 | -0.8 | -0.4 | -11.9 | |
| Interest rate/growth differential 8/ | 9.8 | -1.2 | 0.7 | 24.3 | -9.4 | -8.9 | -5.9 | -3.7 | -3.0 | -2.3 | -1.4 | -0.8 | -0.4 | -11.5 | |
| *Of which:* real interest rate | 4.9 | 2.2 | 4.1 | 5.1 | 1.6 | 1.5 | 0.0 | 0.1 | 0.0 | 0.1 | 0.3 | 0.6 | 0.9 | 10.4 | |
| *Of which:* real GDP growth | 4.8 | -3.4 | -3.4 | 19.2 | -11.1 | -10.4 | -5.9 | -3.9 | -3.0 | -2.5 | -1.6 | -1.3 | -1.3 | -21.9 | |
| Exchange rate depreciation 9/ | 0.3 | 0.3 | 0.1 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | 5.6 | 10.2 | -1.1 | -4.8 | -0.7 | -1.9 | -3.5 | -1.4 | -0.2 | -0.1 | -0.1 | 0.0 | 0.0 | -12.6 | |
| Net privatization proceeds | -0.2 | -0.4 | 0.0 | -0.2 | -0.4 | -0.6 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | -1.4 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other liabilities (arrears clearance and cash buffer flows) | 5.8 | 10.6 | -1.1 | -4.6 | -0.2 | -1.3 | -3.5 | -1.4 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 | -11.2 | |
| Residual, including asset changes 10/ | -11.4 | -3.8 | -3.6 | 0.3 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | -0.1 | 0.6 | |




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

# Annex III. The Impact of the COVID-19 Shock on the Greek Non-Financial Corporate Sector

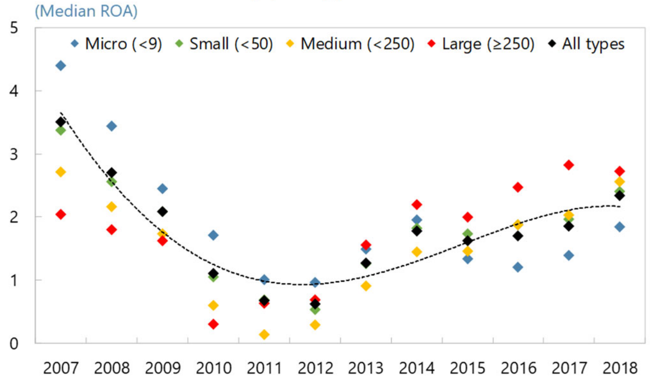
NFC Sectoral Investment and Leverage
(Percent of GDP)




Sources: Bank of International Settlements; Eurostat; Haver Analytics; and IMF staff calculations.

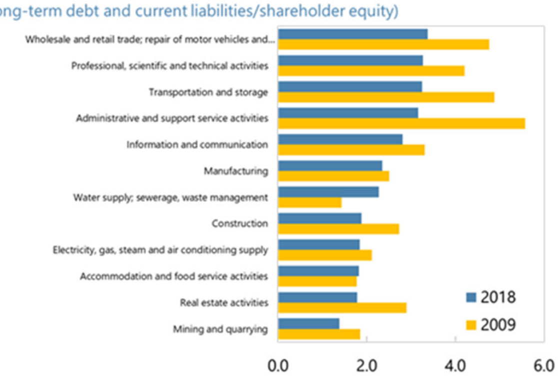
1. **The Greek Non-Financial Corporate (NFC) sector steadily recovered from the peak of the debt crisis.** Profitability improved and leverage declined since 2013, while the share of 'zombie' firms decreased to pre-2008 levels—'zombie' firms employed about 5 percent of labor in 2018 compared to more than 15 percent in 2013.[1] Despite these improvements, NFC net fixed capital formation and employment generation were below pre-crisis levels as Greece's output gap remained negative.

Trends in Profitability per Type
(Median ROA)




Sources: Orbis; and IMF staff calculations.

Leverage per Sector
(Long-term debt and current liabilities/shareholder equity)

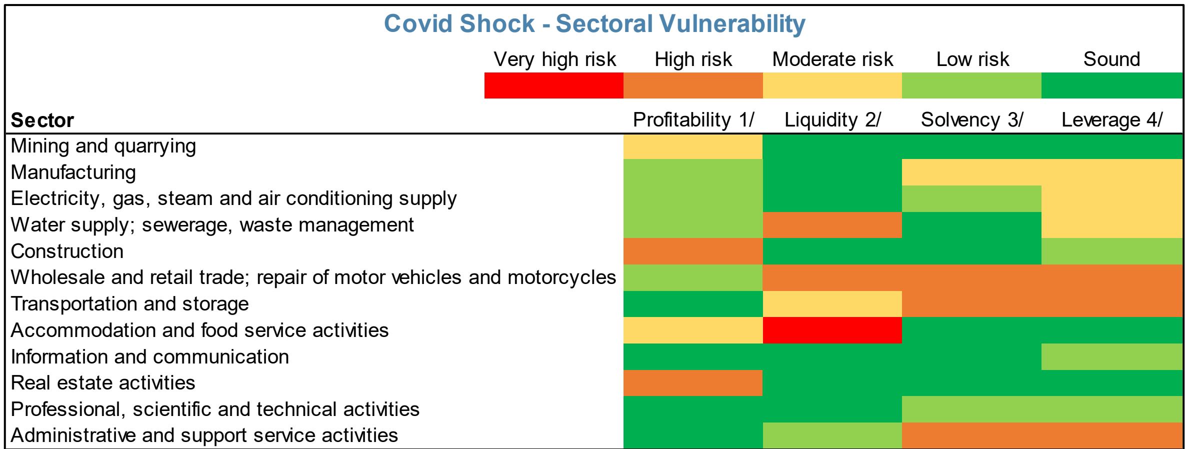



Sources: Orbis; and IMF staff calculations.

2. **Corporate weaknesses were concentrated in sectors that are hard-hit by COVID-19.** Financial ratio analysis of profitability, liquidity, solvency and leverage suggests that firms in the construction, wholesale and retail trade, transportation, and accommodation and food services sectors are most at risk (see heatmap below). These sectors account for about 26 percent of output and 37 percent of performing bank exposures. Given their low degree of teleworkability, their operational adaptability to COVID-19 is jeopardized as well. With respect to firm size and geographic location, micro and SMEs, and firms that are based on an island are also most exposed to the COVID-19 shock.

3. **Firm level simulations point to substantial deterioration in firms' balance sheets.** A firm-level dynamic panel regression was estimated to examine the impact of firm-level characteristics, sectoral performance, and the business cycle on firms' liquidity risks. Preliminary projections using sector specific shocks consistent with staff baseline projections suggest that, in the absence of policy measures, the impact of the crisis would be severe:

[1] Zombie firms are defined as firms that have at least ten years of continuous operations and an ICR less than 1 for three consecutive years.




Sources: Orbis; and IMF staff calculations

Notes: 1/ Profitablity is measured by return on equity for 2018. 2/ Liquidity is measured by the current ratio (current fixed assets/current liabilities). 3/ Solvency risk is measured by shareholders equity/assets. 4/ Leverage is measured by the leverage ratio (long term debt+current liabilities)/shareholder equity. The thresholds to calculate the sectoral risks for profitability, liquidity, and solvency indicators are derived by counting the number of firms in each sector below the following quintiles: very high risk (20th percentile), high risk (40th percentile), moderate risk (60th percentile), low risk (80th percentile), and sound (100th percentile). For the leverage indicators the percentile ranked is reversed. Very high risk is red and sound is green.

- About 40 percent of workers would be employed in at-risk firms (as measured by Interest Coverage Ratio (ICR) less than one), compared to 37 percent in 2012. Since NFCs with higher leverage and higher employment tend to have lower ICRs, the share of employment (debt) sunk in at-risk firms after the COVID-19 shock would reach over 40 (60) percent compared to about 37 (52) percent at the peak of the debt crisis.[2]

- While micro and small firms would account for about three-quarters of at-risk firms after the shock, medium and large firms would hold over 80 percent of trapped 'debt' and 'employment'.

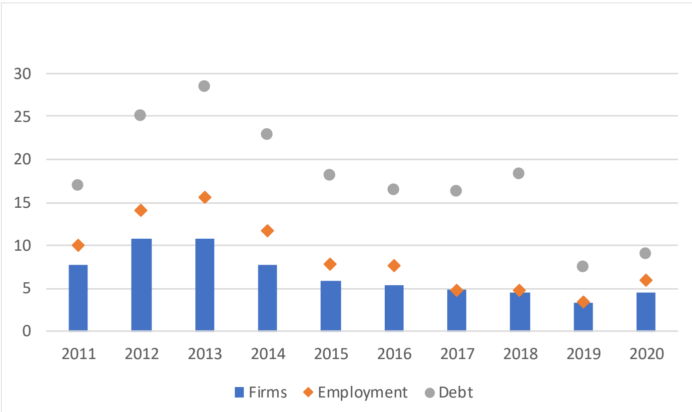
- While all sectors had median-ICRs above one prior to the crisis, the deterioration in performance would be concentrated in wholesale and retail, manufacturing, accommodation, construction, and real estate, with estimated median ICR below one in 2020.

- The share of 'Zombie' firms would increase to close to 4.5 percent of total firms (encompassing 6 percent of employment and 9 percent of debt)—these are much lower levels than 2012–13. This is largely because a firm is classified as 'Zombie' only if it has an ICR less than one for three consecutive years and the firm is aged 10 years or more.

[2] Firms' liquidity shortfall will ultimately depend also on their cash buffers, their ability to delay paying accrued expenses, and their access to credit.

## Annex III. Figure 1. Estimated Impact of the COVID-19 Shock on 'Zombie' Firms

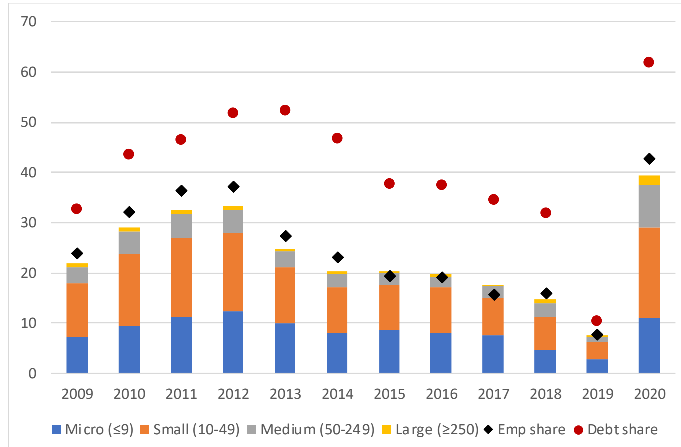
(share of firms)




Notes: Zombie firms are defined as firms aged 10 years or older with ICR<1 for three consecutive years. Figures are reproduced after firm-level ICRs are winsorized at the 1st and 99th percentiles each year.

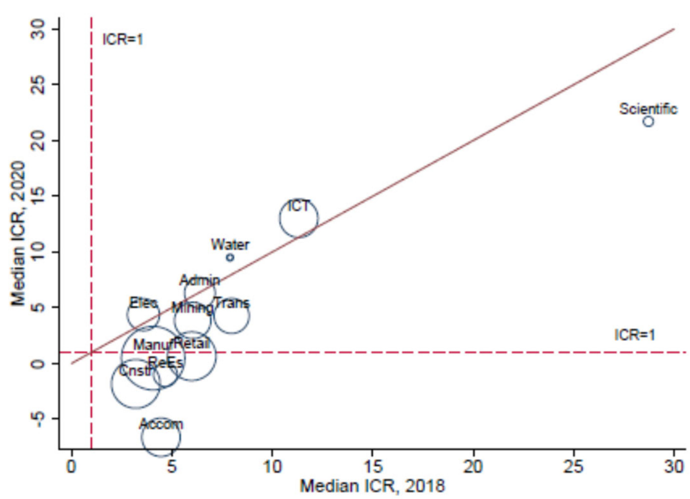
## Annex III. Figure 2. Estimated Impact of the COVID-19 Shock on Greek NFCs

(share of firms)




Notes: Figures are reproduced after firm-level ICRs are winsorized at the 1st and 99th percentiles each year.

## Annex III. Figure 3. Sectoral Impact of the COVID-19 Shock



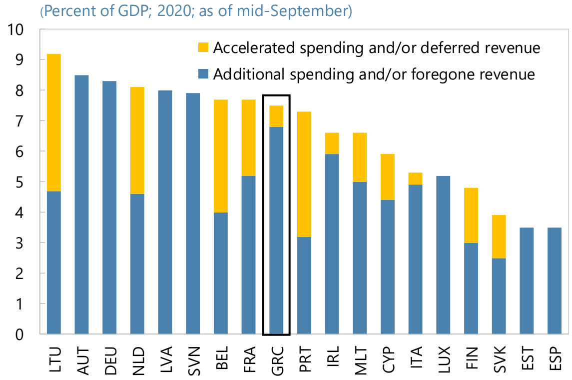

Notes: The figure compares the (unweighted) realized sector median ICRs in 2018 and the predicted levels in 2020. Sectors are defined at the 2-digit NACE level. The size of each circle represents the amount of debt incurred by a sector in 2018. The solid red line is the 45-degree line. The underlying firm-level ICRs are winsorized at the 1st and 99th percentiles by year when they are aggregated to sector medians.

# Annex IV. Fiscal Policy Response to COVID-19

**1. Greece has acted swiftly in announcing a sizable fiscal package at an early stage and quickly expanded it as the situation evolved (Figure 1).** On-budget revenue and spending measures of about 7.6 percent of GDP have been announced, higher than the EA average. The net deficit impact is lower (about 6½ percent of GDP) because roughly one percent of GDP measures are financed by EU grants. Additional liquidity support measures, including loans and guarantees, amount to about 1½ percent of GDP (5 percent of GDP including leverage). As of end-July, about half of these measures have been implemented. The bulk of these measures are for 2020 only but some relatively large schemes such as refundable advance payments and tax/SSC deferrals could have a permanent impact if the repayment installments fail to collect deferred obligations.

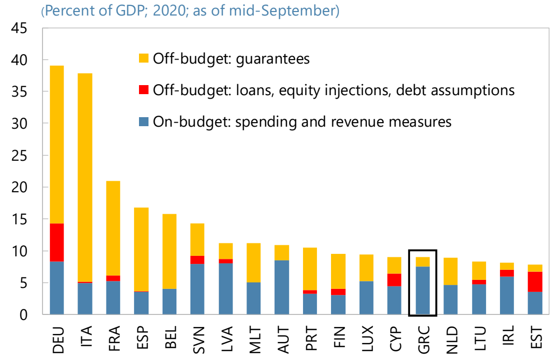
### Annex IV. Figure 1. COVID-19 Fiscal Measures in EA

**COVID-19 Measures: Revenue and Spending**
(Percent of GDP; 2020; as of mid-September)




Sources: National authorities; and IMF staff estimates.

**COVID-19 Measures: On- and Off-Budget**
(Percent of GDP; 2020; as of mid-September)




Sources: National authorities; and IMF staff estimates.

**2. Most measures support hard-hit households and firms (Table 1).** Key measures include: (i) transfers to vulnerable individuals, including wage allowances, coverage of social security contributions (SSC), extension of unemployment benefits, short-term employment support, and mortgage subsidies; (ii) support to affected businesses through refundable advance payments, CIT reductions, loan guarantees, interest payment subsidies, rent reductions, and deferred payments of taxes and SSCs; and (iii) health spending for new hiring, medical supplies, and cash bonuses to health sector workers. While this is in line with European peers, the Greek government has committed much less to off-budget state guarantees, while focusing more on budgetary measures, notably additional spending such as wage allowances and refundable advance payments (Figure 1).

**3. Additional resources to expand the capacity of the health care system remains a priority (Figure 2).** Prior to Covid-19, public healthcare spending had been compressed to unsustainable levels, with widening inequalities and large unmet needs, especially among the poor. Following the pandemic, the announced increase in health spending so far is less than 0.2 percent of GDP in Greece, much lower than the EA average of over ½ percent of GDP. The bulk of additional health spending is on new hiring and medical supplies, while resources spent on testing are limited.

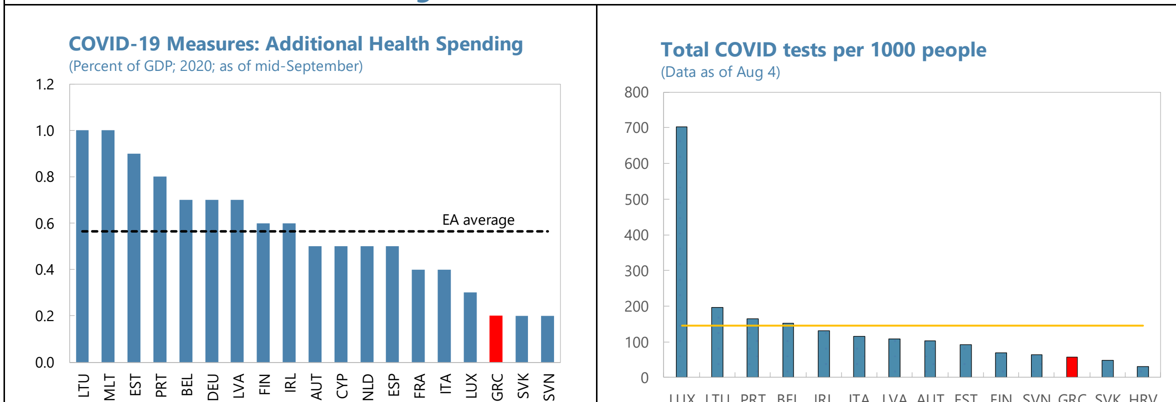
## Annex IV. Table 1. COVID-19 Measures in Greece: Fiscal Impact 2020–2024

| Table 1. COVID-19 Measures in Greece: Fiscal Impact 2020–2024 | | | | | | | |
|---|---|---|---|---|---|---|---|
| COVID-19 Measures (bn euros) | 2020 | | | 2021 | 2022 | 2023 | 2024 |
| | Total size | EU financing (PIB/SURE) 1/ | Deficit impact (accural) | Total size | Total size | Total size | Total size |
| Refundable advance payment | 4.0 | 1.0 | 3.0 | 0.0 | -0.8 | -0.8 | -0.8 |
| Wage allowances and SSCs coverage | 2.8 | 2.8 | 2.3 | 0.1 | 0.0 | 0.0 | 0.0 |
| Reduction of advance CIT payment | 1.6 | 0.0 | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Suspension of tax and SSC obligations/deferrals | 1.2 | 0.0 | 1.2 | -0.3 | -0.4 | -0.1 | 0.0 |
| Short-term employment scheme | 0.2 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Extension of unemployment benefits | 0.6 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Health system support (incl. new hirings, bonus and reduction of clawback) | 0.3 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| On-time tax/SSC payment discount | 0.3 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Support to real estate sector: ENFIA postponement and rent reductions | 0.2 | 0.0 | 0.2 | 0.04 | 0.0 | 0.0 | 0.0 |
| Support to the Ministry of Rural Development and Food | 0.2 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest payment subsidy scheme for SMEs | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 1st residence subsidy | 0.1 | 0.0 | 0.1 | 0.3 | 0.0 | 0.0 | 0.0 |
| VAT discounts to transports, tourism and hospitality sectors | 0.2 | 0.0 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Social tourism program of Ministry of tourism and OAED | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New hiring subsidy program | 0.1 | 0.0 | 0.1 | 0.3 | 0.0 | 0.0 | 0.0 |
| SSC reduction for private sector wage earners in 2021 | 0.0 | 0.0 | 0.0 | 0.8 | 0.0 | 0.0 | 0.0 |
| Suspension of solidarity tax in the private sector in 2021 | 0.0 | 0.0 | 0.0 | 0.8 | 0.0 | 0.0 | 0.0 |
| Other measures (special leave, Easter and other bonuses, levy reductions, support to ministries, etc) | 1.1 | 0.3 | 0.9 | 0.2 | 0.0 | 0.0 | 0.0 |
| **On-budget measures** | **13.1** | **4.8** | **11.2** | **2.4** | **-1.2** | **-0.9** | **-0.8** |
| Guarantees for SMEs | 1 | 1 | 0 | 0 | 0 | 0 | 0 |
| Guarantees for larger enterprises | 1 | 1 | | | | | |
| Loans TEPIX 2 | 0.6 | 0.6 | | | | | |
| **Off-budget measures** | **2.6** | **2.6** | | | | | |
| **Total on-budget + off-budget measures** | **15.7** | **7.4** | **11.2** | **2.4** | **-1.2** | **-0.9** | **-0.8** |
| **Total on-budget + off-budget + leverages** | **21.5** | **13.2** | **11.2** | **2.4** | **-1.2** | **-0.9** | **-0.8** |

Sources: GAO quantification as of end-Sep.

1/ The amount financed by PIB (EU grants) will not affect deficit on accural basis, while measures financed by the SURE scheme (EU loans) will have deficit impact.

## Annex IV. Figure 2. COVID-19 Health Measures in EA




Sources: National authorities; and IMF staff estimates.

Sources: Official sources collected by Our World in Data.

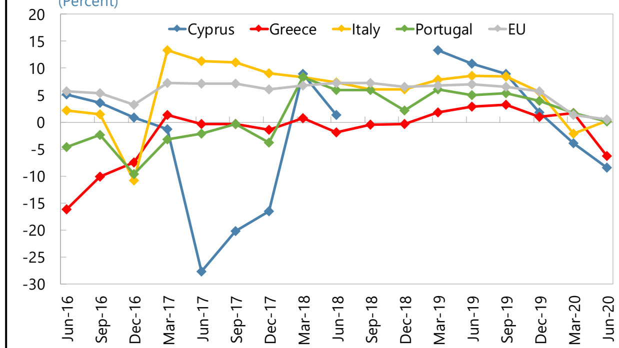
# Annex V. Financial Sector Update

*Following the onset of the pandemic, the Greek authorities, ECB, and SSM have, appropriately, put in place measures that both delay and cushion the impact of the crisis through 2021. However, once these measures are unwound, banks could experience lower asset quality and face capital hits that come on top of pre-pandemic vulnerabilities. Thus, agreement on a comprehensive strategy to restore banks' health and revive lending over the medium term, as recommended during the 2019 Article IV Consultation, remains a priority. This annex provides a brief update on where Greece stands in each priority area highlighted in the 2019 Article IV Consultation: asset quality, capital, liquidity, profitability and sustainability, and the bank-sovereign nexus.*

## A. Introduction

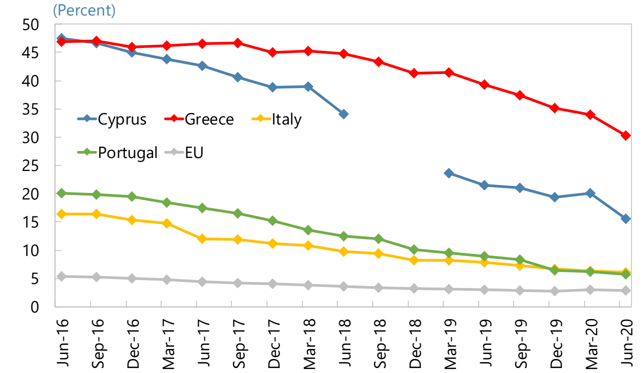
1. **Greek banks entered the Covid-19 crisis with significant vulnerabilities and ranked last against EU peers in several key financial indicators.** Despite several years of deleveraging and cleanup efforts, banks' poor asset quality continued to hamper their performance (the system-wide NPL ratio at end-2019 was 35 percent compared to 2.7 percent on average for EU banks). While capital levels appear to be comfortable (the transitional CET 1 ratio stood at 16.3 percent versus 15 percent for EU banks), the quality of capital is problematic. DTCs, which have limited loss-absorption capacity, account for roughly 60 percent of CET1 capital of the 4 Systemic Institutions (SIs).[1,2]

**Return on Equity**
(Percent)



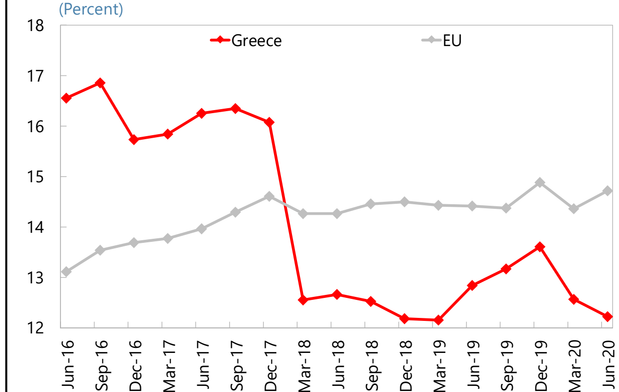

Source: European Banking Authority.

**NPL Ratios**
(Percent)




Source: European Banking Authority.

**CET1 Ratio, Fully-Loaded**
(Percent)




Source: European Banking Authority.

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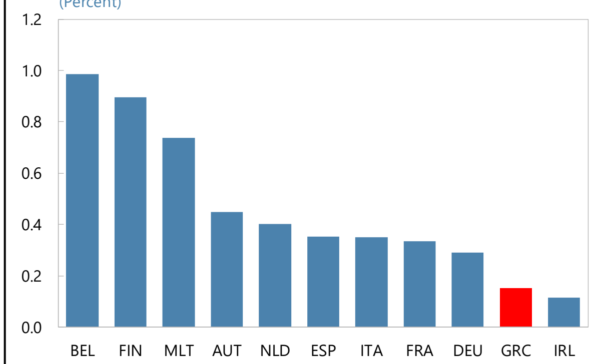
[1] For in-depth discussion of Greek banking sector linkages to the government via DTCs see "Cost-effectiveness of State Support," SIP, 2019 AIV.

[2] The banking sector is currently dominated by four SIs supervised by the Single Supervisory Mechanism (SSM) and overseen by the Hellenic Financial Stability Fund (HFSF). The HFSF (which is the government's agent with respect to public exposure in the banks) was created under the aegis of European partners. The banks are owned by a mix of domestic and foreign shareholders, including the HFSF on behalf of the government.

While liquidity improved, it is still among the lowest in the EU. Banking system profitability remains the second lowest in the EU, suggesting that the first-best, organic solution to deal with NPEs and weak capital quality remains out of reach. A notable positive development was the approval of the 'Hercules' state-guaranteed securitization scheme in December 2019. Loosely modelled after the Italian 'GACS' scheme, it allows the Greek government to guarantee up to €12 billion in senior notes out of a total €34 billion NPE securitizations program that would have halved banks' NPE stock once fully executed.

**2. Markets have priced-in the idiosyncratic vulnerabilities and risks faced by Greek banks.** Greek SIs have the second lowest price-to-book ratios in the EA, reflecting investors' concerns about SI's asset quality. Likewise, the cost for long-term unsecured funding has not yet returned to pre-Covid-19 levels (two banks issued Tier 2 bonds in early-February but these are trading at substantial discounts).

**Selected Euro Area Banks: Price-to-Book Ratio**
(Percent)




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

**3. A range of measures was put in place that will cushion and delay the impact of the pandemic on bank balance sheets in the near term:**

- *Banks* have launched loan moratoria (amortization and interest payments for households, and amortization for corporates) through end-2020. SIs have so far granted moratoria totaling about 18 and 37 percent of performing and performing-forborne loans, respectively. As a result, banks' 2020 profitability and asset quality are largely shielded from any Covid-19 impact (banks can still accrue interest in P&L; provisioning is not required as exposures under moratoria are not booked as NPEs).

- *The Greek authorities* have introduced measures to support borrowers via interest payment subsidies on pre-existing business loans for April-August 2020, and mortgage payment subsidies for performing and non-performing loans (including denounced loans against staff advice as this scheme makes these loans temporarily performing and rewards strategic defaulters) for January-September 2021. Leveraging EU funding, the Hellenic Development Bank (HDB) has launched a loan guarantee program to leverage up to €7 billion in new lending for SMEs and large corporates. Moreover, the HDB will provide funding to the banks for €1.9 billion in working capital loans.

- *The ECB* has lifted restrictions on Greek government securities that pave the way for ECB purchases under the Pandemic Emergency Purchase Program (PEPP) and for Greek banks to post Greek government securities as collateral in Euro system operations. These measures have so far activated the interest-rate channel (tightening rates), reduced uncertainty (compressing GBB spreads), avoided losses on Greek government securities holdings on banks' balance sheets, and provided effective liquidity backstops and lowered funding costs for banks via LTRO/TLTROs.

- In line with staff recommendations, the SSM has temporarily loosened its enforcement of supervisory requirements. SIs can operate temporarily below the Pillar 2 Guidance (P2G) buffer (until end-2022), the capital conservation buffer, and the liquidity coverage ratio (LCR). In addition, new rules on the composition of capital to meet the Pillar 2 Requirement (P2R) were front-loaded to release additional capital. The SSM has also allowed flexibility in classifying and provisioning for NPEs that are covered by public guarantees and Covid-19 related public moratoria. Also noteworthy are the postponement of On-Site Inspections (OSIs) and stress tests and the extension of deadlines to implement findings from past OSIs.

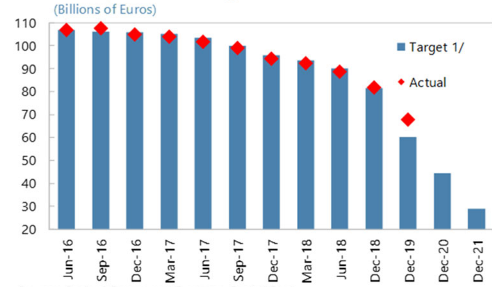
4. **While the Covid-19 shock will hit Greek banks through multiple channels, a new wave of NPEs could emerge in the banking sector once government support measures and supervisory accommodation are unwound.** Currently, about €24 billion in loans are under moratoria and it is possible that many borrowers, especially SMEs in the tourism and hospitality sectors, may not be able to fully resume payments once the moratoria end. According to the BoG, up to €8-10 billion of these loans could become NPEs over the next three years. The pandemic may also weigh on profitability through lower net interest margins; losses on bond holdings once ECB support tapers off and spreads normalize; higher provisioning due to the organic increase in NPEs; lower real estate portfolio valuations; and lower fee income (due to weaker economic activity).

## B. Priority 1: Accelerating NPE Reduction and Promoting Meaningful Debt Restructuring

5. **The policy response to the pandemic has kept the cornerstone of the NPE-reduction strategy (Hercules) broadly on track.** The SSM suspended the 2020 NPE reduction targets and postponed the submission of new NPE reduction strategies until end-March 2021.

6. **Hercules securitizations are progressing.** Specifically, government guarantees for the senior notes of these NPE securitizations are priced in relation to the sovereign spread. Tighter spreads and the acceptance of the senior notes under the revised ECB collateral rules, have made the Hercules scheme more attractive for banks. Moreover, private investor interest in the junior and mezzanine tranches also revived over the summer. Two SIs have completed €15 billion in securitizations (of which one is under Hercules). The two other SIs are planning about €10 billion in securitizations under Hercules by end-2020. While these transactions will lower the NPEs substantially for several SIs, they also trigger an immediate capital loss, reflecting a lower market than book value of the securitized NPEs that are sold to investors.

NPL Operational Targets
(Billions of Euros)




Sources: Bank of Greece; and European Central Bank.
1/ Target data reported by BoH until 2018,and from 2019 onwards by ECB. NPE targets for 2020 have been suspended, and 2021 targets will be reset by end-Q1 2021.

**7. However, Hercules is not a comprehensive solution.** It leaves a significant amount of NPEs on bank balance sheets and the weak quality of bank capital unaddressed. Given that organic NPE reductions will remain slow and reforms outlined in Box 1 will take time to take effect, further inorganic solutions will require additional fresh capital. In this respect, the BoG has recently proposed establishing an Asset Management Company (AMC) to further reduce the NPE ratio to single digits, while also addressing the DTC issue (see Annex Box 1). However, it will be important to ensure that the AMC does not interfere with other tools such as the securitization schemes that rely on market-based pricing mechanisms for NPE reduction and private investments.

### Annex V. Box 1. Bank of Greece's AMC Proposal

**The BOG has proposed the establishment of an AMC to complement Hercules securitizations.** Under the proposal, banks would voluntarily transfer NPEs to a new public-private AMC at net book value that would hire private servicing companies to manage NPE collections. The AMC would in turn securitize NPE portfolios and transfer senior notes to the banks (in exchange for the NPEs) and sell mezzanine and junior notes to private investors. The Greek Government would guarantee the difference between the net book value and the market price of the NPEs. In return for its participation in the scheme, the government would receive compensation via (i) super junior notes issued by the AMC; (ii) guarantee fees for each securitization; and (iii) a yearly 'entry' fee paid for by banks in cash and 'in kind' writing off their DTCs. The latter would be done gradually over time, consistent with the maturity of the notes issued by the AMC. Thus, banks would potentially be able to simultaneously derecognize NPEs while gradually disposing of their DTCs.

## C. Priority 2: Building and Cleaning Up Capital

**8. The level and especially the quality of capital in the four SIs could deteriorate substantially.** Total capital levels were supported mostly by three Tier 2 issuances and non-recurrent trading profits on Greek government securities after the ECB's April decision to accept them again as collateral in its refinancing operations. With respect to capital quality, 60 percent of CET1 capital as of Q1 2020 consists of DTCs. This ratio will rise further when the losses associated with the NPE securitizations are booked and new NPEs are provisioned.[3]

**9. The DTC issue should be tackled with more urgency.** The large share of DTCs acts as a deterrent for new private investors and reduces incentives for more aggressive provisioning and NPE clean-ups by banks. Options to address the DTC issue could include the following three elements: (i) stand-alone DTC conversion as part of a more aggressive NPE reduction strategy; (ii) improvement

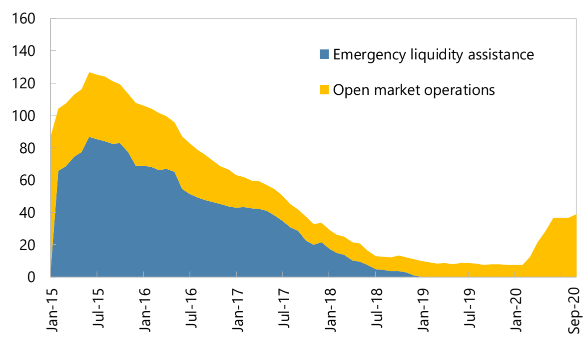
[3] To avoid a conversion of DTCs into equity in the face of losses associated with Hercules securitizations, SIs can undertake so-called "hive downs" that transform the "old" bank into a holding company and a "new" bank. Certain assets and liabilities remain on the holding company's balance-sheet, mainly related to the mezzanine and junior notes of the Hercules NPE securitizations. That is, losses from the sale of NPEs in exchange for mezzanine and junior notes are recognized exclusively in the holding company The senior notes of the securitization are transferred to the "new" bank, which also retains the DTCs (the pricing of senior notes is calibrated to be equal to the book value of the respective NPEs, thereby avoiding losses in the "new" bank and the associated DTC conversion). The "hive down" process does not result in an increase in the level of capital nor does it improve the loss absorbency of DTCs.

of DTC's loss absorption capacity, including in the context of a bank's resolution[4] ; and (iii) preference for private capital injections over public intervention upon DTC conversion (to avoid automatic nationalizations) by selling subscription rights.

## D. Priority 3: Boosting Liquidity

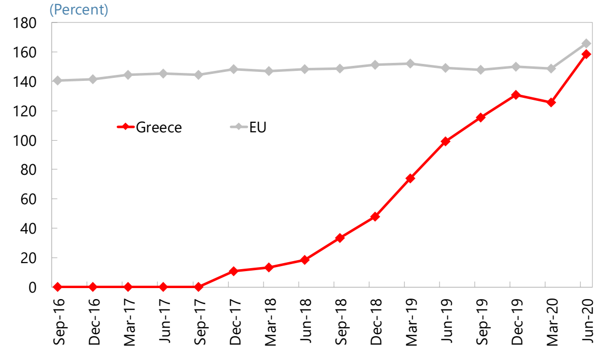
**10. Liquidity has become much less of a concern.** There was already a marked improvement, system-wide, prior to the crisis as deposits continued to grow following the removal of capital controls. During Covid-19, private sector deposits have continued to increase. Following ECB liquidity measures and its April decision that requalifies Greek government securities and state-guaranteed securities as eligible collateral, all SIs have increased liquidity buffers by replacing repo and LTRO funding with TLTROIII funding (the four SIs took-up the full allotment of €37 billion).

**Central Bank Funding**




Source: Bank of Greece.

**Liquidity Coverage Ratios**
(Percent)




Source: European Banking Authority.

## E. Priority 4: Strengthening Bank Profitability and Sustainability

**11. Weak profitability remains a concern.** Despite falling provisioning coverage, impairment costs and lower interest income weigh on pre-tax profits, with the latter mainly supported by nonrecurrent income from Greek government bond trading and cuts in operating costs.

**12. Progress on strengthening banks' business plans and internal governance has been limited.** There are three important challenges. First, the four SIs' business models are broadly similar, in the context of a shallow domestic market with a large debt (and collateral) overhang and a weak payment culture. Second, banks may face rising competition from emerging Fintechs. For example, a cloud-based electronic payment company just acquired a banking license to open a digital bank. Third, continued reliance on securitizations (Hercules and additional potential securitizations in the context of the proposed BoG AMC) may substantially reduce the banks' customer bases, as there are regulatory constraints on extension of new credit to borrowers whose loans have been securitized.

[4] The MOF has drafted legislative amendments to clarify the role of DTCs during resolution. It is expected that the amendments will be submitted to parliament in Q4 2020.

## F. Priority 5: Containing the Sovereign-Bank Nexus

**13. The sovereign-bank nexus remains strong:**

- **Asset quality** improvements mostly hinge on the state-sponsored Hercules scheme (organic strategies still fall short).
- **While central government deposits** have declined due to the pandemic-related fiscal measures, banks' **Greek government securities holdings** increased by 25 percent during March-June 2020 following the lifting of sovereign exposure limits, raising banks' exposure to GGB market volatility that could immediately impact bank profits or capital.
- State guaranteed loans will account for an increasing share of **risk-weighted assets**.
- **Capital** made up of DTCs will likely increase over time due to capital hits stemming from Hercules securitizations and potential additional losses resulting from a potential new wave in COVID-19 related NPEs.
- **Profitability** will be affected by (i) direct government support to borrowers (interest rate and mortgage installment subsidies); (ii) state-guaranteed loan programs; (iii) removal of banks' sovereign exposure limits; and (iv) movements in sovereign CDS spreads (cost of Hercules guarantees is linked to CDS spreads at inception).
- In addition to ECB measures, **liquidity** will be further boosted by the GGBs received in exchange for the state-guaranteed senior notes through collateral swaps.

# Annex VI. Greece's New Insolvency Law

*The Greek authorities initiated a major reform to harmonize the bankruptcy code for businesses and consumers, replacing all pre-existing insolvency and out-of-court restructuring legislation as of January 1, 2021. The code makes key changes to address weaknesses in the old system and to incorporate European standards. While aspects of the law appear to be an improvement, whether it will indeed facilitate meaningful restructurings, resolve debt distress and address chronic payment culture issues—particularly in the wake of the COVID-19 crisis—remains unclear.*

**1. Business Insolvency:** The number of business insolvency proceedings has historically been low in Greece—as have out-of-court restructurings—despite widespread debt distress. This reform attempts to address this issue through:

- **Simplified Liquidation Proceedings:** Small businesses are subject to less court involvement and immediate liquidation of assets; bigger cases may be subject to going concern sale or piecemeal liquidation under court supervision.
- **Preventive Restructuring Procedures:** Changes have been made to harmonize this business rescue procedure with the European Directive on Preventive Insolvency (2019/1023). It allows businesses to reach an agreement with a qualified majority of its creditors with minimal court involvement.
- **Out-of-Court Workouts:** The law tweaks the existing "OCW" system, which has been used sparingly to reach multi-creditor agreements. It attempts to facilitate multi-creditor restructurings of businesses by providing standardized restructuring solutions (based on an algorithm) that are binding on all creditors (including the tax and social security authorities) if a majority of private sector creditors approve although tailored restructuring solutions are also permitted if creditors agree. But the law also allows for long-term automatic reschedulings of tax debt, which due to their automaticity and prolonged nature, could further undermine the payment culture. Moreover, concerns have been raised by stakeholders that the broad eligibility criteria for the OCW may encourage strategic filings by debtors (given the two-month automatic stay), and that the balance of incentives for debtors and creditors may encourage long-term rescheduling solutions for non-viable debtors, which will do little to decisively resolve the debt overhang.

**2. Consumer Insolvency:** The previous Greek consumer insolvency law provided for near-unlimited protection for debtors non-compliant with their mortgage obligations, leading to poor payment culture, persistent consumer debt overhang, high NPL levels, and lack of new credit. This law attempts to address these issues by:

- **No Automatic Stay:** Consumers cannot file for insolvency and receive an automatic stay on creditor enforcement actions against their property. Exceptions exist for primary residences of vulnerable debtors.
- **Discharge:** Consumers may be discharged from their residual debt (generally within three years) upon liquidating their assets to pay their debts.

- **Primary Residence Protection:** Primary residences must also be liquidated to obtain a debt discharge, except for certain "vulnerable debtors", who may opt to sell the property to a private-run agency and "lease back" the home (see below). Particularly vulnerable debtors may receive subsidies for lease payments.

- **Sale and Lease Back:** The insolvency law puts in place a 'sale and lease-back' regime to avoid evictions of vulnerable distressed debtors if they lose ownership of their primary residence during bankruptcy procedures. A new private Sale and Lease-Back Organization (SLBO) will be created to purchase residences of vulnerable debtors at market prices, as determined by independent appraisers, and to lease-back the properties, thereby allowing debtors to remain in their primary residence as tenants. Debtors will also be eligible to receive the existing housing subsidies to facilitate the payment of the rent and to buy back the property after 12 years under certain conditions. The SLBO may be eligible for state guarantees to secure funding from the market. Details on the new regime, including specific eligibility criteria for debtor participation, are expected to be spelled-out in secondary legislation.

**Statement by the IMF Staff Representative on Greece**
**November 20, 2020**

1. **The outlook.** Greece entered its second nationwide lockdown on November 7 given risks that the hospital system would not be able to cope with the rising number of COVID-19 cases. The restrictions were announced for a minimum of three weeks for services (primary and secondary production are exempted). Following the lockdown, the authorities reduced their growth forecast for 2020 by about 2¼ percentage points to -10.5 percent (this revision also partially incorporates the new base-year announced by the Statistical Agency and is therefore not fully comparable to staff's projections). The government now projects growth in 2021 at 4.8 percent. Based on a preliminary list of affected sectors and assuming the lockdown is restricted to three weeks in November, staff's growth forecast would deteriorate by around -0.5 to -1 percentage points, broadly aligning it with the government's revised forecast after factoring the additional fiscal stimulus provided (see below). Growth could be further hampered by a worsening of the pandemic. Staff will update projections after the release of 2020:Q3 data.

2. **Fiscal.** On November 5, the government announced additional support measures to mitigate the economic impact of the second national lockdown. Key measures include the extension of certain tax deferrals, wage allowances and refundable advances as well as new grants to small and micro firms. The cost (cash basis) is estimated at about 1½ percent of GDP for 2020 and 2¾ percent of GDP for 2021. As a result, the latest version of the 2021 budget targets, on accrual terms, a higher primary deficit at about 3 percent of GDP from 1.1 percent of GDP in the earlier draft. Eurostat clarified that certain fiscal measures (including revenue deferrals and refundable advances) need to be recorded as financial transactions to the extent they constitute only a temporary shift in revenues or expenditures between years. Factoring in this statistical treatment and the new measures implies that staff's projection for the 2020 deficit will be higher by 0.2-0.3 percent of GDP and by 2–2½ percent of GDP in 2021. The new fiscal targets and additional support measures are consistent with staff recommendations in the PPM report.

3. **Sovereign ratings.** Greece's sovereign rating was upgraded from B1 to Ba3 with a stable outlook by Moody's on November 6, citing improved institutional strength and positive medium-term growth prospects. The upgrade places Greece three notches below investment-grade, consistent with the rating by S&P and one notch lower than Fitch. Yields on Greek government bonds remain near historical low levels.

**Statement by Mr. Massourakis, Alternate Executive Director on Greece**
**November 20, 2020**

## I. Introduction

**The authorities welcome the IMF's second Post-Program Monitoring (PPM) report as a frank and effective policy dialogue assessment on Greece's challenges and prospects.** While there are no major disagreements with the Fund staff recommendations with respect to the direction of policy, as attested by the PPM report, some opinion divergence exists on policy implementation and risk assessment issues.

**The authorities and staff have more recently been striving to build a better relationship based on a shared understanding of issues of mutual interest.** Greece returns gradually to normalcy after a decade of unprecedented economic hardship, yet also a period of necessary macroeconomic adjustment and structural reform. During these painful years, there has been a lot of "soul searching" as to the reasons behind the sovereign debt crisis and the ways to move forward. Reflecting the electoral endorsement of a reform-oriented, inclusive growth model, the authorities feel emboldened and are determined to elevate Greece to a sustainably higher potential growth trajectory, a more environment-friendly and resilient economy, as well as a more inclusive society, with higher incomes, better quality jobs and improved living standards for all.

**The authorities, moreover, have signaled their aspiration for Greece to become, where appropriate, more of a user of the Fund's policy advice rather than of the Fund's resources.** In this context, Greece is soon to become a mainstream partner of the Fund, participating in the New Arrangements to Borrow (NAB) and committing resources to the Catastrophe Containment and Relief Trust (CCRT) for the benefit of low-income countries. Moreover, the authorities have expressed their intention to repay the Fund early.

## II. The Response to the Pandemic and the Exit Strategy

**The authorities responded efficiently to the pandemic emergency at an early stage, mitigating its impact.** They swiftly adopted temporary measures to support livelihoods, workers and businesses, taking fully into account health care capacity limitations and fiscal space constraints. A rapid and targeted policy response to the challenges posed by the second wave of the pandemic has by now been deployed. A national lockdown is in effect for the three weeks up to November 30, 2020 to stem steeply rising infection rates, accompanied with enhanced and extended support measures for the economy, backed by prudent and forward-looking management of cash reserves. At this juncture, the authorities wish to expand the support nexus for as long as deemed necessary, in line with staff recommendations. Nonetheless, they recognize that going forward, as in all countries, more transformational policies will be required to reallocate resources in the economy. Preparations to this end are underway as reflected in the 2021 budget.

In this context, **as the economy recovers, the authorities are committed to leverage to the maximum possible extent all available fiscal and investment resources, programs and facilities**, including those adopted recently at European level, as an integral part of Greece's growth strategy.

Greece is expected to receive about EUR 70 billion over the period 2021-2027, of which EUR 38 billion from the EU Multiannual Financial Framework (MMF) and EUR 32 billion from the Next Generation EU (NGEU) recovery instrument, of which EUR 19.3 billion in grants and EUR 12.7 billion in loans. The authorities work to avail all investment opportunities, by enhancing public investment execution capacity and addressing bottlenecks, including through activating newly established entities, such as the Project Preparation Facility and the Strategic Project Pipeline Unit, and promoting private investment through on-lending NGEU-related loan funds to businesses, including public private partnerships. Underpinning NGEU-financed projects, the National Recovery Plan is expected, together with sustained market-friendly reforms to prop-up the business environment and generate a strong investment-led recovery. Greece's National Growth Strategy aims at propelling the economy to a digitalized, greener, and more competitive and inclusive future, by shifting resources to the tradable sectors of the economy, while building stronger institutions.

**Strong growth sustained over the medium term is a key priority**, so that Greece exceeds the long-term potential growth of 1percent adopted by staff. Any staff reservations about Greece's capacity to generate a sustained investment boom over the longer term may be still rationalized given the track record of the recent past. However, according to the World Bank 2020 Doing Business report, Greece ranks No 1 in the EU and No 11 in the world, with respect to starting a business. So, Greece can change and is indeed changing. Moreover, the authorities, as staff, are fully aware of the challenges posed by adverse demographics. This does not mean, however, that any demographics trend is destiny.

**The authorities, therefore, strive in earnest to launch an investment offensive to bring about a growth renaissance in Greece**, a country which has the lowest investment to GDP ratio, not only in Europe but in the entire world as well, excluding outliers. In this context, the authorities urge staff to expand their analysis, beyond the key impact of demographics and structural reforms on growth, as to the root causes of the large private investment gap of Greece vis-vis the rest of the world, and explore relevant country-specific policy recommendations. Most analysts would agree that there is no long-term debt sustainability without growth. And growth may be harmed by fiscal adjustment, when its composition, as was the case in Greece until recently, "was not conducive to inclusive growth and lacked a long-term economic outlook", to use the exact wording from the ESM's Independent Evaluation Report "Lessons from Financial Assistance to Greece", published in September 2020.

In this context, **the authorities have proceeded with reform legislation**, inter alia, to **improve** the fiscal mix; **to harmonize the bankruptcy code for businesses and consumers by replacing all pre-existing insolvency and out-of-court restructuring legislation**; **to facilitate** female labor-force participation through easier access to childcare; **to modernize** labor laws reducing rigidities; **to combat** informality, which distorts competition and keeps firms small and inefficient; **to improve** the energy mix while addressing climate change and rejuvenating geographical areas hit by the phasing out of lignite mining by 2027; **to upgrade** the educational system; **to close** the digital divide gap among the population and the regions; **to reduce** bureaucracy through expanding digital governance; **to enhance corporate governance**; **to simplify** business establishment and private investment licensing rules; **to redefine** land uses; and last but not least, **to speed up** justice delivery by revamping the outdated and cumbersome judicial system.

**Speeding up privatizations,** such as the emblematic Hellinicon project (old Athens airport), is also a key component of the investment strategy. There are 23 projects in the pipeline with many of them at an advanced stage of preparation. Despite delays due to the onset of the pandemic, the authorities are confident that in 2021 substantial progress will be made in all projects in the privatization program. It is encouraging that recently, amid the pandemic, investors have expressed interest in the sale of 67 percent stakes in the Alexandroupolis Port Authority and the Igoumenitsa Port Authority, as well as in various other projects, in northern Greece, an area with significant potential to become an energy hub in natural gas in the wider region. Moreover, inward **Foreign Direct Investment (FDI)** has reached levels not seen since 2002 (EUR 4.5 billion in 2019 and EUR 2.3 billion in January-August 2020), mainly in real estate, financial intermediation, transportation, accommodation and food services, and manufacturing, with about 1/5 linked to privatizations. Microsoft's recent decision to locate three data centers in Greece shows the improving attractiveness of the country as an important FDI destination.

**III. Recent Economic Developments, Prospects and Risks**

**The Covid-19 pandemic has interrupted the post-adjustment recovery, at a time when growth was accelerating**, and the economy was taking a new direction on the back of market-friendly reforms introduced since mid-2019. This recovery was underpinned by rapidly rising consumer confidence and business economic sentiment. As a matter of fact, consumer confidence in early 2020 had returned to 2001 levels when Greece was about to adopt the Euro and the future looked extremely bright.

In any case, because of the pandemic's impact, **real GDP growth took a dive of -7.9 percent in H1 2020** due to -15.2 percent drop in Q2 2020, led by declines in private consumption and exports of services. Nonetheless, employment losses were commensurately lower than the case might have been otherwise, due to no-dismissal clauses included in the support measures. According to Eurostat, Greece was among the few countries in Europe with the smallest (<2 percent) share of workers that lost their jobs in Q2 2020. The latest seasonally adjusted unemployment figure (August 2020) stood at 16.8 percent, slightly lower than 16,9 percent in August 2019 as labor force participation dropped, and higher than pre-pandemic 15.9 percent in Q1 2020. In the Jan.-Aug. 2020 period, activity in net travel and transportation receipts was particularly hit (-81.7 percent and -30.4 percent respectively), while industrial production remained more resilient dropping by less than anticipated (-3.9 percent), as it was boosted by rising real exports of goods (+2.3 percent) in the balance of payments. Based on conjunctural developments and due to the severity of the second wave of the pandemic, the authorities project now that economic activity will deteriorate further than originally expected (-8.2 percent), with GDP dropping by -10.5 percent for the year.

**Over the medium term, growth is expected to bounce back relatively quickly**. This will be in line with the upturn in the global economy, the investment boom spearheaded by NGEU funds and the expected private investment robust recovery. The latter is expected on the back of maturing pro-growth structural reforms improving the operational environment of firms and strengthening business profitability through cutting non-wage and energy costs. GDP is expected to return to pre-pandemic crisis levels by 2022, and to start growing from 2023 onwards at an average pace of 3 percent y-o-y to 2027.

There is no doubt that uncertainties cloud prospects. As Greece depends on tourism, **a permanent slump in global tourism may delay and impede the recovery process.** In this respect, **the authorities attach a low-probability to such a downside risk**, as this implies not finding a vaccine or medical treatment to neutralize the Covid-19 impact. While Greece's economy will continue to depend on tourism for the foreseeable future, the diversification of the economy is one of the cornerstones of the National Growth Strategy. Therefore, dependence on tourism may become relatively less important as Greece expands further its manufacturing base and other services, as well as digitalizing and de-carbonizing the production process.

**The fiscal strategy** pursued in Greece has been centered on generating primary surpluses of 3.5 percent of GDP from 2020 to 2022. This consolidation path was interrupted with the advent of the pandemic, in line with relaxed SGP rules for all EU countries. Due to the sharp decline of economic activity and the adoption of a fiscal package of support measures for the economy amounting to 9.1 percent of GDP for 2020 (of which, 7.6 percentage points in spending and revenues deferred or foregone, and the rest in loan guarantees), the **2020 fiscal outcome** was projected in the Draft 2021 Budget to turn into a primary deficit of 6.2 percent of GDP, under the enhanced surveillance definition. Already, the fiscal support package is estimated at close to 11percent of GDP for 2020, compared to 9.1 percent of GDP previously, given emerging needs related to the second wave of the pandemic, pointing to a higher deficit. At the same time, a subsequent change in the statistical treatment by Eurostat of refundable advance payments and suspension/deferrals of tax payments was affected so that only losses are recorded in the deficit and not amounts serviced or recovered, pointing to a lower deficit. In this regard, the European Commission, in its recently published autumn forecasts, sets the 2020 primary deficit to 4.5 percent of GDP without, however, including the impact of the new support measures due to the pandemic's resurgence. All in all, and in line with developments in other European countries, the authorities project now a primary deficit (7.2 percent of GDP) larger than earlier reported, and a growth rate (-10.5 percent) lower than earlier forecasted, leading to key revisions in the final 2021 Budget bill to be submitted to Parliament by end-November 2020.

In any case, according to the 2021 Draft Budget, **in 2021** the primary deficit was to be scaled down to between 1 percent and 3 percent of GDP, depending on achieving growth rates between a 7.5 percent baseline and a 4.5 percent adverse scenario respectively, when staff had recommended a 2 percent of GDP primary deficit target to cushion the fiscal contraction. The baseline budget target in 2021 was underpinned by a substantially leaner fiscal support package of 1.3 percent of GDP. At the same time, the projection included the impact on GDP and revenues from spending EUR 3.9 billion (2.4 percent of GDP) for investment purposes from the EU Recovery and Resilience Facility (RRF), the financing arm behind NGEU. Taking into consideration the new reality of the second wave of the pandemic, the final 2021 Budget will, accordingly, reflect a larger fiscal support package (4.5 percent of GDP) leading to a higher primary deficit (3.9 percent of GDP), and a lower growth rate (4.8 percent).

**The authorities are determined to rebuild the fiscal space** adversely affected due to the warranted fiscal expansion in 2020-2021 to combat the pandemic and its effects on the economy. The authorities stress the importance of doing so as quickly as possible so that temporary deficits do not become entrenched, limiting degrees of freedom to rebalance the fiscal mix. At the same time, the authorities will not withdraw legitimately needed fiscal support prematurely, in line with staff recommendations, until the pandemic is brought under control and the recovery is underway. Moreover, the authorities agreed with staff recommendations to prioritize health spending and upgrade safety nets to support the vulnerable, as well as putting emphasis on reskilling the labor force.

As in other countries, **the scarring of the business environment** in a downward scenario may give rise to contingent government liabilities, if support measures to banks and firms inadvertently turn sour and state guarantees may be called. In this context, the authorities have begun to act proactively to limit such eventualities, by strengthening bank supervision, while basing fiscal support to firms and households progressively on viability assessments. Moreover, the insolvency framework has been modernized to allow faster business restructuring, with increased use of out-of-court procedures, and efficient discharge of debts for individuals needing debt relief, while protecting the vulnerable, guarding against moral hazard and ensuring payment culture, and reforming the judicial system so as to fit in the new framework.

**Greek government bond (GGB) yields** have been declining over the last few years, especially in 2019, reflecting the steady improvement of fundamentals of the Greek economy and increasing confidence about enhanced future growth prospects, underpinned by policy credibility for a pro-growth agenda. After a temporary disruption earlier this year due to the outbreak of the pandemic, the declining trend has resumed on the back of the globally coordinated policy response to prop up the world economy. Yields of 10-year GGBs are currently at historical lows. In October 2020, Greece raised EUR 2 billion at 1.15 percent yield by reopening the 15-year bond issued earlier this year. This brought the total drawn from the capital markets year- to-date to about EUR 12 billion and kept the government cash buffer intact at about EUR 36,5 billion, ensuring satisfactory liquidity conditions in the economy amid uncertainty going forward.

**Sovereign credit ratings** are below investment grade, with stable outlook. On November 6, 2020, **Moody's upgraded Greece** by one notch to Ba3 from B1 previously. This, while the pandemic still evolves, was **on the back of strong reform momentum buildup and low risk of reform reversals, and improving investment outlook and medium-term growth prospects, as well as debt affordability.** In this regard, the authorities feel confident that not only the **sovereign repayment capacity** will continue to remain adequate over the medium term as staff believe, but that it will not be compromised either in the longer term. This may be the case as the authorities' plan to transform Greece proceeds at full throttle, so that the economy takes off robustly, on the back of the pro-investment policies being pursued and a prudent fiscal stance being maintained. This is expected to elevate the economy to a higher potential growth path, thus assuring better debt sustainability outcomes over the long term.

**The financial system,** albeit bearing crisis-legacy problems**,** withstood relatively well the pandemic-related pressures in the first half of the year. Deposits continued to rise due to the fiscal support extended to firms and households and the drop in aggregate spending, but also due to high confidence in the Greek banking sector. Corporate bank credit expanded in line with liquidity-boosting measures made available including ECB accommodative and relaxed funding policy, but also because of the payments' moratoria introduced. Bank profitability declined as loan loss provisions rose significantly, while capital ratios remained at satisfactory levels. Non- performing loans (NPLs) declined dramatically, from EUR 119.3 billion in June 2016 (NPL ratio 48.9 percent) and EUR 97.4 billion in June 2018 (48.2 percent), to EUR 73.6 billion in December 2019 (40.0 percent) and EUR 64.5 billion in June 2020 (36.7 percent). According to available provisional data, the NPL reduction has continued into H2 2020. The fast reduction of NPLs in recent months, including the period following the pandemic's outbreak, is due to payments moratoria and mostly due to operations under the Hercules program. Hercules is an Asset Protection Scheme providing government guarantees to banks at market terms to proceed with securitization of their large stock of NPLs, a legacy of the last decade crisis. Hercules, which provides a systemic solution to the NPL problem, has so far been a major success towards reducing NPLs, especially if assessed in the light of the current crisis conditions. However, as in other countries, downside risks are present. The lifting of payments moratoria and the withdrawal of support measures eventually may add to the current stock of NPLs over the medium term. In this context, the authorities consider extending Hercules to address legacy and potentially pandemic-related NPLs, as well as undertaking other reform initiatives e.g. credit registry bureau.

These aim to further reduce legacy NPLs and, thus, extend the ability of the banking system to operate as an accelerator of economic growth. These would complement the successful operation of Hercules, so that the NPL ratio drops to single-digit levels over a period of three years. In this context, the second wave of the pandemic may raise the urgency of adopting more NPL solutions. On its part, the Bank of Greece has put forward a proposal (currently under consideration by the government) for an Asset Management Company.

**IV. Conclusion**

**In these challenging times, what is of the essence is a fundamental policy change to rebuild the Greek economy on new foundations.** In this context, **the authorities remain committed to** further **reducing** the high income tax and social security contribution burden to stimulate private investment and employment; **strengthening** the stability of the banking system while quickly and effectively addressing the legacy NPLs issue; **rebalancing** public investment and social spending along the lines of NGEU priorities and related financing opportunities towards a greener, digitalized and more inclusive economy for all; **promoting** educational reform and vocational training to upgrade skills and increase labor force participation in well-paid and better quality-jobs; and last but not least, **transforming** the productive forces along the lines of a new growth model of resilient development, based on private investment, competitiveness and strong institutions.

**However, a still relatively strong, though weakening, political economy resistance to change, combined with heightened pandemic-related socioeconomic uncertainties and downside geopolitical risks, may combine to pose a threat to sustained private investment growth**. In this context, it is expected that the coordinated and synchronized European recovery process, along with the newly found political dynamism towards building a more united Europe, may be able to mitigate some unwelcome outcomes. But this is not enough. To reinforce Greece's chances for strong and sustainable growth, **the authorities will pursue prudent economic policies and preserve fiscal discipline**, given the unpalatable long-term debt dynamics. Moreover, the authorities **will effectively tackle long-standing institutional weaknesses which are incompatible with a modern and dynamic social market economy**. Finally, the authorities **will rebalance the fiscal policy mix to create space for stimulating private investment**, pulling out all the stops to this end. These are the key determinants for inclusive growth for all, which the authorities have already delivered on and will continue pursuing with unwavering determination.