IMF Country Reports 24/023

Greece: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Greece

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 24/23

GREECE

January 2024

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE ALTERNATE EXECUTIVE DIRECTOR FOR GREECE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Greece, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of- time basis, following discussions that ended on November 14, 2023 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 December 15, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Alternate Executive Director** for Greece.

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

Selected Issues

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

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PRESS RELEASE

PR24/23

IMF Executive Board Concludes 2023 Article IV Consultation with Greece

FOR IMMEDIATE RELEASE

Washington, DC – January 24, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Greece and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Greece's economic outlook has improved notably. After a strong post-pandemic recovery, economic activity remained robust with real GDP growth projected at 2.3 percent in 2023 and 2.1 percent in 2024. Private consumption will be supported by positive real wage growth while investment will continue to expand with the implementation of the National Recovery and Resilience Plan supported by Next Generation EU funds. Headline inflation is forecast to reach 2 percent by end-2025 as pressures on core inflation will dissipate only gradually despite continued normalization of energy and food prices.

The banking system has remained resilient underpinned by balance sheet strengthening. Asset quality further improved with the Non-Performing Loan ratio declining below 5 percent in systemically important banks. Higher net interest margins have contributed to a strong rebound in bank profits and bolstered capital adequacy. The banking system also maintains sizable liquidity buffers despite substantial repayments of ECB's targeted long-term refinancing operations (TLTRO).

Risks are more balanced for growth but tilted upward for inflation. A potential escalation of Russia's war in Ukraine and the Conflict in Gaza and Israel could disrupt trade and trigger renewed energy and food price pressures and undermine confidence. In contrast, acceleration of ambitious structural reforms, in tandem with stronger-than-expected market reactions to the recent investment grade upgrade, could further improve growth prospects. Inflation could remain high, for example, as the result of pressures from recent and expected wage and pension increases and weather-related shocks.

Executive Board Assessment

In concluding the 2023 Article IV Consultation with Greece, Executive Directors endorsed staff appraisal as follows:

Greece's economic outlook has improved notably but significant challenges remain. Real GDP is expanding beyond its pre-pandemic trend level, driven by strong tourism recovery, and

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

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

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strengthening investment catalyzed by NGEU funding and FDI inflows. Strong growth and high inflation have brought the public debt-to-GDP ratio down below its pre-pandemic level with limited financing risks in the medium term due to the favorable debt structure. However, structural imbalances arising from low household savings and still low level of investment as well as increasing risks from climate change are weighing on medium-term growth prospects. The external position in 2023 is assessed to be weaker than that consistent with medium-term fundamentals and desirable policies. The assessment was done with preliminary current account data for 2023.

Risks are more balanced for growth but tilted upward for inflation. A potential escalation of Russia's war in Ukraine and the conflict in the conflict in Gaza and Israel could disrupt trade and trigger renewed energy and food price pressures and undermine confidence. Higher-than-expected persistence in euro area inflation and higher-for-longer interest rates would weigh on regional and domestic demand. In contrast, acceleration of ambitious structural reforms could further improve growth prospects. Inflation could remain high resulting from weather-related shocks as well as domestic pressures from recent and expected wage and pension increases.

Growth-friendly fiscal consolidation can further strengthen public debt sustainability while supporting inclusive and green growth. Further tightening in the near term and maintaining a primary surplus in the medium term would help further strengthen public debt sustainability while limiting additional pressure on inflation. For green and inclusive growth, fiscal policy should emphasize public investment, including green investment, and critical social spending such as healthcare and education. Advancing further fiscal structural reforms, including the ongoing efforts to address tax evasion, would enhance fiscal governance and improve the efficiency of fiscal policy.

The resilience of the financial system should be further strengthened in an environment of higher-for-longer interest rates. The monitoring and management of risks associated with interest rates, liquidity and funding, and credit exposures should be further strengthened. Temporarily elevated bank profits should be used to build capital buffers and improve the quality of capital. The activation of a positive neutral countercyclical capital buffer would help banks guard against potential systemic shocks. Borrower-based measures for mortgage loan borrowers—such as caps on loan-to-value and on debt service-to-income ratios—would enhance household resilience and consequently contain vulnerabilities in the banking system.

Comprehensive reforms to address structural supply impediments would lift medium-term growth prospects amid a negative demographic outlook. Continued reforms in digitalizing public administration and tackling barriers to more competition would unlock higher private investment and improve productivity. Ensuring higher labor participation and a better skilled workforce would raise labor market dynamism while further facilitating digitalization and the green transition. Strengthening judicial system reforms and out-of-court proceedings would contribute not only to improving business dynamism and productivity but also to increasing financial sector resilience by further reducing bank NPLs and distressed debt recovered by credit servicers.

Concerted efforts are needed to achieve the authorities' ambitious climate goals and facilitate the green transition. Given the dominance of fossil fuels in energy supply, a strong implementation of the authorities' policy framework for renewables, including measures to streamline the licensing framework for new investment and better integrate renewables in an upgraded electricity grid, would accelerate the progress while boosting energy security. The authorities should consider raising the carbon pricing (including excise and feebates) in non-

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ETS sectors such as transport to further incentivize rapid and efficient green transition as energy price continues to normalize.

Greece: Selected Economic Indicators

Population (millions)	10.5	Per capita GDP (€'000)	19.8
IMF quota (millions of SDRs)	2,428.9	Literacy rate (percent)	97.9
(Percent of total)	0.5	Poverty rate (percent)	28.3

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

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

GHG emissions per capita (tons of CO2 equivalent): 6.8

	2022	2023	2024
		(proj.)	
Output			
Real GDP growth (percent)	5.6	2.3	2.1
Employment			
Unemployment rate (percent)	12.4	10.6	9.2
Prices			
CPI inflation (period avg., percent)	9.3	4.2	2.8
General government finances (percent of GDP)			
Revenue	50.5	47.4	46.9
Expenditure	52.9	49.0	47.7
Overall balance	-2.3	-1.6	-0.9
Primary balance	0.1	1.1	2.1
Public debt 1/	179.5	167.4	158.0
Balance of payments			
Current account (percent of GDP) 2/	-10.7	-7.1	-6.4
FDI (percent of GDP)	-2.4	-2.1	-2.9
External debt (percent of GDP)	270.1	259.0	250.4
Exchange rate			
REER (percent change) 3/	-0.9	…	…
Memorandum item:			
Nominal GDP (billions of euros)	206.6	221.6	233.9

Sources: Greek authorities; World Bank, World Development Indicators; IMF, International Finance Statistics, Direction of Trade Statistics, and IMF staff projections.

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

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

3/ CPI-based.

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INTERNATIONAL MONETARY FUND

GREECE

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

December 15, 2023

KEY ISSUES

Context. Greece's economic outlook has improved notably, but significant challenges remain. The economy has resumed income convergence, ending a decade of stagnation with high unemployment and low investment amid large deleveraging. Real GDP has expanded beyond the pre-pandemic trend level, driven by the cyclical recovery of tourism demand and the resumption of structural reforms and investment in the context of Next Generation EU. Strong growth and high inflation have brought the public debt-to-GDP ratio down below its pre-pandemic level with limited financing risks in the medium term due to the favorable debt structure. However, despite regaining sovereign investment grade status and improving bank balance sheets, the economy is facing macro-financial challenges amid significant monetary policy tightening, persistent core inflation, and rising real estate prices. Structural imbalances arising from low household savings and still low level of investment as well as increasing risks from climate change are weighing on medium-term growth prospects.

Policies. With a strong turnaround of the economy, the right policy mix will make the most of the improved economic performance, buoyant revenues, secured large external funding, and positive consumer and business confidence by sustaining growth and ensuring fiscal sustainability while safeguarding financial stability:

- *Growth-friendly fiscal consolidation*. Further tightening in the near term and maintaining a primary surplus in the medium term would help further strengthen public debt sustainability while limiting additional pressure on inflation. To strengthen green and inclusive growth, fiscal policy should emphasize public investment, including green investment, and social spending such as healthcare and education, while providing targeted support to vulnerable households.

- *Strengthening financial system resilience*. The monitoring of risks associated with fixed-income asset valuation, liquidity and funding, and credit exposures should be strengthened. Expanding the macroprudential toolkit by adding a counter-cyclical capital buffer and borrower-based measures would help strengthen financial sector resilience against emerging risks. Temporarily elevated bank profits should be used to build capital buffers and improve the quality of capital.

- *Reforms for higher and greener growth*. Expeditious implementation of the National Recovery and Resilience Plan would help raise productivity by supporting the green and digital transition, and reskilling and upskilling the labor force. Rationalizing regulations would improve business dynamism and resource allocation. Continued reforms in digitalizing public administration and tackling barriers to more competition would unlock higher private investment and improve productivity.

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Approved By
Helge Berger (EUR) and Guillaume Chabert (SPR)

Discussions took place November 1–14, 2023 in Athens. The team comprised Joong Shik Kang (head), Larry Cui, Mariusz Jarmuzek, Wei Shi (all EUR), and Alexis Boher (MCM). Helge Berger (EUR) joined the concluding meetings. The mission met Minister of Finance Konstantinos Hatzidakis, Governor of the Central Bank Yannis Stournaras and other senior officials. Michael Massourakis (OED) joined the official meetings. Camila Perez (COM), Katherine Dai, and Sharon Smith-Tohu (EUR) supported the mission.

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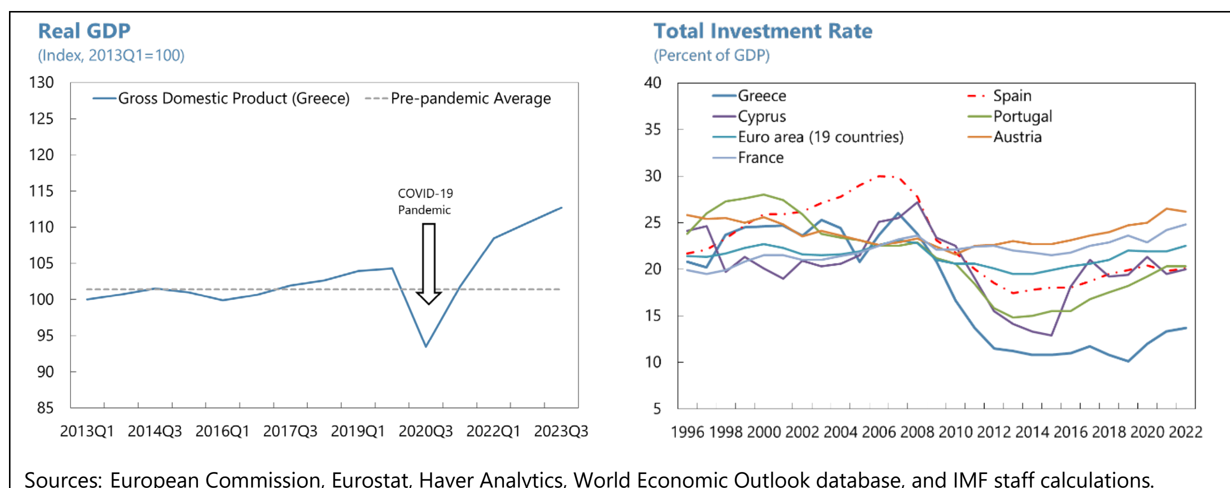
CONTEXT: RESUMING CONVERGENCE

1. **The Greek economy has resumed expansion after a decade of very low growth.** A faster-than-expected tourism recovery and strengthening investment catalyzed by Next Generation EU (NGEU) funding[1] as well as substantial government support have helped the economy continue its robust recovery from the pandemic despite the effects of Russia's war in Ukraine. Strong growth has raised real GDP above its pre-pandemic trend, ending a decade of stagnation and putting the economy back on track for income convergence with its peers. However, over the last decade, the level of investment had plunged amid large deleveraging after the sovereign debt crisis and still lags the euro area average by about 10 percentage points of GDP.



Sources: European Commission, Eurostat, Haver Analytics, World Economic Outlook database, and IMF staff calculations.

2. **Public debt, though still elevated, is on a downward trajectory with limited refinancing risks in the medium term despite rising interest rates (Annex I).** Strong growth and high inflation helped bring the public debt-to-GDP ratio at end-2022 below its pre-pandemic level. The favorable structure of the public debt—with a high share of official holdings at low fixed rates, ultra-long maturity, and long grace periods—has mitigated the impact of tightening financial conditions on Greece's public debt and gross financing needs, contributing to narrowing spreads of sovereign bond yields. Reflecting these developments, in the second half of 2023, Greece's credit rating has been upgraded to investment grade for the first time since the sovereign debt crisis by three of the four credit assessment institutions recognized by the ECB, making Greek sovereign bonds eligible for the ECB's monetary policy operations in the standard collateral framework.

[1] Approved EU funding for Greece's National Recovery and Resilience Plan (NRRP) in 2021-26 is about €31billion (17 percent of GDP), of which 36 percent has been disbursed. The authorities submitted the revised NRRP in September 2023 with additional funding request of €5.8 billion (2.8 percent of GDP).

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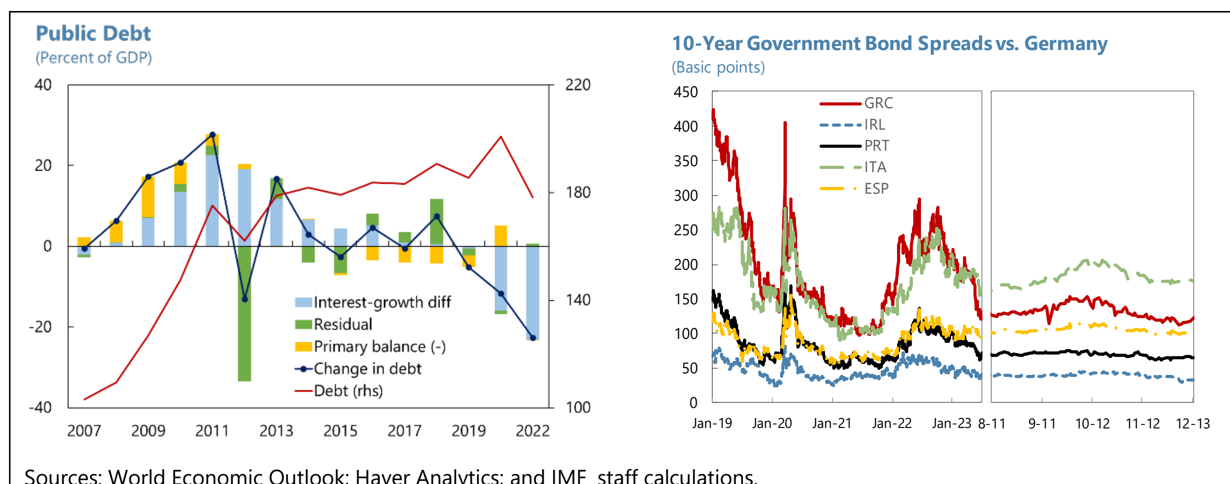

Sources: World Economic Outlook; Haver Analytics; and IMF staff calculations.

3. **The Greek economy has been increasingly affected by climate change.** Greece has the third-longest coastline in Europe, with 90 percent of tourism infrastructure and 80 percent of industrial activities in areas exposed to high climate risks.[2] Extreme weather events have caused high fatalities and significant economic damages not only in the agricultural and tourism sectors but also in overall economic and social activities, as observed in a series of heatwaves, wildfires, and floods in the summer. In line with the EU's Fit-for-55 package, the authorities have made good progress in fulfilling their commitment to cut greenhouse gas emissions by 55 percent by 2030 and achieve net zero emission by 2050,[3] but fossil fuels still account for about 80 percent of Greece's energy supply (IEA 2023).

4. **The new government has prioritized policies to promote sustainable growth and public finances.** The government aims to accelerate income convergence with other advanced European countries through higher labor force participation and more investment, while combating tax evasion. The authorities have also committed to further reduce the public debt-to-GDP ratio to 140 percent (excluding deferred interest payments on EFSF loans) by 2027 with an annual primary surplus of more than 2 percent of GDP.

ROBUST RECOVERY AMID HIGH INFLATION

5. **Economic activity has remained robust in 2023 despite slowing momentum.** Real GDP continued to expand at a solid pace in the first three quarters of 2023 by 2.2 percent (y/y). Private consumption was still buoyant on the back of increasing real wages and a gradual decline in pandemic-induced excess household savings.[4] Fixed investment growth also remained robust driven

[2] See IMF (2022) Selected Issues Paper, "Is Greece's Social Protection System Fit for the Green Transition?"

[3] European Commission (2023) *Country Report – Greece*.

[4] Household saving rates have been persistently lower than the other euro area countries, contributing to low growth and external imbalances. See Dybczak and others (2023) "Household Savings in Selected Southern European Countries Evidence from Cross-Country Micro-Level Data," IMF Working Paper 23/150.

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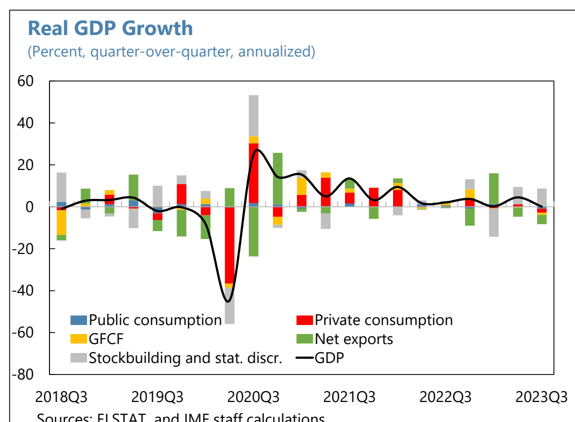
by the ongoing NGEU-funded investment and FDI inflows, while external demand from the rest of the euro area is softening.



Contributions to Changes in Primary Balance, 2020-23

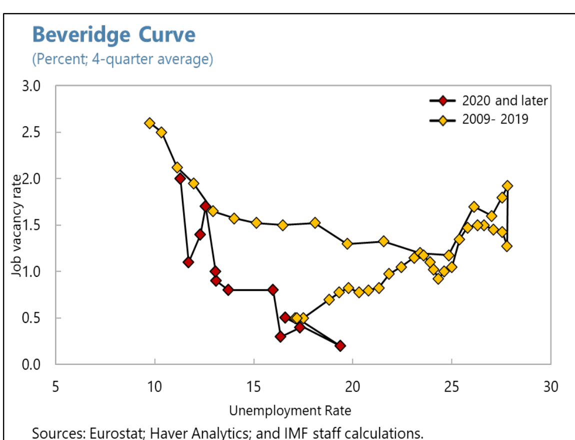
(Percentage point of GDP, y/y)

	2019	2020	2021	2022	2023 Proj.
Changes in Primary Balance		**-10.5**	**2.3**	**5.3**	**1.0**
Automatic Stabilizers		-4.0	2.7	2.4	-0.7
Green Transition Fund Revenue 1/			0.5	2.3	-1.9
Discretionary Spending 2/		-6.5	-0.9	0.6	3.6
COVID Support		-6.5	0.5	5.0	1.0
Energy Support			-0.6	-4.1	3.4
Food Support ("Market Pass")					-0.4
Reduced Social Contribution and Solidarity Tax Abolishment 3/			-0.8	0.1	-0.2
Disaster Support					-0.3
Additional Measures 4/				-0.4	-0.1
Memorandum:					
Primary Balance (percent of GDP)	*3.0*	*-7.5*	*-5.2*	*0.1*	*1.1*

Sources: Ministry of Finance; and IMF staff calculations.
1/ Includes windfall revenues from the Emission Trading System and additional revenues from the energy sector, excluding budgetary transfers.
2/ Spendings are shown in negative values.
3/ Introduced in 2021 as part of temporary COVID support for 2021-22, but made permanent in 2023.
4/ For 2022, it includes mainly subsidies to vulnerable households and additional heating benefits. For 2023, it also includes one-off pension payouts, foregone VAT revenue for incentives extended until year-end and some wage costs.

6. **Fiscal consolidation has resumed on strong cyclical revenue despite sizable support measures amid high cost of living.** Total energy subsidies in 2022–23 amount to almost 6 percent of GDP. The suspension of solidarity tax and cuts in social security contributions (SSCs) for the private sector, temporarily adopted in 2021 amid the pandemic, have been made permanent to support household income, with the former extended to pensioners and public employees. Despite this sizable support, on the back of strong cyclical revenue in VAT and income taxes and unwinding of COVID-related support measures, the primary balance turned to a surplus of 0.1 percent of GDP in 2022 and is expected to further improve to 1.1 percent in 2023. The fiscal stance as measured by the change of cyclically adjusted primary balance (CAPB) is expected to be modestly contractionary (0.4 percent of potential GDP) in 2023.

7. **Headline inflation is falling but core inflation is declining more gradually amid the tightening labor market.** Headline inflation decelerated to 3.3 percent (3-month moving average, y/y) in October mainly due to normalizing energy prices and base effects. Services inflation is still running high, contributing to sticky core inflation at 4.8 percent (3-month moving average, y/y). The labor market has performed strongly. Employment expanded by 8.6 percent in 2023Q2, the job vacancy rate reached a decade high, and the unemployment rate declined to 9.6 percent in October, the lowest level in 14 years.[5] Total compensation of employees grew by 5.5 percent (y/y) in the first three quarters of 2023, combined with falling inflation, contributing to higher real wages, while the unit labor cost remained low relative to euro area peers. The minimum wage was



[5] However, the unemployment rates among the youth (23.7 percent) and women (12.1 percent) are still disproportionately high.

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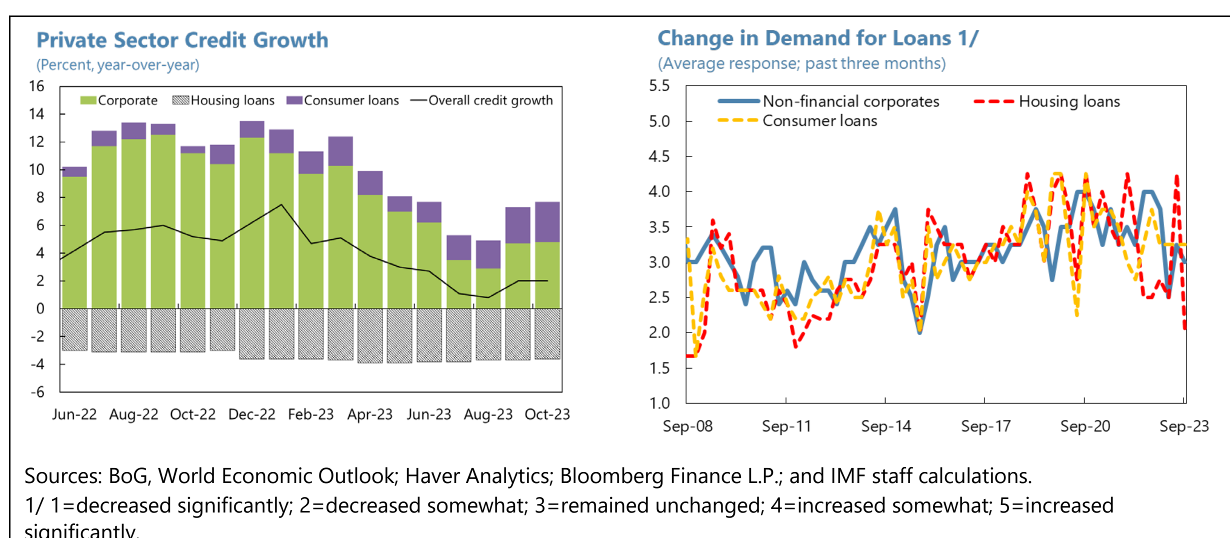
raised by another 9.4 percent in April, after a 7.5 percent increase in 2022, adding to overall wage pressures.

8. Credit growth has slowed with rising interest rates, but house prices continue to rise. Private sector credit further accelerated to 6.3 percent (y/y) at end-2022 in line with strong economic recovery, rising cost of working capital, and the EU funding channeled through the banking system. Credit growth is moderating in 2023 due to early repayments of corporate loans amid higher interest rates and continuing sizable repayment of mortgage loans originating from the pre-Global-Financial-Crisis (GFC) boom period. However, overall credit demand remains robust on the back of NRRP-related corporate loans and solid, albeit softening new mortgage loans, contributing to further increases in residential house prices, which have risen by more than 50 percent since the trough in 2017 but still remain below their pre-GFC levels.



Sources: BoG, World Economic Outlook; Haver Analytics; Bloomberg Finance L.P.; and IMF staff calculations.
1/ 1=decreased significantly; 2=decreased somewhat; 3=remained unchanged; 4=increased somewhat; 5=increased significantly.

9. The banking system has remained resilient underpinned by policy support and balance sheet strengthening. Asset quality further improved, with the NPL ratio declining below 5 percent in 2023Q2 in systemically important banks, supported by continued securitizations and loan sales under the Hercules program,[6] although with limited contribution from organic actions such as loan write-offs or liquidations. The lower NPL ratio, coupled with higher net interest income, has contributed to a strong rebound in bank profits. As a result, capital adequacy has been bolstered with system-wide tier-1 capital ratio increasing to almost 15 percent in 2023Q2—still below the euro area average—but its quality in terms of the Deferred Tax Credit (DTC) ratio has improved only gradually with DTC representing 51 percent of prudential capital.[7] Given continued deposit inflows

[6] A government-sponsored securitization framework to remove NPLs from banks' balance sheets through special purpose vehicles under which the government provides guarantee for the senior note tranches. See IMF (2021) *Greece: 2021 Article IV Consultation Staff Report* for more information on the Hercules program.

[7] For a more in-depth presentation of Greek banking sector's linkages to the government via DTCs, see IMF (2019) Selected Issues Paper, "Cost-Effectiveness of State Support for Banks."

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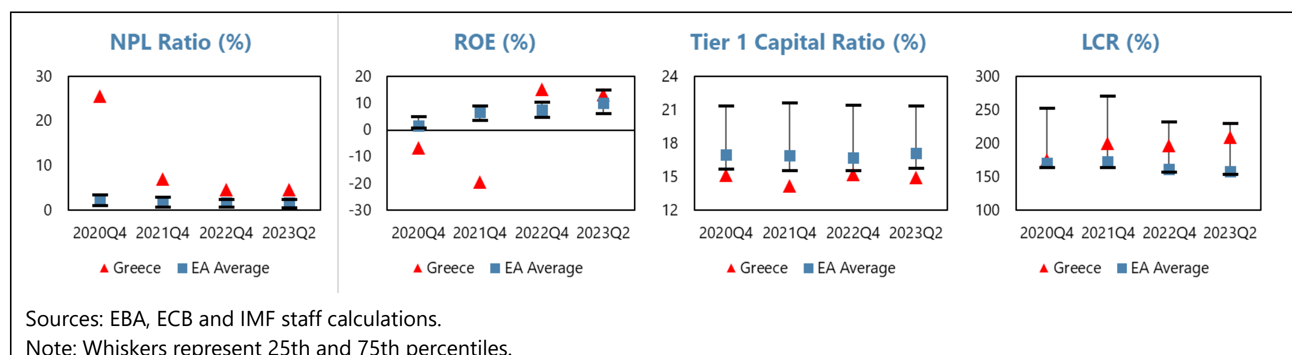
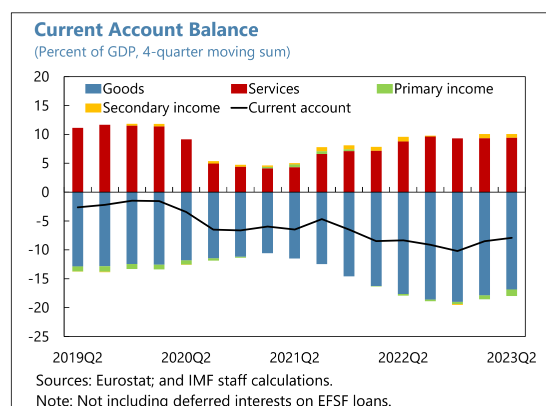
and despite substantial repayments of targeted longer-term refinancing operations (TLTRO), the banking system has maintained sizeable liquidity buffers.[8]



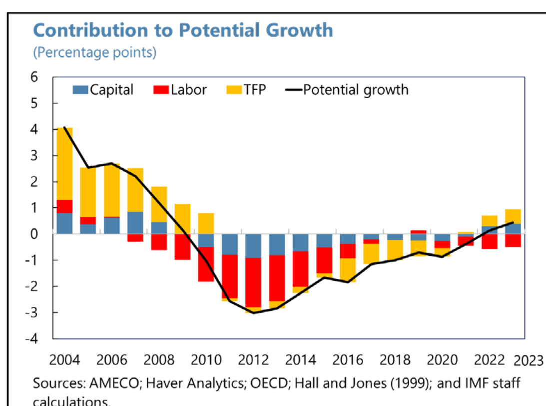
Sources: EBA, ECB and IMF staff calculations.
Note: Whiskers represent 25th and 75th percentiles.

10. The current account deficit, which had widened temporarily during the pandemic, has started to narrow with declining energy prices. The current account deficit increased further to 10.7 percent of GDP in 2022 driven by robust domestic demand and elevated import prices. With declining energy prices and continued strong performance in tourism, the current account deficit narrowed to 7.9 percent of GDP (4-quarter moving average) in 2023Q2 and is expected to further improve to 7 percent for the year. The external position in 2023 is assessed to be weaker than that consistent with medium-term fundamentals and desirable policies (Annex II). The assessment was done with preliminary current account data for 2023.



Sources: Eurostat; and IMF staff calculations.
Note: Not including deferred interests on EFSF loans.

11. Much needed continued progress in structural reforms has improved investment and productivity growth. Good progress has been made in the digital transformation of the economy, including the integration of various government services, which has contributed to reducing the informality of the economy.[9] Labor market reforms such as the modernization of labor legislations and of public employment services have facilitated labor market adjustment since the pandemic. The competition authority's enforcement capacity has been enhanced, and the codification of labor legislation has eased



Sources: AMECO; Haver Analytics; OECD; Hall and Jones (1999); and IMF staff calculations.

[8] See Annex V for a more in-depth analysis of the financial system.

[9] See IMF (2023), Selected Issues Paper, "Recent Trend of Informality in Greece.", which finds that the estimated informality declined by about 14 percentage points of GDP since 2013, with positive contributions from digitalization.

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access by investors and the public, contributing to increasing market competition. Greece's potential growth is estimated to have turned positive in 2022, for the first time since the sovereign debt crisis.

Authorities' Views

12. The authorities agreed that the economy became more resilient and resumed income convergence. They agreed that, after a decade of low investment amid large deleveraging, NGEU funding and FDI inflows had spurred strong investment and much-needed structural reforms, boosting growth above the rate of potential growth. The authorities also reiterated that the economy became more open and thus more resilient with the export-to-GDP ratio more than doubled from its level before the sovereign debt crisis. While agreeing that debt financing risks are contained in the medium term, they noted that it is not only because of the favorable debt structure but also because of proactive debt management and higher medium-term growth. The authorities also noted that the deleveraging following the GFC had reduced private sector indebtedness significantly below the EU average and made the financial system less prone to risks of rising interest rates.

NAVIGATING THROUGH PERSISTENT CHALLENGES

13. Growth is projected at 2.3 percent for 2023, moderating to 2.1 percent in 2024, with headline inflation remaining above the ECB euro area target of 2 percent.

- Fiscal policy stance will be more contractionary in 2024. In line with the government's plan, the primary surplus is expected to further improve to 2.1 percent of GDP, corresponding to a change of CAPB by ¾ percent of potential GDP. Robust revenue growth, including through the new levy on hotel stays to finance an increase in the budgetary reserve against natural disasters, and the planned unwinding of various support measures will more than offset the impact of several new discretionary measures, including the public sector wage increase.

- Despite continued fiscal consolidation, domestic demand is expected to remain solid in 2024. Private consumption will be supported by positive real wage growth amid the continued improvement in the labor market as well as gradual dissaving of excess savings. Investment activity will

Costs of Discretionary Measures
(Percent of GDP)

	2024	2025	2026	2027
Adjusting wage grid 1/	0.3	0.3	0.3	0.2
Raising tax-free threshold by 1000 euros for family with children 2/	0.1	0.1	0.1	0.1
Reducing social security contribution rate by 0.5% in 2025 and 0.5% in 2027		0.1	0.1	0.2
Reducing lump-sum tax for self-employed conditional on progress in tax administration			0.1	0.2
Natural disaster support	0.2	0.1	0.1	0.1
Increase of overnight stay tax of hotels	-0.1	-0.1	-0.1	-0.1
Other measures 2/	0.1	0.1	0.1	0.1
TOTAL	**0.5**	**0.6**	**0.6**	**0.8**

Sources: Ministry of Finance; and IMF staff calculations.
1/ Already in 2023 Stability Program.
2/ Includes reduction of ENFIA for insured properties, raise of guaranteed minimum income, birth benefits to farmers and self-employed, exemptions of pharmaceutical expenses for eligible pensioners, an employment program targeting youth with limited work experiences, and incentives for youth for cultural and tourism related activities.

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continue to expand, despite increasing capacity constraints such as labor shortages, on the back of the implementation of the NRRP with NGEU funding.

- Headline inflation is projected at about 3.5 percent at end-2023 and 2.7 percent at end–2024 mainly driven by normalizing energy and food prices, while core inflation is projected to decline more gradually due to persistent service and processed food prices as well as the impact of wage increases.

14. Against the backdrop of demographic headwinds and the expiration of NGEU funding, GDP growth is forecast to moderate to about 1¼ percent in the medium term.

- Fiscal policy stance will be broadly neutral from 2025 as the authorities plan to maintain the primary surplus at around 2 percent of GDP in the medium term.

- Investment will remain an important source of growth with the continued implementation of the NRRP. Growth is expected to remain above potential by 2026 when the NGEU support expires, before moderating to about 1¼ percent in the medium term reflecting the shrinking working-age population. Total investment is projected to reach about 17 percent of GDP in the medium term although still below the current euro area average of about 23 percent.

- Headline inflation is projected to reach 2 percent by end-2025 as pressures on core inflation will dissipate only gradually despite continued normalization of food and fuel prices.

- The current account deficit is expected to continue to narrow to around 3 percent of GDP in the medium term as imports will slow further in response to lower energy prices and the winding down of NGEU-funded investment, while exports of goods and services would remain resilient.

15. Risks are more balanced for growth but tilted upward for inflation (Annex III).

- The potential escalation of Russia's war in Ukraine and the conflict in Gaza and Israel could disrupt trade and trigger renewed energy and food price pressures and undermine confidence. Higher-than-expected persistence in euro area inflation and even higher-for-longer interest rates would weigh on regional and domestic demand. More frequent extreme climate events could disrupt tourism and overall activities.

- Private consumption could turn out stronger than projected if the energy price normalization passes through to consumer prices more strongly and the pace of global tourism demand recovery further accelerates. Acceleration of ambitious structural reforms to address structural impediments to the supply side of the economy, in tandem with stronger-than-expected market reactions to the investment grade upgrade, could lower financing costs and spur more foreign investment, further improving growth prospects.

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- Inflation could remain high resulting from weather-related shocks as well as domestic pressures from recent and expected wage and pension increases. A further intensification of geoeconomic fragmentation would be akin to an adverse supply shock, pushing up inflation.

Authorities' Views

16. While broadly agreeing with the outlook and risks, the authorities were more optimistic and expected higher growth in the near and medium term. They viewed that robust private consumption on the back of planned wage and pension increases and strong investment, including reconstruction in response to recent natural disasters with additional EU funding, as well as robust exports would accelerate growth in 2024. The authorities also noted that continued good progress in structural reforms would improve productivity and further lift potential growth in the medium term. They saw risks to growth as mostly external, including the conflict in Gaza and Israel, while expecting limited risks from planned public sector wage and pension increases, which will be in line with productivity growth. The authorities concurred with staff's preliminary external sector assessment for 2023.

PROMOTING SUSTAINABLE AND GREEN GROWTH WHILE ENSURING FISCAL SUSTAINABILITY

A. Growth-Friendly Fiscal Consolidation

17. Growth-friendly fiscal consolidation can further strengthen public debt sustainability while supporting inclusive and green growth. With still very high debt and limited fiscal space, continued fiscal consolidation with the CAPB tightening by about ¾ percent of potential GDP in 2024—as in the baseline forecast—would help further reduce the public debt-to-GDP ratio, while limiting additional pressures on inflation. From 2025 and onwards, amid strong revenue growth, maintaining a primary surplus of about 2 percent of GDP in the medium term would further improve public debt sustainability, while providing additional space for domestically financed public investment, particularly in green and digital transition and critical social spending. This approach would contribute to narrowing Greece's large investment gap while keeping the public debt-to-GDP ratio firmly on a declining path. Better-than-expected revenue should be saved for debt reduction.

18. Well-targeted social transfers would more effectively support vulnerable households. As the recent and planned cuts in SSCs and solidarity tax, while helping reduce the labor tax wedge, are poorly targeted and would incur permanent annual fiscal cost of 1 percent of GDP, benefit adjustments in the corresponding social security schemes and base-broadening measures[10] need to be considered to offset permanent revenue loss. Targeted policy support such as means-tested

[10] Including the authorities' ongoing efforts to enhance the evaluation and enforcement of the report and compliance by the self-employed.

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income transfer would not only provide better protection to vulnerable households but also limit the market distortion associated with the policy intervention. The authorities should continue strengthening the means-tested Guaranteed Minimum Income scheme to transform it into the "go-to" safety net against future adverse shocks. A well-functioning social safety net with adequate targeting and coverage would also help protect vulnerable households against climate-related disasters, mitigate the adverse impact of higher carbon prices, and broaden public support for related reforms.

19. Containing spending pressures is critical to maintain fiscal space for crucial social and capital expenditure, including to manage the green transition. Excessive increases in public-sector wages and pensions should be resisted as they are still at elevated levels in cross-country comparison, while protecting critical social assistance to the vulnerable and allowing adequate room for investment. Ongoing efforts to adjust parameters of the pension schemes in response to demographic trends (such as raising retirement age) would safeguard long-term sustainability of public pension schemes as well as provide incentives for more household savings.[11] Pension increases should stick to the indexation formula without *ad hoc* adjustment.[12] This practice will also help protect or expand non-pension social spending such as healthcare and education, which is relatively low compared to peers.

20. Advancing further fiscal structural reforms would enhance fiscal governance and improve the efficiency of fiscal policy.

- ***Enhancing revenue collection***. The authorities' ongoing efforts to address tax evasion, including reforms for the self-employed and undeclared employment, are important and welcome. The planned reduction of lump-sum taxes for the self-employed should be conditional on improved revenue outcome from better assessment and management of tax compliance risks. The operationalization of Greece Register of Real Beneficiaries would also support the Independent Authority for Public Revenue (IAPR)'s ongoing efforts to promote tax compliance. Continued efforts to promote digital transactions, limit large cash transactions, and rationalize tax incentives would improve the efficiency of revenue collection.

- ***Improving spending efficiency.*** The planned reforms of performance budgeting and spending reviews as well as the ongoing accounting reform, would strengthen fiscal governance and improve the efficiency of fiscal expenditure. Given the large investment under the NRRP, continued efforts should be made to further strengthen public investment management, including through enhanced planning and budgetary practices related to recurring spending for

[11] The pension-to-GDP ratio is projected to fall to 11.9 percent in 2070 from 15.7 percent in 2019. With rising statutory retirement age and tightening of early retirement conditions, the share of public pensioners below age 65 relative to all pensioners is also projected to fall to 4 percent in 2070 from over 20 percent in 2019. See the European Commission, *The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070)*.

[12] The indexation formula regulates that the pension growth is equal to the minimum of the CPI and the average of CPI and GDP growth.

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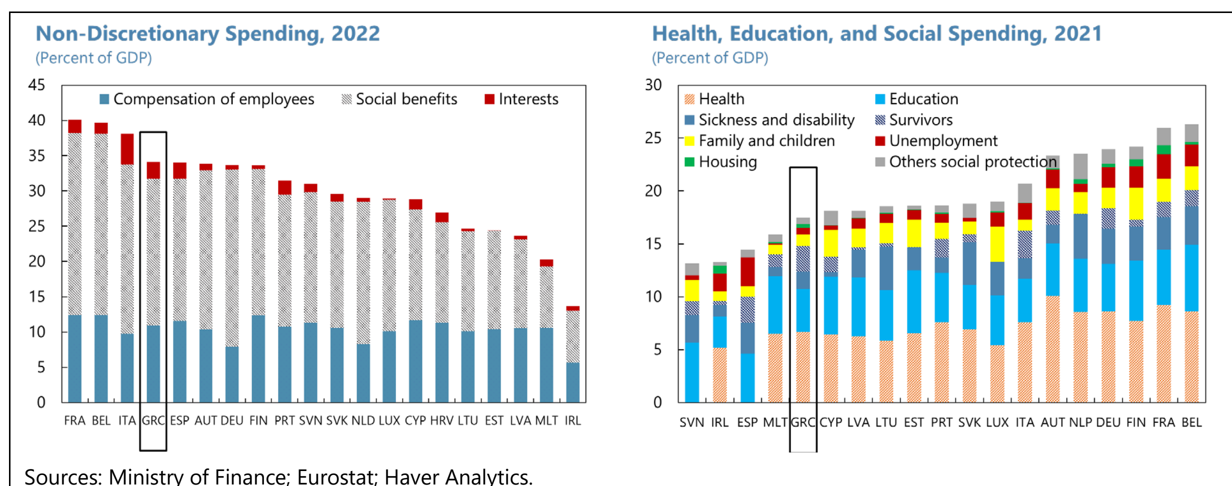
operation and maintenance. Staff welcomes the ongoing effort to establish a one-stop portal for social benefits by end–2024, which will allow easier access to beneficiaries and enhance transparency and efficiency of the social safety net.



Sources: Ministry of Finance; Eurostat; Haver Analytics.

Authorities' Views

21. The authorities agreed that a primary surplus of about 2 percent of GDP would strike a balance between ensuring public debt sustainability and supporting green and inclusive growth. They viewed that fiscal consolidation by another 1 percentage point of GDP in 2024 in terms of primary balance would not derail the recovery given robust domestic private demand. They expected that, on the back of ongoing efforts to address tax evasion, including the new legislation on self-employed taxation and harnessing digital technologies for tax monitoring and auditing, the VAT compliance gap, which fell from 29 percent in 2017 to 17.8 percent in 2021, would further decline to below 10 percent by 2026. The authorities noted that these efforts would contribute to maintaining a primary surplus of about 2 percent of GDP in the medium term while supporting the needs for higher social spending in healthcare and education as well as public investment within the EU's net expenditure rule. The authorities also noted that ongoing reforms in further digitalizing and modernizing the public administration and enhancing public investment management would improve the efficiency of the public finance.

B. Safeguarding Financial Stability

22. While systemic risk is relatively limited with low private sector leverage, it has increased since last year and the banking sector faces significant challenges ahead. While both corporate and household indebtedness remains low compared to the euro area average, debt servicing cost for households is one of the highest in the euro area, and higher interest rates could further increase household debt servicing burden, leading to banks' asset quality deterioration and

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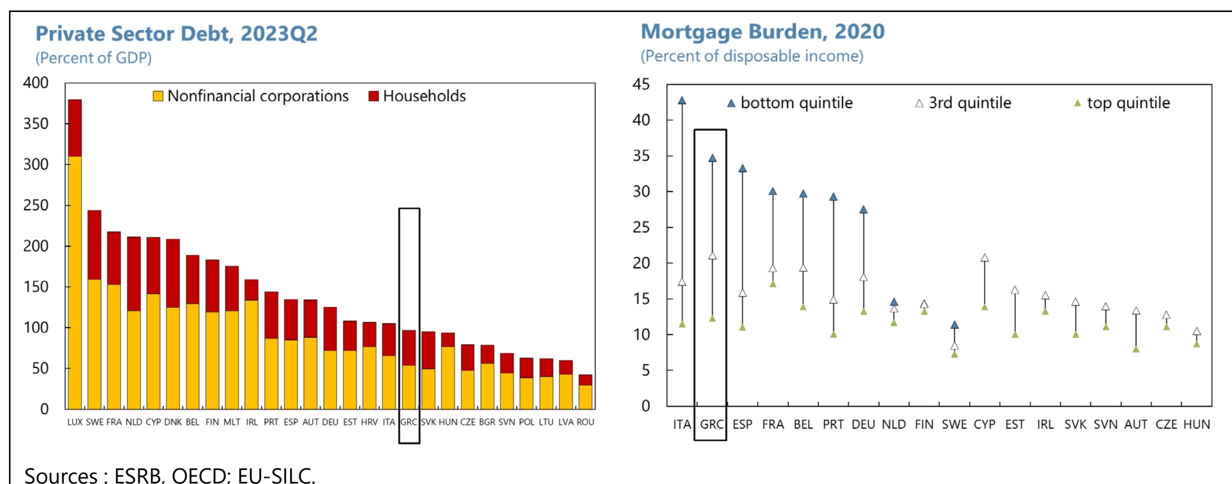
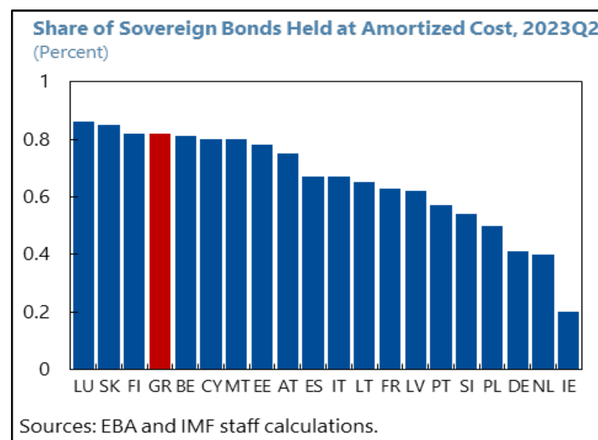
weighing on their internal capital-generation capacity.[13] A model-based analysis suggests that the credit-to-GDP gap remained positive[14] and staff estimate that residential house prices are overvalued in the range of 6-29 percent in 2023.[15] The macro-financial risks associated with further financial tightening along with growth slowdown amid house price overvaluation could result in bank balance sheets deterioration and house price corrections, with the adverse feedback loop to the real economy.



Sources : ESRB, OECD; EU-SILC.

Close Monitoring of Financial Risks

23. Banks' interest-rate risk needs to be closely monitored. Despite the significant share of fixed-income assets, mainly government bonds, the impact of recent steep interest rate increases on banks' profits and capital has been limited as around 80 percent of bond portfolios are held at amortized cost and banks have been hedging interest-rate risks. Yet supervisors should ensure that risks associated with trading and banking books are closely monitored through targeted reviews of banks' interest rate, and



Sources: EBA and IMF staff calculations.

[13] The 2023 EBA/ECB stress test results for Greece suggest nevertheless a higher degree of resilience compared to the SSM average and the previous exercise conducted in 2021, with improved results across all the four systemically important banks. Under the adverse scenario, the stress test assumes recession along with sharp increase in interest rates and sizeable real estate market prices correction.

[14] Baba and others (2020) "How Should Credit Gaps Be Measured? An Application to European Countries," IMF Working Paper 20/6.

[15] A model-based approach suggests 8 percent using the IMF model, while the price-to-income and price-to-rent ratios suggest 6 and 29 percent, respectively, using OECD (2023) "Analytical House Price Indicators."

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credit spread assessment and management. Bank interest-rate-risk stress tests can also help establish the degree of bank resilience to potential further interest rate increases.

24. Supervisors should also monitor and stress test bank funding and liquidity conditions. While banks have over time built sizeable liquidity buffers, the replacement of TLTROs with more expensive central bank refinancing or market funding, as well as the minimum requirement for own funds and eligible liabilities (MREL) may put pressure on liquidity and funding prudential ratios. Despite fulfilling interim MREL targets in 2022 and issuing instruments in 2023, the shortfall for Greek banks against the binding target in 2025 is the largest among euro area countries. Supervisors should ensure that banks integrate into their risk management frameworks results of conservatively designed and executed liquidity stress tests.[16] In particular, for those banks that have a material reliance on this funding source and are vulnerable to increases in market funding costs, supervisors should assess through targeted reviews the appropriateness of TLTRO exit strategies.

25. Proactive management of credit risks is warranted to ensure that banks maintain comfortable capital buffers against future shocks. The ongoing financial conditions tightening combined with growth deceleration will likely weigh on asset quality over time, as demonstrated by the 2023 EBA stress test results. These results should help identify key pressure points for credit risk. Targeted reviews of loan origination, including real estate portfolios, would help assess compliance with the related EBA guidelines.

Enhancing Resilience of the Financial System

26. Banks should ensure sustainable profitability to enhance capital adequacy and its quality. While there has been strong rebound in bank profitability since 2022, it has been boosted by cyclical and one-off factors, with uncertainty over the medium to long-term prospects. Supervisors should ensure that bank dividend payouts account fully for the key risks to prevent instances of extraordinary payments, assuring bank capital accumulation.[17] Supervisors should also ensure that banks adapt their business models to the changing operating environment and strengthen their risk management frameworks to avoid loan pricing not covering all the costs and risks.[18] These actions would help establish sustainable profitability drivers assuring profitability levels at least matching cost of capital required by investors, which would in turn bolster capital adequacy and its quality. The latter is particularly important because DTCs are very high, weakening the loss-absorption capacity of the banking system. A sustainable long-term solution agreeable to the

[16] The SSM supervisory priorities for banks for 2023-25 explicitly call for additional scrutiny with respect to funding and liquidity risks to ensure that banks have sufficient liquidity buffers. The existing Internal Liquidity Adequacy Assessment Process (ILAAP) framework could be used to ensure that banks run sufficiently conservative liquidity stress tests, but it may need to be complemented by supervisor-led stress tests where liquidity buffers are smaller or subject to higher risks.

[17] See IMF (2021) "Unwinding COVID-19 Policy Interventions for Banking Systems," and Belloni and others (2022) "Why European Banks Adjust their Dividend Payouts?" IMF Working Papers 22/194.

[18] See IMF (2022) Selected Issues Paper, "Bank Profitability Drivers and Challenges in Greece."

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authorities and the European Institutions should be discussed to address the DTC issue, while avoiding recourse to public funds.

27. The macroprudential policy toolkit should be strengthened and more actively used to enhance resilience of the banking sector. Further strengthening of the systemic risk assessment framework would help identify and monitor better emerging systemic risks. Complementing organic bank capital accumulation and issuances, a positive neutral countercyclical capital buffer (CCyB) would help guard against potential systemic shocks, while borrower-based measures (BBMs) for mortgage loan borrowers would enhance household resilience and consequently contain vulnerabilities in the banking system against the potential housing boom.[19]

- ***CCyB.*** The pandemic experience suggests that releasable capital buffers need to be enhanced to increase resilience of the banking sector and effectively address adverse systemic shocks that can occur independently of a country's position in the financial or economic cycle.[20] Given the broadly favorable economic outlook, improved banks' balance sheets and still not excessively restrictive financial conditions, the activation of the CCyB should not constitute a substantial challenge to Greek banks. Once activated, the CCyB could be gradually raised over time based on a systemic risk assessment with sufficient lead-up time given for banks to raise capital.

- ***BBMs.*** These measures could help prevent excessive mortgage leverage build-up, while limiting banks' exposure to the housing boom without impeding intermediation of credit to the real economy. As relevant legislation was enacted in 2023, supervisors should introduce caps on loan-to-value (LTV) ratio and debt service-to-income (DSTI) ratios, while setting them initially at less binding levels and tightening gradually over time.[21]

- ***Sequencing.*** Well-sequenced deployment of the CCyB and BBMs would help avoid excessive tightening. BBMs could be introduced with immediate effects, while the CCyB rate increase path should be announced with a grace period of at least one year.

Authorities' Views

28. The authorities highlighted the significant progress achieved in restoring the health of the financial system and agreed with the need to further enhance its resilience. While underscoring the very significant improvement in bank fundamentals evident across the key risk metrics, they saw that structural challenges remained, including low capital management buffers and capital quality, as well as profit sustainability, a substantial MREL gap, and lingering vulnerabilities in smaller banks. Recognizing these challenges, banking supervisors envisaged a conservative approach to bank dividend payouts in 2024 and beyond. The authorities agreed that activating the

[19] See IMF (2022) Selected Issues Paper, "Enhancing Macroprudential Capital Buffers in Greece."

[20] ECB (2023), "A positive neutral rate for the countercyclical capital buffer–state of play in the banking union.", Macroprudential Bulletin, 21

[21] See IMF (2023) Selected Issues Paper, "Calibrating Borrower-Based Measures in Greece."

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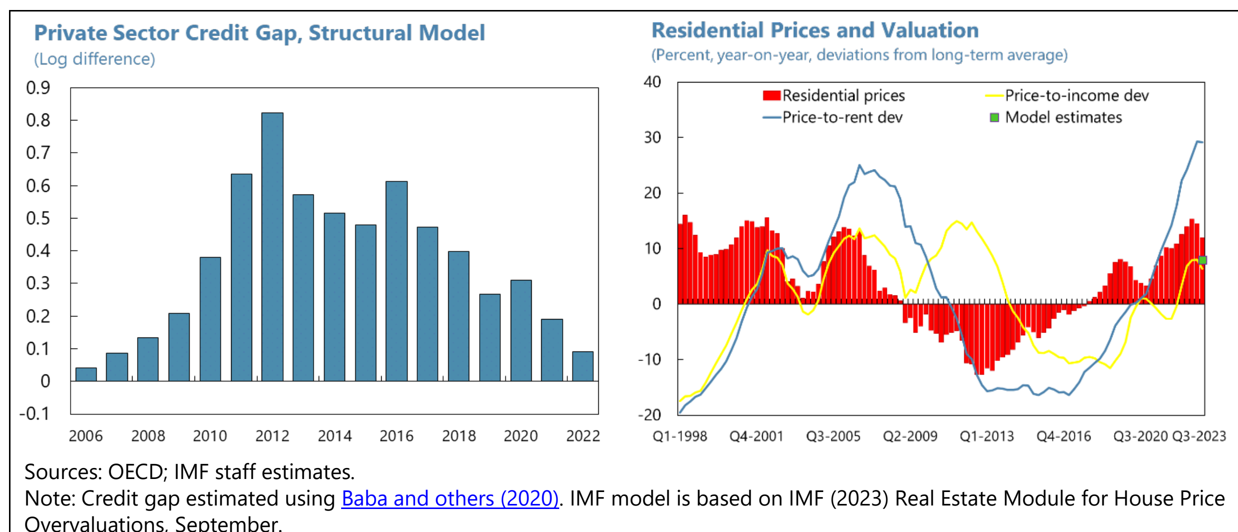
countercyclical capital buffer and borrower-based measures in the form of caps on debt-service-to income and loan-to-value ratios would help enhance banks' resilience against potential risks. They expected that the planned completion of the ongoing divestment of bank capital shares by end-2025, combined with the recent regaining of investment grade, would improve further financing conditions, and help reduce the bank-sovereign nexus. While noting the increasing benefits of the new insolvency framework, with a substantial amount of the distressed debt still in the economy, they envisaged increased supervisory scrutiny of credit servicers which continued to fall behind on original performance targets for securitized portfolios.



Sources: OECD; IMF staff estimates.
Note: Credit gap estimated using Baba and others (2020). IMF model is based on IMF (2023) Real Estate Module for House Price Overvaluations, September.

C. Implementing Reforms for Higher and Greener Growth

29. Comprehensive reforms to address structural supply impediments would lift medium-term growth prospects while alleviating inflationary pressure. Given Greece's negative demographic outlook,[22] which is estimated to reduce potential growth by about ½ percentage point, it is crucial to promote investment and revitalize productivity growth. Expeditious implementation of the NRRP would help not only boost resilience and growth but also achieve the climate objectives. In addition, prioritizing supply-enhancing reforms such as those to boost labor force participation will also help contain wage pressures and lower inflation.[23]

[22] The working age population has declined by about 0.7 percent annually over the past decade and is projected to further decline by about 1 percent annually until 2030 (European Commission (2021), *Ageing Report*).

[23] See IMF (2016) "Time for a Supply-Side Boost? Macroeconomic Effects of Labor and Product Market Reforms in Advanced Economies" World Economic Outlook April, Chapter 3.

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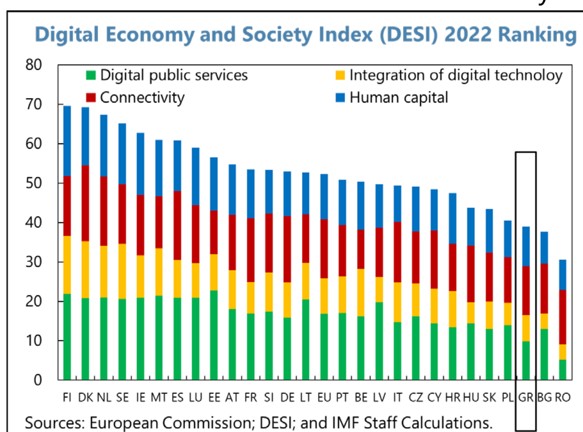
30. Accelerating regulatory reforms to support business is critical to boost economic dynamism and productivity. Regulations should be further rationalized to facilitate firm entry and exit as well as job transitions, which will help improve business dynamism, where Greece lags most EU countries. Greece was among the top countries in raising digitalization in recent years, with an associated pickup in labor productivity based on cross-country evidence.[24] But key digitalization indicators are still below the corresponding EU averages, particularly in areas related to the integration of digital technology. The authorities' current efforts in digitalization could sharpen the focus in serving small- and medium-sized enterprises (SMEs), which account for over 70 percent of total employment, to maximize the economic and employment benefits.



Sources: European Commission; DESI; and IMF Staff Calculations.

31. Ensuring higher labor participation and a better skilled workforce would raise labor market dynamism while further facilitating digitalization and the green transition. Despite strong recent job growth, labor force participation and employment rates are still below those in peer countries and there are also signs of skill shortages in selected sectors. Scaling up the recently upgraded lifelong learning system to provide improved training to more people, including on digital and green skills, could reduce skill shortages and help address the bottlenecks for youth and women employment. More policy support, such as improving the availability and affordability of childcare and reducing the marginal income tax of second earners, would help raise female labor force partcipation.[25] The recent practice of relying on the independent expert committee and social dialogues in wage bargaining can help raise workers' income in a sustainable way without undermining business competitiveness.

32. Strengthening judicial system reforms and out-of-court proceedings would contribute to improving business dynamism while safeguarding financial stability. While the rapid reduction of bank NPLs has been notable, risks have largely migrated to the non-bank financial sector, with distressed debt at about €70 billion (34 percent of GDP) under recovery by credit servicers. Further progress to accelerate debt resolution through restructurings under the out-of-court workout platform and through the formal proceedings under the new insolvency code, together with further judicial system reforms to improve efficiency in court case processing, would facilitate restructuring of viable businesses, the exit of non-viable businesses, higher recoveries for creditors and proper resource reallocation. Improving in data gathering is important to support continued diagnostics and targeted reform adjustments. More efficient out-of-court workouts and

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[24] See Jaumotte and others (2023) "Digitalization During the COVID-19 Crisis: Implications for Productivity and Labor Markets in Advanced Economies."

[25] See Christiansen and others (2020) "Unlocking Female Employment Potential in Europe: Drivers and Benefits."

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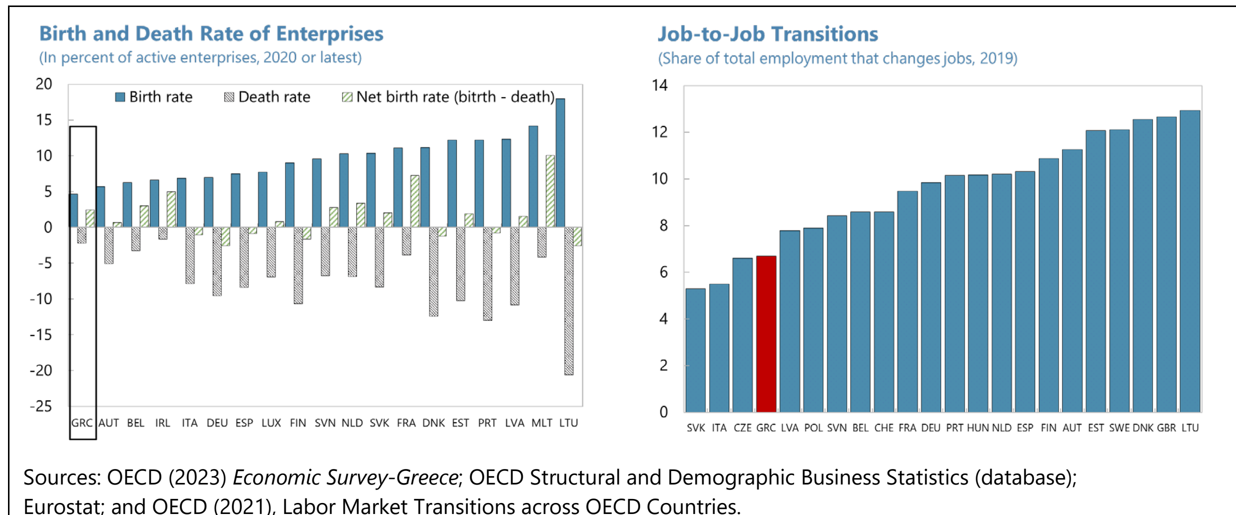
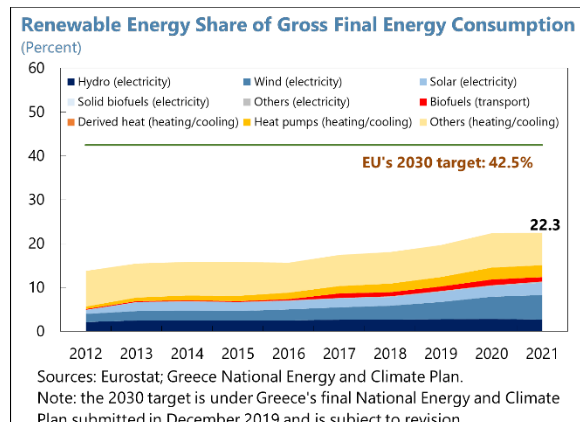
court procedures are also crucial to further reduce bank NPLs and distressed debt recovered by credit servicers to increase financial sector resilience and productivity growth.



Sources: OECD (2023) *Economic Survey-Greece*; OECD Structural and Demographic Business Statistics (database); Eurostat; and OECD (2021), Labor Market Transitions across OECD Countries.

33. Concerted efforts are needed to achieve the authorities' ambitious climate goals and green transition. Recent damages from extreme weather underscore the urgency of decisive actions for both climate change adaptation and mitigation. The adaptation cost is estimated to be 1.5 percent of GDP annually over the next 25 years,[26] while achieving the authorities' mitigation target of reducing greenhouse gas emissions requires substantial green investment of over 20 percent of 2021 GDP.[27] As there remains a significant financing gap despite some NGEU funding for climate change, ongoing policy initiatives to mobilize private green financing under the NRRP, such as simplifying procedures and rationalizing spatial planning for strategic green investment and strengthening incentives for energy efficiency and innovations, are critical.



Sources: Eurostat; Greece National Energy and Climate Plan.
Note: the 2030 target is under Greece's final National Energy and Climate Plan submitted in December 2019 and is subject to revision.

- Given the dominance of fossil fuels in the energy structure, Greece's medium- to long-term progress in climate actions critically depends on developing renewable energy and improving

[26] Greek authorities (2016) *National Climate Change Adaptation Strategy*.

[27] Greek authorities (2019) *National Energy and Climate Plan*.

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energy efficiency in transport and buildings.[28] A strong implementation of the authorities' new policy framework for renewables, which includes measures to streamline the licensing framework to facilitate new investment and better integrate renewables in an upgraded electricity grid, would help accelerate the progress.

- The authorities should consider raising the carbon pricing (including excise and feebates) in non-ETS sectors such as transport to further incentivize rapid and efficient green transition as energy price continues to normalize.[29, 30] Additional measures can include strengthening climate adaptation in public financial and investment management, improving incentives for insurance solutions for better climate risk sharing, generating higher efficiency gains by phasing out untargeted energy subsidies, and enhancing regulation and supervision of climate-related financial risks leveraging on the ECB supervisory actions.[31]

Authorities' Views

34. The authorities highlighted their strong track record in implementing structural reforms over the challenging period of the pandemic and energy crises and underscored their firm commitment to accelerate reforms for sustainable growth and income convergence. They expected that ongoing efforts to accelerate regulatory reforms, such as cutting red tapes and further scaling up digitalization of government services with more focus on SMEs, would improve business dynamism and increase productivity of the economy. The authorities noted that abolishing significant pension penalties for those returning to work had started to attract more pensioners to re-enter the labor market. They also noted that the recent regularization scheme to integrate undeclared workers would help address labor shortages in some sectors such as agriculture and construction. On judicial reform, they noted that continued implementation of the new insolvency code as well as recently announced legislation would speed up judicial processes and improve resource reallocation by helping reduce the large stock of NPLs and distressed debt in effective and timely manners. On climate policies, the authorities noted their notable progress in increasing electricity generation from renewable sources, while adding that an ongoing update of their national climate strategy would include a few targets above the corresponding EU-level commitments. While seeing the merit of raising carbon pricing beyond the ETS sectors in incentivizing efficient energy conservation and green transition, they emphasized that global actions are critical to effectively

[28] Transport and buildings present high potential for energy savings beyond the energy sector in Greece. See IMF (2022), "Is Greece's Social Protection System Fit for the Green Transition?" Also, OECD (2022) finds that Greece needs to reach a share for renewables of 70 percent in primary energy consumption to meet its 2030 emission target, and a lower share would require sizable emission reductions outside energy use.

[29] Postponing sufficient carbon pricing is estimated to increase public debt in advanced economies in the medium to long term. See IMF (2023) "Climate Cross Roads: Fiscal Policies in a Warming World."

[30] See IMF (2022) "Planning and Mainstreaming Adaptation to Climate Change in Fiscal Policy."

[31] See Annex V for more information on policy initiatives to address climate-related financial risks.

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address climate change. The authorities also emphasized that climate adaptation investment is a priority amid increasing frequency and severity of climate-related natural disasters.

STAFF APPRAISAL

35. Greece's economic outlook has improved notably but significant challenges remain. Real GDP is expanding beyond its pre-pandemic trend level, driven by strong tourism recovery, and strengthening investment catalyzed by NGEU funding and FDI inflows. Strong growth and high inflation have brought the public debt-to-GDP ratio down below its pre-pandemic level with limited financing risks in the medium term due to the favorable debt structure. However, structural imbalances arising from low household savings and still low level of investment as well as increasing risks from climate change are weighing on medium-term growth prospects. The external position in 2023 is assessed to be weaker than that consistent with medium-term fundamentals and desirable policies. The assessment was done with preliminary current account data for 2023.

36. Risks are more balanced for growth but tilted upward for inflation. A potential escalation of Russia's war in Ukraine and the conflict in the conflict in Gaza and Israel could disrupt trade and trigger renewed energy and food price pressures and undermine confidence. Higher-than-expected persistence in euro area inflation and higher-for-longer interest rates would weigh on regional and domestic demand. In contrast, acceleration of ambitious structural reforms could further improve growth prospects. Inflation could remain high resulting from weather-related shocks as well as domestic pressures from recent and expected wage and pension increases.

37. Growth-friendly fiscal consolidation can further strengthen public debt sustainability while supporting inclusive and green growth. Further tightening in the near term and maintaining a primary surplus in the medium term would help further strengthen public debt sustainability while limiting additional pressure on inflation. For green and inclusive growth, fiscal policy should emphasize public investment, including green investment, and critical social spending such as healthcare and education. Advancing further fiscal structural reforms, including the ongoing efforts to address tax evasion, would enhance fiscal governance and improve the efficiency of fiscal policy.

38. The resilience of the financial system should be further strengthened in an environment of higher-for-longer interest rates. The monitoring and management of risks associated with interest rates, liquidity and funding, and credit exposures should be further strengthened. Temporarily elevated bank profits should be used to build capital buffers and improve the quality of capital. The activation of a positive neutral countercyclical capital buffer would help banks guard against potential systemic shocks. Borrower-based measures for mortgage loan borrowers—such as caps on loan-to-value and on debt service-to-income ratios—would enhance household resilience and consequently contain vulnerabilities in the banking system.

39. Comprehensive reforms to address structural supply impediments would lift medium-term growth prospects amid a negative demographic outlook. Continued reforms in digitalizing

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public administration and tackling barriers to more competition would unlock higher private investment and improve productivity. Ensuring higher labor participation and a better skilled workforce would raise labor market dynamism while further facilitating digitalization and the green transition. Strengthening judicial system reforms and out-of-court proceedings would contribute not only to improving business dynamism and productivity but also to increasing financial sector resilience by further reducing bank NPLs and distressed debt recovered by credit servicers.

40. Concerted efforts are needed to achieve the authorities' ambitious climate goals and facilitate the green transition. Given the dominance of fossil fuels in energy supply, a strong implementation of the authorities' policy framework for renewables, including measures to streamline the licensing framework for new investment and better integrate renewables in an upgraded electricity grid, would accelerate the progress while boosting energy security. The authorities should consider raising the carbon pricing (including excise and feebates) in non-ETS sectors such as transport to further incentivize rapid and efficient green transition as energy price continues to normalize.

41. It is recommended that the next Article IV consultation take place on the standard 12–month cycle.

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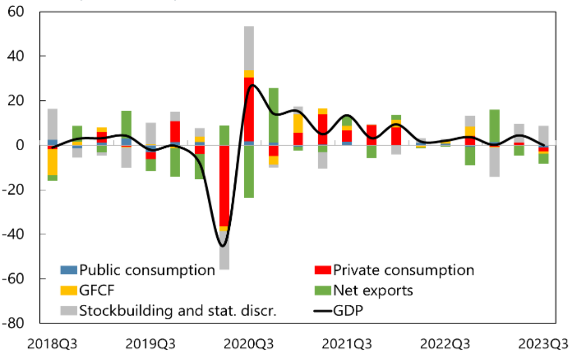
Figure 1. Real Sector Developments

Growth has remained robust after slowing from a strong economic recovery since the pandemic.

Contribution to Real GDP Growth

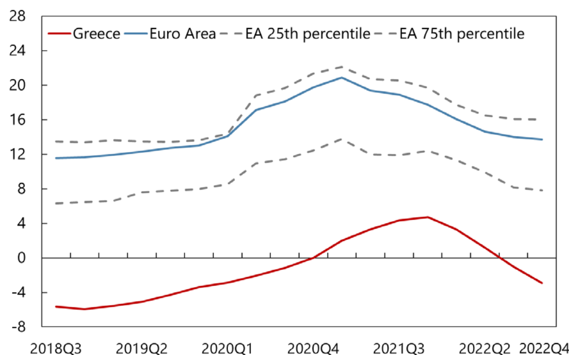
(Percent, quarter-over-quarter, annualized)



Consumption was supported by the withdrawal of excess savings that households have built up since the pandemic.

Gross Household Savings Rate

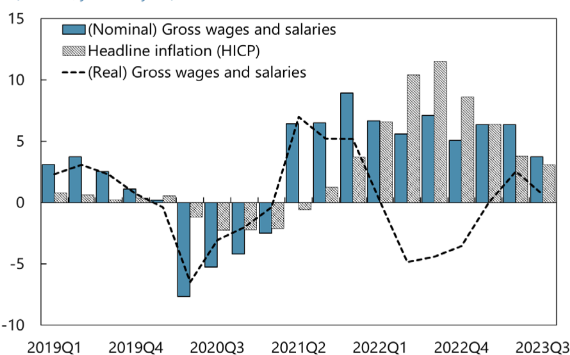
(Percent of gross disposable income, 4Q moving averages)



Real wage growth has also become positive recently.

Gross Wages and Salaries

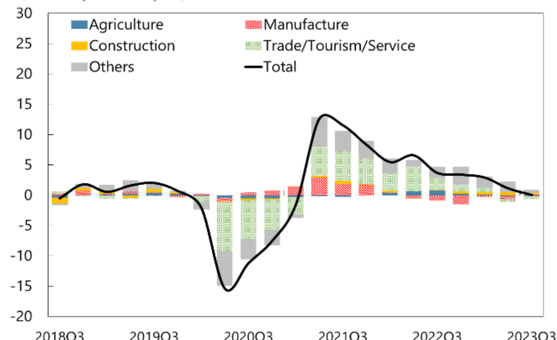
(Percent, year-on-year)



On the production side, recent drivers have been tourism-related services and construction.

Real Gross Value Added Growth

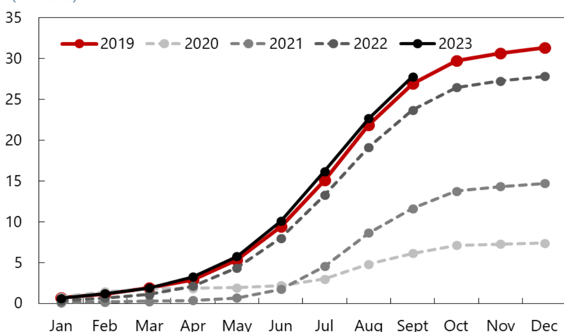
(Percent; year-over-year)



Tourism continued to support growth with arrivals to date having exceeded the corresponding 2019 level.

Cumulative Arrivals from Abroad

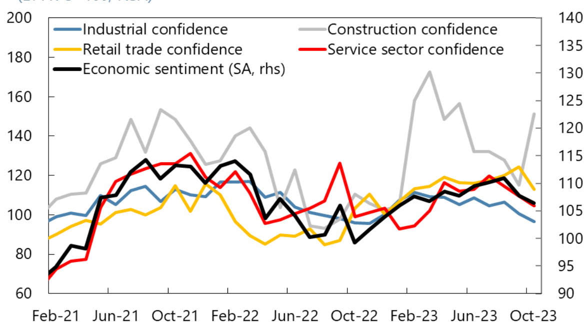
(Millions)



Most sentiment indicators edged down in recent months, suggesting a slowing momentum.

Economic Sentiment Indicator

(LT AVG=100; NSA)



Sources: ELSTAT; Bank of Greece; Eurostat; Haver Analytics; IHS Markit; and IMF staff calculations.

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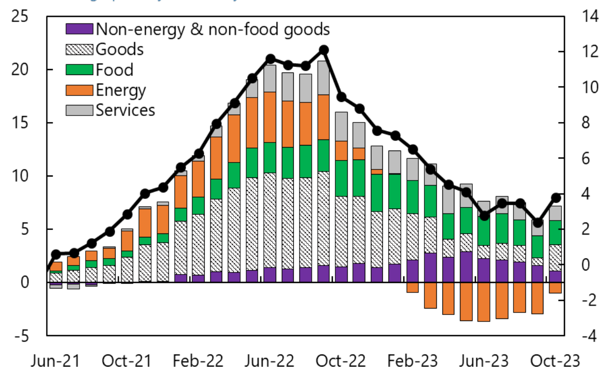
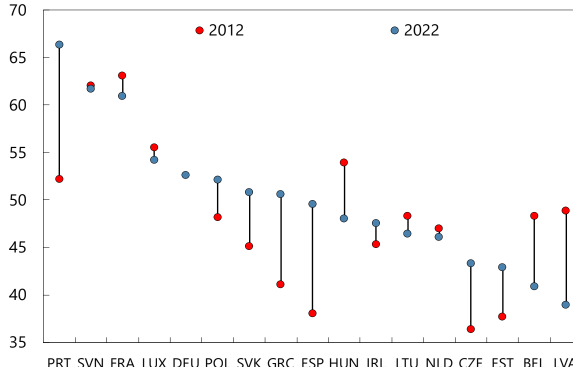
Figure 1. Real Sector Developments (concluded)

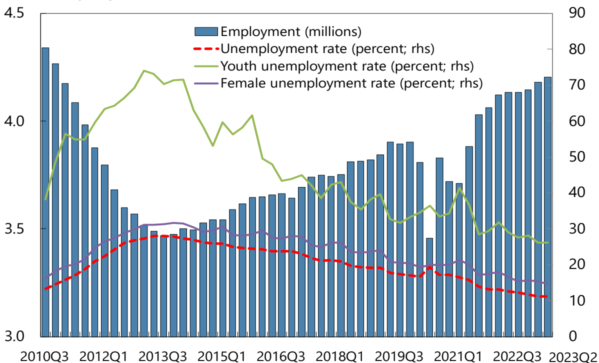
Headline inflation has declined, driven by normalizing energy prices, while service inflation has been more persistent…



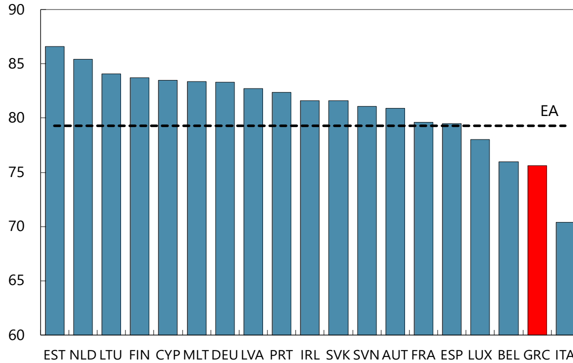
…recent significant increases in the minimum wage likely have added pressure to core inflation.



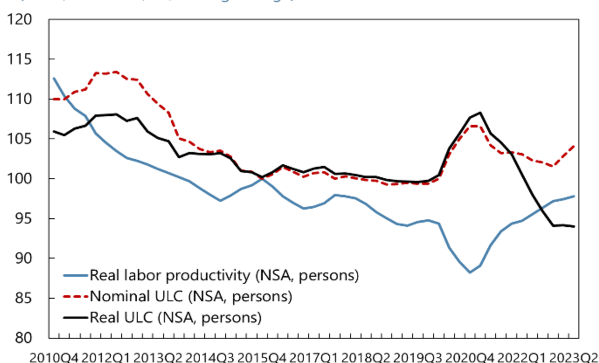
The unemployment rate has almost halved in a decade, but still remains high in level particularly for youth and women.



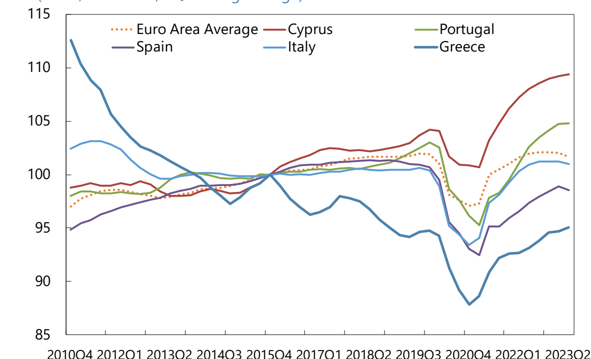
Notwithstanding the recent increase, the labor participation rate also remains low relative to euro area peers.



Real labor productivity has caught up with unit labor costs recently…



…but the recovery in the level of labor productivity remains lower than in euro area peers.



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

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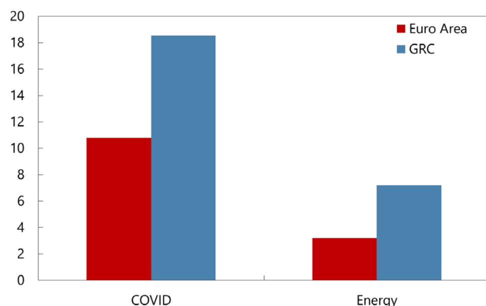
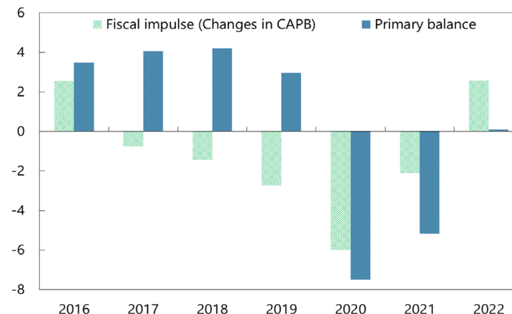
Figure 2. Fiscal Sector Developments

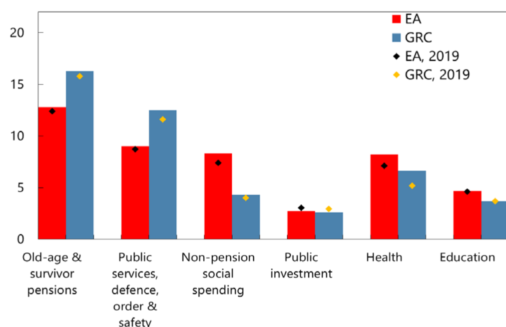
The temporary suspension of EU-wide fiscal rule allowed large fiscal support during the pandemic and energy crises.



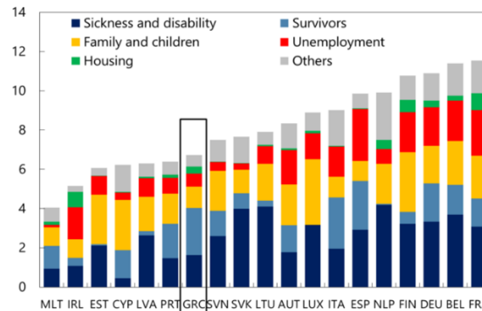
Consolidation started in 2022 with the unwinding of the unprecedented pandemic-related support measures.



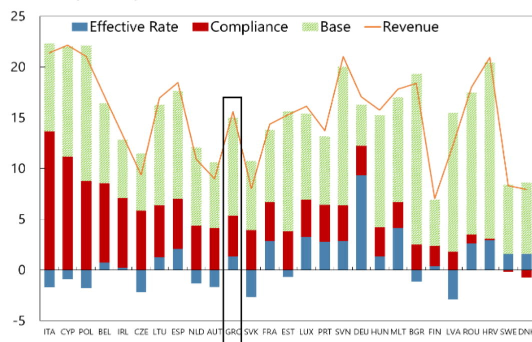
Health spending increased during the pandemic, but pensions and public wage bill remained elevated…



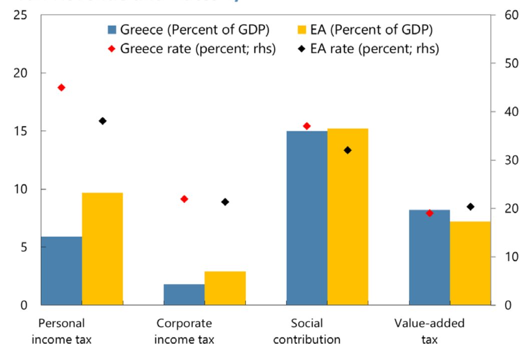
…leaving limited room for critical social spending in disability benefits, childcare, housing, unemployment benefits, etc.



Tax compliance has improved on the back of past reforms and digitalization…



…yet, revenue gaps remained, especially for direct taxes.



Sources: Ministry of Finance; ELSTAT; Eurostat; European Commission, *VAT gap in the EU Report 2023*; Haver Analytics; OECD; Updated results of the DEFPA IMF Country Desk Survey from Amaglobeli and others (2023); and IMF staff calculations.
1/ Personal Income Tax—top marginal rate; Social Contribution—including both employee's an employer's contribution; Corporate Income Tax and Value-added Tax—the standard rate. Latest available data.

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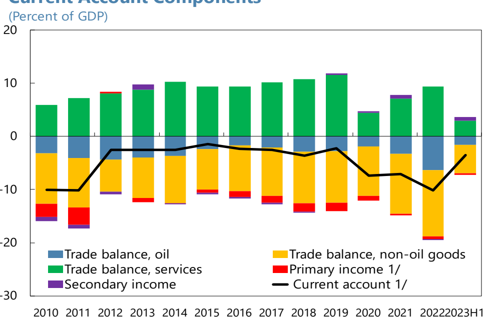
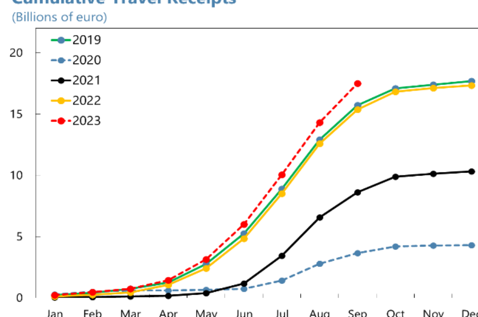
Figure 3. External Sector Developments

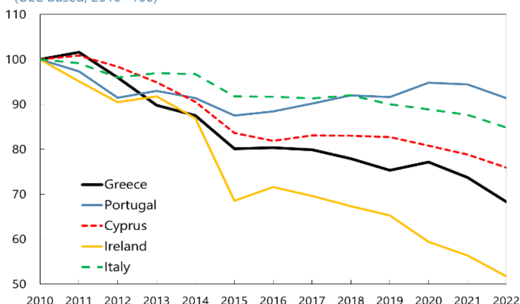
The current account continued to deteriorate in 2022 with wider deficits in the merchandise trade…



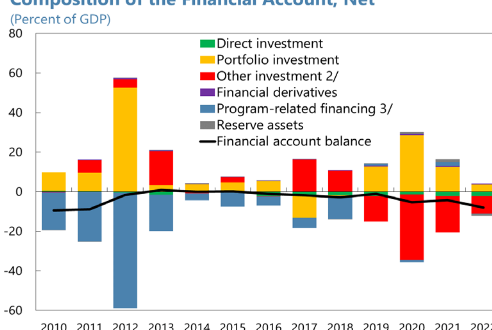
…but travel receipts continued its strong recovery reaching the record pre-pandemic level.



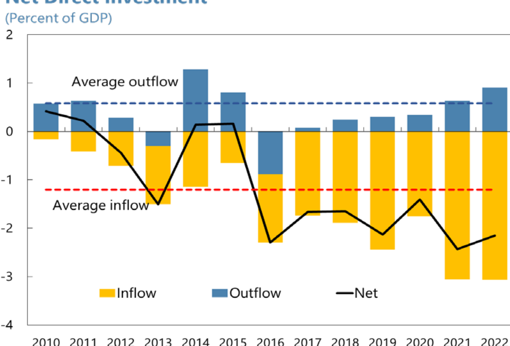
The ULC-based REER continued to depreciate faster than most peers.



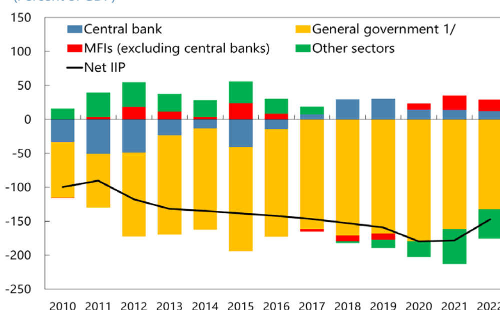
On financing, net inflows of other investment more than offset net portfolio outflows…



…while gross FDI inflows exceeded pre-pandemic levels.



The NIIP continued to improve with a further decline of external government debt.



Sources: Bank of Greece; ELSTAT; Eurostat; European Central Bank; Haver Analytics; and IMF staff calculations.
1/ Includes deferred interest payments on EFSF loans (adjusted for compliance with the System of National Accounts (SNA).
2/ Includes liabilities to Eurosystem related to TARGET2. Excludes official financing (SNA adjustment).
3/ Includes official financing and deferred interest payments to EFSF loans (SNA adjustment).

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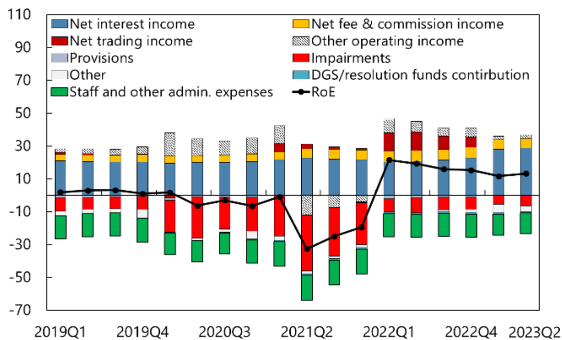
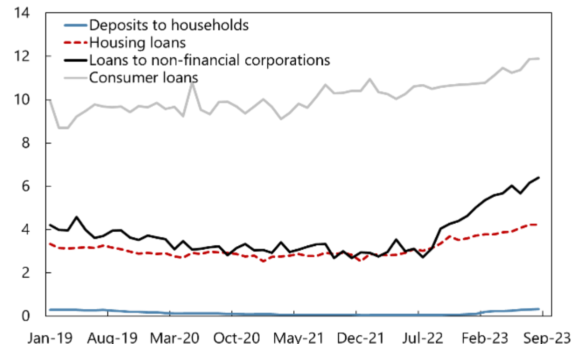
Figure 4. Banking Sector Developments

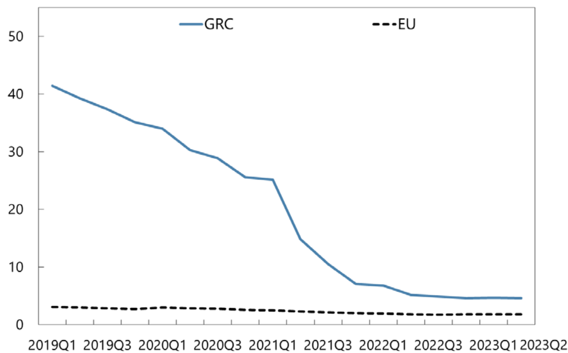
Profitability in the banking system has rebounded strongly,...



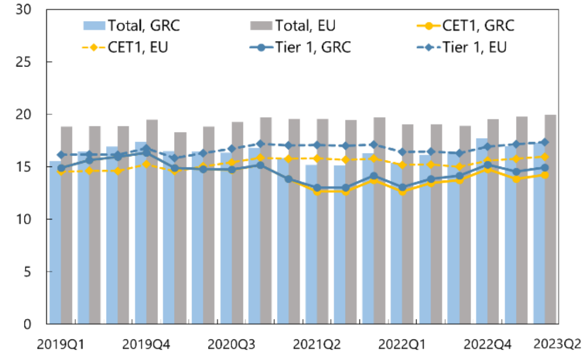
...as a sharp increase in interest rates has boosted net interest income...



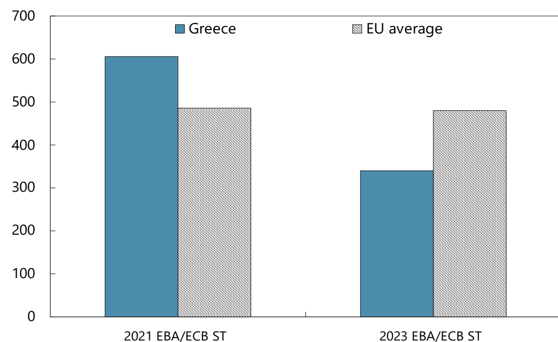
...and legacy NPLs have been offloaded from the balance sheets,



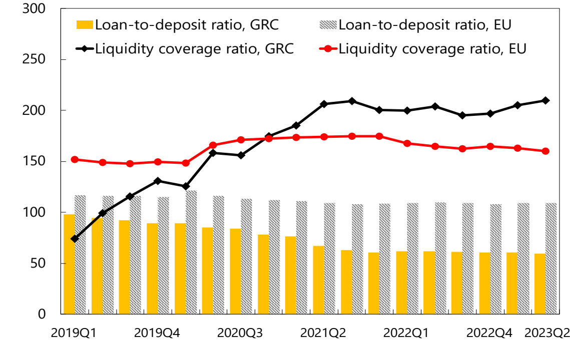
...which also supported capital adequacy, although it remained still below the EU average.



The results of the EBA/ECB stress tests suggest that resilience of the banking sector has markedly improved...



...supported by sizeable liquidity buffers.



Sources: European Banking Authority; Bank of Greece; Hellenic Financial Stability Fund; Haver Analytics; and IMF staff calculations.

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Table 1. Greece: Selected Economic Indicators, 2018–28

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Projections					
	(percent change, unless otherwise indicated)										
NATIONAL ACCOUNTS											
Real GDP	1.7	1.9	-9.3	8.4	5.6	2.3	2.1	1.6	1.4	1.2	1.2
Private consumption	1.7	1.8	-7.4	5.8	7.4	2.1	1.5	0.4	0.3	0.5	0.6
Public consumption	-3.5	2.4	3.0	1.8	2.1	-3.0	-1.5	0.1	0.3	0.4	0.4
Gross fixed capital formation	-4.3	-2.2	2.0	19.3	11.7	7.7	9.9	6.6	5.0	2.5	2.5
Change in inventories (contribution)	1.5	-0.3	0.6	0.9	-0.7	0.3	-0.2	0.0	0.0	0.0	0.0
Net exports (contribution)	0.2	0.7	-5.5	0.7	-0.8	0.0	0.1	0.2	0.2	0.3	0.2
Exports of goods and services	9.1	4.9	-21.9	23.7	6.2	3.0	3.7	3.1	2.7	2.6	2.6
Imports of goods and services	8.1	3.0	-7.5	17.9	7.2	2.5	3.0	2.3	2.0	1.6	1.8
Gross fixed capital formation (percent of GDP)	11.1	10.7	12.1	13.3	13.7	14.4	15.4	16.1	16.6	16.8	17.0
RESOURCE UTILIZATION											
Potential GDP	-1.4	-0.7	-1.0	-0.4	0.3	0.6	1.3	1.5	1.6	1.5	1.3
Output gap (percent of potential GDP)	-8.6	-6.2	-14.1	-6.5	-1.3	0.1	0.8	0.8	0.6	0.2	0.0
Employment	2.0	2.2	-0.9	1.4	5.4	4.1	1.5	1.0	0.1	0.1	0.0
Unemployment rate (percent) 1/	19.3	17.3	16.3	14.8	12.4	10.6	9.2	8.5	8.2	8.0	8.0
PRICES											
GDP deflator	-0.2	0.2	-0.8	1.5	7.8	4.8	3.4	2.5	1.9	1.9	1.9
Consumer prices (HICP, average)	0.8	0.5	-1.3	0.6	9.3	4.2	2.8	2.2	2.0	1.9	1.9
Consumer prices (HICP, end of period)	0.6	1.1	-2.4	4.4	7.6	3.5	2.7	2.0	2.0	1.9	1.9
Consumer prices (HICP, core, average)	0.5	0.5	-1.0	-0.7	5.7	6.3	2.6	2.3	2.0	1.9	1.9
Unit labor costs	-0.6	0.5	5.9	-2.7	-1.3	4.7	3.3	2.4	1.9	1.9	1.9
FINANCIAL											
10-year government bond spread (over German bund)	3.5	2.2	1.4	0.8	1.5	...	...	...	...	...	...
Private sector credit	-7.5	-0.6	3.5	1.4	6.3	7.3	6.2	4.7	3.9	3.7	3.7
Nominal effective exchange rate	1.2	-0.4	3.8	-0.2	1.2	...	...	...	...	...	...
Real effective exchange rate	-0.6	-2.0	-0.4	-1.8	-2.7	...	...	...	...	...	...
	(percent of GDP)										
GENERAL GOVERNMENT											
Overall balance	0.8	0.0	-10.5	-7.7	-2.3	-1.6	-0.9	-0.8	-1.0	-1.2	-1.3
Primary balance	4.2	3.0	-7.5	-5.2	0.1	1.1	2.1	2.1	2.1	2.1	2.1
Cyclically-adjusted primary balance	8.7	6.1	0.2	-1.9	0.7	1.1	1.7	1.7	1.8	2.0	2.1
General government debt 2/	190.7	185.5	213.2	201.1	179.5	167.4	158.0	151.9	148.6	145.3	142.5
EXTERNAL SECTOR											
Current account balance 3/	-3.6	-2.2	-7.3	-7.1	-10.7	-7.1	-6.4	-5.1	-4.2	-3.5	-3.2
Merchandise trade balance	-12.5	-12.5	-11.2	-14.6	-19.1	-15.3	-14.5	-13.6	-13.0	-12.5	-12.2
Services balance	10.8	11.5	4.4	7.1	9.4	9.6	9.8	10.1	10.4	10.8	11.1
Gross external debt	235.7	249.0	305.0	311.3	270.1	259.0	250.4	243.9	238.0	233.2	228.1
Net international investment position	-152.4	-158.5	-179.9	-178.7	-149.7	-144.4	-140.3	-136.2	-132.6	-129.7	-126.5
MEMORANDUM ITEMS	(Billions of euro)										
Nominal GDP	179.6	183.3	165.0	181.5	206.6	221.6	233.9	243.4	251.5	259.3	267.3
General government debt excluding deferred interests	335.7	332.1	342.5	354.8	359.5	358.5	355.6	354.2	356.2	357.0	358.4

Sources: Greece authorities, Haver Analytics, and IMF staff estimates.
1/ Based on Labor Force Survey.
2/ Includes the stock of deferred interest payments on EFSF loans.
3/ Includes deferred interest payments on EFSF loans (adjusted for the compliance with the System of National Accounts).

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Table 2. Greece: Summary of Balance of Payment, 2018–28

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Projections					
	(Billions of euros)										
Current account balance 1/	-6.4	-4.1	-12.1	-12.9	-22.2	-15.7	-15.0	-12.4	-10.7	-9.2	-8.6
Balance of goods and services	-3.2	-1.7	-11.2	-13.6	-20.2	-12.5	-11.0	-8.6	-6.4	-4.4	-3.2
Goods balance	-22.5	-22.8	-18.5	-26.5	-39.6	-33.8	-34.0	-33.2	-32.6	-32.3	-32.7
Exports	32.4	32.4	28.9	39.1	53.8	51.0	53.2	54.3	55.4	56.4	58.3
Imports	54.9	55.3	47.4	65.7	93.3	84.9	87.2	87.5	88.0	88.7	91.0
Services balance	19.3	21.1	7.3	12.9	19.4	21.4	23.0	24.6	26.2	28.0	29.6
Credit	37.2	40.2	22.7	35.0	47.8	48.6	51.2	53.3	55.4	57.6	60.0
Debit	17.9	19.0	15.4	22.1	28.4	27.2	28.2	28.7	29.1	29.6	30.4
Primary income 1/	-2.9	-3.0	-1.4	-0.6	-1.7	-3.0	-3.1	-3.0	-3.5	-4.0	-4.5
Secondary income 2/	-0.3	0.6	0.6	1.2	-0.3	-0.2	-0.9	-0.8	-0.8	-0.8	-0.9
Capital account balance	0.4	0.7	2.7	4.0	3.1	4.9	6.8	9.1	8.6	6.4	6.5
Financial account balance	16.1	-3.7	-8.8	-13.8	-14.9	-9.6	-6.8	-1.6	-0.1	-0.4	0.6
Direct investment	-3.0	-3.9	-2.3	-4.2	-5.0	-4.6	-6.7	-4.4	-4.5	-4.5	-4.5
Portfolio investment	-0.7	23.2	47.1	22.8	7.8	-3.8	3.2	2.5	0.5	-0.5	-0.5
Financial derivatives	0.7	1.0	1.2	1.0	1.1	0.2	0.3	0.2	0.2	0.2	0.2
Other investment 3/	19.0	-24.0	-54.8	-33.5	-18.7	-1.4	-3.5	0.0	3.7	4.3	5.3
Net errors and omissions	1.0	1.5	0.5	1.1	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	-21.2	1.8	-0.1	6.1	-2.2	-1.2	-1.3	-1.6	-2.0	-2.3	-2.6
Reserve assets	-0.1	0.1	1.5	2.5	-1.8	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-1.8	-4.4	0.0	-3.8	-1.9	0.0	0.0	0.0	0.0	0.0	0.0
Program-related financing 4/	22.9	2.7	1.7	0.2	2.3	1.2	1.3	1.6	2.0	2.3	2.6
	(Percent of GDP)										
Current account balance 1/	-3.6	-2.2	-7.3	-7.1	-10.7	-7.1	-6.4	-5.1	-4.2	-3.5	-3.2
Balance on goods and services	-1.8	-0.9	-6.8	-7.5	-9.8	-5.6	-4.7	-3.5	-2.5	-1.7	-1.2
Goods balance	-12.5	-12.5	-11.2	-14.6	-19.1	-15.3	-14.5	-13.6	-13.0	-12.5	-12.2
Services balance	10.8	11.5	4.4	7.1	9.4	9.6	9.8	10.1	10.4	10.8	11.1
Primary income 1/	-1.6	-1.6	-0.9	-0.3	-0.8	-1.3	-1.3	-1.2	-1.4	-1.5	-1.7
Secondary income 2/	-0.2	0.3	0.3	0.7	-0.1	-0.1	-0.4	-0.3	-0.3	-0.3	-0.3
Capital account balance	0.2	0.4	1.7	2.2	1.5	2.2	2.9	3.7	3.4	2.5	2.4
Financial account balance	9.0	-2.0	-5.3	-7.6	-7.2	-4.3	-2.9	-0.7	0.0	-0.2	0.2
Direct investment	-1.6	-2.1	-1.4	-2.3	-2.4	-2.1	-2.9	-1.8	-1.8	-1.7	-1.7
Portfolio investment	-0.4	12.7	28.5	12.6	3.8	-1.7	1.4	1.0	0.2	-0.2	-0.2
Financial derivatives	0.4	0.6	0.8	0.6	0.5	0.1	0.1	0.1	0.1	0.1	0.1
Other investment 3/	10.6	-13.1	-33.2	-18.5	-9.1	-0.6	-1.5	0.0	1.5	1.7	2.0
Net errors and omissions	0.5	0.8	0.3	0.6	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	-11.8	1.0	-0.1	3.3	-1.1	-0.5	-0.6	-0.7	-0.8	-0.9	-1.0
Reserve assets	0.0	0.0	0.9	1.4	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-1.0	-2.4	0.0	-2.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Program-related financing 4/	12.7	1.4	1.0	0.1	1.1	0.5	0.6	0.7	0.8	0.9	1.0
Memorandum item:											
Current account balance in cash terms	-2.9	-1.5	-6.6	-6.5	-10.3	-6.6	-5.8	-4.4	-3.5	-2.7	-2.2
Gross external debt	235.7	249.0	305.0	311.3	270.1	259.0	250.4	243.9	238.0	233.2	228.1
Public sector 5/	187.4	184.8	233.3	227.4	202.1	194.3	186.8	180.4	174.3	169.1	163.8
Private sector	48.3	64.2	71.7	83.8	68.0	64.6	63.6	63.4	63.7	64.1	64.3
Deferred interest payments on EFSF loans	0.7	0.7	0.7	0.6	0.5	0.5	0.6	0.7	0.8	0.9	1.0

Sources: Bank of Greece; and IMF staff estimates.

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

2/ Includes transfers related to ANFA/SMP profits.

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

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

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

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Table 3. Greece: General Government Operations, 2018–28 [1/]

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Projections					
						(Billions of euros)					
Revenue	88.5	88.1	82.0	90.9	104.4	105.0	109.6	114.5	116.4	116.6	117.7
Indirect taxes	31.3	32.3	27.8	31.2	39.8	37.8	39.0	40.0	40.9	41.9	43.0
Direct taxes	18.6	17.2	15.5	17.2	19.5	21.7	22.0	22.8	23.5	24.1	24.8
Social contributions	26.3	26.7	25.4	27.3	29.0	30.4	31.8	32.5	33.4	34.0	35.1
Other current revenue	4.0	3.5	3.6	3.8	4.6	5.0	4.7	4.7	4.5	4.6	4.6
Sales	5.6	5.3	5.2	5.5	6.1	5.5	5.7	5.7	5.8	5.9	6.0
Capital revenue	2.7	3.1	4.5	5.9	5.4	4.6	6.5	8.8	8.3	6.1	4.2
Primary expenditure	81.0	82.6	94.4	100.3	104.2	102.6	104.8	109.5	111.2	111.2	112.2
Social benefits	38.6	39.6	39.6	41.1	43.3	46.3	47.5	48.5	49.1	49.7	50.6
Subsidies	1.6	2.5	6.3	8.7	11.3	5.5	2.9	3.0	3.1	3.2	3.3
Other current expenditure	3.1	2.9	3.2	3.7	3.0	3.3	3.4	3.6	3.7	3.8	3.9
Compensation of employees	21.7	21.9	22.3	22.6	22.7	23.9	25.6	26.4	26.9	27.3	28.0
Intermediate consumption	8.5	8.6	9.1	10.5	11.7	10.8	11.3	11.8	12.0	12.2	12.4
Investment	4.6	4.5	5.3	6.7	7.6	7.9	9.8	12.0	12.8	11.3	10.3
Capital transfers payable	2.9	2.6	8.5	7.1	4.6	5.0	4.3	4.1	3.7	3.7	3.7
Primary balance (accrual)	7.5	5.4	-12.4	-9.4	0.2	2.4	4.8	5.0	5.2	5.4	5.6
Interest expenditure 1/	6.1	5.5	5.0	4.5	5.0	6.1	6.9	7.1	7.6	8.5	9.1
Overall balance	1.5	-0.1	-17.3	-13.9	-4.8	-3.7	-2.1	-2.0	-2.4	-3.1	-3.5
General government debt 2/	342.4	340.2	351.7	365.1	370.9	371.0	369.5	369.7	373.7	376.8	380.9
						(Percent of GDP)					
Revenue	49.3	48.0	49.7	50.1	50.5	47.4	46.9	47.1	46.3	45.0	44.0
Indirect taxes	17.4	17.6	16.8	17.2	19.2	17.1	16.7	16.4	16.3	16.2	16.1
Direct taxes	10.4	9.4	9.4	9.5	9.4	9.8	9.4	9.4	9.3	9.3	9.3
Social contributions	14.6	14.5	15.4	15.0	14.1	13.7	13.6	13.3	13.3	13.1	13.1
Other current revenue	2.3	1.9	2.2	2.1	2.2	2.3	2.0	2.0	1.8	1.8	1.7
Sales	3.1	2.9	3.1	3.0	3.0	2.5	2.4	2.4	2.3	2.3	2.3
Capital revenue	1.5	1.7	2.7	3.2	2.6	2.1	2.8	3.6	3.3	2.4	1.6
Primary expenditure	45.1	45.1	57.2	55.3	50.4	46.3	44.8	45.0	44.2	42.9	42.0
Social benefits	21.5	21.6	24.0	22.6	21.0	20.9	20.3	19.9	19.5	19.2	18.9
Subsidies	0.9	1.3	3.8	4.8	5.5	2.5	1.2	1.2	1.2	1.2	1.2
Other current expenditure	1.7	1.6	1.9	2.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Compensation of employees	12.1	11.9	13.5	12.4	11.0	10.8	10.9	10.8	10.7	10.5	10.5
Intermediate consumption	4.7	4.7	5.5	5.8	5.7	4.9	4.8	4.9	4.8	4.7	4.6
Investment	2.6	2.5	3.2	3.7	3.7	3.6	4.2	4.9	5.1	4.4	3.8
Capital transfers payable	1.6	1.4	5.2	3.9	2.2	2.2	1.8	1.7	1.5	1.4	1.4
Primary balance (accrual)	4.2	3.0	-7.5	-5.2	0.1	1.1	2.1	2.1	2.1	2.1	2.1
Interest expenditure 1/	3.4	3.0	3.0	2.5	2.4	2.8	2.9	2.9	3.0	3.3	3.4
Overall balance	0.8	0.0	-10.5	-7.7	-2.3	-1.6	-0.9	-0.8	-1.0	-1.2	-1.3
General government debt 2/	190.7	185.5	213.2	201.1	179.5	167.4	158.0	151.9	148.6	145.3	142.5
Memorandum item:											
Cyclically adjusted primary balance (percent of GDP)	8.7	6.1	0.2	-1.9	0.7	1.1	1.7	1.7	1.8	2.0	2.1

Sources: Hellenic Statistical Authority (ELSTAT); Ministry of Finance; and IMF staff estimates.
1/ On an accrual basis, inclusive of deferred interest but excluding swaps-related cash flows.
2/ General government debt includes the stock of deferred interest.

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Table 4. Greece: Summary of Financial Sector Indicators, 2018–22

	2018	2019	2020	2021	2022
			(Percent)		
Solvency					
CET 1 Ratio	15.3	16.3	15.2	13.7	14.8
CET 1 Ratio (fully loaded)	12.2	13.5	12.8	11.9	13.7
Tier 1 Capital Ratio	15.3	16.3	15.2	14.2	15.2
Total Capital	15.9	17.3	16.8	16.3	17.7
Leverage Ratio	10.3	11.2	9.4	7.4	6.9
Credit Risk and Asset Quality					
NPL	41.3	35.2	25.5	7.0	4.6
Coverage Ratio of NPL	48.3	44.7	44.7	42.1	44.3
Forbearance Ratio for Loans and Advances	24.4	21.5	16.6	7.5	5.6
Profitability					
ROE	-0.3	1.0	-6.5	-19.4	15.3
ROA	0.0	0.1	-0.7	-1.6	1.2
Cost-to-Income	53.4	48.9	42.2	66.0	36.9
Net Interest Margin	2.9	2.8	2.6	2.2	2.1
Net Trading Income to Total Net Operating Income	2.1	0.6	0.6	4.2	15.3
Net Fee and Commission Income to Total Net Operating In	15.9	15.0	12.9	24.1	16.1
Net Interest Income to Total Net Operating Income	74.1	68.8	58.8	88.6	55.6
Cost of Risk	0.3	-0.1	3.1	5.6	0.9
Funding and Liquidity					
Loan to Deposit Ratio	98.0	89.5	77.9	60.9	60.4
Liquidity Coverage Ratio	48.0	130.3	174.8	200.7	196.8
Asset Encumbrance Ratio	23.9	19.7	26.4	27.2	20.1

Source: European Banking Authority; and IMF staff estimates.

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Annex I. Sovereign Risk and Debt Sustainability Assessment

Figure 1. Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	**Moderate**	Staff's assessment of "moderate" reflects moderate medium-term risk of sovereign stress
Medium term	**High**	**Moderate**	Medium-term risks are assessed to be "moderate" against a mechanical high signal. The fan chart module indicates high risk largely due to its greater width and the still high debt level, while the GFN module suggests moderate risk with a combination of macro shock driving up GFNs up to 20 percent of GDP. Mitigating factors include the favorable structure of the public debt (with a high share of official holdings at low fixed rates, ultra-long maturity, and long grace periods), a large cash buffer (€14 billion) that has been put aside, and proactive debt management via hedging that helps limit financing costs.
Fanchart	**High**	…	
GFN	**Moderate**	…	
Stress test	Natural disasters	…	
Long term	…	n.a.	The public debt-to-GDP ratio is projected to decline eventually in the long run with manageable GFNs under several stress scenarios capturing demographic and climate pressures, largely reflecting the favorable debt structure. However, uncertainty remains high to reach a definitive assessment regarding long-term sustainability. Key long-term risks include the development in long-term neutral rate and risk premia, the sustainability of high primary surplus, and the scope and pace of structural reform implementation and its potential to more than offset demographic headwinds (see IMF Country Report No. 21/154).
Sustainability assessment 2/	Not required for surveillance countries		
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Greece's overall risk of sovereign stress is assessed to be moderate in the medium term, with the public debt-to-GDP ratio on a downward trajectory and manageable rollover risks, reflecting the favorable structure of the public debt. However, there is significant uncertainty about the long-term sustainability.

Source: IMF staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

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Figure 2. Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

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

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

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen	chosen	chosen	missing	missing

4. Accounting principles:

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

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
chosen	

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

Reporting on intra-government debt holdings

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

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

Commentary: Debt coverage reported is general government and follows ESA 2010, thus not including other accounts payable and insurance, pensions and standardized guarantee schemes. Cross-holdings are netted out. The debt perimeter includes net SDR holdings, NGEU loans, and the stock of deferred interest payments on EFSF loans (SNA adjustments).

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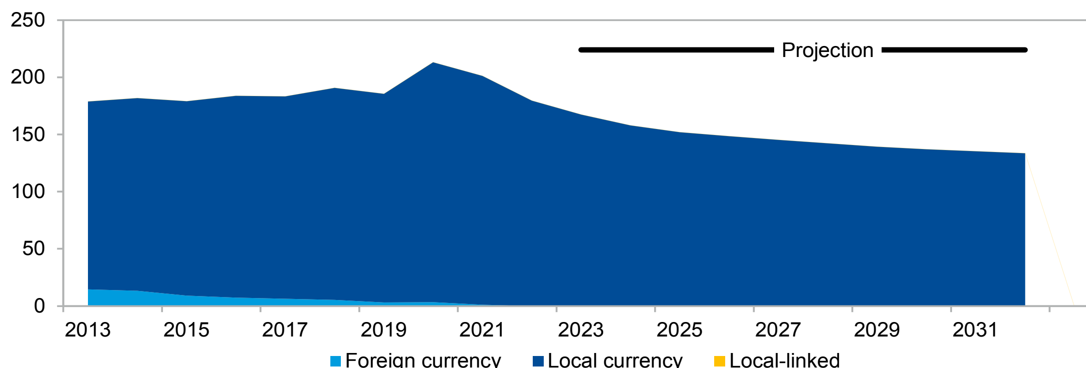
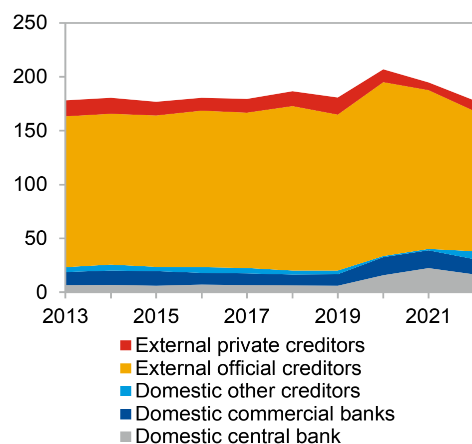
Figure 3. Public Debt Structure Indicators

Debt by Currency (percent of GDP)



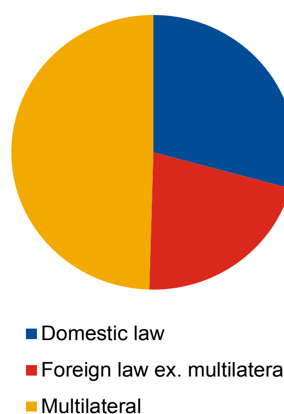
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



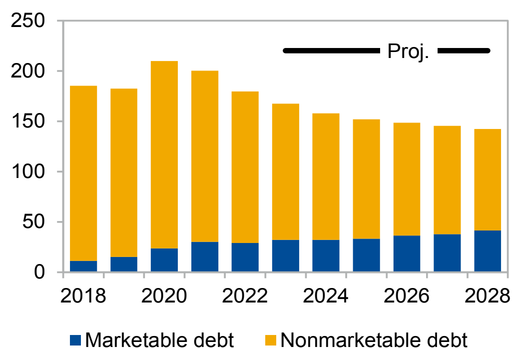
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (percent)



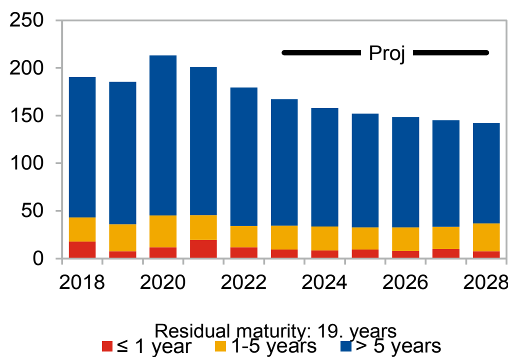
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: Public debt at end-2022 was almost entirely denominated in domestic currency (euro) and at fixed rates, with a weighted average maturity of 19 years. Close to three quarters of the debt is held by external official creditors. Meanwhile, a significant cash buffer (€14 billion) has been put aside which can be used to further reduce debt relative to the baseline projection.

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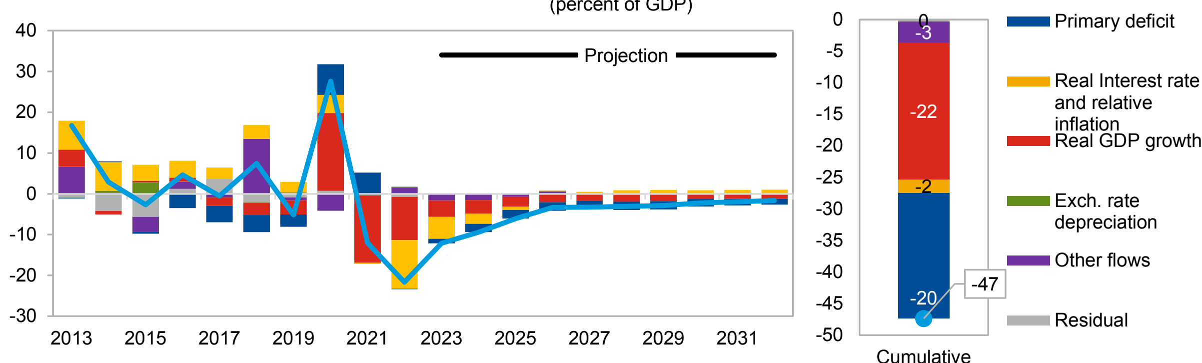
Table 1. Greece: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	179.5	167.4	158.0	151.9	148.6	145.3	142.3	139.4	137.2	135.3	133.6
Change in public debt	-21.6	-12.1	-9.4	-6.1	-3.3	-3.3	-3.1	-2.9	-2.2	-1.9	-1.6
Contribution of identified flows	-20.9	-12.1	-9.4	-6.1	-3.3	-3.3	-2.9	-2.7	-2.2	-1.9	-1.6
Primary deficit	-0.1	-1.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.0	-1.9	-1.6	-1.4
Noninterest revenues	50.5	47.4	46.9	47.1	46.3	45.0	44.0	44.0	44.0	44.1	44.1
Noninterest expenditures	50.4	46.3	44.8	45.0	44.2	42.9	42.0	42.0	42.2	42.4	42.6
Automatic debt dynamics	-22.4	-9.4	-5.8	-3.3	-1.9	-1.2	-0.8	-0.7	-0.4	-0.3	-0.2
Real interest rate and relative inflation	-11.9	-5.3	-2.4	-0.8	0.2	0.5	0.9	1.0	0.9	0.9	1.0
Real interest rate	-11.9	-5.3	-2.4	-0.8	0.2	0.5	0.9	1.0	0.9	0.9	1.0
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-10.6	-4.1	-3.4	-2.4	-2.1	-1.7	-1.7	-1.6	-1.2	-1.2	-1.2
Real exchange rate	0.1	...	...	...	...	...	...	...	...	...	...
Other identified flows	1.6	-1.6	-1.5	-0.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	1.6	-1.6	-1.5	-0.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-0.7	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	0.0	0.0	0.0
Gross financing needs	19.0	12.5	9.8	9.1	10.2	8.9	11.0	9.0	9.2	10.7	9.9
of which: debt service	19.1	13.6	11.9	11.1	12.2	10.9	13.1	11.0	11.1	12.3	11.4
Local currency	18.2	13.6	11.9	11.1	12.2	10.9	13.1	11.0	11.1	12.3	11.4
Foreign currency	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	5.6	2.3	2.1	1.6	1.4	1.2	1.2	1.2	0.9	0.9	0.9
Inflation (GDP deflator; percent)	7.8	4.8	3.4	2.5	1.9	1.9	1.8	1.8	1.9	1.9	1.9
Nominal GDP growth (percent)	13.8	7.3	5.5	4.1	3.3	3.1	3.1	3.1	2.8	2.8	2.8
Effective interest rate (percent)	1.1	1.6	1.9	1.9	2.1	2.3	2.4	2.5	2.6	2.6	2.7

Contribution to Change in Public Debt

(percent of GDP)



Commentary: Public debt declined to 179.5 percent of GDP at end-2022, driven by robust post-pandemic recovery and favorable real interest rates, and fiscal consolidation that achieved a balanced budget in 2022. Growth and fiscal consolidation are expected to support further debt reduction over the medium term, though the tightening financial conditions would raise the cost for new borrowing. GFNs are projected to stay around 10 percent over the medium term with primary surplus partially offsetting the rising debt service.

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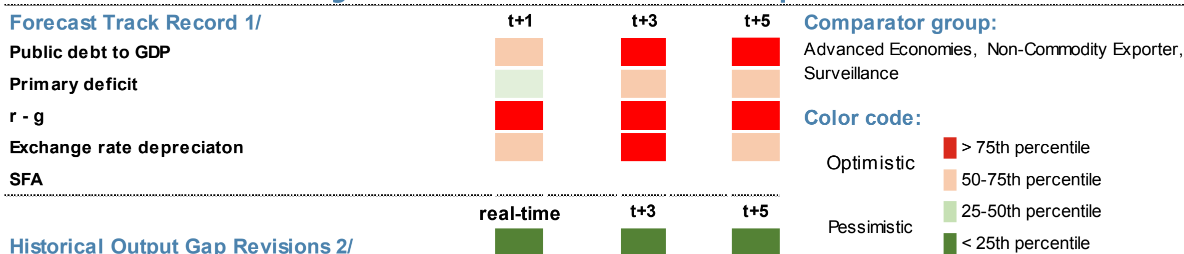
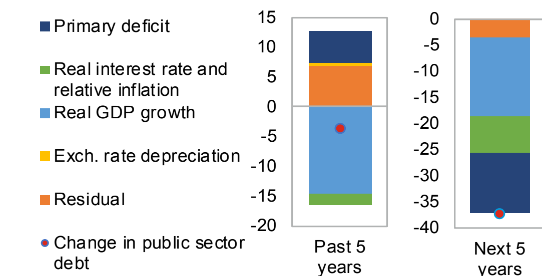
Figure 4. Realism of Baseline Assumptions



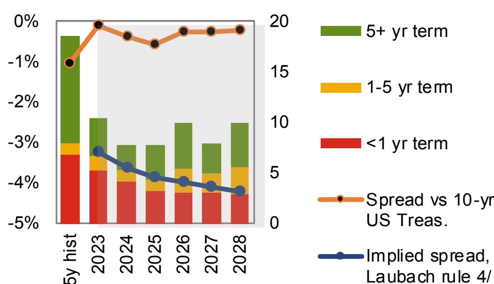
Comparator group:
Advanced Economies, Non-Commodity Exporter, Surveillance

Color code:
Optimistic
> 75th percentile
50-75th percentile
25-50th percentile
Pessimistic
< 25th percentile

Public Debt Creating Flows
(Percent of GDP)

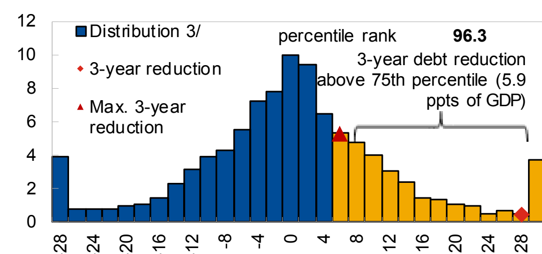


Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

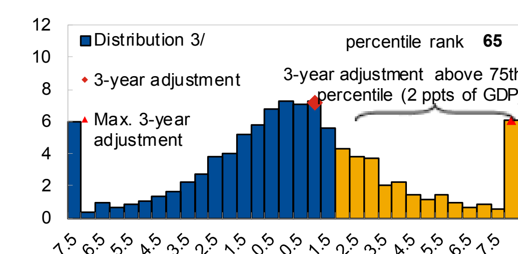


5+ yr term
1-5 yr term
<1 yr term
Spread vs 10-yr US Treas.
Implied spread, Laubach rule 4/

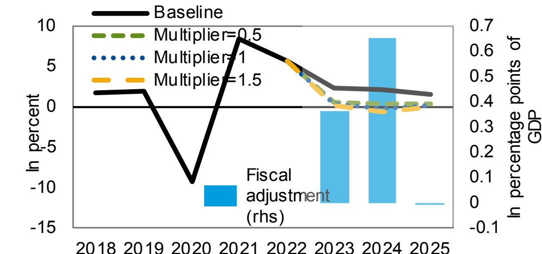
3-Year Debt Reduction
(Percent of GDP)



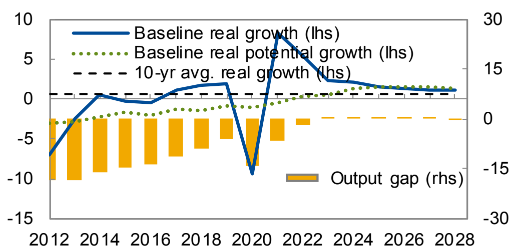
3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth
(in percent)



Commentary: The forecast track record highlights an optimistic bias for public debt to GDP ratio and interest-growth differential, and a pessimistic bias for output gap. Under the baseline, real growth is projected to slow to 2 percent in 2024, sustained by tourism and consumption out of savings accumulated by the pandemic, and converge towards 1.2 percent, around the 10-year average, while the fiscal adjustment is projected to be larger than its peers although smaller than Greece's maximum historical record. Greece's sovereign spread is expected to be on a downward path following the Laubach rule given the improving debt dynamics and regaining of the investment grade status. However, the projected interest rates imbedded in the baseline imply a more conservative narrowing of the spread to capture the uncertainty amid tightening global financial conditions.

Source : IMF Staff.
1/ Projections made in the October and April WEO vintage.
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference betw een real time/period ahead estimates
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

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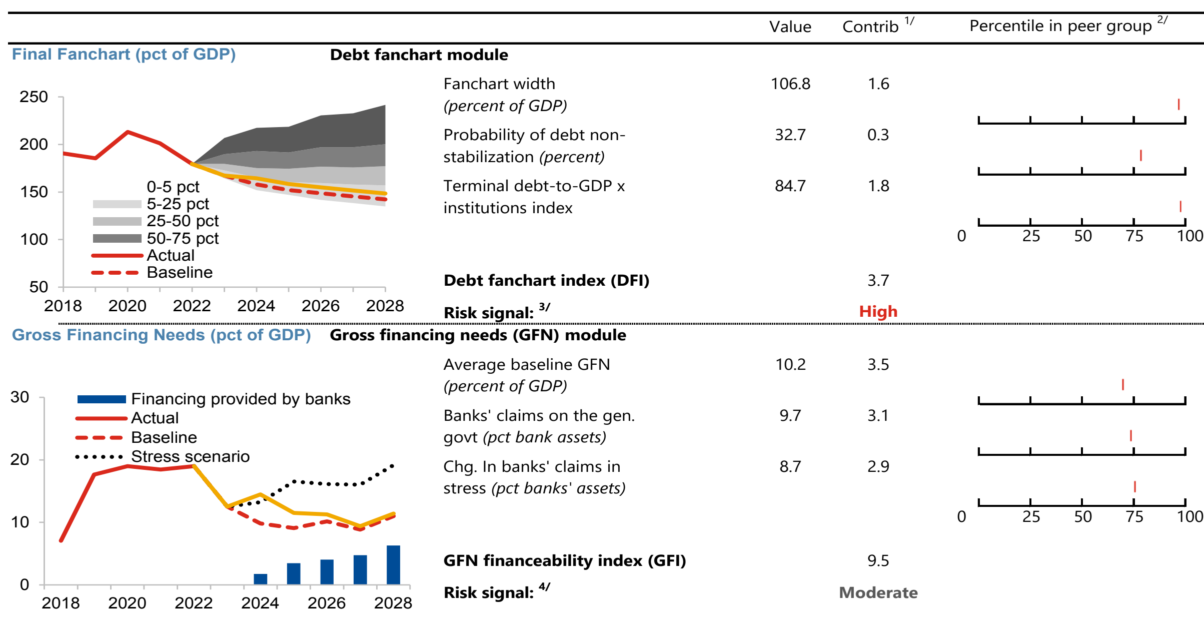
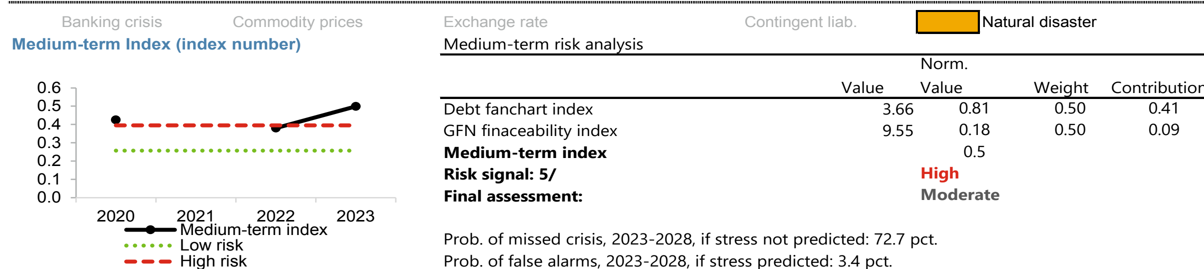
Figure 5. Medium—Term Risk Assessment





Commentary: The fanchart module's mechanical signal is "high" due to its relatively sizable width and the elevated debt level. However, compared to 2022 DSA, the fan chart centered around the baseline shifts downwards, signaling possible good debt reduction episodes despite of high uncertainty. Two thirds of debt trajectories stabilize over 10 years in the simulation even though financing cost for new debt is on the rise, reflecting Greece's favorable debt structure and the resulted low GFNs. Nonetheless, there remain large uncertainties surrounding the baseline projection, especially around growth and interest rates.

The GFN module's mechanical signal is "moderate." Greece's unique debt structure (a high share of official holdings at low fixed rates, ultra-long maturity, and long grace periods) help contain susceptibility to holder shocks, and ECB's anti-fragmentation instruments mitigate risks of sharp pickup in sovereign spread during market turmoil. GFNs can nevertheless increase under a stress scenario, including from the high cost of additional borrowing which could be partially mitigated by drawing down the cash buffer (€14 billion). None of the additional stress tests are mechanically triggered. However, given Greece's vulnerability to natural disasters, the corresponding stress test is activated but GFNs appear manageable. A customized stress test (not shown) related to outstanding government guarantees including for the NPL securitization scheme results in somewhat higher but manageable medium-term GFNs.

Overall the medium-term mechanical signal flags "high" risk but staff's final rating remains "moderate" as staff judges that compared to 2022 DSA, risks flagged by the fanchart module are not on the rise. Staff assessment is further supported by the substantial cash buffer, the large share of official loans with ultra-low interest rates and ultralong maturities and the ECB's continued liquidity support.

Sources: IMF staff estimates and projections.
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

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Figure 6. Long—Term Risk Assessment

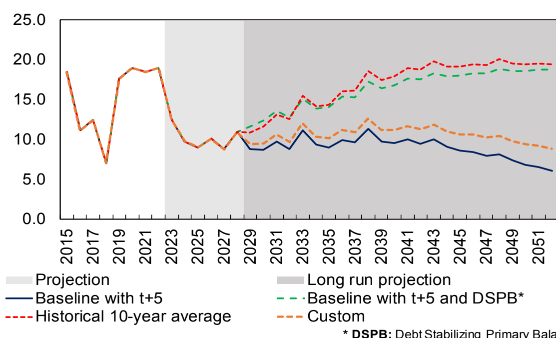
Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

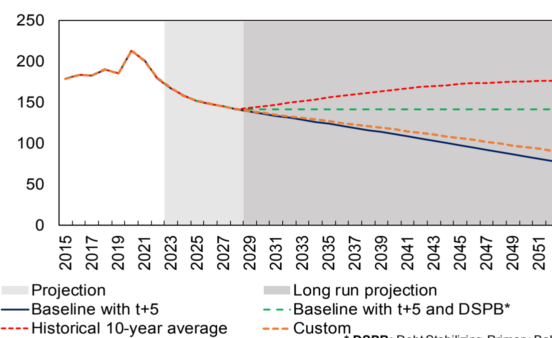
Alternative Baseline Long-term Projections (including Custom scenario)

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	1.2%	1.2%
Primary Balance-to-GDP	2.1%	1.5%
Real depreciation	-1.4%	-0.2%
Inflation (GDP deflator)	1.8%	1.9%

GFN-to-GDP Ratio



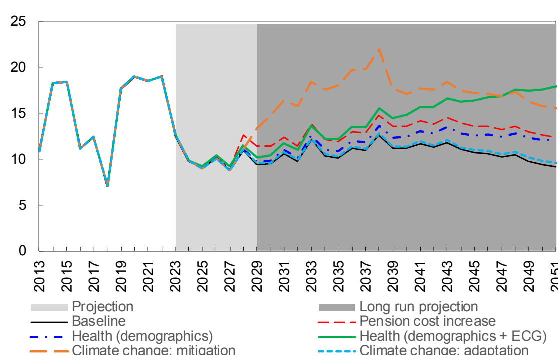
Total Public Debt-to-GDP Ratio



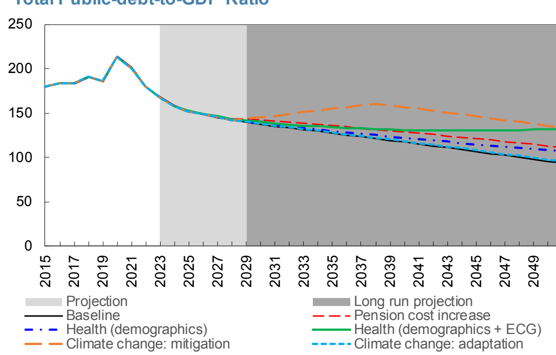
Commentary: Greece's debt is expected to decline over the next few decades if medium-term projection is simply extended or under an alternative scenario with a less stringent long-term primary balance target (the customized scenario), and GFN is contained at around 10 percent of GDP. However, uncertainty remains high to reach a definitive assessment regarding long-term sustainability.

Stress Tests of Long-Term Risk Factors

GFN-to-GDP Ratio



Total Public-debt-to-GDP Ratio



Commentary: The projected debt reduction over the long term is maintained despite higher fiscal costs to address demographic and climate adaptation needs, largely reflecting Greece's favorable debt structure as well as recent reforms conducive to long-term sustainability of the pension system. The excess cost growth in health spending and climate mitigation would bring about elevated fiscal costs and lead to slower debt reduction, and GFNs will rise to around 20 percent of GDP.

Note: Both pension and health expenditure projections follow the 2021 Ageing Report. The baseline pension projection reflects ongoing pension reforms for benefit and retirement adjustments. The ECG scenario for health expenditure is calibrated to capture the additional increase in the cost in the non-demographic scenario in the Ageing Report. The calibration of the adaptation and mitigation costs follows the common approach suggested in the staff guidance note for SRDSF.

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Table 2. Greece: External Debt Sustainability Framework, 2018–2028

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2018	2019	2020	2021	2022			2023	2024	2025	2026	2027	2028	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	235.7	249.0	305.0	311.3	270.1			**259.0**	**250.4**	**243.9**	**238.0**	**233.2**	**228.1**	**-6.0**
Change in external debt	3.4	13.3	55.9	6.3	-41.2			-11.1	-8.6	-6.5	-5.8	-4.9	-5.0	
Identified external debt-creating flows (4+8+9)	-1.3	-4.9	34.0	-24.0	-29.8			-0.7	-1.5	-0.5	-0.8	-0.9	-1.1	
Current account deficit, excluding interest payments	0.5	-0.8	4.4	5.2	8.8			3.9	3.6	2.7	1.8	1.0	0.6	
Deficit in balance of goods and services	1.8	0.9	6.8	7.5	9.8			5.6	4.7	3.5	2.5	1.7	1.2	
Exports	38.7	39.6	31.3	40.9	49.1			44.9	44.6	44.2	44.0	44.0	44.2	
Imports	40.5	40.5	38.1	48.3	58.9			50.6	49.3	47.7	46.6	45.7	45.4	
Net non-debt creating capital inflows (negative)	-1.6	-2.1	-1.0	-3.4	-2.5			-2.1	-2.9	-1.8	-1.8	-1.8	-1.7	
Automatic debt dynamics 1/	-0.3	-2.0	30.6	-25.8	-36.2			-2.5	-2.3	-1.4	-0.8	-0.1	0.0	
Contribution from nominal interest rate	3.0	3.1	2.9	1.9	1.9			3.2	2.8	2.4	2.5	2.6	2.6	
Contribution from real GDP growth	-3.7	-4.6	25.3	-22.4	-17.1			-5.7	-5.0	-3.7	-3.2	-2.7	-2.6	
Contribution from price and exchange rate changes 2/	0.4	-0.5	2.4	-5.2	-21.0			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	4.7	18.2	21.9	30.3	-11.4			-10.5	-7.0	-6.0	-5.0	-4.0	-3.9	
External debt-to-exports ratio (in percent)	608.7	628.9	975.0	761.7	549.8			576.2	561.2	551.8	540.7	530.3	515.7	
Gross external financing need (in billions of US dollars) 4/	141.8	124.7	144.2	213.8	228.7			230.1	250.1	257.6	263.2	256.4	260.2	
in percent of GDP	66.8	60.8	76.6	99.5	105.0			95.4	97.7	96.4	95.2	90.3	89.2	
Scenario with key variables at their historical averages 5/								**259.0**	**265.7**	**270.4**	**274.4**	**278.0**	**281.6**	**1.8**
Key Macroeconomic Assumptions Underlying Baseline						10-Year Historical Average	10-Year Standard Deviation							
Real GDP growth (in percent)	1.7	1.9	-9.3	8.4	5.6	0.7	4.7	2.3	2.1	1.6	1.4	1.2	1.2	
GDP deflator in US dollars (change in percent)	4.5	-5.0	1.2	5.2	-4.0	-1.4	6.3	8.3	3.9	2.8	2.1	1.5	1.5	
Nominal external interest rate (in percent)	1.4	1.3	1.1	0.7	0.6	1.2	0.3	1.3	1.1	1.0	1.0	1.1	1.2	
Growth of exports (US dollar terms, in percent)	17.9	-1.1	-27.5	49.0	21.9	7.4	21.8	1.3	5.3	3.4	3.1	2.6	3.3	
Growth of imports (US dollar terms, in percent)	19.8	-3.2	-13.8	44.7	23.5	8.0	19.7	-4.9	3.5	1.0	1.0	0.7	2.2	
Current account balance, excluding interest payments	-0.5	0.8	-4.4	-5.2	-8.8	-1.3	3.6	-3.9	-3.6	-2.7	-1.8	-1.0	-0.6	
Net non-debt creating capital inflows	1.6	2.1	1.0	3.4	2.5	2.6	1.0	2.1	2.9	1.8	1.8	1.8	1.7	

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

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

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

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

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

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

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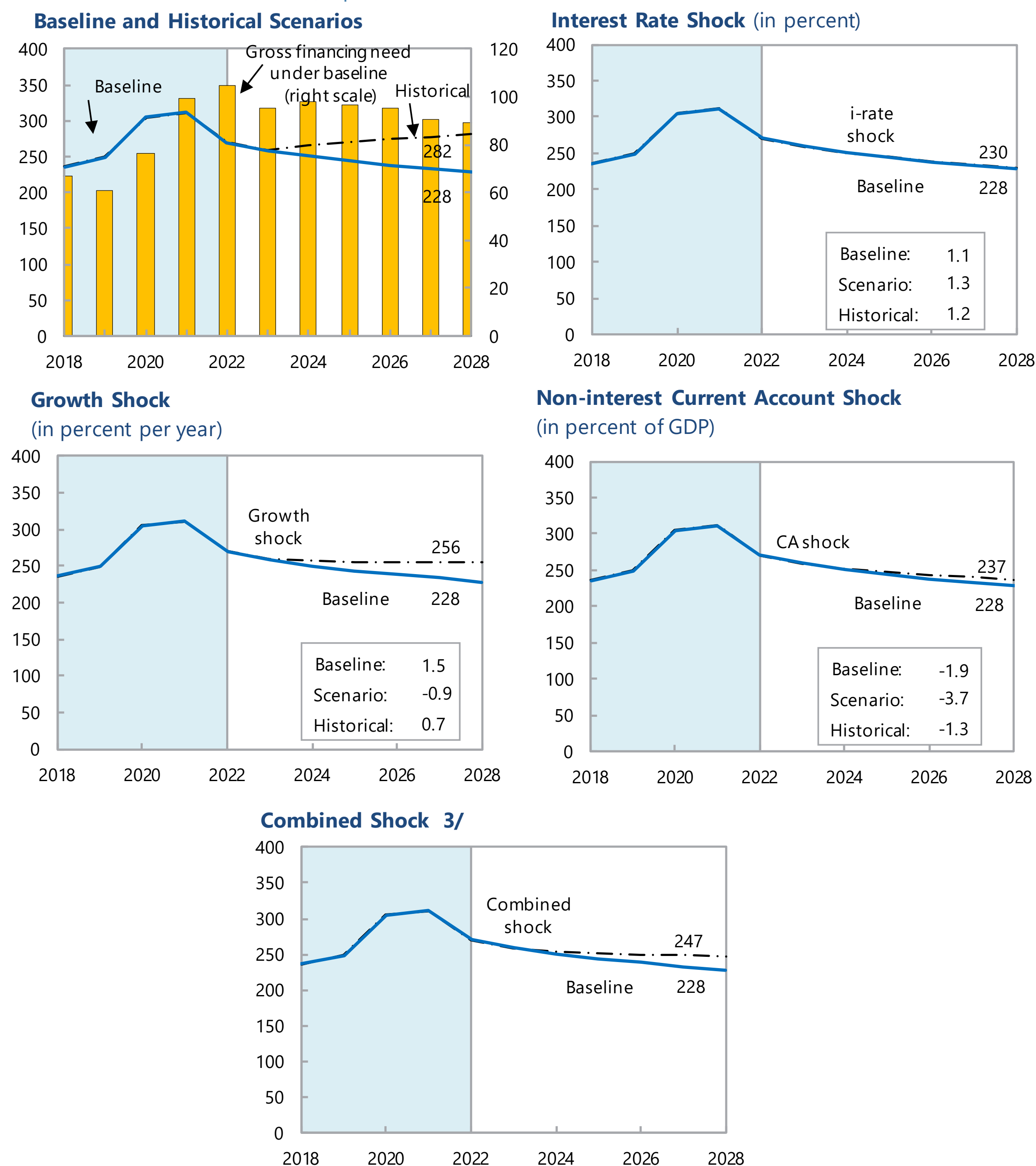
Figure 7. Greece: External Debt Sustainability: Bound Tests 1/ 2/

(In percent of GDP, unless noted otherwise)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

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Annex II. External Sector Assessment

Overall Assessment: *The external position of Greece is assessed to be weaker in 2023 than the level implied by fundamentals and desirable policies based on preliminary data. The current account (CA) deficit, which widened temporarily during the pandemic and the energy crisis, is projected to narrow to 7.1 percent of GDP in 2023 with normalizing energy prices. The current account deficit is expected to revert to its pre-pandemic level over the medium term as output gap is projected to close gradually. The net international investment position (NIIP) is expected to further improve in line with the declining public debt.*

Potential Policy Responses: *Policies to ensure that the external position will improve to be broadly in line with fundamentals include (1) the prudent fiscal policy to maintain a primary surplus, which will help lower the public debt-to-GDP ratio and thereby the large and negative NIIP; (2) structural reforms to raise potential growth, including by strengthening labor force participation (particularly for youth and female), reskilling and upskilling the labor force, facilitating green and digital transition, rationalizing regulations to improve business dynamism, and reducing product market rigidities to increase competition.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Greece's NIIP improved to -149 percent of GDP[1] in 2022, from -179 percent in 2021, despite the further widening of CA deficit, reflecting asset accumulation (outward direct investment and debt securities) and continued strong nominal GDP growth.

Assessment. The NIIP-to-GDP ratio is projected to improve in the medium term along with narrowing CA deficits. Risks to the large NIIP are mitigated by its favorable creditor, currency, and interest rate structure: (i) two thirds of external liabilities remain in the official sector; (ii) most liabilities are euro-denominated; and (iii) the official part has been fixed at low rates. Prudent fiscal policies and active liabilities management are expected to reduce general government's external liabilities, with the residual external financing needs covered by private flows amid Greece's improving creditworthiness. However, the NIIP could deteriorate if downside risks (lower growth, adverse shocks to terms of trade, and loose fiscal policies) materialize.

2022 (% GDP)	NIIP: -149	Gross Assets: 153	Debt Assets: 126	Gross Liab.: 302	Debt Liab.: 268

Current Account

Background. The CA deficit is projected to narrow to 7.1 percent of GDP[2] in 2023, from 10.7 percent in 2022, reflecting an improving trade balance. Merchandise trade deficit is narrowing with normalizing energy import prices, while services surplus is expected to further widen on continued strong performance of tourism. The CA deficit is expected to converge to its pre-pandemic level only gradually over the medium term as the economy is expected to grow above potential in the near term driven by robust private consumption and strong investment growth financed by EU resources.

Assessment. The preliminary assessment using projected 2023 CA suggests a CA gap of -3 percent of GDP, with a moderate policy gap of 0.6 percent of GDP, reflecting a small cyclical adjustment and a negative EBA norm (-3.9 percent of GDP). A sizable residual (around 4 percent of GDP) remains for 2023, which may reflect distortions in product and labor markets that hinder Greece's international competitiveness but not captured by the EBA model.

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2023 (% of GDP)	CA: -7.1	Cycl. Adj. CA: -6.9	EBA Norm: -3.9	EBA Gap: -3.0	COVID-19 Adj.: 0	Staff Gap: -3.0

Real Exchange Rate

Background. The unit-labor-cost-based REER (ULC-REER), which helps gauge production costs relative to trading partners, adjusted substantially over the last decade, falling by 26 percent during 2012–19 helped by the macroeconomic adjustment and the 2012 labor market reform that lowered the minimum wage and made wage bargaining more flexible. The CPI-based REER (CPI-REER) fell by less over the same period, reflecting partially offsetting increases in non-wage costs and less effective reforms to address product market rigidities. The pandemic and energy crises did not alter the trend. As of 2023Q2, the ULC-REER fell another 8.4 percent since 2019, mostly in 2021-22, reflecting slower wage increases relative to its trading partners. The CPI-REER fell 3.4 percent over the same period and returned to its early 2000s levels.

Assessment. The IMF staff CA gap implies a REER gap of 7 percent (overvaluation) for 2023 (applying a semi-elasticity of 0.39). The EBA REER index regression estimates the REER gap to be 6 percent in 2023, while the EBA REER level regression estimates much larger gaps in the range of 35-40 percent. Both EBA REER models involve large unexplained residuals and significant standard errors for the calculated norm, and the CPI-REER measure used for the assessment could be affected by non-wage costs. Hence, staff considers the EBA REER model results less reliable and favors the EBA CA model assessment as the overall assessment.

Capital and Financial Accounts: Flows and Policy Measures

Background. The CA deficit in 2022 was mostly financed by other investment and FDI flows (9 percent of GDP and 2.2 percent of GDP, respectively, in net terms), and the capital account. Inward FDI surged to 3.1 percent of GDP, with strong inflows into financial and insurance activities, real estate, and the manufacturing sector, and is expected to decelerate but remain above the pre-pandemic level in 2023. The capital account inflow is mainly related to EU funds disbursement and is projected to persist into the medium term. Financial conditions have tightened but Greece's sovereign spread remains stable.

Assessment. Rollover risks of public external debt, the largest component of Greece's external liabilities, are mitigated by the government's large cash buffer, the large share of official loans with ultra-low interest rates and ultralong maturities and the ECB's announcement that PEPP proceeds could be reinvested into Greek government bonds if needed until 2024. The cost of external financing could be further contained as Greece is restored to the investment grade. A steady improvement in the business climate, including from continued efforts on structural reforms, is needed to promote sustainable FDI further.

FX Intervention and Reserves Level

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

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

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

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Annex III. Risk Assessment Matrix[1]

Risks (Likelihood)	Impact if Realized	Policy Responses
Conjunctural Risks		
Intensification of regional conflicts (High). Escalation of Russia's war in Ukraine, the conflict in Gaza and Israel, or other regional conflicts disrupt trade (e.g., energy, food, tourism, shipping, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	**High.** Negative energy, food and tourism shocks would impede growth. Increased refugees could raise unemployment pressures and trigger social tensions.	• Full use of automatic stabilizers, while avoiding broad-based discretionary support unless the shock amplifies. • Augment the scope of ALMPs to facilitate refugees' transitions into the labor market particularly in sectors facing labor shortages.
Abrupt global slowdown or recession (Medium). Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. • **U.S. (Medium).** Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing and commercial real estate market correction, and "hard landing". • **Europe (Medium).** Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections. • **China (Medium).** Sharper-than-expected slowdown in the property sector, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions disrupt economic activity.	**High.** Negative effects through tourism demand and trade linkages and supply chains.	• Full use of automatic stabilizers if a recession begins to unfold. • Provide temporary and targeted support to the most vulnerable groups.
Monetary policy miscalibration (Medium). Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	**Medium.** Higher funding costs, if combined with de-anchored inflation expectations, could push the economy to a stagflation, amplifying the financial strains on both households and firms.	• Continue fiscal policy consolidation (while protecting the poor) to reduce domestic demand pressures and further support the ECB in containing inflation and avoid de-anchoring inflation expectations. • Promote flexible work arrangements to boost labor supply to mitigate the increase in labor market tightness.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. This is based on the Global Risk Assessment Matrix from February 2023.

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Risks (Likelihood)	Impact if Realized	Policy Responses
Systemic financial instability (Medium). Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	Medium. In addition to dampening domestic demand, a sudden house price correction could deteriorate bank balance sheet, further weighing on credit supply.	• Intensify monitoring of banks' capital positions and risk management practices to contain systemic risk. • In the event of a sharp downturn, relax macroprudential settings so that banks can keep credit flowing.
Structural Risks		
Deepening geo-economic fragmentation (High). Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High. Extended supply-side disruptions could induce higher commodity prices and will slow down the recovery and impact private and public balance sheets. Inflow of refugees could induce social tensions.	• Accelerate supply-side structural reforms, including investments in digitalization and green energy. • Continue to promote international cooperation via active participation in joint efforts to promote green transitions and policy coordination in Euro Area and beyond.
Extreme climate events (High). Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium. Damages could undermine tourisms, agriculture, and investment, leading to lower growth and higher inflation.	• Accelerate reforms and investment for greener growth to mitigate severe impact and protect the vulnerable households. • Expeditious implementation of climate policies, including by improving the energy mix and raising carbon prices.
Domestic Risks		
Weak implementation of NGEU-financed investment (Medium). Slow implementation results in reform delays and slower pace of funding from EU.	High. Undermine business confidence, leading to lower investment and productivity growth.	• Further enhance the government capacity, including by further digitalization and streamlining procedures.
Major rating agencies upgrade Greece's sovereign rating to investment grade status (High). Following the action by three of the four credit assessment institutions recognized by the ECB, the other major agency upgrades its ratings.	Medium. Improved market confidence could lower financing costs, spurring higher foreign investment and domestic demand.	• Maintain the right policy mix to sustain growth and ensure fiscal sustainability. • Ensure that banks adopt appropriate countercyclical tools, and closely monitor the build-up of systemic risk.
Systemic risk build-up in the financial system (Medium). Higher interest rates and economic slowdown could weigh on asset quality and increase risks to credit servicers. A sharp house price correction following rapid credit growth could reinforce the bank-sovereign nexus.	Medium. Banks' ability to access liquidity and capital markets would decrease, leading to higher funding costs and credit supply constraints, dampening domestic demand.	• Accelerate bank clean-up and the build-up of capital buffers. While considering stand-alone DTC conversions for banks that are unable to utilize existing tools. • Monitor emerging risks closely and upgrade macroprudential tools.
Under-execution of the planned fiscal consolidation (Medium). Permanent tax cuts and higher-than-expected spending on energy subsidies, pensions and public sector wages due to social and political pressures to compensate high inflation.	Medium. Investor confidence could be undermined, leading to higher funding costs and lower growth.	• Offsetting permanent tax cuts through base-broadening measures and benefit adjustments, while containing pension spending and the public sector wage bill. • Adhere to fiscal targets while scaling up targeted support to vulnerable groups.

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Annex IV. Implementation of Main Recommendations of the 2022 Article IV Consultation

Main Recommendations	Authorities' Responses
Fiscal Policy and Fiscal Structural Reforms	
Near-term. Keep fiscal policy accommodative but well-targeted; unwind pandemic-related support measures appropriately; replace untargeted subsidies with targeted support; Identify and address gaps in the means-tested Guaranteed Minimum Income (GMI) scheme and raise its benefit levels to cushion shocks.	Implemented partly. Fiscal accommodation supported growth, but energy subsidies were based on usage, not directly income targeted.
Complete the Public Investment Management Assessment.	Implemented.
Medium-term. Implement gradual and growth-friendly fiscal consolidations; streamline tax incentives and broaden tax base, including by addressing tax evasion; contain spending pressures on pension and civil service wages; raise investment, healthcare, and social protection spending.	Implementation in progress. Targeting a primary surplus over the medium term; Less progress in raising pro-growth social spending and investment due to limited fiscal space; Advancing on ambitious reforms to reduce tax evasion.
Modernize the Independent Authority for Public Revenue.	Implementation in progress.
Financial Sector and Macro-Financial Issues	
Restore sound bank asset quality. Closely monitor new NPLs, accelerate NPL workout, ensure adequate credit classification and loan-loss provisioning, improve credit risk management, and develop viable long-term restructuring.	Implementation in progress.
Rebuild banking sector resilience. Strengthen capital buffers, prepare a roadmap for activating CCyB and BBMs, ensure sustainable profitability drivers, enhance the quality of capital, and address medium-term funding challenges (MREL).	Implementation in progress. Capital buffers strengthened; a roadmap for activating CCyB and BBMs prepared; limited progress in enhancing the quality of capital.
Prepare for structural transformation of the financial system. Ensure sound standards on governance and risk management for non-bank competitors, tackle climate-related financial risks.	Implementation in progress.
Other Structural Reforms	
Ensure a job-rich recovery. Strengthen implementation in modernizing the public employment agency, strengthening active labor market policy, and improving vocational education and training.	Implementation in progress. Significant achievements in generating jobs and reducing the unemployment rate, albeit less progress for women and youth.
Assist the green transition. Introduce a new carbon tax in non-ETS sectors; enhance a targeted social safety net including by raising spending for healthcare, childcare, and the GMI.	Implementation in progress. The Greece 2.0/NRRP programs devoted significant funding to green transition; No progress on the carbon tax due to concerns over high energy prices.
Improve anti-corruption. Publish the National Anti-Corruption Actin Plan for 2022–25 and develop quarterly monitoring indicators.	Implemented.

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Annex V. Financial Sector Background Note[1]

The Greek banking system remains resilient with continued improvement in the banks' balance sheets, but its outlook is clouded by substantial uncertainty about the impact of the ongoing financial condition tightening and growth deceleration, requiring close monitoring of credit and interest rate risks and building further buffers to safeguard financial stability. Asset quality has improved with an impressive NPL reduction in recent years, although the process has been recently stalled and the NPL ratio still remains above the EA average. Profitability has rebounded benefitting from improved asset quality and widening lending margins, coupled with capital instrument issuances, bolstering capital although its quality has improved only gradually due to still large share of deferred tax credits. Despite the ongoing withdrawal of the ECB policy support and the global banking stress in early 2023, liquidity and funding conditions have continued improving helped by robust deposit growth and normalized market access to long-term funding. Sovereign exposures have continued increasing, but the dependence on the public sector-sponsored safety net has started declining. To prepare for structural transformation of the financial sector over the medium to long term, business models need to adapt to ensure sustainable profits, while overall risk management, including for climate-related financial risks, should be upgraded. In addition, the existing vulnerabilities and risks related to the largest non-systemic banks should be addressed more effectively.

A. Recent Developments in the Banking System Across Key Risks

Asset Quality

1. Following further NPL reduction in 2022, the process has been stalled in 2023. The NPL ratio of Significant Institutions (SIs) declined further from 7 percent at end-2021 to 5 percent at end-2022 mainly on the back of securitizations and sales of NPL portfolios supported the Hellenic Asset Protection Scheme (HAPS), which ended in October 2022. Since then, the NPL ratio has stabilized in 2023 with the limited contribution from collateral liquidations, write-offs, and collections amid the slow progress in structural financial sector reforms, including implementation of the new insolvency law and improvement of the judicial system efficiency. Amid tightening financial conditions, there was some further inflow of new NPLs across all portfolios due to the default of a large corporate in 2023Q2, more limited curing, and some signs of increasing early arrears. Despite this rapid convergence of the SI's NPL ratio to the EU average of 2 percent, there has been little progress for Less Significant Institutions (LSIs) where the NPL ratio still exceeds 40 percent.[2] The forward-looking metric of credit risk for SIs shows that the share of stage 2 loans representing higher risk continued declining and is now close to the EU average. The authorities intend to extend the HAPS scheme to finalize the delayed securitization transactions of SIs and support reduction of NPLs in the largest LSIs. The NPL coverage ratio for SIs reached 43 percent in 2023Q2, close to the EU average, but with significant heterogeneity across banks.

[1] Prepared by Alexis Boher and Mariusz Jarmuzek, with inputs from Katherine Dai.

[2] The NPL ratio for LSIs deviates from the EBA definition in certain respects e.g. the EBA definition includes cash balances at the central bank and other demand deposits on a consolidated basis.

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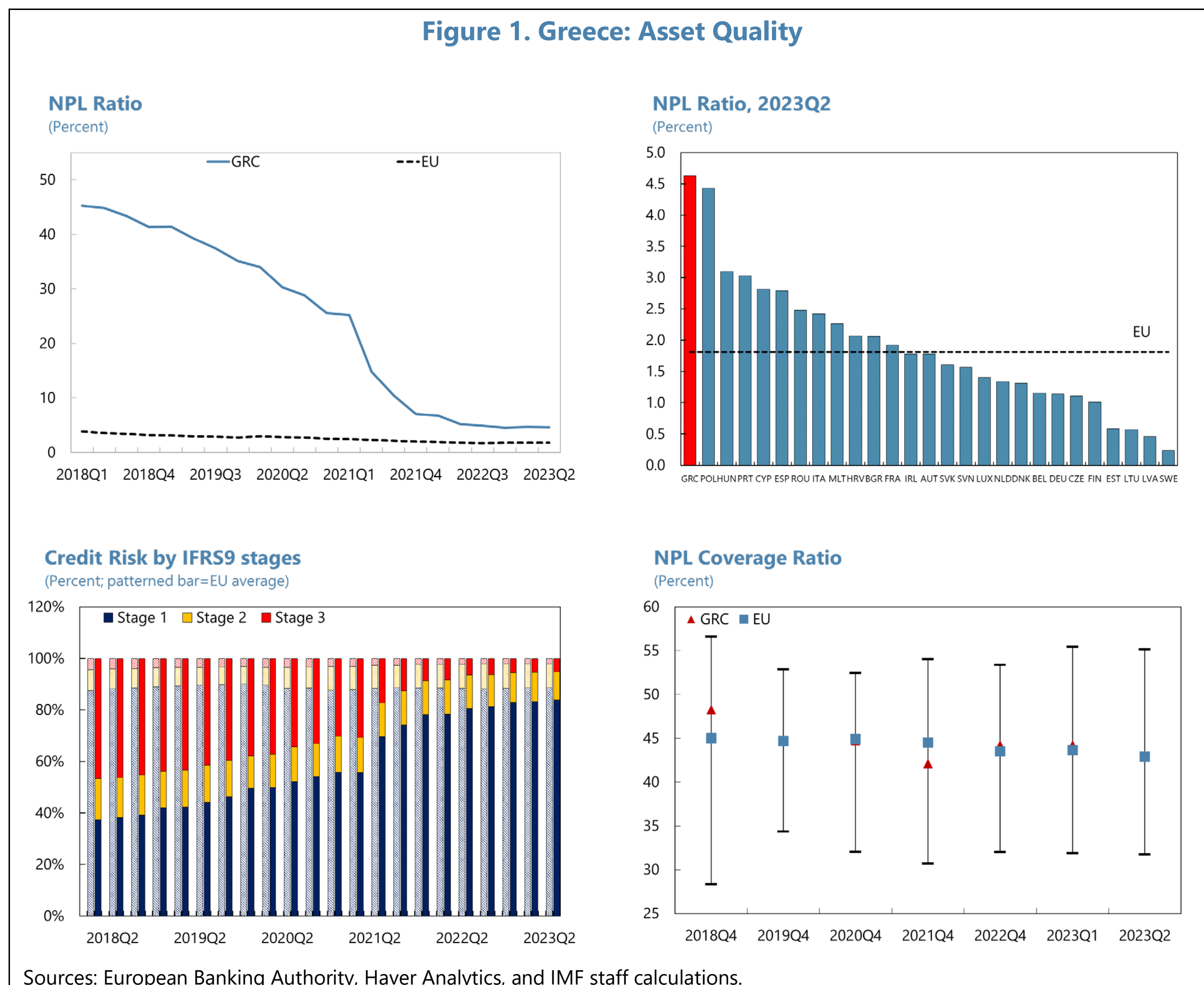
Figure 1. Greece: Asset Quality



Sources: European Banking Authority, Haver Analytics, and IMF staff calculations.

Profitability

2. **Profitability has rebounded strongly benefitting from widening lending margins and improved asset quality.** The return on equity (RoE) increased sharply from a deeply negative territory in 2021 to 18 percent in 2022 and 13 percent in 2023Q2, driven primarily by increasing net interest margins shaped by higher loan pricing and low cost of funding associated with deposits, exceeding the EU average of 11 percent RoE recorded during this period. Specifically, Greece has one of the highest lending margins in the EU, with a high share of floating-rate loans, especially for corporates. Furthermore, smaller impairments coupled with profits from interest rate hedges also contributed to the rebound in profitability. Net fees and commission income has also increased, supported by new loan disbursements, payment and fund transfers, as well as portfolio management and investment banking. Operating expenses have dropped as a result of staff cost reduction associated with completion of voluntary redundancy schemes and corporate transformations, in addition to gains related to digital transformation. This suggests that banks have started adapting their business models to be able to face adaptation challenges to digitalization and increasing competition from non-banks, including Fintech.

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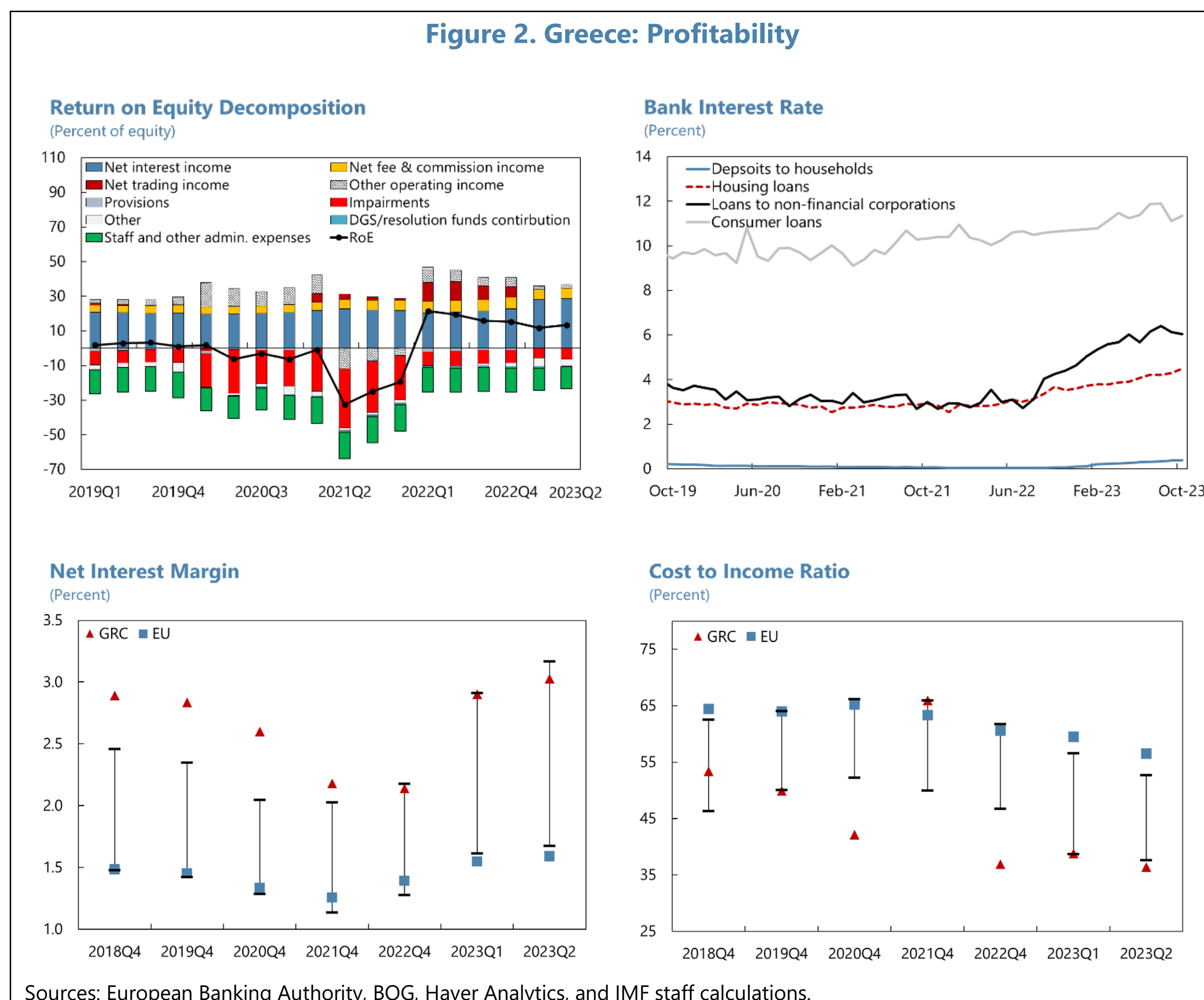

Sources: European Banking Authority, BOG, Haver Analytics, and IMF staff calculations.

Capital Adequacy

3. **With return to high profitability and continued issuances of capital instruments, capital adequacy has improved, although its quality remains a concern.** The capital adequacy ratios for SIs have improved substantially in 2022 and 2023H1—for example, the common equity tier 1 capital ratio to 14 percent—on the back of the strong rebound in profitability boosting retained earnings. Banks have also been able to raise capital through additional Tier 1 instruments counting towards the minimum capital requirements and eligible liabilities (MREL), partially offset by the application of the transitioned provisions of IFRS9. However, the share capital increases have been very limited for SIs. Risk-weighted assets have increased only marginally since end-2021, with credit risk accounting for around 85 percent of total assets, which confirms the predominant role played by traditional banking and lending activity in the business models of Greek banks. Given the profitability boost, the quality of capital has also improved since 2021, although still remains a concern as the share of Deferred Tax Credits (DTCs) in total prudential capital declined only gradually from 59 percent in 2021Q4 to 51 percent (amounting to EUR 13.4 billion) in 2023Q2. In addition, Deferred Tax Assets (DTAs) are partly included in the prudential capital of Greek banking

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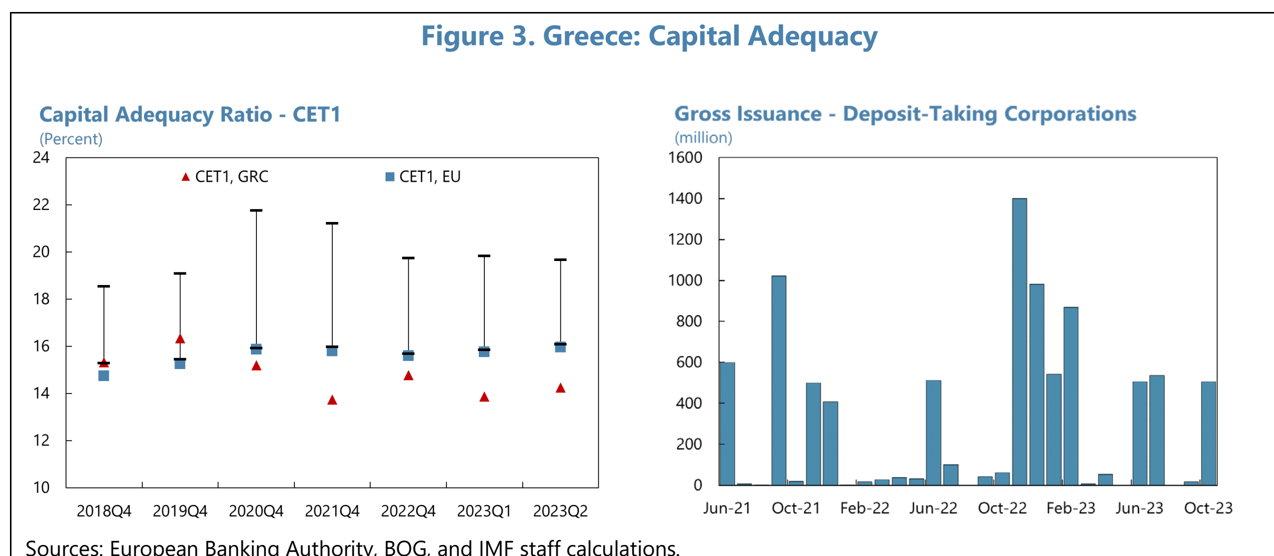
groups up to EUR 2.4 billion, accounting for an additional 9 percent of their total prudential capital, with additional EUR 3.9 billion held by banks but not included in the prudential capital.

Figure 3. Greece: Capital Adequacy



Sources: European Banking Authority, BOG, and IMF staff calculations.

Liquidity and Funding

4. Notwithstanding headwinds, liquidity and funding conditions continued improving. Despite the global bank stress in early 2023, household and corporate deposits continued increasing on the back of robust economic growth and recovering depositors' confidence. Banks made TLTROIII repayments of around EUR 30 billion in response to the less favorable terms of these operations introduced by the ECB in November 2022, with the remaining balance of EUR 20 billion as of 2023Q2. On net, the liquidity coverage ratio improved significantly above the regulatory requirements, reaching 210 percent in 2023Q2 and surpassing the EU average of 160 percent. Similarly, the net stable funding and loan-to-deposit ratios improved as well to 135 and 60 percent during this period, better than the EU averages of 126 and 109 percent, respectively. The intermediate MREL commitments as of end-2022 were met with successful issuances of capital instruments worth EUR3 billion, but the shortfall against the end-2025 target has remained the largest among EA countries.

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Figure 4. Greece: Liquidity and Funding

Sources: European Banking Authority, Single Resolution Board, and IMF staff calculations.

B. Outlook and Challenges for the Financial System

Risks to Banks Under Illustrative Adverse Scenario

5. **The scenario analysis suggests improved resilience of the banking system while flagging the importance of robust credit and interest rate risk management.** Building on the October 2023 Global Financial Stability Report, the baseline scenario assumes that long-term inflation expectations are well anchored, monetary tightening continues but peaks, accompanied by a gradual decline in term premia and growth deceleration. Under this scenario, despite higher loan losses amid moderating growth, higher income associated with interest as well as fees and commissions would further increase capital adequacy. The adverse scenario envisages in turn that inflation is more persistent, which is counteracted by stronger monetary tightening and higher term premia, rendering recession. Owing to recession and higher unemployment, the adverse scenario shows higher loan loss provisions compared to the baseline, which would hold back improvements in interest income on performing loans benefitting from higher interest rates, resulting in capital depletion. While the impact of the adverse economic and financial conditions on banks is sizeable, the analysis demonstrates broad resilience of the Greek banking system, with banks meeting on

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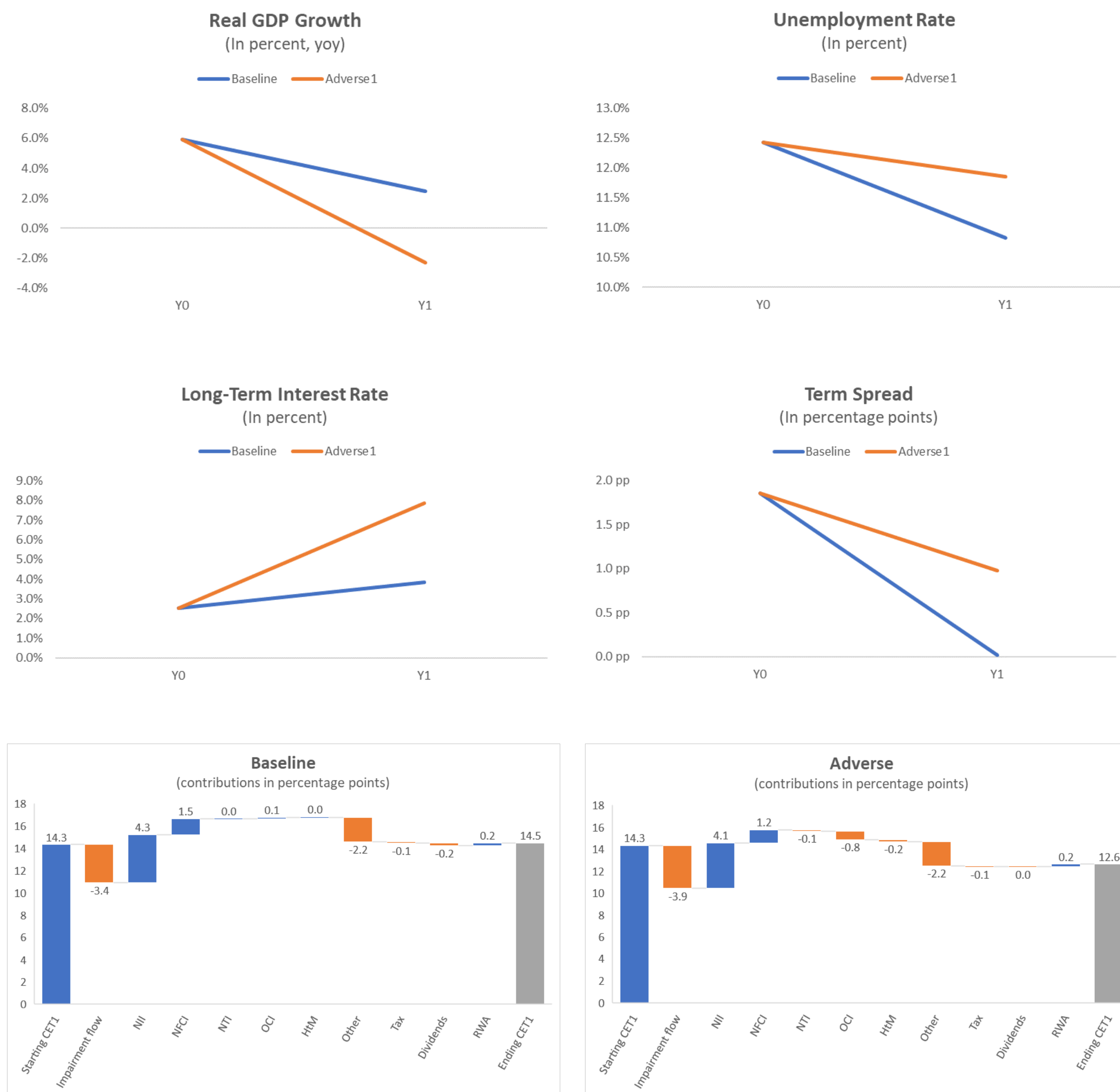
average regulatory requirements. The analysis also underscores the importance of robust management of credit and interest rate risk in the banking book, with some trade-off between higher interest income and asset quality deterioration, suggesting importance of adequate loan pricing in line with the EBA guidelines.[3]

Figure 5. Greece: Illustrative Scenario Analysis



Source: FitchSolutions, Fitch Connect, IMF staff estimates.
Notes. Estimates based on IMF (2023) "New Look at Global Banking Vulnerabilities", Global Financial Stability Report, and IMF (2022) Selected Issues Paper, "Bank Profitability Drivers and Challenges in Greece".

[3] For additional information, please refer to the IMF (2022), Selected Issues Paper, "Bank Profitability Challenges and Drivers in Greece."

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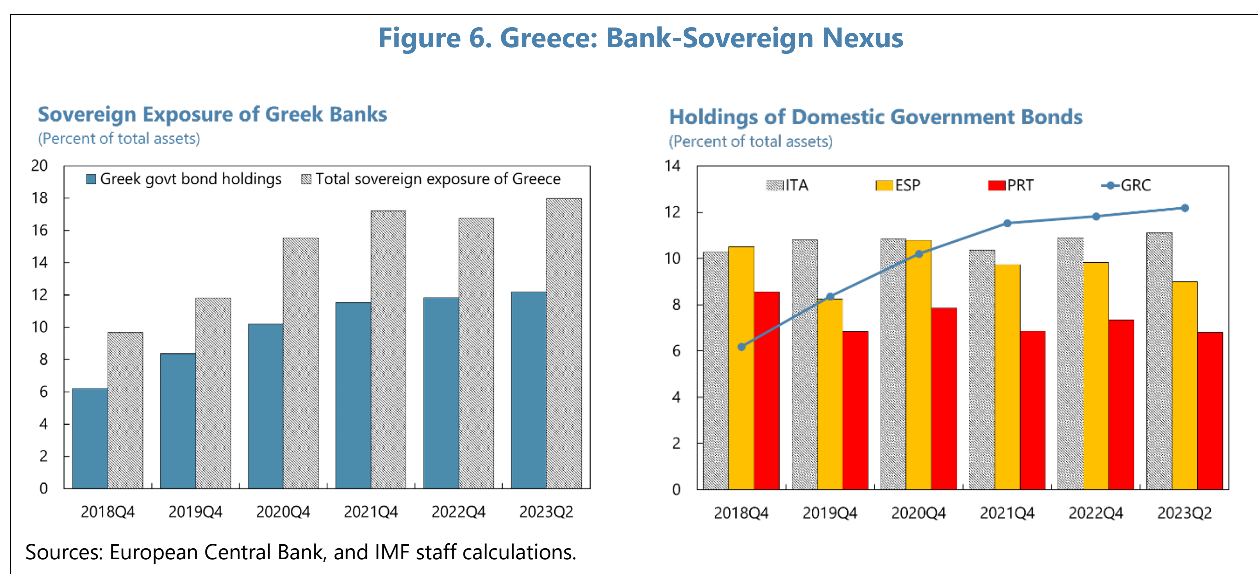
Structural Challenges

Bank-Sovereign Nexus

6. Banks' sovereign exposures have further increased, but their dependence on the public sector-sponsored safety net has started declining. Greek banks continued increasing their holdings of Greek government bonds, as a share of assets as well as their total exposures to governments between end-2022 and 2023Q2. While the elevated exposure can provide important relief to governments in time of stress, it can also make bank balance sheets sensitive to fluctuations in sovereign risk, leading potentially to lower bank credit and economic activity as well as amplifying the initial shock. On the positive side, the share of DTCs in capital declined by 8 percentage points since end-2021 and the sovereign started divesting its ownership in the banking system through the Hellenic Financial Stability Fund. Furthermore, the elevated dependence from the accommodative monetary policy including through TLTROIII operations that allowed the sovereign and banks to benefit from low cost of funding and increased liquidity is currently being unwound. When the support from monetary policy is reduced and ultimately unwound, it may pose some challenges to the sovereign and banks, resulting in higher funding costs for corporates and households.



Preparing for Structural Transformation of the Financial System

7. Strategic adaptation of banks' business models, including the development of sound and diversified profitability drivers, is essential to the sustainable development of the banking sector. For a long time, Greek banks have based their profitability on traditional banking activities, such as lending and deposit-taking, resulting in net interest income. Banks are gradually diversifying their activities to generate more fees and commissions. The pandemic significantly impacted the behavior and needs of bank customers, as can be seen with the more intense use of digitalized and remote financial services, including payments. Accelerated innovation for more convenient and cheaper financial products and services may pose various strategic, business, and technical challenges to banks for succeeding with the structural adaptation of their business models

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to fit evolving customer needs. Banks' development strategies and business plans should combine proactive adaptation objectives as well as proper consideration of risk management. Business Model Analysis (BMA) is part of the Supervisory Review and Evaluation Process (SREP) implemented by banking supervisors. Therefore, authorities should consider ensuring that banks continuously adapt their business models to face strategic development challenges and build sustainable profitability, along with sound risk management.

Tackling Emerging and Evolving Risks to the Banking Sector

8. Management and supervision of climate-related financial risks should be enhanced based on an updated risk assessment of the impact of climate change on the financial sector. Given that climate change is high on the agenda of European Institutions, the EBA issued guidelines on Environmental, Social, and Governance (ESG), while the ECB has developed supervisory oversight of climate-related financial risks within SIs and issued supervisory guidance including specific objectives to be met by all SIs by end-2024. At country level, Greece has committed to addressing climate change issues and the Bank of Greece (BoG) is actively enhancing the oversight of risks to the financial sector pertaining to climate change. The BoG should perform an updated assessment of the financial system's exposure to climate-related financial risks, both physical and transition risks. In 2021, the BoG established the Climate Change and Sustainability Centre (CCSC) to further advance the work by the Climate Change Impacts Study Committee (CCISC) since 2009. After the Basel Committee on Banking Supervision (BCBS) has issued guidelines on management and supervision of climate-related financial risks in July 2022, effective and adapted supervision of climate-related risk management within the banking sector should be implemented in the medium-term horizon, based on relevant EU directives EBA guidelines on ESG, as well as guidance from the Central Banks and Supervisors Network for Greening the Financial System (NGFS) and new disclosure standards issued by the International Sustainability Standard Board (ISSB) on climate-related financial risks. According to the BoG, the insurance sector would not be exposed to significant climate-related financial risks, in part because Greece has one of the highest insurance protection gaps in Europe.

Restructuring Fragile LSIs

9. LSIs' balance sheets need to be strengthened to avoid potential reputational risk spreading to the banking sector. LSIs represent less than 5 percent of total loans and deposits of the banking sector, but some of them have faced serious issues for many years resulting from high amounts of NPLs and subsequent concerns on capital adequacy and profitability. LSIs under the supervision of the BoG are being restructured to get rid of their NPLs and restore their capital with the support of investors. While SIs have made significant progress in improving their balance sheets, LSIs generally lag much behind. In the context of a greater market sensitivity to weak banks, prolonged bank problems among LSIs might have unintended consequences out of proportion to the size of LSIs which would possibly undermine customers' confidence and increase reputation risk, with potential spillover risk to the banking sector. Therefore, the authorities should consider intensifying corrective supervisory action and/or bank restructuration to effectively address current

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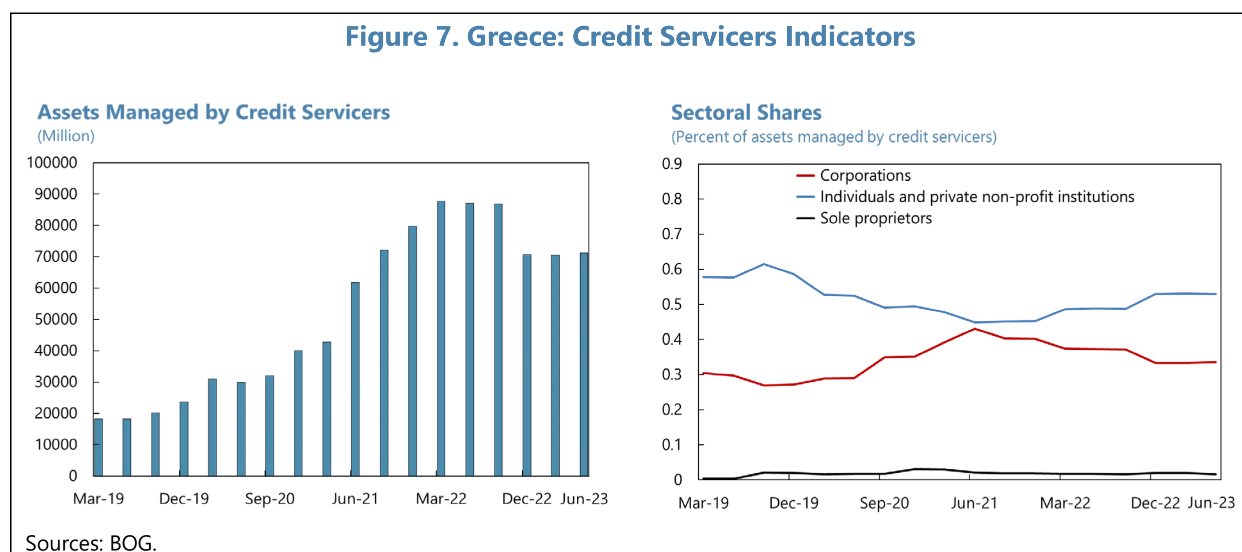
risk issues and restore the financial soundness of weakest LSIs as soon as possible, in order to avoid any potential side-reputational risk on larger banks.

Credit Servicers Performance

10. The recovery performance of distressed debt by credit servicers stands below expectations but banks are not facing any near-term risk of additional losses from their former NPLs. The authorities are closely monitoring the performance of credit servicers in charge of recovering former NPLs that were offloaded from banks' balance sheets through the HAPS scheme. Although the recovery of distressed debt has underperformed relative to initial business plans, partly due to lower-than-expected collection for a limited number of important transactions (see Box 1), the authorities assess the risk that banks incur losses on their senior notes and the State guarantees are activated as low in the near term. Yet early warning indicators of underperformance of credit servicers should be carefully monitored, and the authorities should decide corrective action as needed. The authorities are closely monitoring the performance of credit servicers, given the still large amount of distressed debt under recovery: EUR 71.1 billion as of 2023Q2, down from EUR 87.0 billion in 2022Q2.[4]

Figure 7. Greece: Credit Servicers Indicators



Sources: BOG.

[4] Distressed debt recovery has been performing relatively better for corporates than for households: corporations account for 33.6 percent of total distressed debt as of 2023Q2, against 43.0 percent as of 2021Q2 at their peak.

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Box 1. Greece: Performance of Distressed Debt Recovery by Credit Servicers[5]

Monthly transaction monitoring. The HAPS Committee is responsible for the oversight of the recovery of distressed debt securitized through Hercules. The BoG is a member of this Committee. The MoF is more directly in charge of monitoring transactions managed under the Hercules scheme on behalf of this Committee. The MoF gets monthly detailed reports on each NPL transaction processed through the Hercules scheme, with data on recovery performance which are kept confidential and cannot be disclosed by the IMF accordingly. Various performance indicators and triggers, as well as compliance with the Hercules law and business plans, are monitored. Forward-looking scenario analysis is also implemented based on conservative parameters.

Lower-than-expected recovery performance. According to the MoF, the recovery performance has not reached the interim objectives set in initial business plans for a limited number of transactions only. Therefore, a large majority of transactions is being recovered as planned or better than expected, though the global performance indicator stands below the expected 100 percent by end-November 2022. A significant proportion of distressed debt would be due by viable debtors and/or could be restructured, which would leave positive perspectives for effective recovery in the future. The post-pandemic GDP growth as well as the rise of the real estate market in Greece are positive contributors to the NPL recovery outlook.

No expected losses to the banks nor the State. At that still early stage of the recovery process of distressed debt, which may last 10 to 15 years or more, depending on the typology of debt and collateral, the risk that banks would face additional losses from NPLs they sold and securitized through Hercules would not materialize, even for transactions performing below expectations, at least for the near future in current conditions. Therefore, according to the MoF, the State guarantee would not be activated based on recent estimates. Subsequently, the distressed debt recovery should not be considered as an issue of macro-critical importance for Greece, even if high NPL amounts are still under recovery.

Supervisory oversight of credit servicers. The BoG is responsible for the supervision of credit servicers which are regulated financial institutions. Information is reported to the ECB/SSM as well. So far, no credit servicer has applied for a specific license that would enable it to provide distressed debtors with refinancing in addition to debt restructuring. The NPL secondary market is developing, with distressed debt sold by credit servicers to external purchasers that are not regulated, notably foreign investors. According to the BoG, no sale-and-lease-back transactions (buy-backs by banks that originated NPLs) have occurred.

[5] For additional information, please refer to the IMF (2022), Selected Issues Paper, "Financial Risks and Debt Workout of Non-Performing Loans by Credit Servicers in Greece."

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Annex VI. Data Reporting on Private Debt Restructuring[1]

The crisis in Greece resulted in elevated levels of over-indebtedness of both businesses and households, leading to large non-performing assets in the banking system. Good progress has been made to facilitate the restructuring of private debt, including through out-of-court proceedings. The data report system has also been developed for both the out-of-court workout mechanism and the formal insolvency regime, which offer valuable insights on the performance of restructuring mechanisms introduced by legal reforms and on the characteristics of debtors.

A. Private Debt Restructuring in Greece

1. Over-indebtedness is still an issue in Greece. Most of the debt of Greek businesses and households is with financial institutions and with the state, including overdue taxes and social security contributions. Although non-performing loans have decreased, the total stock of NPLs stood at EUR 12.7 billion in the first half of 2023 (Bank of Greece, Financial Stability Report, November 2023). The Hercules securitization scheme has assisted in the removal of NPLs from the balance sheets of the banks. However, distressed debt handled by the credit servicers still needs to be restructured.

2. Legal reforms have promoted restructuring as the preferred solution for over-indebtedness. Restructuring, primarily out-of-court, represents an adequate policy option, considering the economic and legal conditions.[2] Facilitation of the restructuring of private debt was the objective of the law on out-of-court workouts (OCW) of 2017, and this policy has continued, in an improved form, in the design of the new Insolvency Code of 2020, which includes a chapter for out-of-court workouts.

3. The Insolvency Code has rearranged all existing proceedings under a single legal text. Apart from the OCW, the Code includes early warnings, a pre-insolvency procedure for rehabilitation of businesses, liquidation, a bankruptcy procedure for both traders and non-traders, and special provisions for vulnerable debtors.

4. The reformed OCW offers a fast mechanism for restructuring debts with financial institutions and the state. The OCW relies on an electronic platform, run by the General Secretariat for Financial Sector and Private Debt Management (Ministry of Economy and Finance) and on interconnected databases to facilitate the assessment of the situation of debtors and the negotiation of proposals. Businesses and non-business debtors can use the mechanism to restructure their debts with financial institutions (including credit servicers) and with the state (taxes and social security contributions), including the possibility of long-term rescheduling of debts and significant write-downs. Secondary legislation includes an algorithm that sets the conditions for the participation of the state in restructuring agreements.

[1] Prepared by Jose Garrido

[2] See IMF (2017) "Insolvency and Enforcement Issues in Greece", Selected Issues Paper.

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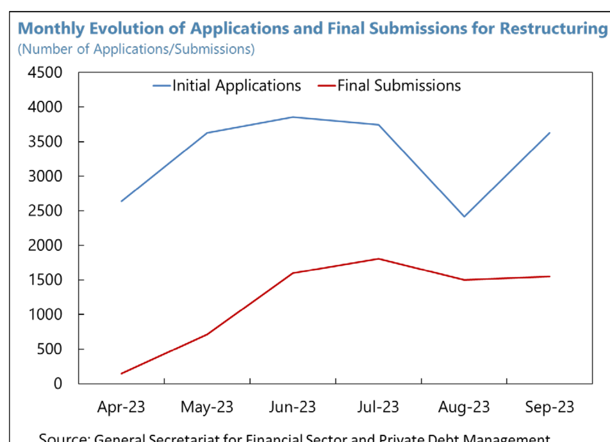
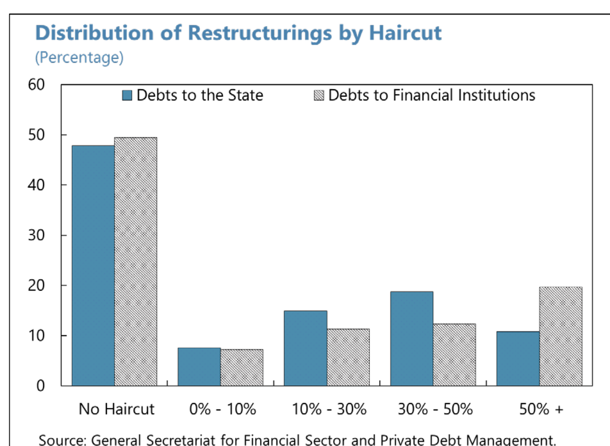
B. Private Debt Restructuring and Data Reporting

5. The General Secretariat for Financial Sector and Private Debt Management produces data reports on the OCW mechanism.[3] The reports render a detailed picture of the functioning of the system and the information included in the reports can be classified according to the following categories:



Source: General Secretariat for Financial Sector and Private Debt Management.

- *Information on applications*. The reports distinguish between applications and final submissions, as it is frequent that applications need to be amended or complemented by data collection. They show the monthly evolution of applications and submissions. There is information on applications by debtors—broken down by natural and legal persons—and by creditors, as well as applications for bilateral or multilateral restructuring. The amount of debt and its distribution is also reflected, broken down by debt to financial institutions and debt to the state. This includes aggregate and average amounts of debt. The reports also indicate the status of the debt involved in the restructurings as debt current, delinquent, or denounced. Finally, the reports compare the reported liquidation value of assets with the amount of debt.



Source: General Secretariat for Financial Sector and Private Debt Management.

- *Stock and flow*. The reports include number of applications, stage in the proceeding, and concluded agreements. The stages are described in detail, reflecting different steps in the application and submission, and in the implementation of the agreements. The information also includes the approval rates by creditors and its evolution, broken down by financial institutions and the state, and by bilateral and multilateral restructurings. From the debtors' perspective, the rate of acceptance of restructuring proposals is also reflected. It is also possible to reflect and analyze the reasons for rejection of proposals by creditors or by debtors. The information about the "pipeline," i.e., the expected restructurings in the coming months, can also be found in the reports.

[3] The report can be found at https://minfin.gov.gr/diacheirisi-idiotikou-xreous/ektheseis-proodou-exodikastikou-michanismou/

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- *Restructuring agreements*. The reports show the restructured amount, in total and on average. The reports classify the restructuring agreements according to the period for rescheduling and the haircut given to the debtor. The information distinguishes the concessions granted by financial institutions and by the state. The average haircut per debt type (debts to the state, mortgages, business loans, consumer loans) is also available.
- *Additional information*. The reports show the geographical distribution of applications, by number and by amount of debt involved.

6. Data reports are gathering information on the insolvency regime. The reports on insolvency activity are based on the information collected by the Electronic Solvency Register. The information is organized according to the various chapters of the Insolvency Code.

- *Pre-insolvency proceedings (rehabilitation)*. The reports reflect the number of applications, the requests for precautionary measures, and the stage of the process, concluded by the ratification judgment.

- *Bankruptcy*. Monthly evolution of applications, number, procedural stage, and cumulative number of cases.

- *Early warning*. Number applications and status. Technically, early warnings are not a restructuring proceeding.

- *Vulnerable debtors*. The Insolvency Code devotes several sections to the treatment of vulnerable debtors (e.g., a subsidy for restructuring payments). To avail themselves of the special treatment, debtors need to be certified by the General Secretariat for Financial Sector and Private Debt Management. The reports include information on the number of applications, number of certifications and number of decisions of non-eligibility. The information in the applications also allows for an interesting data point such as the average net income and average value of primary residence for both certified and non-eligible applicants.

7. Information on the insolvency regime is less detailed than the information for debt restructuring. However, even the information on formal insolvency regime is more detailed than in most EU countries. The differences in detail can be justified because the technological means for formal insolvency are not as developed as those of the OCW.

C. Enhancements to Data Reports on Private Debt Restructuring

8. The OCW platform has very powerful data gathering capacity. There have been several formats for the reports, but in all cases, the quality and quantity of data exceeds the available information on any other existing restructuring mechanisms in Europe.

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9. The reports could arrange the excellent data according to well-established dimensions. Detailed insolvency statistics can be built around the concepts of cost, duration, and outcome.[4]

- *Cost.* The OCW has no costs to the debtor. While there may be costs involved in the legal or financial advice that the debtor requires, this is variable, and it is unlikely to be captured by any data collection system. The General Secretariat for Financial Sector and Private Debt Management has prepared analytical guides and video materials with clear instructions. The digital helpdesk (MyEgdixLive) allows debtors to arrange teleconferences or appointments for assistance.

- *Duration.* The reports include very detailed information on the duration of the restructuring process, and on the duration of each of the steps until the completion of the agreement or the conclusion of the proceedings because of other reasons. With the collected data, it should be possible to establish the average time of successful applications, which can be useful to encourage applicants. A detailed analysis of the distinct phases of the restructuring process helps identify bottlenecks and implement improvements. This information could be presented in the form of a flowchart, indicating average times.

- *Outcome.* The reports already include detailed information on proceedings closed without success and proceedings where an agreement is reached. There is detailed information on the conditions of agreements such as rescheduling and haircuts. From the creditors' point of view, it would also be positive to highlight that they are recovering part of their claims, indicating the amounts and percentage of prospective recoveries.

10. Additional information on the demographics of debtors would be useful. The reports could include information on the economic activity performed by debtors, and other data such as age, gender, marital status and number of children, income, and educational level. These data, aggregated and anonymized, can offer valuable insights for the design of social policies and for a better understanding of over-indebtedness problems.

11. Information on the formal insolvency regime could be more detailed. The information available for formal insolvency cases is harder to obtain because of the lack of an electronic platform such as the one existing for the OCW. However, it should be possible to prioritize certain data categories:

- *Personal insolvency.* The critical data for bankruptcy is the number of discharged persons. Although this could be derived indirectly, it would be important to have an accurate and updated count. In addition, the number of cases can be presented in the format of number of cases per 100,000 inhabitants to facilitate comparisons with other countries. Other important data that need to be available are refused applications (and causes), cost, duration, and

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outcome, and demographics. Other data such as the number of repeat applicants and information on fraudulent cases would be useful.

- *Business restructuring and insolvency.* Data reports should cover the key features of the business insolvency regime, such as rehabilitation procedures, going-concern sales, or small insolvencies, and they should do so according to the basic dimensions of cost, duration and outcome.

12. A modernization of the technological infrastructure for insolvency proceedings would allow the elaboration of high-quality reports. There would be multiple benefits to the use of a similar electronic platform to the one designed for the OCW, including increased capacity and detailed data collection and reporting.

D. Conclusion

13. Legal and technological efforts in the development of restructuring mechanisms are producing solid results. These investments are resulting in a system that offers attractive opportunities for debt restructuring to both debtors and creditors.

14. The capacities of the data gathering mechanism present excellent opportunities for debt restructuring reports. The detailed information collected through the OCW electronic platform provides a vivid picture of the functioning of the system, the financial situation of debtors and the features of restructuring agreements. There are possibilities of increasing the quality of reports even further, incorporating data points such as debtor demographics, which are valuable for analytical and policy purposes.

15. Data reports communicate to the public the vital role of restructuring mechanisms. Data reports provide useful information to both debtors and creditors about a restructuring mechanism that operates without cost to them and that offers attractive outcomes within a reasonable time. Dissemination campaigns should draw from information of data reports to incentivize the use of the OCW.

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INTERNATIONAL MONETARY FUND

GREECE

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 15, 2023

Prepared By European Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS 2

STATISTICAL ISSUES 5

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FUND RELATIONS

(As of November 30, 2023)

Membership Status: Joined December 27, 1945.

Exchange Rate Arrangements: The currency of Greece is the euro. The exchange rate arrangement of the euro area is free floating. Greece participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The euro, the common currency floats freely and independently against other currencies. Greece has accepted the obligations of Article VIII, Sections 2, 3, and 4. As of March 31, 2023, it maintains an exchange system free of restrictions on payments and transfers for current international transactions and multiple currency practices, except for those measures adopted solely for security reasons, which have been notified to the Fund in accordance with the procedures of Decision 144 (52/51).

General Resources Account:

	SDR Million	Percent Quota
Quota	2,428.90	100.00
IMF's Holdings of Currency	1,855.86	76.41
Reserve Tranche Position	575.02	23.67

SDR Department:

	SDR Million	Percent Allocation
Net Cumulative Allocation	3,110.35	100.00
Holdings	797.45	25.64

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

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

	Forthcoming				
	2023	2024	2025	2026	2027
Principal					
Charges/Interest		96.67	96.58	96.63	96.63
Total		96.67	96.58	96.63	96.63

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Article IV Consultations:
The last Article IV was concluded on June 21, 2022, following consultation discussions that ended on March 31, 2022. Greece is on the standard 12–month consultation cycle.

Technical Assistance:

Department	Purpose (V=Virtual)	Date
FAD	Roadmap for IT Strategy Implementation in Tax Administration	January 2018
FAD	Assessment of Tax Administration	February 2018
FAD	Follow-up on Tax Administration Reforms	February 2018
FAD	Chart of Accounts, Accounting and Treasury Single Account Reforms (Roehler)	February 2018
STA	Government Finance Statistics	February 2018
FAD	Developing Communication Procedures in Tax Administration	March 2018
FAD	Performance Targets in Tax Administration	March 2018
FAD	Roadmap for IT Strategy Implementation in Tax Administration	April 2018
FAD	Cash Management Legislation and Regulation	June 2018
FAD	Performance Budgeting	July 2018
FAD	Revenue Administration: Enhancing Operating Practices (Russell)	November 2018
FAD	Revenue Administration: Development of IT Capability (Poulin)	November 2018
FAD	Chart of Accounts and Accounting Reforms (Renteria) (V)	February 2019
FAD	Revenue Administration: Modern Tax Administration (Sorensen)	February 2019
FAD	Revenue Administration: Institutional Reforms/ IT Capability (Coyne)	April 2019
FAD	Developing Compliance Risk Management Capacity (Holloway)	April 2019
FAD	Revenue Administration: Development of IT Capability (Poulin)	May 2019
FAD	Revenue Administration: VAT Gap Analysis (Hutton)	August 2019
FAD	Streamlining Government Payment Processes	February 2020
FAD	Revenue Administration: Management Framework (Roberts) (V)	March 2020
FAD	Chart of Accounts and Accounting Reform Strategy (Makaronidis–peripatetic STX) (V)	May 2020–May 2021
FAD	Revenue Administration: Development of IT Capability (Poulin) (V)	December 2020
FAD	Public Financial Management: pre-PIMA (Renteria Rodriguez)	July–August 2020
FAD	Public Financial Management: HQ Resident Advisor Briefing (De Clerck) (V)	September 2020
FAD	Tax and Customs Administration: IT Modernization Follow-up (Poulin)	November-December 2020
FAD	Public Financial Management: Workshop on Enterprise Resource Planning Financial Accounting Central Administration (GAO) (V)	March–April 2021
FAD	Public Financial Management: Chart of Accounts: Resident Advisor (Kirchmann) (V)	September 2020–August 2021
FAD	Public Financial Management: SAP Asset Accounting Training (Kirchmann)	July 2021
FAD	Revenue Administration: IAPR organizational structure (Story STX)	September 2021

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Department	Purpose (V=Virtual)	Date
FAD	Revenue Administration: IAPR IT modernization (Poulin STX)	September 2021
FAD	Revenue Administration: IAPR reform assessment (Stoyan Markov)	March 2023
FAD	Public Financial Management: PIMA	May 2023
FAD	Strengthening Reform Management in the Independent Authority for Public Revenue (Vesperman and Ruuhonen)	December 2023
FAD	Progress Tax Administration Transformation	January–February 2023
FAD	An Assessment of the Independent Authority for Public Revenue using the Tax Administration Diagnostic Assessment Tool (TADAT)	November 2023

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STATISTICAL ISSUES

(As of December 13, 2023)

I. Assessment of Data Adequacy for Surveillance	
General. Data provision has some shortcomings but is broadly adequate for surveillance. The quality of Greek statistics has improved since the establishment of the independent Hellenic Statistical Authority, ELSTAT, in 2010.	
Real sector. Quarterly and annual national accounts are compiled in accordance with the *ESA 2010* standard. The monthly Consumer Price Index (CPI) is chained annually, and weights are updated every year on the basis of the most recent available data from the Household Budget Survey (HBS). The Producer Price Index (PPI) for Industry is published monthly and includes sub-indices for domestic and foreign markets. The Services Producer Price Index (SPPI) has been published quarterly since December 2018.	
Fiscal sector. General government non-financial accounts are compiled in accordance with *ESA 2010* by ELSTAT and are scrutinized and validated by Eurostat on a regular basis. In 2019, the Bank of Greece (BoG) revised the general government financial accounts data to resolve the quality and consistency issues which had been observed since 2015. This enabled Eurostat to validate and publish Greece's general government financial accounts after four years. Greece reports high frequency and annual GFS data for general government to STA through the Eurostat GFS convergence project with the IMF.	
Trade and balance of payments. Since January 2015, data are provided according to the IMF's sixth edition of the *Balance of Payments Manual*. Historical data based on the new methodology are available from January 2002. Since July 2015, the BoG has been using ELSTAT's trade statistics instead of the settlements data used until June 2015 inclusive. Therefore, the goods trade balance statistics reflect customs-based or other administrative data, as collected, or estimated by ELSTAT. Historical data based on the methodology is available from January 2013. In November 2018, the BoG introduced a change to the compilation of sea transport accounts. Instead of settlements data, the Bank now uses data from international shipping databases and administrative sources.	
Monetary and Financial Statistics. Data on the central bank balance sheet and on the aggregated balance sheets of other depository corporations are available from the BoG's website. The data are also reported to the IMF through the ECB using standardized report forms: 1SR for the central bank (1SR) and 2SR for other depository corporations (ODCs). Data on other financial corporations (OFCs) is not compiled. Greece reports data on some key series of the Financial Access Survey (FAS), including mobile and internet banking and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).	
Financial sector surveillance. Data on financial soundness indicators (FSIs) are compiled and reported to IMF on a quarterly basis and covers deposit takers, other financial corporations, nonfinancial corporations, and households.	
II. Data Standards and Quality	
Greece subscribed to the Fund's Special Data Dissemination Standard (SDDS) on November 8, 2002.	

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Table 1. Greece: Table of Common Indicators Required for Surveillance
(as of December 13, 2023)

	Date of Latest Observation	Date Received	*Frequency of Data*[7]	*Frequency of Reporting*[7]	*Frequency of Publication*[7]
Exchange Rates	December 12, 2023	December 12, 2023	*D*	*D*	*D*
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	October, 2023	November, 2023	*M*	*M*	*M*
Reserve/Base Money	October, 2023	December, 2023	*M*	*M*	*M*
Broad Money	October, 2023	December, 2023	*M*	*M*	*M*
Central Bank Balance Sheet	October, 2023	December, 2023	*M*	*M*	*M*
Consolidated Balance Sheet of the Banking System	September, 2023	December, 2023	*M*	*M*	*M*
Interest Rates[2]	November, 2023	December, 2023	*M*	*M*	*M*
Consumer Price Index	November, 2023	December, 2023	*M*	*M*	*M*
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	July, 2023	September, 2023	*M*	*M*	*M*
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	August, 2023	September, 2023	*M*	*M*	*M*
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2023Q3	November, 2023	*Q*	*Q*	*Q*
External Current Account Balance	September, 2023	November, 2023	*M*	*M*	*M*
Exports and Imports of Goods and Services	September, 2023	November, 2023	*M*	*M*	*M*
GDP/GNP	2023Q3	December, 2023	*Q*	*Q*	*Q*
Gross External Debt	2023Q2	September, 2023	*Q*	*Q*	*Q*
International Investment Position	2023Q2	September, 2023	*Q*	*Q*	*Q*

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

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Statement by Michael Massourakis
Alternate Executive Director for Greece
January 11, 2024

Macroeconomic Developments

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

With Greece having largely recouped pandemic-related output and income losses by 2021, the economy picked up pace in 2022 and is posed to expand by 2.3 percent in 2023, growing significantly faster than the euro area in both years, broadly in line with staff projections. Up to Q3 2023, real GDP growth has been positive for 13 consecutive quarters since Q3 2020. In 2023, economic activity was robust following a record tourist period, with real GDP growth standing at 2.2 percent in the Jan.-Sep. period of 2023, as reflected in **economic sentiment and PMI** indicators improving substantially during this period. Indeed, in December 2023, the **manufacturing PMI** stood above 50 (which separates expansion from contraction), at 51.3 being above 50 for the 11th consecutive month, in contrast to the euro area indicator standing at 44.4 being below 50 for the 18th consecutive month.

In recent years, Greece has become a much more extrovert economy, with exports of goods and services reaching 49% of GDP in 2022 vs 25.5% in 2011. Non-oil exports of goods expanded rapidly in nominal terms, doubling to EUR 36 billion in 2022 from EUR 18 billion in 2015, having surpassed by almost 30 percent in real terms the 2019 pre-pandemic level, despite global easing of economic activity and continuing geopolitical-related uncertainties. **Tourism activity** rose significantly in 2023, with tourist arrivals and receipts in the 9-month period to September 2023, reaching 103 percent and 110 percent respectively of their 2019 pre-pandemic levels. The **current account deficit** in the 10-month period to October 2023 stood at EUR 8.7 billion vs. EUR 14.6 billion a year ago, dropping significantly from its temporarily higher level in 2022 due to the turmoil from the war in Ukraine. As percent of GDP, according to staff, the current account deficit is expected to narrow to 7.1 percent in 2023 from 10.7 percent in 2022, reflecting an improving trade and services balance.

The volume of building permits increased by about 16 percent in the Jan.-Jul. 2023 period, on top of above 40 percent cumulative growth in 2021-2022, supporting robust residential investment activity in 2023-2024. **Gross fixed capital formation**, on top of growing by 12 percent in 2022, increased by 8 percent in the first half of 2023, and is projected to grow by another 12 percent in 2024. **Equipment and construction investment** are expected to surge respectively by almost 5 and 12 percent in 2023, topping the European Commission's Autumn forecast charts, despite the rather weak global investment dynamics due to increasing global interest rates and persistent uncertainty.

In this context, and on the back of a robust and steadfastly implemented reform agenda, the authorities project growth of 2.3 percent and 2.9 percent in 2023 and 2024 respectively, with

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potential growth rising by the end of this decade to 2 percent. On the other hand, staff see growth at 2.3 percent in 2023, decelerating to 2.1 percent in 2024 and returning gradually close to potential growth of 1.3 percent by 2028. The difference between the two sets of projections is largely due to the authorities' projection of higher investment and productivity growth, as well as further improvement in the current account.

Undoubtedly, as elsewhere, the recovery faces headwinds due to global uncertainty caused by geopolitical developments and monetary tightening in response to pandemic-era inflationary pressures, compounded by supply chain disruption and the effects on global food and energy prices from the continuing war in Ukraine and, more recently, the war in Gaza and its aftermath. This weighs on real disposable incomes and business operating costs. To alleviate these adverse effects, the authorities maintained in 2023 some temporary and targeted to the most vulnerable, food and energy subsidies. Moreover, a statutory minimum wage increase came into effect on April 1, 2023, raising monthly pay from EUR 713 to EUR 780, or an increase of 9.4 percent**. This increase is in line with equilibrium average nominal and real wage-setting conditions in the economy accounting for productivity growth, thus preserving employment and competitiveness.** Indeed, the unemployment rate fell to 9.4 percent in November 2023 from a 12 percent average in 2022, being also the lowest reading since April 2009. Moreover, headline and core inflation fell to 3.7 and 3.3 percent respectively in December 2023, from 9.3 and 5.7 percent average in 2022. In this context, both the authorities and staff project inflation in 2023 to reach an average level of about 4 percent, before settling to levels close and below 2 percent in 2024 and 2025 respectively. **According to staff, during the period 2019-23, competitiveness, as measured by the Real Effective Exchange Rate based on Unit Labor Costs, improved by about 8.5 percent, reflecting slower wage increases relative to Greece's trading partners. In the event,** according to the European Commission's Autumn 2023 forecasts, **Greece's per capita real GDP** is expected to grow at 3.1 percent in 2023 vs. 0.1 percent in the euro area, and at a more than double the rate of the euro area average during 2024-25 (2.7 percent vs.1.3 percent in 2025).

Overall, the authorities maintain that medium-term growth may well turn out to be higher than assumed by staff, as global inflationary pressures and uncertainty levels subside, and the implementation of the authorities' ambitious reform agenda continues. In this context, productivity growth may indeed benefit over the longer term from a sustained surge in private and public investment, supported by structural reforms include those embedded in Greece 2.0, the National Recovery and Resilience Plan (NRRP) under the Next Generation EU (NGEU) Program. The revised Greek NRRP plan includes 76 structural reforms and 103 investment projects designed to catalyze the structural transformation of the Greek economy in the period to 2026. The total envelope of the Greek NRRP, as revised in 2023 by a new package of green transition reforms and investments under the REPowerEU Plan and a new request granted for EUR 5 billion in loans, amounts to EUR 35.95 billion (in 2018 values), of which EUR 18.22 billion are grants and EUR 17.73 billion are loans. **Resources from the NRRP come on top of the EU budget structural funds under the Multiannual Financial Framework for 2021-27, bringing the total amount of EU funds to be received by Greece in the forthcoming years to more than EUR 70 billion (in 2018 prices). The authorities estimate that the implementation of Greece 2.0 will bring about a permanent increase in real GDP of at least 7 percentage points, boosting significantly potential output growth above the staff's 1.3 percent projection.**

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In undertaking reforms and channeling targeted EU investment funds to the economy, due attention is paid to mitigating implementation risks. It is encouraging, therefore, that **Greece to date ranks first among EU countries in absorbing Recovery and Resilience Facility (RRF) funds of the NGEU**, having received EUR 14,7 billion (EUR 7,5 billion in grants and EUR 7.2 billion in loans), equivalent to 6.6 percentage points of GDP, **reflecting an advanced state of project maturity and preparation**. To date, EUR 5,2 billion in RRF grants and EUR 4 billion in RRF loans have been disbursed to the market.

With respect to RRF loans, agreements have been signed between the Ministry of Finance and six commercial banks, as well as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the Hellenic Development Bank of Investments (HDBI). By end November 2023, based on these agreements, a total of 248 loan contracts have been signed, with a total budget of EUR 9.5 billion, of which EUR 4 billion corresponds to the contribution of the RRF loan facility, EUR 3.2 corresponds to funds of the banking system and an amount of EUR 2.3 billion are the private companies' own funds. The Loan Facility clearly contributes to increased diversification, and thereby increased resilience for the Greek economy, as it has been financing a cross section of sectors. Specifically, contracted projects are classified as 29% under energy/electricity production, 26% tourism, 20% industry, 11% commerce, 12% other services and 2% telecommunications. Moreover, the HDBI actively manages EUR 500 million of the loan segment of the NRRP through an equity platform instrument, including venture capital or private equity funds to finance innovative SMEs in rapidly growing sectors of the economy.

Based on the above, and notwithstanding uncertainties, the authorities concur with staff that NGEU-supported investments and reforms will be effective in reallocating resources to address structural changes to propel the economy forward into a higher, more sustainable, and resilient growth trajectory. In this context, a new legal framework provides already tax incentives for business transformation operations and corporate restructurings, targeted at scaling-up the activity of Greek firms and, thus, raising their productivity, export orientation and, overall, resilience. Moreover, active labor market policies and occupational training reforms aiming at labor force up-skilling and reskilling are implemented under the NRRP. These initiatives complement key labor market reforms, overhauling job seeking and training policies, and modernizing employment contracts and labor relations while protecting and expanding worker rights**.** The new legal framework has also introduced the digital work card to enable digitalization of employment records and, thus, reduce informality practices. Moreover, the public agency providing unemployment insurance benefits has become more effective by deploying the digital platform "REBRAIN GREECE" to help highly skilled job seekers to find work by designing individual digital action plans. Moreover, in this overall context, the authorities broadly concur with staff's views on further strengthening the social protection system, including becoming fit for an effective and just green transition, increasing affordability of rising carbon prices for the most vulnerable groups.

The authorities consider that taking full advantage of the growth-cum-reform opportunities emanating from NGEU will constitute a paradigm shift for the Greek economy. This will enable Greece to achieve a significant boost in potential output and strengthen economic and social resilience by building a more inclusive, green, and digitalized future, while, at the same time, anchoring debt sustainability and financial stability on strong fundamentals. It is thus important to channel effectively public investment funds in priority areas while, at the same time, encourage private sector investment,

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in line with staff recommendations. Moreover, removing existing impediments to growth through structural reforms facilitates inflows of foreign direct investment (FDI), which in 2022 reached a historic high of EUR 7.9 billion, bringing FDI inflows to EUR 20.6 billion since 2019, and in the 10-month period to October 2023 more than EUR 4 billion.

2.Debt Sustainability

We welcome the staff's improved assessment of Greece's overall risk of sovereign stress. Greece' risk of **near-term stress** is assessed as low given the large reduction of debt in 2022, favorable interest-growth (*r-g*) differential, limited foreign exchange risk and a EUR 15.7 billion cash buffer dedicated to debt service exigencies, within total General Government cash reserves of EUR 33.5 billion or about 15 percent of GDP as of end-December 2023. **Over the medium term**, the risk of debt distress is assessed as moderate, with public debt on a downward trajectory and rollover risks being manageable, while customized macro shocks appear also manageable. The impact of Greece's large stock of legacy debt is mitigated because of increasing potential output, ultra-long maturities, high share of official holdings at low fixed rates, long grace periods and proactive debt management via hedging. **In the long term**, risks will depend on the evolution in the neutral rate and risk premia, the ability to sustain high primary surpluses and implement growth-enhancing structural reforms, and the potential to counter demographic pressures. Indeed, Gross Financing Needs remain manageable under several stress scenarios incorporating ageing population and climate pressures. According to the staff's baseline, public debt levels are indeed expected to decline to less than 150 percent of GDP by 2026, and less than 135 percent of GDP by 2032, while, at the same time, Gross Financing Needs are expected to remain on average below 10 percent of GDP throughout the period.

The authorities consider the public debt to be sustainable over the medium term, due to continued favorable interest-growth (*r-g*) differential, its favorable structure and despite maturing debt being replaced at higher market rates than the ultra-low official rates in effect, given their commitment to fiscal vigilance. The authorities project public debt to decline to below 150 percent of GDP by 2025 due to faster growth, while they consider the transition from official to market debt to be a gradual process, adding to the depth and liquidity of the secondary market, and thus allowing for continuation of effective liability management operations.

The authorities, moreover, emphasize the proven capacity of Greece to achieve and sustain consistently primary surpluses, as well as to benefit from significant upside risks, including potential output and income gains due to the timely implementation of the NRRP, with reforms removing structural impediments to growth, and, as a corollary, enhanced economic policy credibility. Greece was able to finance a sizable pandemic-related fiscal support package of 14.5 percentage points of GDP in 2020-21, ending the fiscal year 2021 with a primary deficit of 4.7 percent of GDP, lower by about 2 percentage points of GDP than budgeted, with growth exceeding expectations by a substantial margin as well. In 2022, Greece returned to a primary surplus of 0.1 percent of GDP, one year earlier than expected, vs. a target deficit of 1 percent of GDP planned in the beginning of the year. The fiscal consolidation was further deepened in 2023, ending the year with a primary surplus of 1.1 percent of GDP, amid a 2.3 percent growth, and despite the global growth slowdown. Finally, in 2024, the government projects a further primary surplus target of 2.1 percent of GDP, in line with continuing strong growth and market expectations, as embodied in sovereign ratings upgrades. In this context,

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the authorities remain committed to maintain **sustainable primary surpluses of approximately 2 percent of GDP on average over the medium-term, reflecting a sustained fiscal consolidation process on the back of boosting potential growth and maintaining fiscal discipline.**

During 2023, Greece raised almost EUR 12 billion in the capital markets, with 10-year bond yields dropping from 4.3 percent in January to 3.3 percent in December, at declining spreads, notwithstanding the tightening of global market conditions. On the back of continuous improvement in policy effectiveness and economic performance, **Greece's sovereign rating was recently upgraded to investment grade by multiple rating agencies,** thirteen years after Greece lost the investment grade rating status as the Greek sovereign debt crisis was unfolding. Markets already price Greek sovereign bond risk within the range of the A rating category, i.e., more favorably than the median of BBB-rated sovereign bonds. Over the medium to longer term, the authorities look forward to Greece returning to the A sovereign rating status prevailing before the Greek debt crisis. Going forward, real income convergence will be achieved without the large macroeconomic imbalances of the past, and with debt remaining sustainable on a continuous downward path, not only as a percent to GDP but also in nominal levels. This is of the essence as **deferred debt service payments, granted during the 2010's by European partners, are set to become due from 2032 onwards.**

On the back of improving borrowing terms, prudent fiscal and liquidity management policies have been pursued. Greece, in 2021, made **a prepayment** of EUR 3.4 billion owed to the Fund, regarding repurchases carrying high interest rate charges and surcharges, and in 2022 **settled all remaining obligations to the Fund due by end-2024**, making a final payment of EUR 1.8 billion, using part of the SDR allocation proceeds. Moreover, in the same year, Greece proceeded with principal repayments of EUR 2.65 billion due in 2023, of loans granted from euro area countries participating in the Greek Loan Facility (GLF) agreed in May 2010. Finally, this year, on December 15, 2023, Greece prepaid an additional amount of EUR 5.28 billion in GLF principal due in 2024 and 2025 to its European partners, **on a path to reduce gross financing needs and rollover risks, further improving Greece's public debt profile.** Moreover, the EUR 15.7 billion cash buffer could potentially be used for further debt service prepayments now that the sovereign rating has reached investment grade.

The authorities also note that the long-term sustainability of the pension system stands to strengthen, despite unfavourable demographic trends, due to the substantial pension system reforms in recent years. These reforms will mature in the coming decades, reducing pension expenditure by 3.8 percentage points of GDP between 2019 and 2060, according to the 2021 EU Ageing Report, with all savings assumed to cover debt repayments. The reform impact will be further enhanced as the new, fully funded, defined contribution, supplementary pension system is deployed from 2022 onwards for new entrants into the labour market, while maturing gradually to cover 90 percent of insured employees by 2065. Based on the macroeconomic assumptions of the Foundation for Economic and Industrial Research, it is projected that public debt could be reduced by 6.3 percentage points of GDP cumulatively by 2070 due to the introduction of the supplementary pension reform.

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3.Fiscal Policy

According to the authorities' Stability Program 2024-26, the budgetary process puts emphasis on gradual fiscal consolidation allowing for growth-enhancing measures, as the recovery strengthens. Moreover, the authorities recognize the need to ensure additional fiscal space to address long overdue needs, as well as to raise health, education, and public investment spending through reprioritization. The 2024 budget includes specific measures to that end. This process will benefit from the recent agreement of the Council of EU on reforming the fiscal rules to safeguard fiscal consolidation through monitoring the growth of the net primary expenditure in the context of country-specific fiscal adjustment paths.

The fiscal policy stance in 2022 and 2023 remained appropriately accommodative despite gradually unwinding food and energy related income support in 2022 and implementing in 2023 sustainable pension increases based on growth and inflation performance. This became possible by effective revenue mobilization measures maturing over time, enhanced also by significant progress in reducing tax evasion, as reflected by the significant reduction in the VAT gap in recent years. Overall, the primary balance was improved cumulatively over 2022-2023 years by about 3 percentage points of GDP. The primary balance is expected to further register a surplus of 2.1 percent of GDP in 2024, despite the increased spending from implementing the long-delayed reform of the public sector wage grid, implying one percentage point of GDP further fiscal consolidation, in line with staff projections. **Over the medium to longer term, the primary surplus is expected to be subsequently stabilized at levels around 2 percent of GDP.**

In this framework, staff recommends additional fiscal action to compensate for the permanent revenue loss from the cuts in the solidarity tax and the social security contributions introduced during the pandemic as temporary measures. The authorities believe that this goal, and not only, might be well-served by steadily expanding the tax base primarily through further reducing the VAT compliance gap, which fell from 29 percent in 2017 to 17.8 percent in 2021 and is expected to decline to below 10 percent by 2026. Moreover, the authorities focus also on income tax revenue mobilization through the recent law reforming self-employed taxation to be applied on 2024 incomes and including a host of other measures aiming to reduce tax evasion, as well as better targeting entitlement programs through the establishment of a one-stop portal for social benefits by end-2024, in line with staff's suggestions. These achievements became feasible through advancing digitalization, including the tax authorities established real-time interconnectivity with firms and the government's improved effectiveness of labor market controls in fighting undeclared or partially declared work, on top of using digital tools for the provision of social assistance to the less vulnerable. The authorities are confident that the measures thus far enacted and introduced in 2024 are sufficiently effective to ensure sustainable revenue enhancement.

4. Financial Issues

Deep-seated institutional and policy constraints accounting for slow progress in reducing the large stock of legacy bank Non-Performing Loans (NPLs), have been rapidly receding in recent years. Progress towards restoring health in the banking sector has led in 2023 to an impressive NPL

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ratio reduction for Significant Institutions (SI) to 5 percent, from about double that level in 2022, converging gradually towards the euro area average level of 2 percent of outstanding loans.

To deal with legacy bank NPLs, the authorities adopted **a securitization strategy, the Hercules Asset Protection Scheme (HAPS),** supported by market-based government guarantees fully complying with EU state-aid rules, within a framework approved by European partners. The scheme has been highly successful in transferring NPLs off the banks' balance sheets to specialized non-bank financial institutions experienced in loan recoveries through restructurings and liquidations. The authorities agree with staff that further efforts to strengthen the supervisory framework and increase market transparency and financial disclosure on credit servicers are of the essence. The HAPS ended in October 2022, but it has been further extended to accommodate NPL reduction in Less Significant Institutions (LSI) and delayed securitizations of bigger banks. Specifically, the Greek authorities have announced the re-introduction of the HAPS until end 2024, with a budget of an overall notional amount of State guarantees of up to EUR 2 billion. This will be used to grant State guarantees both for applications submitted by banks during the second phase of the scheme for which State guarantees were not granted, as well as for other applications to be filed during the re-introduction phase of the scheme.

Moreover, a comprehensive insolvency law reform was legislated. The new framework is supported by fully operational online platforms, providing debt relief through private sector distressed debt resolution transactions, while facilitating household insolvency procedures and corporate restructuring of viable firms. Greece was among the first EU countries to have transposed the European Directive on Preventive Restructuring and Insolvency into its new insolvency code.

The authorities are aware of the challenges in efficiently operationalizing distressed debt workouts and recovery processes in a reasonable timeframe. In mid-2023, the distressed debt under recovery stood at EUR 71 billion, down from 87 billion a year ago. Priority is currently given to reforms, with a variety of measures gradually being adopted, to enhance the institutional capacity of the courts in speeding up the delivery of justice, to activate the program of purchases of primary residences of the most vulnerable debtors and then lease them back to them, to facilitate enforcement procedures of e-auctions of foreclosed properties and, finally, to further streamline procedures in implementing debt resolution through out-of-court workouts (OCW). According to staff, the OCW platform is very powerful, with the quality and quantity of its data gathering capacity exceeding that of other restructuring mechanisms in Europe.

In December 2023, authorities passed through Parliament legislation aiming at further improving and strengthening the institutional framework relating to private debt. This includes the transposition into Greek law of the EU directive on credit servicers and credit purchasers, stipulating transparency requirements and safeguarding the establishment of communication between the borrowers and the servicers, as well as the quality of information provided to the former. The new law provides for increased protection for vulnerable borrowers, making the acceptance of the proposed restructuring determined by the OCW algorithm mandatory for both financial institutions and the State. It also provides for further improvements in OCW restructurings relating to haircuts, interest rates, and other parameters, while it enhances competition in the financial sector by allowing non-bank lending and reintroducing the HAPS, as well as expanding instant payments services (IRIS) without additional commission charges.

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In addition, to expand the capacity of the banking system to provide credit to a growing economy, strengthening the banks' capital base through increased profitability is key. Strong returns on equity of Greek banks (18 percent in 2022 and 13 percent in 2023Q2) have boosted Tier 1 capital adequacy ratios (14 percent in 2023), which also benefit from banks' tapping into the capital markets made easier in the context of improving economic prospects and bank ratings, despite an increasingly more risk-prone conjunctural economic and financial environment. Nevertheless, the authorities agree with staff that Greek banks may continue enhancing risk management practices, as well as adapting their business model, to strengthen even further their capacity to raise organic profitability and capital in a sustainable way and engage in structural transformation to tackle fintech challenges.

Finally, the authorities share staff's view that a strengthened macroprudential framework, in terms of activating the countercyclical capital buffer and borrower-based measures, will raise Greek banks' resilience. This is a judicious step to duly prepare the banking system for any contingencies, however distant the prospect for excessive mortgage leverage build-up might be, despite rapidly rising real estate market valuations, in an environment of still high though stabilizing interest rates, and with mortgage loan growth levels being still negative.

5. Structural reforms

The authorities agree with staff that comprehensive structural reforms remain key to maximize the effectiveness of the National Recovery and Resilience Plan, to boost productivity, improve competitiveness, and close the investment gap.

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

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

> **incentivizing private investment** through cutting corporate tax rates, facilitating corporate restructurings, improving access to investment finance, providing R&D and wider innovation incentives, and modernizing labor relations.

> **increasing labor force participation and employment rates** still below those in peer countries, through increasing take-home pay by reducing non-wage costs by lowering social security contributions and abolishing the legacy solidarity levy, increasing the capacity of the labor market to adapt flexibly to changing conditions along with pursuing active labor market policies, upgrading and extending childcare infrastructure, and up- and reskilling youth, women, older workers and other vulnerable groups amid signs of skilled labor shortages in certain sectors, with emphasis on digital and green skills.

According to staff, reducing the marginal income tax of second earners, in combination with improving the availability and affordability of childcare, would help raise female labor force participation.

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

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

According to staff, Greece was among the top countries in raising digitalization in recent years, with an associated pick up in labor productivity, although still lagging EU averages, with more progress needed serving small and medium- sized enterprises.

> **facilitating the green transition through decarbonizing the energy sector and invest in a resilient green economy** through phasing out all lignite plants by 2028, upgrading energy efficiency of buildings, improving electric interconnectivity of islands, and investing in energy storage, electric charge points, batteries and electric vehicles, while adopting climate change adaptation and mitigation reforms, with a view to raise the share of renewable energy in electricity consumption to 61% and in transport to 19% by 2030, from 29% and 7% respectively in 2018. Already the parliament has adopted legislation on a climate change roadmap for the gradual reduction of greenhouse gas emissions by at least 55 percent by 2030 and 80 percent by 2040 before achieving zero-net emissions by 2050, compared to 2019 levels, reaffirming the goal of weaning Greece off lignite use in electricity production by 2028, if energy security conditions permit. The framework provides inter alia for measures to promote the use of electric vehicles, to cut greenhouse gas emission from buildings, to eliminate the use of heavy low-quality oil fuels in electricity production in the Greek islands from 2030 and, lastly, to engage municipalities through drawing local community plans to reduce CO2 emissions by 10 percent by 2025 and 30 percent by 2030. With respect to buildings, from 2025 there will be a prohibition in the sale and installation of boilers using heating oil and, from 2030, in the use of heating oil unless combined at a ratio of 30 percent with renewable liquid fuels (biofuels, etc.), the latter being defined as low carbon footprint fuel from biomass, waste, etc. Also, from 2025 all new buildings near geographical areas of high risk from forest fires or floods must be insured before being hooked to the electricity grid. With respect to vehicles, in the urban centers of Athens and Salonica, from 2026 all the newly acquired taxis, and one third of rental cars, should be zero emission vehicles. Also, from 2024 one fourth of all newly acquired company cars for employees should be either electric or hybrid, and from 2030 all newly acquired passenger cars and small commercial vans should be zero emission vehicles.

According to staff, Greece's climate change adaptation and mitigation policies, as conditioned by recent natural disasters from extreme weather phenomena, require substantial resources over a long period of time surpassing NGEU funding for climate change. Therefore, it may be

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critical to mobilize green private financing under the NRRP, through further simplifying procedures and rationalizing spatial planning for strategic green investment and strengthening incentives for energy efficiency and innovation. Moreover, the authorities' new framework for renewables, through streamlining licensing to facilitate investment and through better integration in an upgraded electricity grid, may prove instrumental in making further progress.

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