INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/340

GREECE

November 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GREECE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Greece, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 13, 2019 consideration of the staff report that concluded the Article IV consultation with Greece.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 13, 2019, following discussions that ended on September 27, 2019 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 October 28, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Greece.

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

Selected Issues

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

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November 15, 2019

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Greece

On November 13, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Greece.

Growth has returned to Greece but so far has fallen below expectations. After a 1.9 percent expansion in 2018, growth moderated in the first half of 2019, constrained by lackluster private investment and under-execution of public investment. While the unemployment rate fell to 16.9 percent (seasonally adjusted) in July, structural unemployment remains high, and economic activity is below potential. Despite improvements, bank balance sheets are significantly impaired, and banks continue to reduce the amount of (net) credit provided to the economy.

Real GDP growth is projected to moderate slightly to 1.8 percent this year, followed by some acceleration in 2020 to 2.3 percent, supported by fiscal loosening and higher private investment financed mostly by foreign capital inflows. Over the medium term, growth prospects are weighed down by adverse demographics and low productivity. The external position is weaker than indicated by medium-term fundamentals. Near-term downside risks are significant, including from rising protectionism and weaker global growth, roadblocks to economic reforms, and further deterioration of bank balance sheets; the medium-term outlook is more balanced, particularly if the government’s pro-growth reforms translate more quickly into results and markets react favorably to the additional progress.

[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.

(continued…)

Executive Board Assessment[2]

Executive Directors recognized the progress that the authorities had made in implementing reforms during the program period, as well as the Greek economy's continued recovery, but noted that important challenges remain. In this context, they took positive note of the new government's commitment to pursue growth-friendly and inclusive policies and welcomed their early policy actions. They stressed, however, that sustained and deeper reform implementation, deploying a full range of policy tools, and strong political resolve to tackle vested interests will be necessary to meaningfully boost investment, growth, and social inclusion.

Directors supported the authorities' plans to cut direct tax rates and urged more ambitious efforts to broaden tax bases and enhance tax payment compliance. They urged a shift of spending priorities toward more investment and targeted social spending, while strengthening fiscal risk management and contingency planning. A number of Directors considered that the authorities should build a consensus with European partners around a lower primary balance target to support the growth objectives. A number of other Directors, however, stressed keeping the target, which they noted was agreed taking into account European fiscal rules and the implications for Greece's debt sustainability.

Directors emphasized the importance of restoring the financial sector's resilience and ability to support growth. In this regard, they welcomed the government's more ambitious nonperforming exposure (NPE) reduction objectives, noting that the proposed state-supported NPE securitization guarantee scheme could provide important backing. However, Directors stressed the importance of taking a more comprehensive, ambitious, and well-coordinated strategy to clean up bank balance sheets, relying on market-based mechanisms (with any public support subject to cost-effectiveness assessments). These efforts should also include further improvements in the legal financial framework, including, in particular, an overhaul of the personal insolvency law to eliminate primary mortgage protection in order to strengthen payment discipline.

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

Directors underscored that Greece's success within the currency union will require policies to help boost productivity and narrow its competitiveness gap. In this context, they welcomed the government's efforts to unblock privatization, implement business deregulation, and restore elements of the cornerstone program-era labor market reforms. Directors stressed that realization of benefits from labor market reform would require meaningful parallel progress with other structural reforms, particularly further liberalization of product markets.

Directors noted the importance of continued improvements in public sector efficiency and governance. They welcomed the recent progress in strengthening the AML/CFT regime and anti-corruption institutions but underscored that important remaining shortcomings should be addressed. Specifically, they urged the authorities to strengthen public revenue administration (including strengthening tax enforcement), enhance the efficiency and quality of the judicial system (including enforcement of contracts), and speed up anti-corruption reforms.

Greece: Selected Economic Indicators

Population (millions of people)	10.7	Per capita GDP (€'000)	17.2
IMF quota (millions of SDRs)	2,428.9	Literacy rate (percent)	97.1
(Percent of total)	0.51	Poverty rate (percent)	31.8

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

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

	2017	2018	2019	2020	2021	2022	2023	2024
		(est.)			(proj.)			
Output								
Real GDP growth (percent)	1.5	1.9	1.8	2.3	2.0	1.4	0.9	0.9
Employment								
Unemployment rate (percent)	21.5	19.3	17.5	15.6	14.4	13.6	12.9	12.9
Prices								
CPI inflation (period avg., percent)	1.1	0.8	0.5	0.6	1.3	1.4	1.8	1.8
General government finances (percent of GDP) 1/								
Revenue	48.4	47.8	47.7	46.8	45.8	45.3	44.9	44.4
Expenditure	47.4	46.9	47.6	47.3	46.6	46.2	46.1	45.6
Overall balance	1.0	0.9	0.1	-0.5	-0.8	-0.9	-1.2	-1.3
Overall balance (excl. program adjustors)	0.7	1.0	...	...	...	...	...	...
Primary balance	4.1	4.2	3.7	3.1	2.7	2.6	2.4	2.2
Public debt	179.3	184.9	176.5	171.4	166.3	161.0	155.6	152.0
Money and credit								
Broad money (percent change)	5.7	4.3	...	...	...	...	...	...
Credit to private sector (percent change)	-5.8	-7.5	...	...	...	...	...	...
3-month T-bill rate (percent)	2.3	1.1	...	...	...	...	...	...
Balance of payments								
Current account (percent of GDP)	-2.4	-3.5	-2.8	-2.9	-3.2	-3.3	-4.0	-4.2
FDI (percent of GDP)	-1.5	-1.6	-1.7	-1.8	-1.3	-1.2	-1.2	-1.2
External debt (percent of GDP)	227.2	222.4	219.3	212.7	206.3	201.6	198.6	196.5
Exchange rate								
REER (percent change) 2/	0.6	0.6	-1.5	-0.9	-0.4	-0.4	-0.1	-0.1

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

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

2/ CPI-based.

INTERNATIONAL MONETARY FUND

GREECE

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

October 28, 2019

KEY ISSUES

Context. Greece's economic recovery continues, but it has fallen far short of expectations. The new government elected in July has pledged to follow pro-growth policies while honoring fiscal and structural policy commitments to Euro Area (EA) member states, but its ability to overcome vested interests has yet to be tested. Public debt is projected to trend down over the next decade, though long-term sustainability is not assured under realistic macro-fiscal assumptions. Still-weak bank balance sheets act as a drag on growth prospects and pose significant fiscal and financial stability risks. These and other factors leave Greece vulnerable to a range of external and domestic shocks. Greece owes the Fund SDR 6.7 billion and is under Post-Program Monitoring (PPM). The authorities have asked the European Institutions (EIs) for approval to prepay the portion (SDR 2.2 billion) that is subject to surcharges.

Policies. Greece's prospects for improved living standards and economic convergence within the EA depend on implementing a critical mass of inter-related fiscal, financial, and structural policy reforms.

- **Fiscal policy:** To achieve better growth and social outcomes, the fiscal policy mix should be improved, with more emphasis on investment and targeted social spending and lower direct taxes, backed by reforms in revenue administration and public financial management. Reaching consensus with European partners on a lower primary balance path would provide additional fiscal space for social inclusion and growth policies but is no substitute for structural reforms. Better planning for fiscal risks, along with a smoothing mechanism to allow temporary deviations from the fiscal targets in the event of shocks, would help.
- **Financial sector.** To boost the financial sector's resilience and ability to support growth, the quality of bank assets, along with the quality and levels of bank capital, liquidity, and profitability, needs to be restored. Efforts should be guided by a strategy that cures bank balance sheets primarily through market-based efforts, supported by further improvements in the legal framework, with any public support subject to a dynamic cost-benefit analysis (and within the confines of EU rules).
- **Labor and structural reforms.** Greece's success within the currency union critically hinges on narrowing its structural competitiveness gap. Policies should focus on productivity enhancement through improved labor market flexibility, more effective labor activation policies, stronger institutions, and business deregulation (aiming to improve the investment climate and foster competition).
- **Transparency and governance.** Building on the recent progress in the AML/CFT regime, the rule of law, and anti-corruption institutions, efforts to enhance the quality of the judicial system and speed up anti-corruption reforms should continue.

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

Discussions were held during September 23–27, 2019. The mission met with Minister of Finance, C. Staikouras, Governor of the Central Bank, Y. Stournaras, other Cabinet Ministers, and staff of their ministries. Mission members included: P. Dohlman (Head), D. Kim, M. Mendez, N. Novikova, F. Parodi, X. Xu (all EUR), X. Li (SPR), C. DeLong, C. Claver (all LEG), T. Bayle (MCM), and C. Renteria (FAD). D. Botman, E. Argyropoulos, N. Kalavrezou, M. Kalimeri (IMF, Resident Representative Office) assisted the mission. M. Psalidopoulos (OED) participated in key meetings. M. Song and V. Bezerra de Menezes (all EUR) assisted from headquarters.

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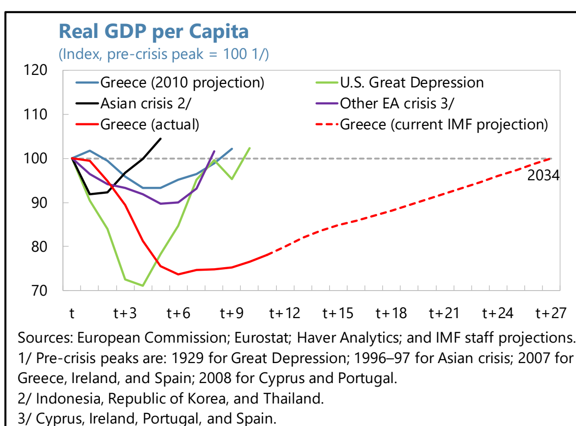
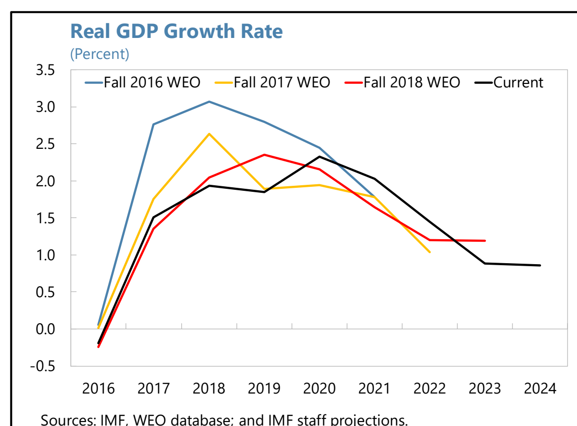
CONTEXT

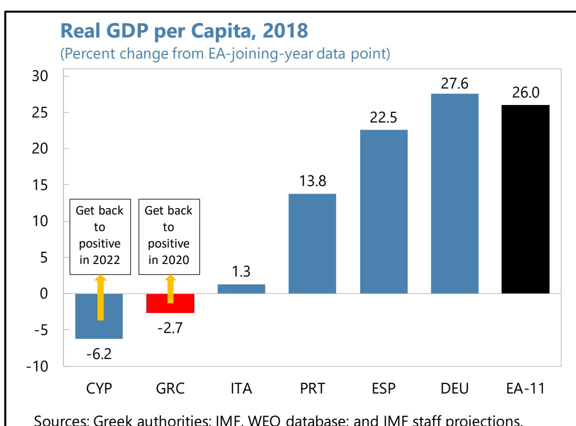
1. The Greek economic recovery has been disappointing. After suffering an output fall of about 25 percent, Greece had been expected to recover earlier and to grow at a stronger pace once the economy turned the corner, given ample economic slack and potential benefits of policy objectives under the recent programs. However, income remains short of its pre-accession level and long-term projections suggest limited convergence. Large productivity and competitiveness gaps remain, not least due to unaddressed structural weaknesses amid weak social consensus on essential reforms and crisis legacies of high NPLs, over-indebted borrowers, and high public debt.



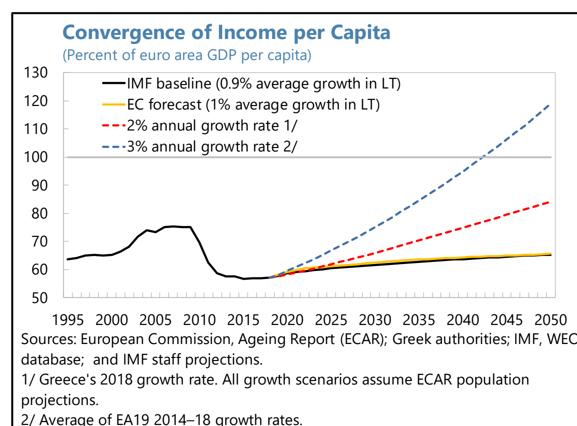
Sources: European Commission; Eurostat; Haver Analytics; and IMF staff projections.
1/ Pre-crisis peaks are: 1929 for Great Depression; 1996–97 for Asian crisis; 2007 for Greece, Ireland, and Spain; 2008 for Cyprus and Portugal.
2/ Indonesia, Republic of Korea, and Thailand.
3/ Cyprus, Ireland, Portugal, and Spain.



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



Sources: Greek authorities; IMF, WEO database; and IMF staff projections.



Sources: European Commission, Ageing Report (ECAR); Greek authorities; IMF, WEO database; and IMF staff projections.
1/ Greece's 2018 growth rate. All growth scenarios assume ECAR population projections.
2/ Average of EA19 2014–18 growth rates.

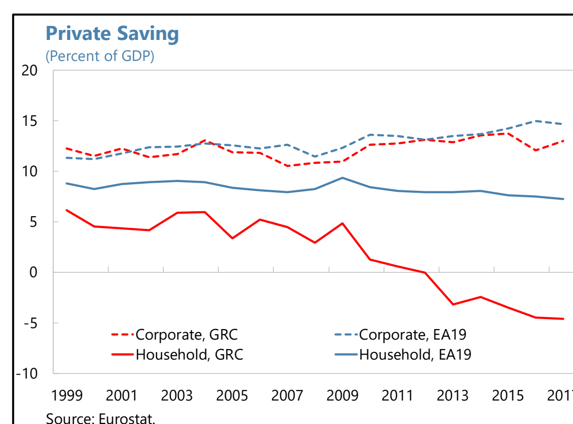
2. Policy reversals over the last year raise the risk that Greece will fall further behind. Following program exit in August 2018, the authorities initiated a broad-based policy retreat ahead of the July 2019 elections. Important reforms were delayed (e.g., fiscal structural reforms), canceled (e.g., the pre-legislated pension and PIT reform packages), or reversed (e.g., key elements of the 2011-13 labor reforms), acting as a drag on long-run growth potential (Annex I).

3. The new government has started to undertake several pro-growth policy actions but must overcome strong vested interests while honoring European commitments. The authorities reiterate that they will prioritize lower taxes, a better business environment, a more flexible labor

market, and higher investment (including rebooting stalled privatization projects). The initial market reaction to this policy orientation has been one of cautious optimism. During the European Institutions' (EIs) mission in September, Greece reaffirmed its commitment to meet fiscal and structural policy commitments to Euro Area (EA) member states under the 'Enhanced Surveillance' (ES) framework, but also signaled a desire to amend fiscal commitments if their policies generate higher growth in line with their expectations.[1]

RECENT DEVELOPMENTS

4. Growth has returned to Greece but so far has fallen short of expectations. After a modest 1.5 percent expansion in 2017, growth rose to 1.9 percent in 2018, aided by booming tourism and some recovery of consumption, but constrained by disappointing private investment and under-execution of public investment (Figure 2). After tepid growth in 2019Q1 (0.2 percent q/q s.a.), growth recovered in 2019Q2 (0.8 percent q/q s.a.), helped by higher public consumption and exports. The unemployment rate fell to 16.9 percent (s.a.) in July from 19.1 percent a year earlier, while structural unemployment remains high (Figure 3) and the negative output gap wide.[2] The 12-month average headline HCPI inflation was 0.7 percent in September—below the EA average of 1 percent—but core inflation has picked up (1 percent). Household savings remain well below the EA average, reflecting ongoing consumption smoothing in response to a significant drop in disposable income since the crisis.



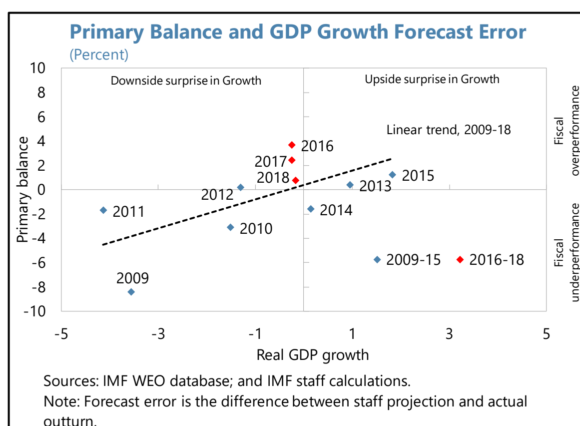
Source: Eurostat.

5. Greece's external imbalances are significant. The 2018 current account deficit widened to 3.5 percent of GDP (on accrual basis) as export growth (notably tourism) was outpaced by rising oil-related imports and foreign investment payments (Figure 4). The deficit was largely financed by official sector flows, though helped by a gradual recovery in FDI (from a low base). Considering Greece's cyclical position and desirable medium-term policies, the 2018 current account gap—the difference between the cyclically-adjusted current account balance and the current account consistent with fundamentals and desirable policies—is estimated at -3 percent of GDP, corresponding to a 10 percent Real Effective Exchange Rate (REER) overvaluation (Annex II).

[1] In June 2018, Greece became the first country placed under ES by the Eurogroup (EG). This involves policy commitments through 2022, with quarterly EI reviews and disbursements totaling about 0.6 percent of GDP annually to Greece of ANFA/SMP profits and interest rate deferrals if policy commitments are met. The EG also pledged to consider (in 2032) whether additional debt relief is needed, assuming Greece continues to meet its EA commitments.

[2] Standard methods (production function and multi-variate filtering) support staff's baseline of a negative output gap ranging from 4 to 6 percent of GDP for 2018. However, these estimates are subject to high uncertainty, reflecting difficulties in separating structural/cyclical factors and measurement challenges. See 2018 Article IV Staff Report Annex VI.

6. Greece continues to overperform against its fiscal target commitments to European partners, to the detriment of growth. The 2018 primary balance (4.2 percent of GDP) was well above Greece's 3.5 percent of GDP commitment. The state primary balance in the first eight months of 2019 showed a moderate increase over 2018 (text table). Market analysts and rating agencies say that meeting its fiscal targets has boosted Greece's credibility.



Sources: IMF WEO database; and IMF staff calculations.
Note: Forecast error is the difference between staff projection and actual outturn.

State Government Fiscal Performance
(In percent of GDP)

	Jan-Aug 2019 (1b)	Jan-Aug 2018 (2b)	Difference (1b)-(2b)
Net revenue	**17.5**	**16.8**	**0.7**
Revenue	**19.1**	**18.6**	**0.5**
Taxes	16.1	16.5	-0.3
Transfers	1.4	1.0	0.4
Sales of goods and services	0.8	0.2	0.6
Other revenue	0.7	0.9	-0.1
Tax refunds	**1.6**	**1.8**	**-0.2**
Primary Expenditure	**16.0**	**16.2**	**-0.3**
Compensation of Employees	4.7	4.5	0.2
Social Benefits	0.2	0.4	-0.3
Transfers	9.5	9.9	-0.4
Public Investment Budget expenditure	1.1	0.8	0.3
Other expenditure	0.6	0.6	0.0
Primary Balance	**1.5**	**0.6**	**0.9**

Sources: Ministry of Finance and IMF staff estimates.

7. Market issuances and debt relief have boosted Greece's government liquidity buffer to €32 billion (17 percent of GDP).[3] Ten-year sovereign bonds were issued in March (the first since 2010) and October along with five-year bonds in January and seven-year bonds in July (all mainly purchased by foreign investors). Greece received official-sector debt relief of around €0.6 billion in May, after the EG's greenlight on ES performance. Greece's buffer is substantially higher than in other EA countries upon program exit and allows the government to meet financing needs through 2022 without further borrowing.[4] Greek 10-year spreads have declined to their lowest level in a decade (around 156 bps) but remain the highest in the EA (around 24 bps above Italy). Greece has requested European pari passu consent to prepay about €2.7 billion (the amount subject to surcharges) of its outstanding €8.4 billion IMF loan, and is scheduled to drop below the IMF's Post Program Monitoring threshold in late 2022. The pace of corporate issuances has also picked up, though from a low base.

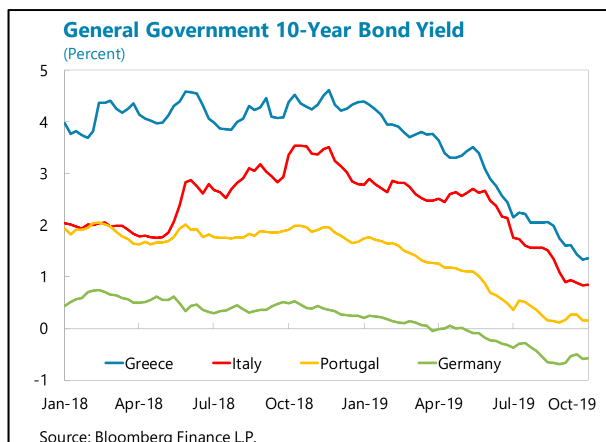
Sovereign Bond Issuances

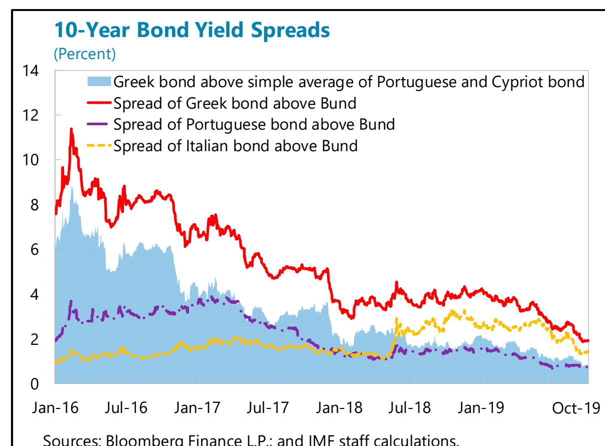
Date	Amount (billions of euros)	Maturity (years)	Yield (percent)
Jul-17	3.0	5	4.6
Feb-18	3.0	7	3.5
Jan-19	2.5	5	3.6
Mar-19	2.5	10	3.9
Jul-19	2.5	7	1.9
Oct-19	1.5	10	1.5

Source: Bloomberg Finance L.P.

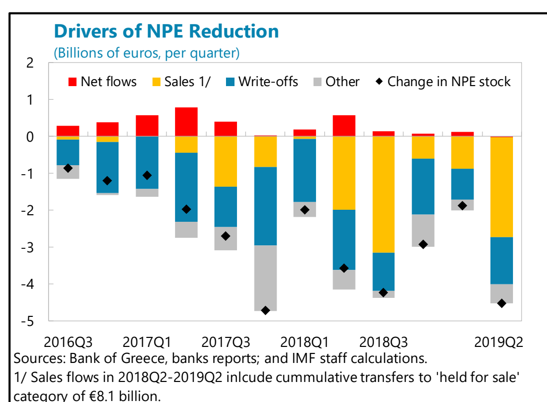
[3] Preliminary figure as of end-September. The general government buffer was about €40 billion.

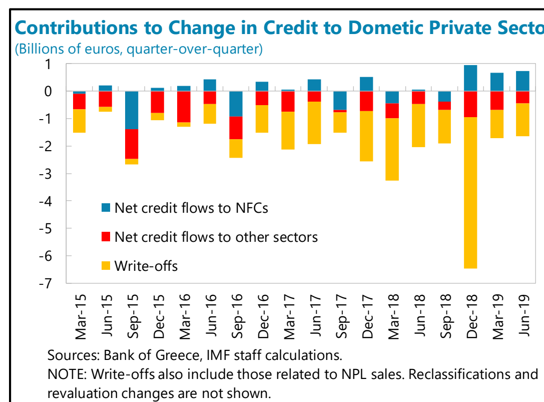
[4] See Annex III for discussion of short-term debt rollover assumptions.





8. **Despite improvements, bank balance sheets remain significantly impaired and net credit growth remains negative** (Figure 6). Banks fully repaid Emergency Liquidity Assistance (ELA) in March, aided by deleveraging, rising private deposits, and access to secured interbank funding. Two systemic banks placed 10-year Tier 2 bonds in June/July, indicating renewed investor appetite, though at very high yields of 9.75 and 8.25 percent (the highest in Europe). The authorities lifted remaining capital flow management measures (CFMs) on outflows on September 1, 2019.[5] The pace of non-performing exposures (NPEs) reduction has recently accelerated. Reductions have relied primarily on sales and securitization and write-offs of loans, while liquidations remain modest. As of 2019Q2, the NPE ratio was 44 percent and the provisioning coverage ratio had declined to 48 percent.[6] The common equity ratio has remained at 15 percent since end-2018 but would drop to 13 percent on a fully-loaded basis.[7] Credit growth (adjusted for write-offs) remains negative, beyond that to top corporates, which has recently picked up (to 2.9 percent (y/y) in August 2019).





[5] See the first PPM report in March 2019 for a summary of then-outstanding restrictions. With their removal, Greece no longer maintains exchange restrictions under Article VIII, Section 5 (see Informational Annex).

[6] Between 2016Q2 and 2019Q1, the volume of Greek NPEs fell by 27 percent, compared to a 37 percent reduction at the Euro Area level. Between 2016Q2 and 2019Q1, the Greek NPE rate rose from 7 times the EA rate (47 percent versus 6.7 percent) to more than 11 times the EA rate (41 percent versus 3.7 percent). However, in 2019Q2, Greek banks have outperformed EA peers.

[7] Consistent with EU IFRS 9 transitional arrangements, Greek banks are phasing in higher provisions, with the capital impact fully reflected by 2023.

OUTLOOK

9. Growth prospects are weighed down by stagnant investment, adverse demographics, and low productivity tied to the broader unfinished reform agenda. Real GDP growth is expected to moderate slightly to 1.8 percent in 2019, constrained by slower export growth (due to slower global trade) and muted private consumption (likely tied to electoral period uncertainty). Growth is projected to accelerate in 2020 to 2.3 percent, supported by fiscal loosening and higher private investment financed mostly by foreign capital inflows (FDI and private debt issuances). Over the medium term, growth is expected to gradually moderate to a potential rate of just under 1 percent (slightly below the level in the 1st PPM report), with the output gap closing by 2023 (and structural unemployment around 13 percent).[8] Staff expects inflation to rise gradually to 1.8 percent and the current account deficit to increase to around 4 percent of GDP by 2023.

10. Public debt-to-GDP is projected to trend down over the next decade (Annex III). The public debt-to-GDP path is projected to be at higher levels than in the March 2019 PPM Report as lower nominal GDP and primary surplus paths during 2019–25 under current policies more than offset lower projected sovereign borrowing costs. Notwithstanding this, the gross financing needs (GFNs)-to-GDP path is on average slightly lower than that of the March 2019 DSA, thanks to the government's active liability management and lower sovereign borrowing costs. Over the longer term, staff's view continues to be that debt sustainability is not assured under a realistic set of macro-fiscal assumptions.

11. Risks to the outlook are tilted to the downside in the near term but are more balanced in the medium term (Annex IV). Rising protectionism (around one-third of exports are to non-EU countries) and weaker global growth would hurt exports. A further cooling of the German economy or an abrupt Brexit by the UK (two of Greece's largest trading partners) could substantially reduce exports (especially tourism). Global shocks may heighten risk aversion and raise Greece's public and private borrowing costs. Domestically, the new government's ability to overcome vested interests and push through difficult growth-friendly policy reforms remains untested. Further policy reversals could trigger fiscal pressures and erode competitiveness, market confidence, and growth potential. A further deterioration of bank balance sheets would constrain credit growth, risk triggering deposit outflows, and threaten financial stability, with potentially costly public interventions. Upside risks include further positive market reactions to and early realization of the government's pro-growth, investment-driven objectives. Over the medium term, effective implementation of structural reforms could raise potential growth above the currently projected 0.9 percent of GDP (Box 1).

12. The authorities acknowledged the external risks highlighted by staff but had a more favorable view of growth prospects and external competitiveness. The authorities consider staff's growth projections to be pessimistic, anticipating that reforms—including tax cuts, unblocking privatizations, business deregulation, and improved labor market flexibility—will deliver real GDP

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[8] Key drivers of potential growth are discussed in more detail in the 2018 Article IV Annex VI. Long-Run Growth and Primary Balance Projections (CR/18/248).

growth of close to 3 percent in the short and medium term and above 1.5 percent in the long term (Box 1). They disagreed with staff's assessment that the real exchange rate was overvalued and expect external imbalances to narrow over the medium term, helped by stronger exports boosted by improved productivity and competitiveness. The authorities concurred with staff's assessment of medium-term debt sustainability and stressed that near-term liquidity risks have dissipated, supported by the favorable maturity profile, a sizable cash buffer, and sharply compressed bond spreads. While agreeing on the external risks from weaker global growth and rising protectionism, the authorities considered that their strong emphasis on growth-friendly policy reforms and improving bank balance sheets had reduced domestic risks.

Box 1. Illustrative Scenario—Higher Reform Payoffs

This box explores the payoffs from faster and more ambitious reforms that would bring growth closer to the authorities' forecast of real GDP growth of around 3 percent in the short term and around 1.5 percent in the medium to long-term. To illustrate what these projections require, an alternative scenario assumes realization of the upside risk that planned reforms improve labor supply and productivity growth beyond baseline assumptions. We apply the more optimistic assumptions to a standard growth model.

Greece—Baseline and Alternative Assumptions
(Percent)

	Baseline	Alternative
Labor assumptions		
Contribution of labor	-0.4	-0.2
Productivity assumptions		
TFP growth	0.8	1.0
Outcome		
Investment/GDP (ratio) 1/	14.9	17.1
Real growth rate	**0.9**	**1.4**
Memo items:		
Structural unemployment	12.9	10.2
Labor force participation	75	80

1/ GFCF in constant 2010 prices.

- Labor, pension, and other reforms such as labor tax cuts are assumed to increase labor supply via higher labor force participation (LFP) and lower structural unemployment (and/or reverse emigration).[1] Assuming a convergence toward a higher LFP rate of around 80 percent (in line with German and Nordic rates) and lower structural unemployment rate of around 10 percent, the decline of labor supply due to the unfavorable demographic trend slows from an average of -0.4 percent to around -0.2 percent.
- Further structural reforms—beyond those already committed—that improve labor market flexibility, infrastructure, and business regulations is assumed to raise the projected TFP growth rate by 25 percent.[2]

Under these assumptions, growth accelerates to 3 percent in the short term, thanks to stronger investment in response to higher labor supply and productivity growth. This pick up in investment speeds up the convergence of the current low investment (GFCF) to GDP ratio of 11 percent to a higher medium-term level of 17 percent[3] (compared to around 15 percent of GDP under the baseline). Over the medium term, growth is projected to moderate to 1.4 percent (about ½ percentage point higher than the baseline projections). The higher growth rate improves debt dynamics by 4 pps at the end of the forecast period.[4]

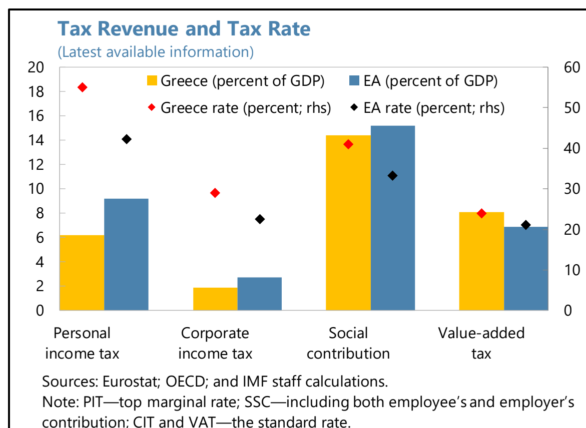
[1] See, for example, Daude, C., 2016, "Structural Reforms to Boost Inclusive Growth in Greece," OECD Economics Department Working Papers, No.1298; and Varga, J et al 2013; "Growth effects of structural reforms in Southern Europe: The case of Greece, Italy, Spain and Portugal"; EC Economic Papers 511.

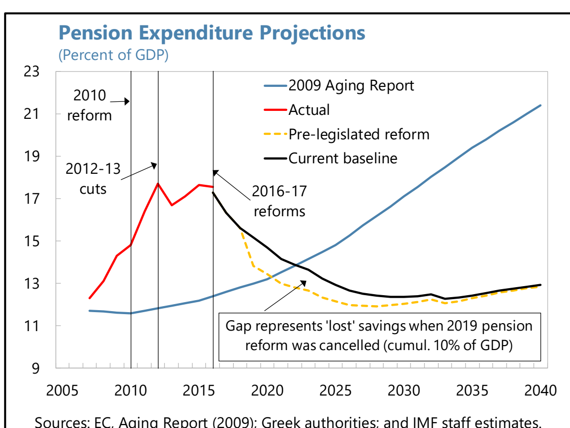
[2] Greek productivity growth ranged from 0.5–0.9 percent during its most dynamic period (1990–2009), but it averaged slightly under zero percent over the last 20 years and about ¼ percent over the last 50 years.

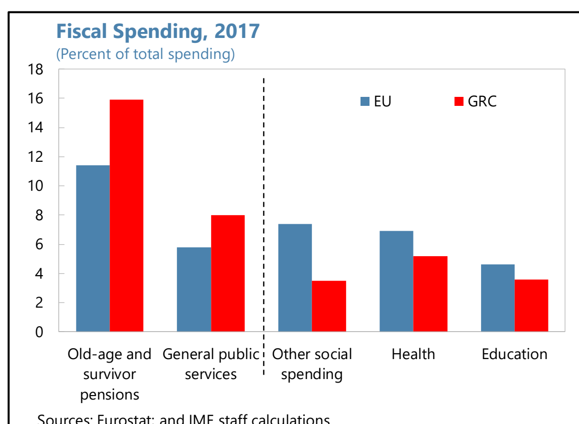
[3] Lower than the pre-crisis rate of around 20 percent of GDP.

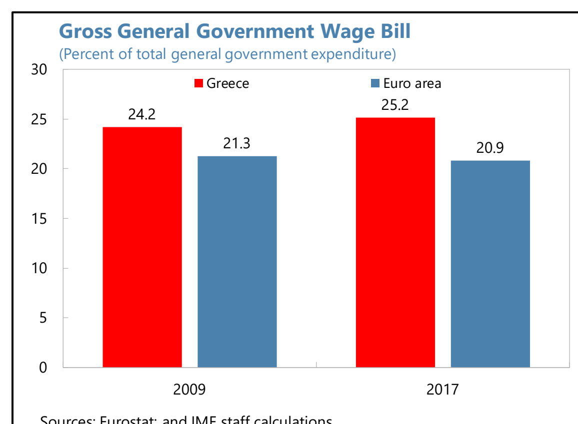
[4] We assume the fiscal path remains unchanged, as revenue gains (in euro terms) from higher growth would be used to finance policies to support social inclusion and growth. The growth pick-up would lower the debt-to-GDP ratio.

POLICY AGENDA









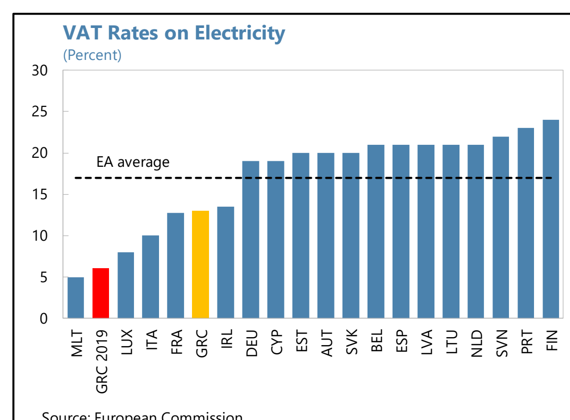
13. Greece's prospects for improved living standards and economic convergence within the EA depend on implementing a critical mass of inter-related fiscal, financial, and structural policy reforms. While Greece committed during the program era to implement numerous fiscal, financial sector, labor, and product market policy actions to help close macroeconomic imbalances and its competitiveness gap, the reform agenda remains largely unfinished. To jumpstart convergence, Greece needs a stronger, integrated effort in key policy areas—and especially financial and product market reforms—to create quality jobs, higher sustained growth, and enhanced social outcomes.

A. Strengthening the Fiscal Policy Mix

14. Progress towards improving the fiscal policy mix during the program era was uneven. (Figure 5; text charts). The mix deteriorated during the initial stages of the crisis in a context of efforts to contain a fiscal deficit that reached 15 percent of GDP in 2009. Rigidities in age-related spending and the public sector wage bill initially crowded out other critical social spending and

investment.[9] Efforts to boost revenues were stymied by narrow tax bases, reflecting a weak payment culture and vested interests,[10] and therefore overly relied on higher tax rates. Some important fiscal policy improvements were subsequently implemented through 2016 (e.g., pension reform, tax expenditure cuts, VAT unification, Social Solidarity Income), but the growth-friendliness and inclusiveness of Greek tax policy and public spending still lags EA averages (Annex V).

15. The period leading up to the elections was marked by inaction and then significant setbacks. Some small but important social spending measures were put in place but they were dwarfed by poorly targeted 'social dividends' and over-shooting of fiscal targets funded by compression of investment and other public spending, while critical social needs went unmet.[11] The government's cancellation of the fiscally-neutral 2019 pension/social spending measures and 2020 PIT broadening/rate cut measures represent significant lost opportunities to improve the policy mix. In May (just ahead of elections), the authorities enacted expansionary measures (0.8 percent of GDP in 2019) that partially eroded program efforts in the VAT and pension areas (text table).



Recent Measures Announced by Greek Authorities

Measures legislated in May 2019 by Syriza	**Measures legislated in July-Aug 2019 by ND**
SSC and Tax debt installments	Property tax reduction (22% mean)
VAT cut (food products and services, energy)	New terms of the 120 installments
13th pension and survivor's pension	Increase installments of claw back/rebate
Expansionary measures announced for the 2020 budget by ND	**Counter measures proposed for the 2020 budget by ND**
CIT cut (from 28 to 24 percent)	Increase the threshold of E-transactions for PIT deductions
PIT cut (22 to 9 percent for the lower rate, 1 ppt cut for other rates)	Improvement of GG entities' effectiveness
Dividends tax cut (from 10 to 5 percent)	Improve valuation of ENFIA property tax
SSC cut for for full-time employees by about 1%.	Spending reviews of government entities
Childbirth benefit (2000 euros for new-born)	Review of GG entities revenues
VAT suspension on new buildings for 3 years	Increased revenues from online betting and Airbnb
VAT cut on baby care items and safety helmets	Faster processing of tax cases in administrative courts

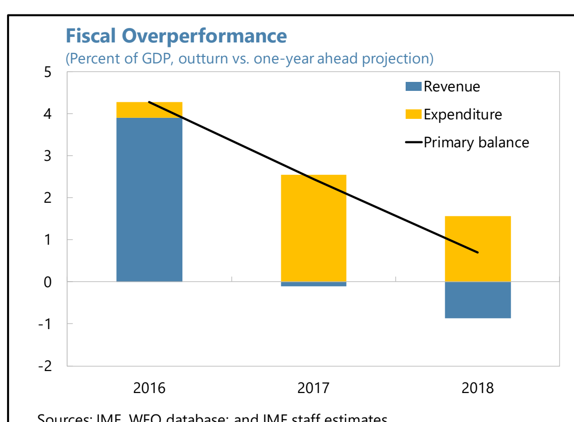
16. Since July, the picture has been, on net, somewhat more positive. The new government has reduced property taxes and will further lower income and VAT taxes from 2020, but it is also undertaking some base-narrowing changes in the PIT (although it plans some base-broadening of the property tax) and expanded an ad hoc tax debt installment scheme (see text table).

[9] See IMF Country Report No. 18/248 (Annex VI) for a discussion of the damaging effects of high primary balances and expenditure compression, including (notably) in the health sector.

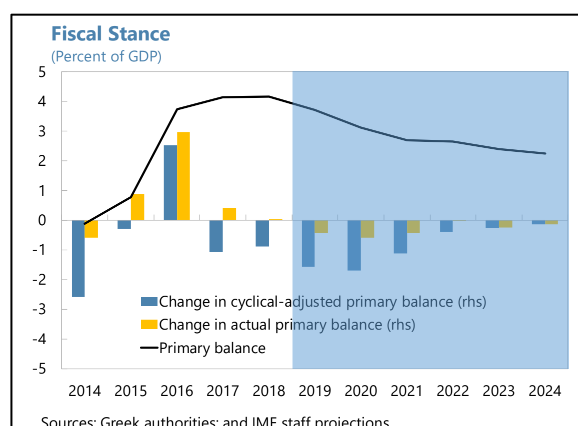
[10] See Selected Issues Paper "Installment Schemes, Arrears, and Payment Culture".

[11] The overshooting points to unaddressed structural deficiencies in investment budget planning and implementation and is also a symptom of the rigid fiscal targets mandated by European partners (with no safety valve for business cycle fluctuations or fiscal shocks).

17. Current fiscal policy implies an expansionary fiscal stance in 2019 and through the medium-term.[12] The 2019 primary surplus is projected to exceed Greece's 3.5 percent of GDP commitment to European partners—though by considerably less than in previous years—due to stronger tax revenue collection and growth-dampening under-execution of public investment. Despite the government's commitment to a primary surplus of 3.5 percent of GDP for 2020, staff projects the primary surplus to fall to about 3 percent of GDP under current policies, as the fiscal impact of the proposed 'administrative' measures to close the gap (text table) is insufficient and/or highly uncertain.[13] Over the medium term, the primary balance is projected to decline further to about 2 percent of GDP, due to a change in the expenditure mix, the fading-out of the one-off measures introduced in the 2020 budget, and declining EU transfers. The government is in consultations with the EIs on the medium-term fiscal path, with the hope of creating additional space for investment and other priorities.



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



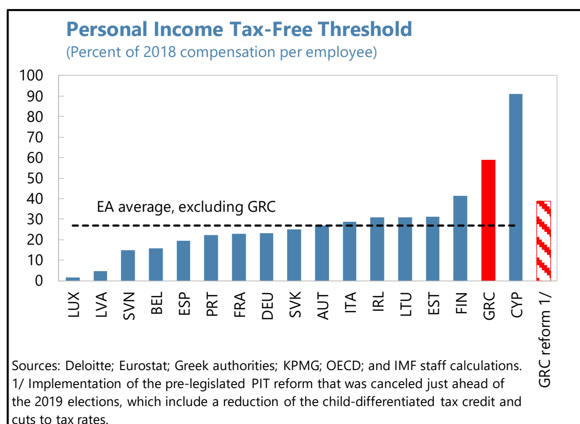
Sources: Greek authorities; and IMF staff projections.

18. In this context, fiscal (and other sectoral) policies should focus on boosting socially inclusive growth.

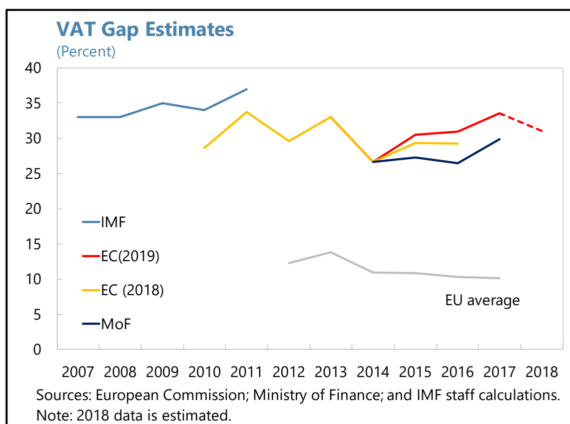
- ***Tax policy.*** Direct tax rate cuts should be prioritized (contingent on fiscal space) and new tax expenditures (e.g., VAT exemptions for construction) avoided. The authorities' plan to cut PIT rates is welcome, but more could be achieved by combining it with tax base broadening, including lowering the PIT tax-free threshold (see text figure). The authorities' proposed large CIT rate cut (4 percentage points) in 2020 and a gradual reduction of unemployment insurance contributions also deserve support.

[12] Staff's baseline considers all measures that underpin the draft 2020 budget submitted to the European Commission in mid-October, although some have yet to be legislated.

[13] There is considerable risk that the authorities (should their projections prove to be too optimistic) will once again rely on growth-dampening under-execution of the budget, notably investment, to meet their fiscal target.

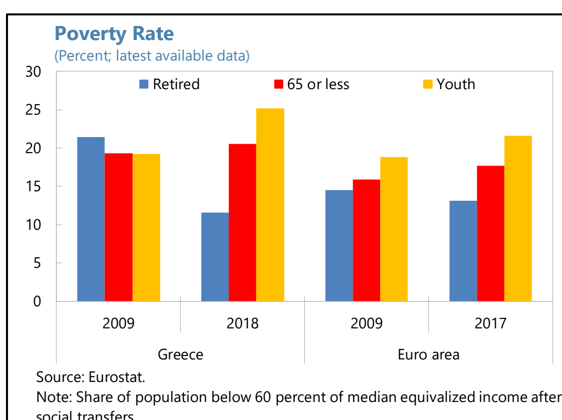


Sources: Deloitte; Eurostat; Greek authorities; KPMG; OECD; and IMF staff calculations.
1/ Implementation of the pre-legislated PIT reform that was canceled just ahead of the 2019 elections, which include a reduction of the child-differentiated tax credit and cuts to tax rates.



Sources: European Commission; Ministry of Finance; and IMF staff calculations.
Note: 2018 data is estimated.

- ***Tax collection/compliance.*** Staff urged an end to decades of 'temporary' ad hoc installment schemes providing poorly-targeted tax and social contribution debt relief, noting their corrosive effect on payment discipline.[14] In this context, the authorities' focus on enhancing the effectiveness of the existing 'basic' (permanent) installment scheme for tax arrears is welcome, but the design could be further improved through more sophisticated capacity-to-pay assessment, stronger enforcement for repeated defaulters, and better targeting of the eligibility criteria. This effort should be combined with improvements to the out of court (OCW) mechanism for tax debts. Stronger tax collection efforts (not least for the VAT) are needed to close a large compliance gap (text chart). The planned measure to increase the minimum qualifying expenses that taxpayers should incur via electronic payment for personal income tax purposes[15] might help improve VAT collections but with a risk of distorting the consumption patterns of low-income groups. Staff also urged completion (consistent with Fund TA) of the delayed independent revenue administration (IAPR) HR reforms and further mobilization of the AML/CFT framework.



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

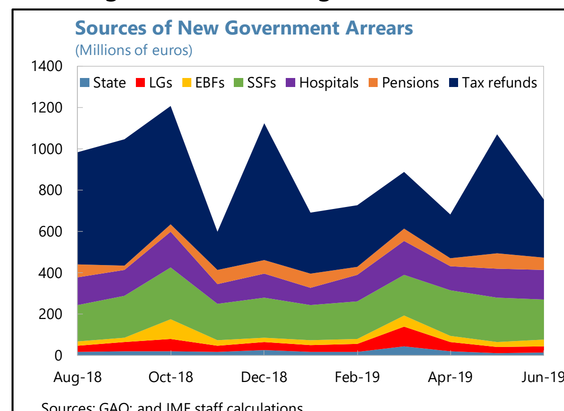
- ***Expenditure Policy.*** Expenditure needs to be reoriented towards high quality investment and social spending, such as the Social Solidarity Income, child and housing benefit programs, health and education, and active labor market policies (ALMPs). Ending pension bonuses and bringing the pension benefit of existing retirees in line with the new benefit formula (noting that working age Greeks face greater 'at risk of poverty' than pensioners) would help create fiscal space.

[14] See Selected Issues Paper "Installment Schemes, Arrears, and Payment Culture".

[15] The minimum percentage of taxable income to be expensed by electronic means is expected to be increased from the current levels of 10 to 20 percent to 30 percent. The nominal ceiling of the minimum expenses will be set at €20,000. The difference between the minimum and the actual qualified expenses will be taxed at 22 percent.

Finally, remaining weaknesses in the consistency and comprehensiveness of official fiscal source data and reporting should be addressed (e.g., cash versus accrual discrepancies).

- ***Spending efficiency.*** Staff urged further improvements in budget planning and implementation, consistent with Fund TA. The authorities' efforts to improve management of contingent buffers in line ministries would help reduce budget under-execution. The public investment framework should be strengthened by improving coordination with the ordinary budget, better monitoring of implementation, and integration with the new chart of accounts. Stronger efforts to address the structural causes of arrears (in line with recent TA) are needed. Risk management should be integrated into the budget cycle to help contain fiscal risks (including from ongoing court cases that threaten fiscal stability)[16] and contingencies tied to the financial sector (Section C).



- ***Fiscal stance.*** Staff urged the authorities to seek consensus with European partners on a lower primary balance target, given the large negative output gap and the need to bring down high tax rates and address unmet spending needs (not least in the health sector). A cooperative approach with European partners to any revisions to fiscal targets is important for market credibility and to maintain the EIs' 2032 debt sustainability review backstop. Staff also urged the authorities and the EIs to consider a smoothing mechanism (e.g., expenditure rule) to allow temporary, symmetric deviations from the primary balance target, should cyclical or one-off shocks (other than policy slippages) hit the Greece economy.

19. The authorities concurred with staff's recommendations on the fiscal stance and policy mix but noted this would not require cuts to pensions or lowering the personal income tax-free thresholds. The authorities welcomed staff's support for a lower primary balance target and stressed that they would continue to cooperate closely with the EIs, but are confident that they will meet their primary balance target of 3.5 percent of GDP in 2020. They fully agreed that continuous fiscal overshooting was damaging to growth and appreciated staff's advice that their fiscal commitments to European partners should leave room to stabilize output in the event of negative fiscal and economic shocks. Likewise, they would consider adding references to fiscal risks in future budgets. They intend to improve the fiscal policy mix by allocating two thirds of any additional fiscal space to tax reductions and the rest to targeted social and investment spending. The authorities will pursue the necessary adjustment to the pension system after examining in detail the recent Council of State ruling on the constitutionality of the 2016 reforms and after conducting the necessary actuarial studies. They also noted that fiscal and growth objectives could be achieved without lowering the personal income tax-free thresholds, and efforts to broaden the base will instead be focused on improving tax compliance, including from mandated e-transactions. They agreed with the importance of completing the IAPR's human resource and IT system reforms and non-accumulation of new arrears.

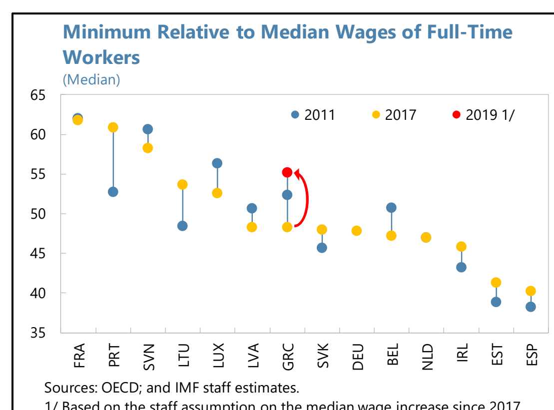
[16] See March 2019 PPM for details (CR/19/73).

B. Labor Market Policy: Job Creation and Reactivation

20. Labor market conditions are improving gradually, but the quality of the recovery has been weak. The 2011–13 collective bargaining (CB) and minimum wage (MW) framework reforms helped lower labor costs, improve labor market flexibility and employment recovery, and reduce external imbalances (Figure 3).[17] Job finding rates have been accelerating and youth labor market participation is growing, but Greece has further to go. Structural unemployment, the share of long-term unemployed, and the rate of youth unemployment are among the highest in the EA.[18] ALMP policies remain in the pilot stage, with some years needed to expand coverage to levels comparable to those in peer countries. Structural rigidities are the main drivers of the poor employment recovery (low productivity, skills mismatch, and sluggish firm dynamics) but staff analysis suggests that weak implementation of non-labor reforms (e.g., product markets, business climate, and the financial sector) has also prevented a more dynamic recovery.[19] The labor market's persistent fragility underscores significant risks of hysteresis, poverty (including in-work), and social exclusion.

21. In a context of social perceptions that workers bore the brunt of the adjustment, the authorities implemented a series of labor market policy reversals following program exit. These included re-imposition of pre-crisis extensions and favorability collective bargaining practices and seniority bonuses, on top of the earlier court-mandated restoration of unilateral arbitration.[20] The MW was increased by nearly 11 percent, well above productivity gains and inconsistent with the spirit of the MW-setting framework (Annex I). These changes have elevated the risks of wage drift and further erosion of competitiveness.

Minimum Relative to Median Wages of Full-Time Workers
(Median)



Sources: OECD; and IMF staff estimates.
1/ Based on the staff assumption on the median wage increase since 2017.

22. The new government has signaled a preference for greater labor market flexibility and achieving full employment. Through its Development Law (DL), adopted on October 24, firms meeting certain criteria will be allowed to opt-out from sectoral agreements, and the representativeness mechanism will be further refined (including by digitalization of trade union registration and for industrial action representativeness).[21] The DL will also limit the recourse to unilateral arbitration in line with ILO principles. Other DL initiatives aim to

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[17] See Selected Issues Paper "Reforms, Labor Market Dynamics, and Competitiveness". Counterfactual exercises based on econometric results from the OECD (2014) and Salas (2018) suggest that the labor market reforms significantly contributed to competitiveness gains.

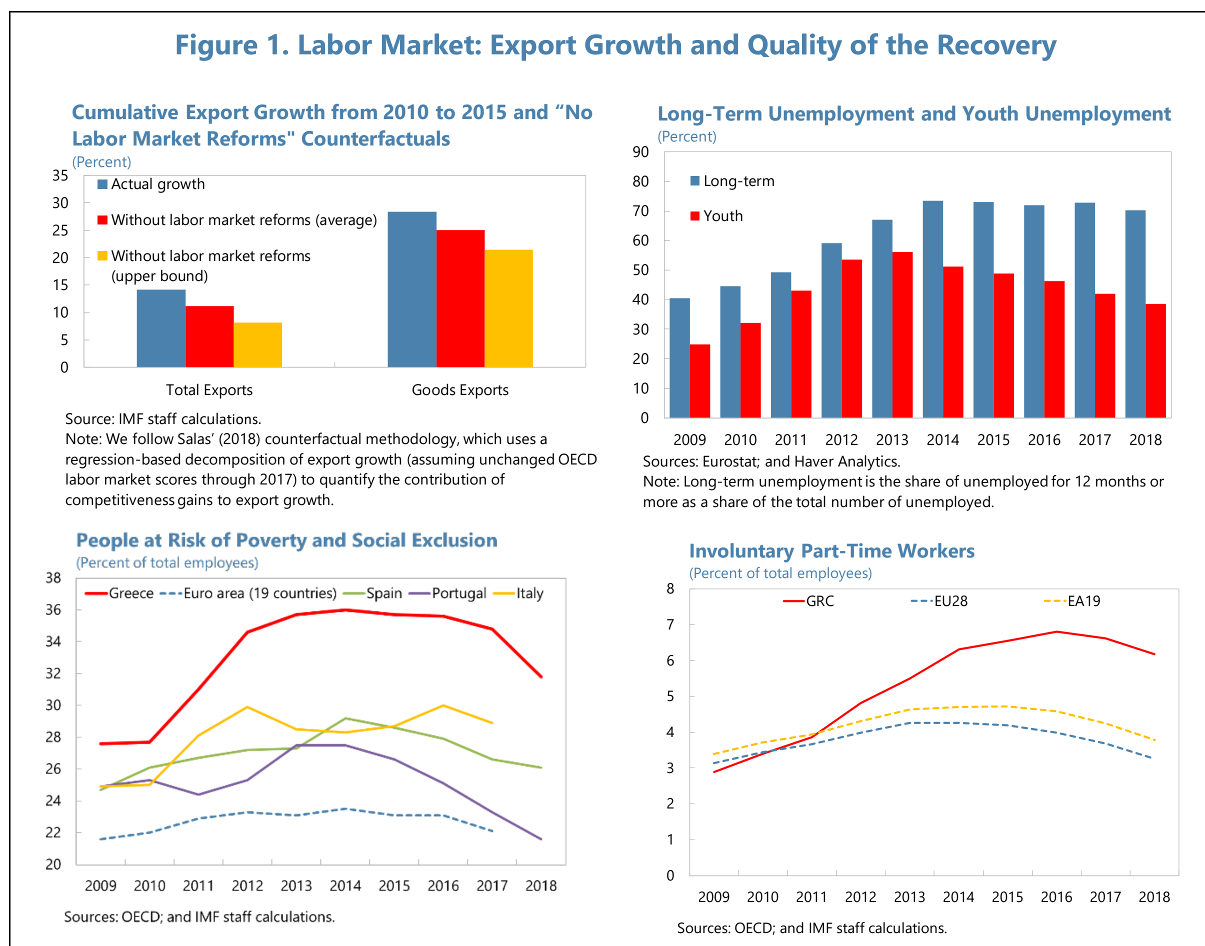
[18] The structural unemployment rate is estimated at 13 percent at end-2018.

[19] See Selected Issues Paper "Reforms, Labor Market Dynamics, and Competitiveness" and Greece—Ex-post Evaluation of Exceptional Access under the 2012 Extended Arrangement (CR/17/44).

[20] See "Annex I. Labor and Product Market Reform Retrospective" of SIP Selected Issues Paper "Reforms, Labor Market Dynamics, and Competitiveness".

[21] Firms under financial distress, located in the region with high unemployment rates, start-ups or social economy firms, and non-profit enterprises are expected to be allowed to opt out of favorability clauses.

tackle informality and encourage full-time employment. The government is also planning an ex-post assessment of the 2019 MW-setting process, in consultation with the World Bank, ahead of the 2020 round to improve the annual tri-partite consultation process and has pledged that future MW adjustments will be in line with economic conditions and competitiveness. Finally, the government is working on medium-term reform plans to further improve labor market flexibility, re-skilling of the labor force, and female labor force participation.



23. Policy discussions focused on how to improve labor market conditions:

- ***Greater labor market flexibility.*** Staff supported the government's efforts to strictly limit unilateral arbitration and provide more firm-level flexibility (e.g., targeted opt outs), but urged full restoration of the 2011–13 CB reforms. Staff also stressed that realization of labor market reform benefits would require meaningful progress with product market reform implementation (Section D) —and would recognize that labor has, relatively speaking, borne too much of the burden of adjustment. The government's plans to assess the results of the recent MW-setting process deserve support, and staff encouraged the authorities to simplify the framework through single statutory MW (ending seniority premia) while retaining provisions for youth to encourage employment in this cohort.

- ***More labor reactivation and inclusion*:** The ALMP pilot should be accelerated, as employability and skills-matching, particularly for older cohorts, need to be supported at a higher scale. Improving the educational system (including expanding vocational training) is also important to enhance worker productivity and address skill mismatches.[22] Staff recommended strengthening the efficiency and scope of the social safety net to support labor market transitions and steps to boost female labor force participation (e.g. through better access to dependent care).

24. The authorities concurred with staff recommendations to enhance labor market flexibility, inclusion, and reactivation. The authorities pointed to their swift action to lift new restrictions on dismissals. Further changes will aim to strike a balance between strengthening competitiveness and protecting employee rights, including by introducing a conditional opt-out clause to collective bargaining, enhancing union transparency, and aligning labor provisions with ILO best practices. The authorities agreed that these short-term reforms should be complemented with measures to address structural labor market bottlenecks, including more effective ALMPs.

C. A Comprehensive (and Accelerated) Strategy to Restore Bank Health

25. Despite multiple assessments and substantial injections of state and private funds over the past decade[23]**, the banking system remains a misfiring engine of growth and source of fiscal and financial stability risks**. Efforts to clean up the banking system have been hindered by a combination of poor banking practices, weak financial sector policies, forbearance, sovereign debt restructuring, deeper-than-expected recession, changing regulatory goal posts, and weak coordination among key stakeholders.[24] The quality of capital remains weak, with deferred tax credits (DTCs) de facto not providing loss absorption. System-wide NPEs remain the highest in Europe, while profitability is the lowest (which limits internal capital generation and ability to attract private investors). Access to unsecured funding remains limited and expensive and, despite recent improvements, some systemic banks are in breach of liquidity coverage ratios.

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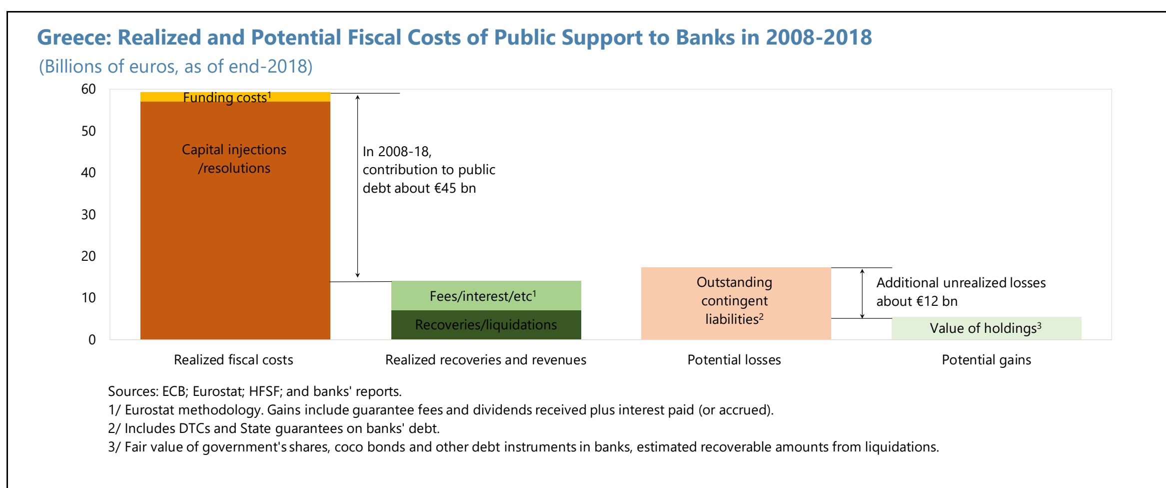
[22] See Education at a Glance: OECD Indicators—Greece (OECD Country Note, 2019).

[23] The net impact on public debt due to capital and liquidity support to the financial sector in 2008-2018 was about a quarter of 2018 GDP (See Selected Issues Paper ‘Public Financial Support to Greek Banks Over the Crisis’) and was one of the largest government interventions in terms of financial support among the EA countries following the Global Financial Crisis (Igan et al (2019)).

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

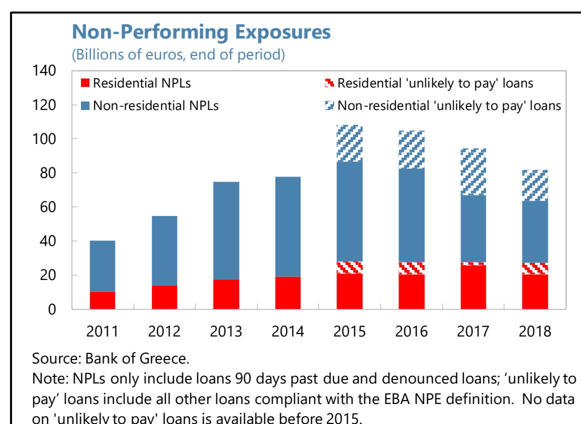


26. Restructuring of loans has lagged amid poor payment discipline, an inadequate insolvency framework, and banks' reluctance to offer sustainable restructuring solutions. Despite multiple attempts to improve OCWs and in-court restructurings, their effectiveness and use by banks and borrowers have been limited, as are liquidations of nonviable companies. The underlying insolvency regime remains unable to effectively address the still-significant private debt overhang, largely due to institutional inefficiencies and, in the case of household insolvency, poor legal design.[25] While e-auctions of foreclosed assets (introduced in 2017) have gradually increased, at its current scale the mechanism does not provide a sufficiently credible 'threat of foreclosure' to deter strategic defaulters. The e-auction success rate is still low (third-party buyers are scarce and 85 percent of e-auctions result in bank repossessions) and banks claim the legal framework is abused to avoid auctions at the last minute. Primary residence protection (PRP) has been extended multiple times since its 'temporary' introduction in 2010 and remains poorly targeted. However, banks reported that they are preparing a number of new NPE securitizations and are now beginning to offer more generous mortgage restructuring terms to borrowers.

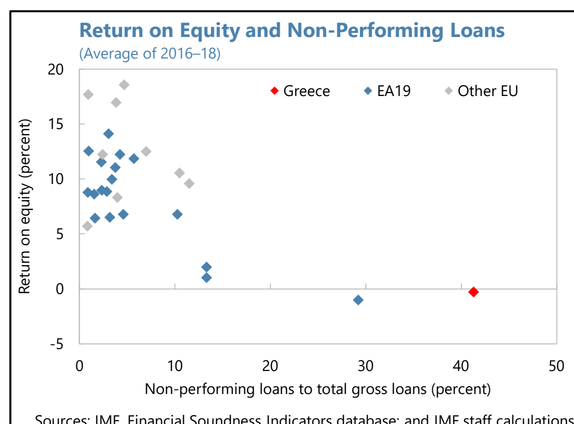
27. The new government says it is prioritizing bank clean-up. It created a new Deputy Minister position to oversee bank reform and has received state-aid approval from DGCOMP for its 'Hercules' state-supported NPE securitization guarantee scheme. A separate asset management company scheme involving state support (via the use of DTCs) has been proposed by the BoG, but so far has not gained traction within the government. Banks recently announced more aggressive NPE reduction targets (agreed with the SSM) that would bring the NPE stock down to €29 billion by end-2021, from €82 billion at end-2018. The Prime Minister has called for even more aggressive reductions, aiming to bring NPE ratios to single digits by mid-2022.

[25] About €11.5 billion of NPEs, mostly related to mortgages, are subject to pending legal actions.

28. At the current pace, the recovery of banks' lending support for investment and growth will take many years. Even the more aggressive and challenging NPE reduction targets called for by the Prime Minister could leave Greek banks as outliers vis-à-vis EU peers. Meanwhile, constraints in the resolution framework imply that any major bank failure would be highly destabilizing. Policy options for supporting banks under stress are constrained by limited capital and bail-in-able buffers, and by state-aid and other EA-wide rules.



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



Sources: IMF, Financial Soundness Indicators database; and IMF staff calculations.

29. The discussions focused on building consensus to further accelerate financial sector reforms and restore bank viability, aiming to boost the sector's resilience and ability to finance growth.

- ***Faster reduction of NPEs.*** Staff recommended even faster NPE reduction than proposed by banks and the government, aiming to bring Greece close to EA norms by end-2021. This should include a focus on hive-off strategies, whether relying on internal capital (including through DTC conversion, if appropriate) or drawing on one (or both) of the proposed state-supported schemes (though important details about them have yet to emerge). However, staff recommended subjecting the alternative approaches to ex ante comprehensive and dynamic cost-benefit analyses[26], while pressing for DGCOMP state-aid approval, as needed.

- ***Build and clean up capital***. Additional capital will likely be needed to fund even the more modest NPE reduction targets agreed with the SSM, while also complying with the SSM provisioning calendar and financing the necessary internal investments (e.g. in IT) to achieve business goals. Staff urged efforts to strengthen the loss-absorbing capacity of bank capital, including by reducing the share of DTCs to total capital. Staff emphasized that market-based private initiatives should take priority, including with existing shareholders as already underway in one major bank, though some form of public support will likely still be needed.

- ***Contain the bank-sovereign nexus.***[27] Staff urged clearance of called (but unpaid) state guarantees on bank loans to head off reputational damage and possible adverse implications for

[26] See Selected Issues Paper "Cost Effectiveness of State Support for Banks".

[27] See March 2019 PPM report (Box 1) for analysis of the Greek bank-sovereign nexus.

risk-weighting of other sovereign exposures in banks. Staff also recommends against relaxing ECB-mandated sovereign exposure ceilings.

- ***Promote meaningful debt restructuring and payment discipline.*** An overhaul of the personal insolvency framework, including elimination of PRP as a financial policy objective, creation of a more credible foreclosure threat, and limits on the length of debt installment schemes (to incentivize meaningful household debt restructuring) are needed. Faster reduction of the household insolvency case backlog is also key for supporting NPE reduction.[28]

- ***Strengthen bank internal governance and profitability.*** Staff advised that stronger internal governance would help improve new loan pricing and other business decisions and asset-liability management. Business plans should target more ambitious core profitability, with emphasis on increased operating income (e.g., fee-generating business and digital banking products and services) and cost-cutting.

- ***A comprehensive, coordinated strategy.*** The above measures would be more effective if packaged in a more holistic strategy with appropriate sequencing of measures and bringing key stakeholders together. In addition to the above elements, staff recommended that any strategy should include a forward-looking analysis of bank business sustainability (including challenges related to heightened competition, low interest rates and increasing regulatory requirements), possible fiscal costs, as well as an assessment of the long-term impact on banks' profitability and risks associated with an increasing share of difficult-to-value securitization exposures on banks' balance sheets. Such a (credible) strategy would enhance investor and depositor confidence, which has become even more important following CFM liberalization.

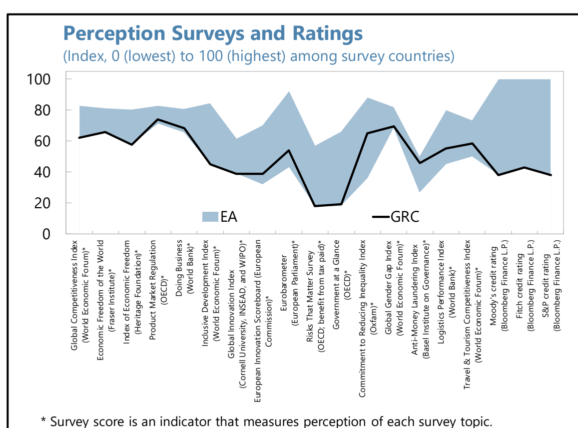
30. The authorities agreed that measures to restore banking system health should be accelerated. While emphasizing recent positive trends, the authorities noted that a holistic strategy to address high legacy NPEs is required. As a first step, they pointed to progress with the Hercules scheme. Additional measures should be considered to reduce NPE ratios to single digits by mid-2022, which the MoF expects to be funded through internal capital generation. The BoG pointed out that the latter could recover if there were an acceleration of NPE reduction. The authorities expect banks to enhance their business strategies and agreed that improvements in banks' governance, internal audits and risk management are necessary. The MoF intends to expedite internal processes to clear remaining claims on state guarantees to banks, while ensuring that all proper procedures are followed. As part of its overall debt strategy, the government is mulling how to best prepare legislation for a unified personal insolvency framework that would increase automaticity and limit filings by strategic defaulters. The authorities noted that they expect the recent elimination of CFMs to further enhance confidence of depositors, investors, and rating agencies in the banking sector and, more broadly, in economic performance.

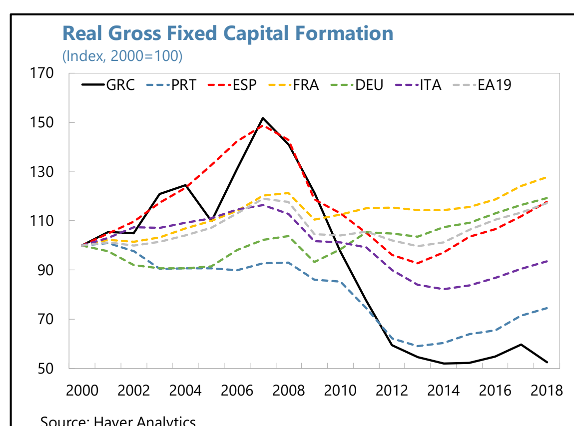
[28] See Selected Issues Paper '*Household Insolvency and Primary Residence Protection in Greece: Impact and Recommendations for Reform*'.

D. Structural Reforms to Support a New Growth Model

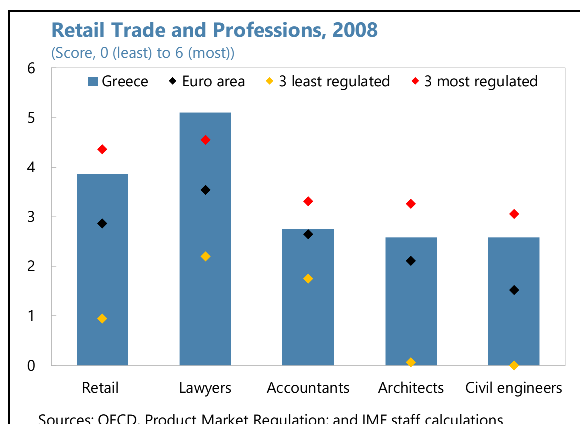
31. Much of the needed structural transformation of the Greek economy is yet to be achieved (Box 2). The economy is dominated by small and medium-sized enterprises (SMEs) operating in a rigid business climate (Figure 7). Greece remains at or near the bottom among EA members in many cross-country perception surveys (text chart), which underscores the broad scope of the challenges that Greece faces. Product market deregulation, de jure addressed through the program-era OECD Toolkit recommendations and other steps, has largely not taken root (often due to missing or contradictory secondary legislation), thus hindering the price impact of reforms.[29] Beyond legislation, however, impediments to more competition in product markets seem to involve a broader set of agent rules, behaviors, and implementation capacities.

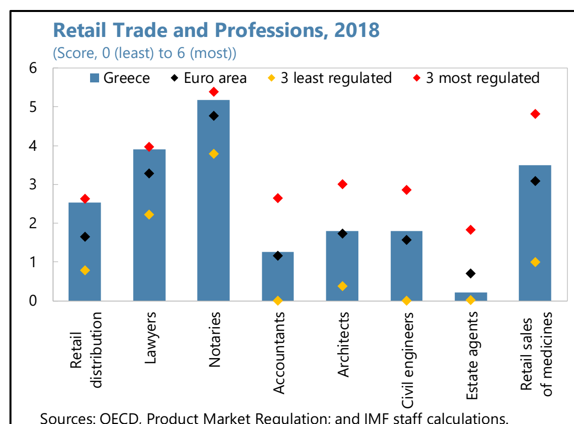
32. The new government is taking steps in the right direction. It has accelerated efforts to unblock signature privatization projects (e.g., the 'Hellenikon' old airport privatization) and is pushing through business licensing deregulation. It is mulling how to attract more FDI, including by tackling long-standing constraints such as spatial planning rules and the outdated land cadaster. It is also working on boosting competition in network industries, notably by accelerating restructuring of some inefficient SOEs and by preparing a draft law on renewable energy. The government also appointed a new head of the Hellenic Competition Commission (HCC), who aims to strengthen the HCC's capacity to identify cartels and market power, among other initiatives. The government is planning to review the status of closed professions in collaboration with KEPE (a government research institute). It also plans to develop an export promotion strategy that tackles non-price competitiveness.





[29] The OECD Toolkit assessments (2013–16) targeted rules and regulations that protected key sectors.





Box 2. Structural Transformation in Greece

Pre-crisis growth was driven by unsustainable investment and consumption fueled by high wages and pensions and low borrowing costs, rather than technological progress. During the program era, the authorities largely failed in efforts to achieve a much-needed deep structural transformation of the economy, given reform inconsistencies, delays, reversals, and resistance from vested interests (e.g., closed professions). Despite a recent higher incidence of new firm exit and entry (notably in ICT and knowledge-intensive sectors),[1] firm growth (and incidence of high-growth enterprises) remains relatively anemic compared to peers (see Figure 7). The average firm size and value-added have not grown since 2009, with SMEs accounting for 85 percent of employment and 64 percent of gross value added. Unprofitable and structurally weak public companies continue operating, supported by various grants (about €18 billion during 2012–18 for ordinary and public investment expenses, and others). Privatization, expected to bring new investment opportunities and productivity gains, has repeatedly underperformed expectations although it was recently accelerated. Further dynamism in the corporate sector will be needed to boost innovation and productivity.

[1] "Annual Entrepreneurship Report 2017-2018: Fewer ventures, better employment prospects", Global Entrepreneurship Monitor (GEM) Foundation for Economic & Industrial Research (IOBE/FEIR), IOBE Entrepreneurship Observatory (2018).

33. The new government's efforts deserve support and should be followed by strong implementation and efforts towards an even deeper and broader transformation.

- ***Streamlining business licensing.*** The authorities' objectives to simplify regulatory procedures for investment (including streamlining classification requirements and adding pending sectors to notification-only basis) and modernizing the tender system (ILIMS) deserve support.

- ***More dynamic markets.*** Reforms to tackle legal and institutional constraints to firm entry/exit and labor mobility are needed. To support these reforms, staff highlighted the need to strengthen the capacity and independence of Hellenic Competition Commission (HCC) to conduct market studies that assess problems tied to any contradicting or missing legislation and broader rules and behaviors behind uncompetitive sectors (and to propose solutions as appropriate).

- ***Opening closed professions.*** Staff stressed the importance of steadfast implementation of the sectoral measures adopted under the OECD toolkit reform. To overcome resistance and better track efforts, staff supported the authorities' planned review, and urged development of an ongoing real-time assessment capacity of current barriers to product market and closed profession liberalization (Annex I).

- ***Reforming SOEs and network industries.*** Staff supported the government's action plans to accelerate reforms in the transportation and energy sectors, including new governance and pricing schemes in the electricity company (PPC) and tackling roadblocks to higher private sector involvement for roadway maintenance (EGNATIA) and gas distribution (DEPA). Discussions also focused on the timeline for committed action plans and market studies to accelerate state divestment from key industries, which staff emphasized should be geared towards improving service and removing price distortions.

34. The authorities agreed that re-energizing Greece's structural transformation is a priority for boosting growth. They pointed to their swift action to adopt legislation that makes it easier to invest and efforts to reinvigorate the privatization agenda. They agreed that product market competition needs to be strengthened and will take a sequenced approach to address remaining investment bottlenecks, which will be articulated in a new growth strategy by the end of the year.

E. Public Sector Transparency and Governance Assessment

35. Greece has strengthened its AML/CFT regime in line with international standards. A recent Financial Action Task Force (FATF) assessment report, adopted in September 2019, concludes that Greece's AML/CFT regime is effective (relative to international standards) in several area (e.g., the understanding of ML/TF risks, national co-ordination, the use of financial intelligence, investigation and prosecution of TF, and the implementation of targeted financial sanctions), but weaknesses remain (e.g., the prosecution of ML and confiscation and controls over the non-financial sector)**.** Greece is under a regular follow-up process.

36. The authorities have effectively mobilized their AML/CFT framework to fight tax evasion, but gaps remain. Fiscal structural reforms to improve tax compliance have been underway for several years and the application of AML tools has led to seizure of tax evasion proceeds. Most recently, implementation of the obligation to identify and report suspicious transactions linked to tax evasion has been enhanced. The tax authorities have prioritized the cases disseminated by the Financial Intelligence Unit in their tax audits, which has contributed to additional revenue collection. Further efforts are needed to improve the audit process and its quality. Addressing remaining limitations at the IAPR level (i.e., data warehouse and IT support tools, lack of data analysis expertise for ML) would allow the authorities to use the AML framework more effectively in the fight against tax evasion.

37. The authorities are making progress with strengthening the rule of law for contractual and property rights. Reforms are underway to modernize the judicial system and improve its

overall effectiveness, but challenges remain. The current judicial processes are extremely time-consuming, causing extensive delays in decisions and enforcement.

38. On the anti-corruption front, the authorities have recently established a National Transparency Authority (NTA). It will take over the policy and coordination responsibilities of the General Secretariat Against Corruption and other five public audit entities, aiming to enhance transparency and coordination and to reinforce preventive and enforcement efforts. Plans are also underway to revise the National Anti-Corruption Action Plan and prioritize remaining reforms.

39. The quality of official statistics continues to improve and data provision is deemed to meet the minimum adequacy for surveillance. The coverage and timeliness of data compilation processes have improved, making them broadly consistent with international statistical standards. Technical assistance from the IMF, Eurostat, and other member states has played an important role in the capacity building of the newly established the independent Hellenic Statistical Authority, ELSTAT. The discrepancies that had been observed in the fiscal reports of the BoG during the past four years were eliminated recently.

40. The discussions focused on additional actions to improve the rule of law and data transparency:

- There is still work ahead to enhance the efficiency and quality of the judicial system, including protection of property and enforcement of contracts. Steady progress towards completion of the cadaster and property registration is needed.

- Staff encouraged the authorities to speed up the reform of the Criminal and Criminal Procedures Codes, specifically with respect to the active bribery offence of public officials, to align it with the OECD's Anti-Bribery Convention. The creation of the NTA is welcome, but implementation is now key. Staff also urged a strengthening of the capacity to detect and prosecute corruption cases, including by providing sufficient powers and resources to enforcement agencies.

- The authorities should protect the gains achieved so far by defending the statistical agency against any efforts to undermine its credibility, and guaranteeing its professional independence, while firmly respecting the "Commitment on Confidence in Statistics" that was endorsed by the government in 2012.

41. The authorities agreed on the importance of continuing to implement the AML framework to fight tax evasion and agreed that good governance and the rule of law are essential. They noted their recent positive FATF mutual evaluation report and agreed that efforts should continue to further mobilize the AML framework in the fight against tax evasion. The Ministry of Justice is aware of the need to speed up the reforms to enhance the efficiency and quality of the judicial system, including for property and contractual rights and confirmed that efforts are underway. On the anti-corruption front, the authorities expressed confidence in the new NTA on the basis of eliminating fragmentation and overlaps but agreed that further efforts are necessary to detect and prosecute corruption cases. The authorities confirmed that the Criminal and Criminal Procedures Codes will be promptly amended to align the necessary provisions with the OECD'S Anti-Bribery Convention.

STAFF APPRAISAL

42. The new government is rightly prioritizing growth but faces an uphill battle. Growth prospects are weighed down by significant crisis legacies (high public debt, high NPLs, over-indebted borrowers), low productivity, a dearth of investment, a weak payment culture, and adverse demographics. Public debt-to-GDP is projected to trend down over the next decade with relatively low liquidity risks in the medium-term, though long-term sustainability is not assured under realistic macro-fiscal assumptions. Staff assesses there is overvaluation of the real effective exchange rate. These and other factors leave Greece vulnerable to a range of external and domestic shocks.

43. In this context, the new government should use its political mandate and improving investor sentiment to deploy a full range of policy tools to boost socially inclusive, higher growth. These include fixing the banking sector, making fiscal policy more growth friendly, streamlining business licensing, strengthening competition, and deepening the labor market reforms as initiated by the new government. A key question is whether the authorities can overcome long-standing vested interests that have traditionally blocked reforms.

44. Fixing the banking sector is a top priority. Still-weak banks dampen growth prospects and pose significant fiscal and financial stability risks. The government's NPE reduction objectives go in the right direction and the 'Hercules' scheme could provide significant support, but a more comprehensive, ambitious, and well-coordinated strategy is needed to fully restore banks to health. Efforts should be primarily market-based (some form of public support will likely be needed but should be subject to a dynamic cost-benefit analysis) and supported by further improvements in the legal framework (e.g., more efficient judicial processes and a better insolvency regime). Residential mortgage protection and ad hoc tax and social security installment schemes have been counterproductive for meaningful debt restructuring and the payment culture and should be permanently phased out.

45. The fiscal policy mix should be rebalanced to strengthen growth and social inclusion. Plans to cut direct tax rates and strengthen compliance are welcome but more could be achieved by broadening the tax base through tax policy changes and enforcement. Continued efforts are needed to strengthen the IAPR and mobilize the AML framework to combat tax evasion. Relative to the rest of the EU, Greece still spends too much on pensions and the public wage bill, and too little to other social spending (e.g., the means-tested Social Solidarity Income and public health) and on investment. Accelerating public financial management reforms would improve execution of the public investment budget, enhance budget control, and strengthen fiscal risk management (including from ongoing court cases).

46. Reducing fiscal targets to create more space for investment and social spending would also support the economic and social recovery. While the 2019 fiscal primary surplus is expected to be broadly in line with Greece's fiscal commitment to European partners, it will once again depend on growth-dampening under-execution of public investment. For 2020 and forward, staff recommends that the government and European partners build consensus around a meaningfully

lower primary balance path, given ample economic slack and critical unmet social spending (e.g., in the health sector) and investment needs, and to accommodate spending that would create synergies with (and ease acceptance of) stepped-up structural reforms.

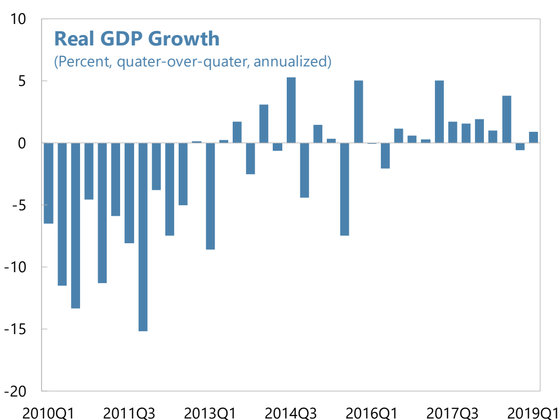
47. While Greece has made some progress in creating a more competitive and dynamic economy, a long road lies ahead. The authorities' lifting of remaining CFMs (which leaves Greece's exchange system free of exchange restrictions under Article VIII, Section 5) is a welcome step. The new government also deserves credit for its efforts to unblock privatization and push through business deregulation and digitalization, but the economy remains over-regulated and dominated by small and medium-sized enterprises operating in an unwelcoming business climate. More is needed to de facto liberalize product markets and closed professions and strengthen competition.

48. The recent labor market proposals from the government are welcome, though more is needed to support higher employment, growth, and competitiveness. Recent legislation to lift new restrictions on dismissals and the intention to limit unilateral appeals to arbitration, introduce an opt-out mechanism from collective bargaining, and firmly link the adjustment of minimum wages to productivity growth go in the right direction, but the authorities should aim at full restoration of the 2011-13 landmark labor reforms. Even more important is reducing non-wage costs (as labor has, relatively speaking, borne too much of the burden of adjustment) and complementary efforts to strengthen employment (e.g., strengthening active labor market policies and removing bottlenecks to female labor force participation).

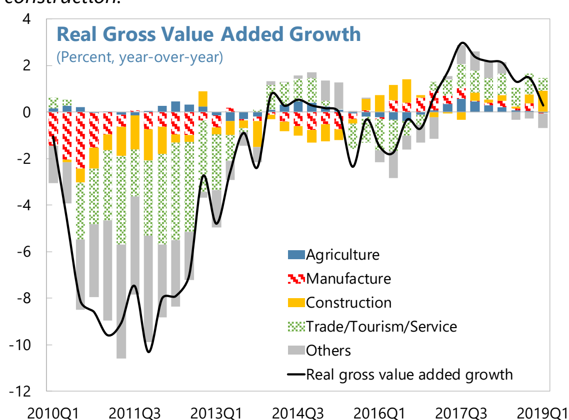
49. The second PPM Board discussion is envisaged for 2020Q2. Greece remains under the standard 12-month Article IV cycle.

Figure 2. Greece: Macroeconomic Developments

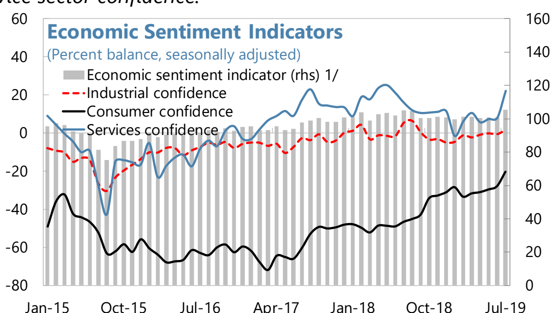
The post-crisis recovery remains underwhelming.



Record-high tourism and trade in services have led the recovery, weakly supported by manufacturing and, most recently, a pick-up in construction.

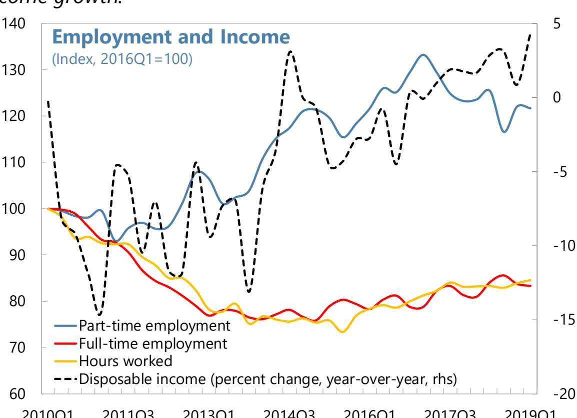


Economic sentiment is improving, thanks to higher consumer and service sector confidence.

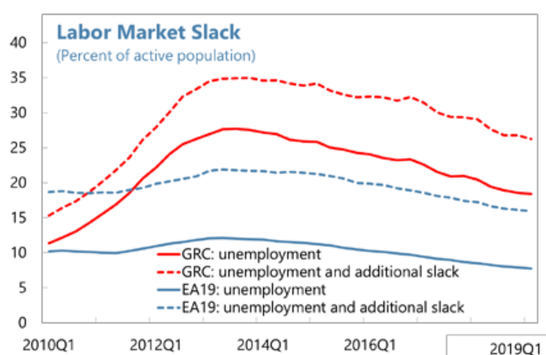


1/ The overall economic sentiment indicator (ESI) is derived from five sectoral confidence indicators with the following weights: industrial (40 percent), service (30 percent), consumer (0 percent), construction (5 percent) and retail trade (5 percent). Note: Percent balance is the difference between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

Employment and working hours are rising, boosting disposable income growth.

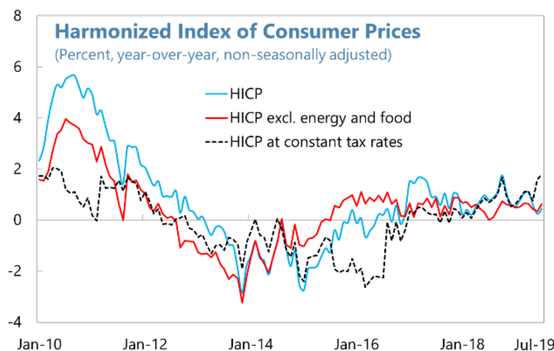


But unemployment remains high and ample slack remains...



Note: Additional slack includes underemployment (part-time work), the population available but not seeking work, and those seeking work but not immediately available, all 15-74 population SA, as a percent of active population.

...keeping prices subdued, but with taxes and commodity prices also playing an important role.

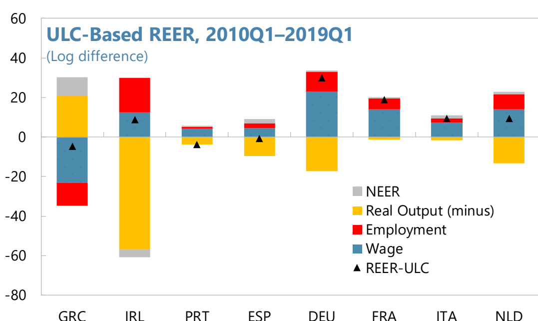


Note: The HICP at constant tax rates measures inflation without the impact of changes in taxes on products to assess the contribution to inflation of changes in taxes on products.

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

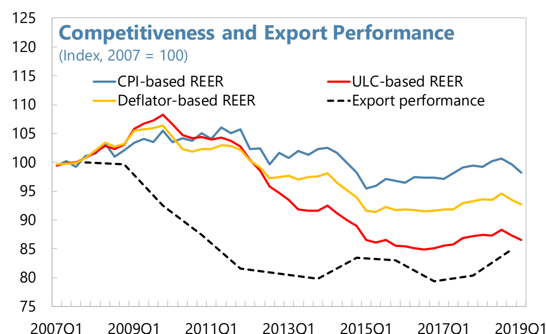
Figure 3. Greece: Labor Market and Competitiveness Developments

While peers experienced productivity gains amidst growing employment, Greece's unit labor cost (ULC) adjustment was driven by lower wages and labor shedding.



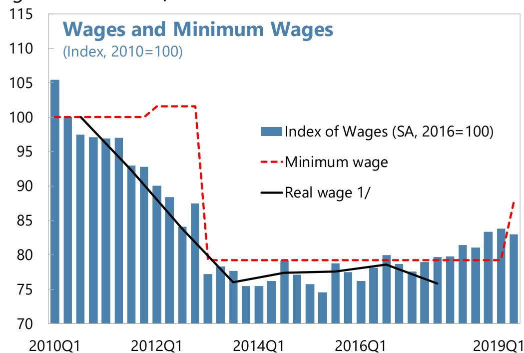
Note: ULC-REERs are broken down into contributions from NEER and ULC components = labor costs (wage), employment (positive value means rising ULC), and output growth (negative value means increasing output and negative contribution to ULCs).

Exports benefited from lower ULCs, but relative price declines were not commensurate with the relative decline in wages.



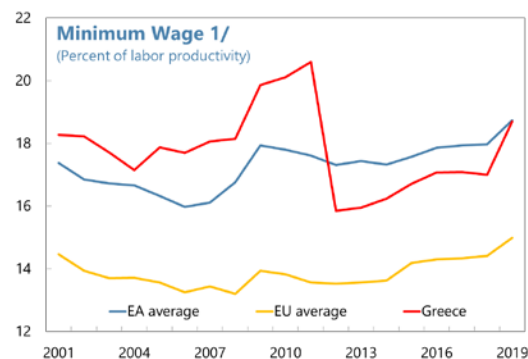
Note: Export performance is the ratio between export volumes and export markets for total goods and services. The calculation of export markets is based on a weighted average of import volumes in each exporting country's markets, with weights based on trade flows in 2000.

Recent labor market decisions, including the MW hike, augment the risk of a broader-based increase in labor costs...



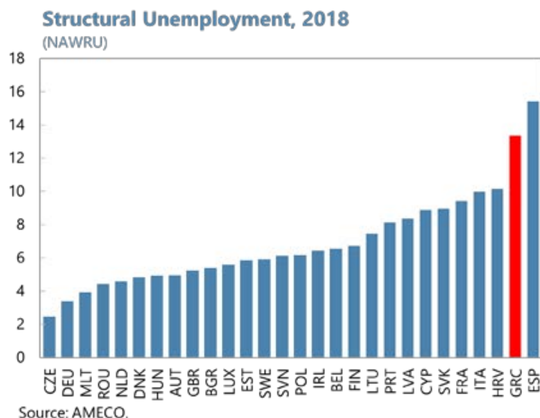
1/ Based on annual data.
Note: As of February 2019, the minimum wage increased by 11 percent to €650 for monthly wages and to €29 for daily wages.

...although this risk is somewhat mitigated by regional trends.



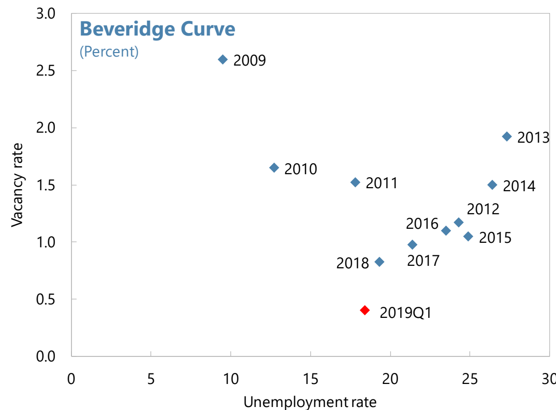
Note: EA average and EU average are calculated with available data.
1/ Annualized total wage cost/nominal GDP per employee, adjusted for 14 salaries.

Greece still features high structural unemployment vis-à-vis peers.



Source: AMECO.

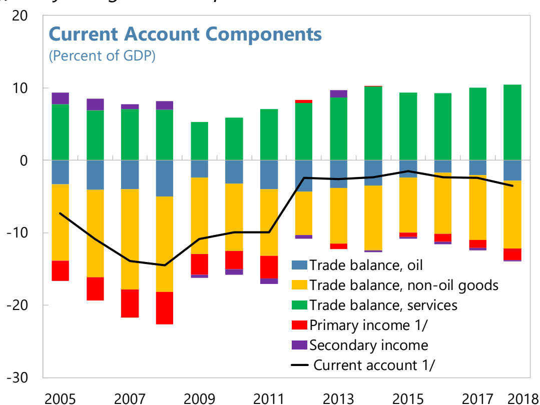
The room for a cyclical employment recovery is narrowing, furthering the need for reforms that boost worker skills and productivity.



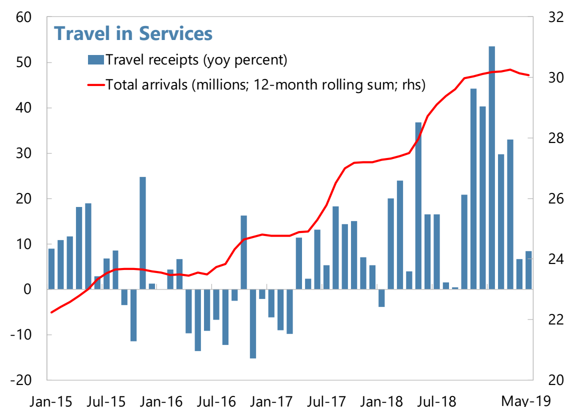
Sources: Bank of Greece; ELSTAT; European Commission; Eurostat; International Labour Organization; OECD; IMF, WEO database; and IMF staff calculations.

Figure 4. Greece: External Sector Developments

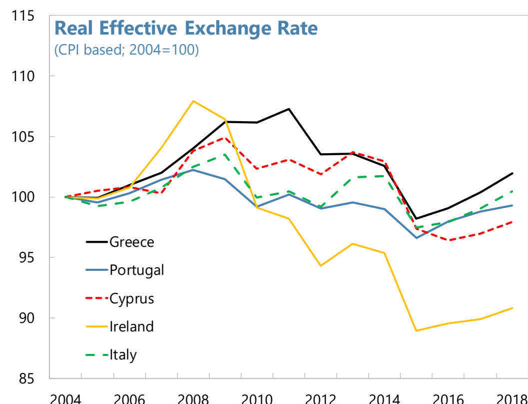
The current account deficit is widening again, with deterioration of the merchandise trade balance only partially offset by rising service exports…



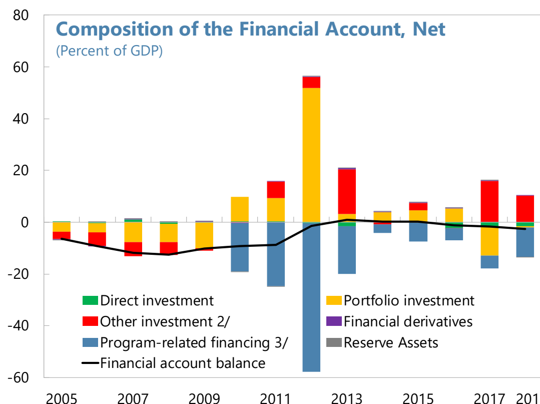
…helped by buoyant tourism receipts.



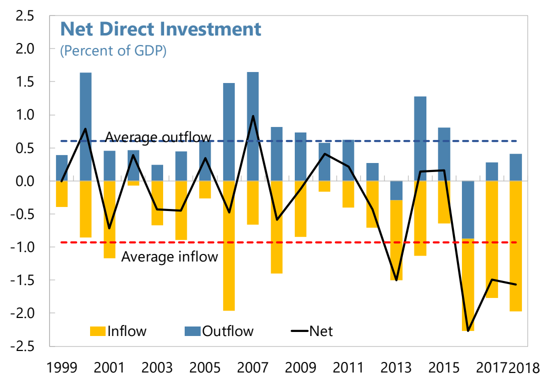
Following significant depreciation, the REER (CPI-based) began appreciating in 2015 along with other EA countries (though it ticked down in early 2019—see Figure 3)



Official sector program-related financing remained the dominant source of financial account inflows through 2018, ….

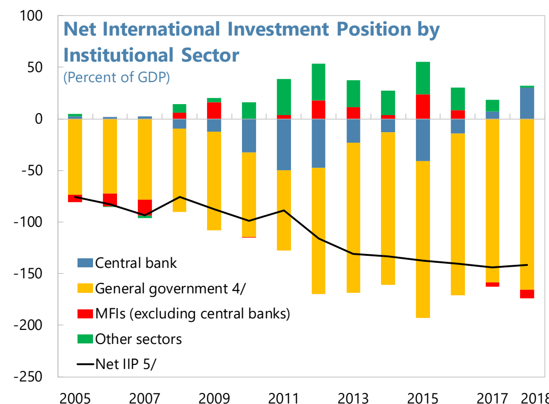


… while FDI flows have increased recently, driven by investment in tourism and transportation (incl. privatization), real estate purchases, and financial sector M&As.



Sources: Bank of Greece; Haver Analytics; and IMF staff calculations.

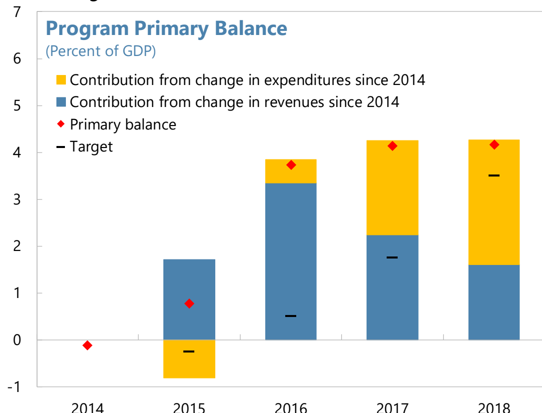
Following a long period of deterioration, the NIIP position has stabilized with higher net foreign assets of the monetary authorities offsetting higher net foreign liabilities of the government and MFIs.



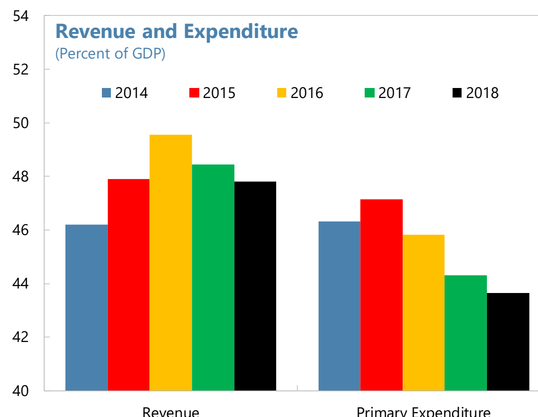
Sources: Bank of Greece; ELSTAT; Eurostat; European Central Bank; and IMF staff calculations.
1/ Includes deferred interest payments on EFSF loans (IMF staff revisions).
2/ Includes liabilities to Eurosystem related to TARGET2. Excludes official financing (IMF staff revisions).
3/ Includes official financing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

Figure 5. Greece: Fiscal Developments

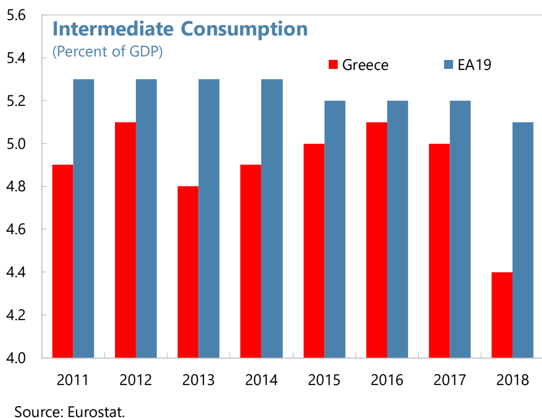
The primary surplus was again above target in 2018 (with expenditure compression overtaking revenue as a cumulative contributing factor since 2014)...



... with recent revenue declines outpaced by expenditure compression.

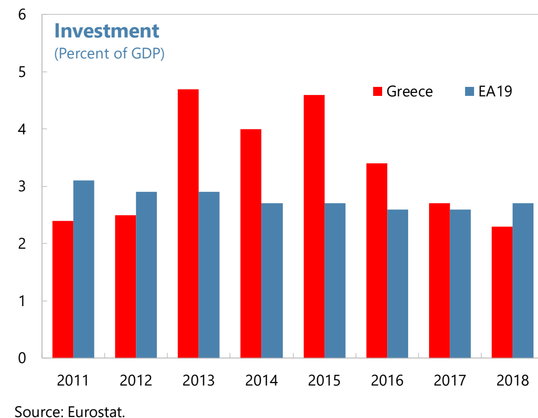


Intermediate consumption has experienced a big drop...



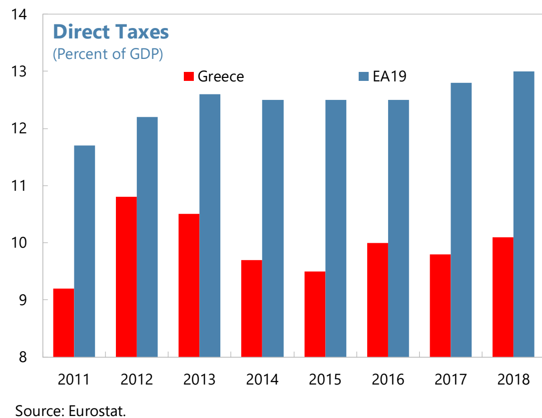
Source: Eurostat.

...while public investment has continued to decline.



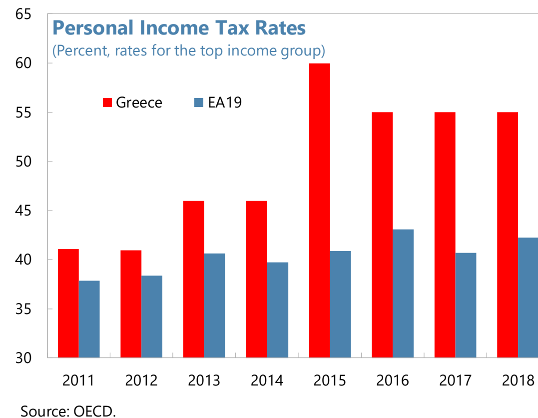
Source: Eurostat.

Weak compliance and extensive exemptions have contributed to a high (relative to EA) revenue gap in direct taxes...



Source: Eurostat.

...despite Greece's very high labor tax wedge.

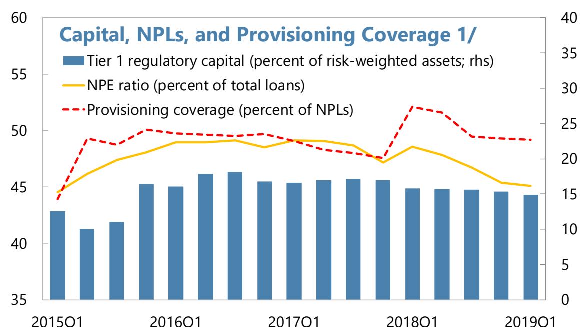


Source: OECD.

Sources: Eurostat; Ministry of Finance; OECD; and IMF staff projections.

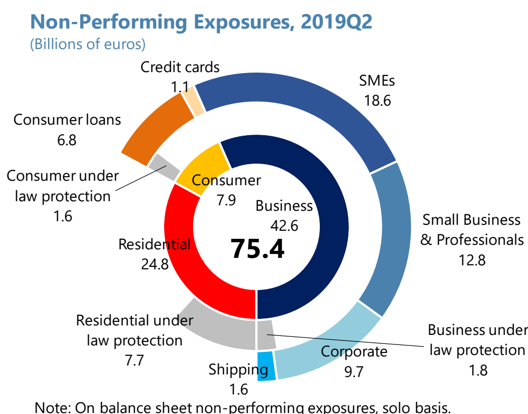
Figure 6. Greece: Financial Sector Developments

NPEs remain high, while provisioning coverage is declining.



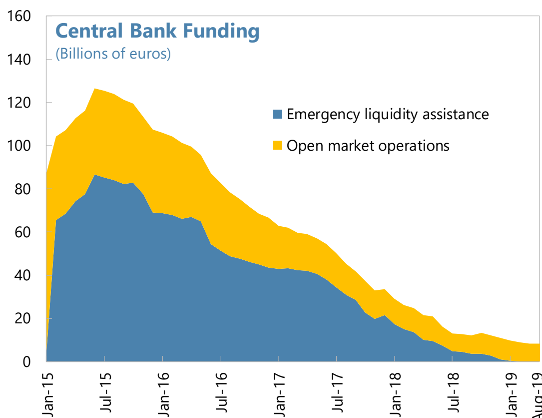
1/ Non-Performing Exposures are defined as loans that are 90 days or more past due, unlikely to be repaid in full without realizing collateral, and impaired according to accounting rules, as well as loans that have been restructured for less than a year.

About one-third of residential NPEs remain under legal protection (see grey areas)

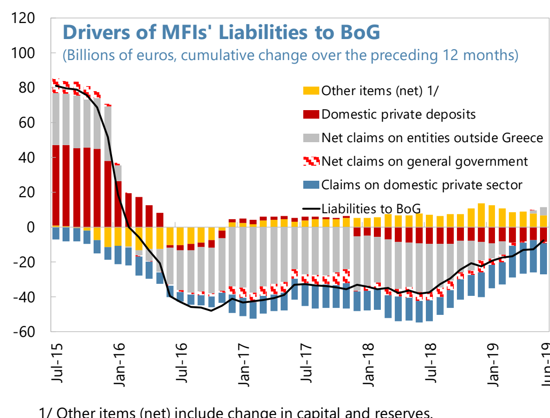


Note: On balance sheet non-performing exposures, solo basis.

Central bank funding is back to normal ...

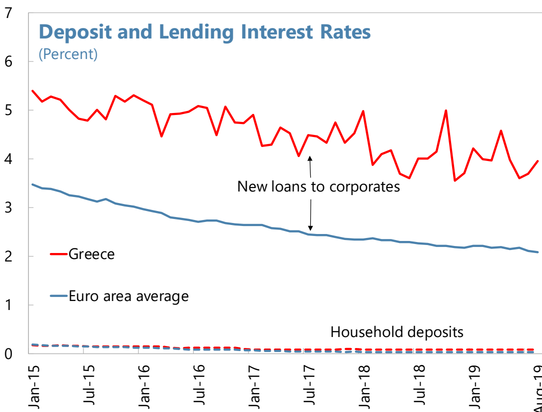


...thanks to deleveraging and recovery in deposits.

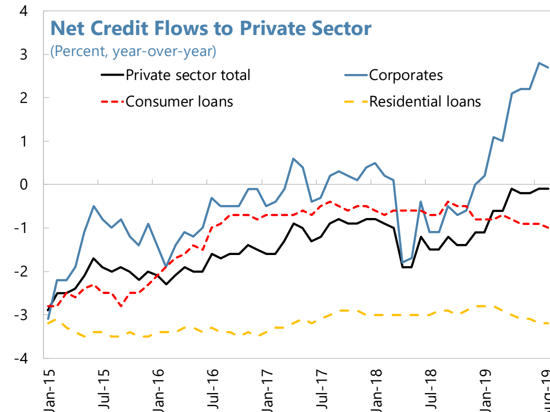


1/ Other items (net) include change in capital and reserves.

Lending interest rates remain high...



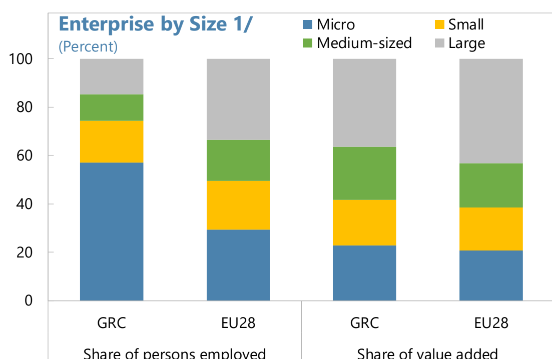
...and net credit continues to contract in most categories.



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

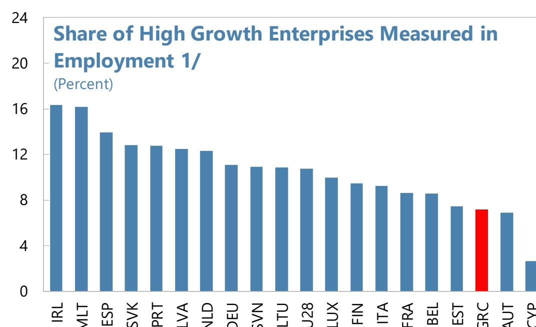
Figure 7. Greece: Structural and Competitiveness Indicators

Greece's value-added and employment are more dominated by micro firms relative to peers



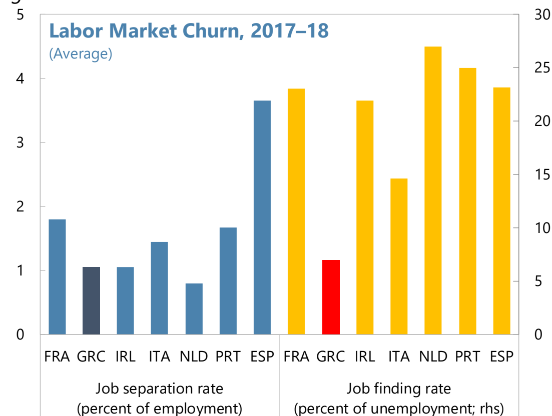
1/ Estimates for 2017 are based on 2008-15 figures from the Structural Business Statistics Database (Eurostat) plus additional data provided by ELSTAT.

High-growth enterprises are scarce compared to peers...

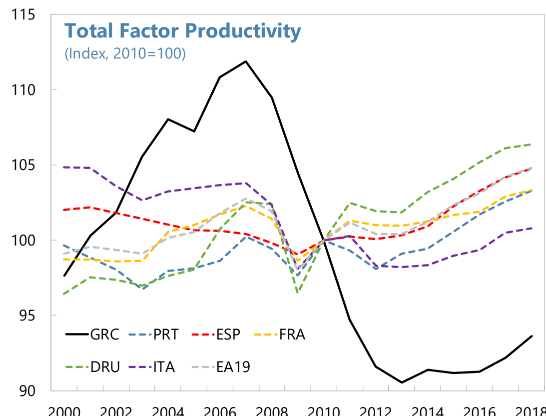


1/ Number of high growth enterprises (HGE) divided by the number of active enterprises with >10 employees. HGE are enterprises with an average annualised growth in the number of employees of more than 10 percent per year over a 3-year period and at least 10 employees when the growth began.

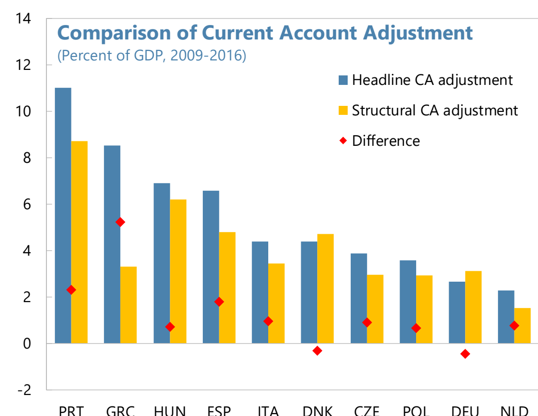
... and labor market churn is low, pointing to structural rigidities...



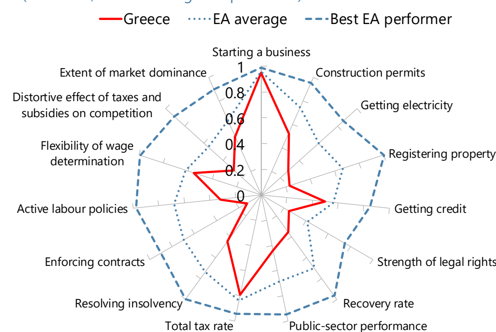
...contributing to low total factor productivity.



Greece's external adjustment is estimated to have been largely cyclical...



... with a substantial competitiveness gap vis-à-vis peers.



Note: Surveys measure perception of competitiveness.

Sources: European Banking Authority; European Commission; Eurostat; Haver Analytics; IMF, WEO database; World Bank, Doing Business; World Economic Forum, Global Competitiveness Index; and IMF staff calculations.

Table 1. Greece: Medium-Term Macro Framework, 2017–24

	2017	2018	2019	2020	2021	2022	2023	2024
		Est.	Projections					
	(Percentage change, unless otherwise indicated)							
Real GDP	1.5	1.9	1.8	2.3	2.0	1.4	0.9	0.9
Total domestic demand	0.6	0.5	1.7	2.6	2.2	1.6	0.9	0.9
Private consumption	0.9	1.1	0.8	1.3	1.0	1.0	0.9	0.9
Public consumption	-0.4	-2.5	1.9	1.0	0.5	0.6	0.6	0.6
Gross fixed capital formation	9.1	-12.2	7.8	13.0	10.9	6.0	1.0	1.0
Net exports								
Exports of goods and services	6.8	8.7	4.3	4.3	4.2	3.1	1.0	1.0
Imports of goods and services	7.1	4.2	4.2	4.9	4.6	3.4	1.0	1.0
Final consumption (contribution)	0.5	0.2	1.0	1.1	0.8	0.8	0.7	0.7
Gross fixed capital formation (contribution)	1.1	-1.6	0.9	1.5	1.4	0.8	0.2	0.1
Change in inventories (contribution)	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance (contribution)	-0.3	1.3	0.0	-0.3	-0.2	-0.2	0.0	0.0
Resource utilization								
Potential GDP	-0.9	-0.8	-0.1	0.0	0.5	0.6	0.9	0.9
Output gap (percent of potential)	-8.9	-6.4	-4.6	-2.4	-0.9	-0.1	0.0	0.0
Employment	2.2	2.0	2.2	2.1	1.2	0.6	0.5	-0.2
Unemployment rate (percent) 1/	21.5	19.3	17.5	15.6	14.4	13.6	12.9	12.9
Prices								
GDP deflator	0.6	0.5	0.7	0.7	1.5	1.5	1.8	1.8
Consumer prices (HICP), period average	1.1	0.8	0.5	0.6	1.3	1.4	1.8	1.8
Unit labor costs	0.1	1.2	1.8	1.5	1.4	1.8	1.8	1.8
	(Percent of GDP, unless otherwise indicated)							
Current account 2/	-2.4	-3.5	-2.8	-2.9	-3.2	-3.3	-4.0	-4.2
Trade balance	-1.0	-1.7	-1.6	-2.0	-2.1	-2.3	-2.4	-2.4
Export of goods and services	34.2	37.6	38.7	39.6	40.3	40.7	40.5	40.3
Export of goods	15.6	17.5	17.8	18.0	18.2	18.4	18.3	18.2
Exports of services	18.7	20.1	20.9	21.5	22.1	22.3	22.2	22.1
Imports of goods and services	35.2	39.4	40.4	41.5	42.4	43.0	42.9	42.8
Imports of goods	26.6	29.7	30.4	31.5	32.2	32.7	32.6	32.5
Imports of services	8.7	9.7	9.9	10.1	10.2	10.3	10.3	10.3
Primary income 2/	-1.1	-1.6	-1.4	-1.4	-1.5	-1.6	-1.6	-1.8
Secondary income 3/	-0.3	-0.3	0.2	0.5	0.5	0.6	0.0	0.0
Net international investment position 4/	-143.7	-142.1	-145.8	-143.3	-141.5	-140.5	-141.0	-141.4
Gross external debt 4/	227.2	222.4	219.3	212.7	206.3	201.6	198.6	196.5
Private sector capital flows (net)	4.2	14.3	-4.3	2.1	-0.4	-1.0	-3.2	-3.5
Fiscal Indicators (general government)								
Total revenues	48.4	47.8	47.7	46.8	45.8	45.3	44.9	44.4
Total expenditures	47.4	46.9	47.6	47.3	46.6	46.2	46.1	45.6
Primary expenditures	44.3	43.6	44.0	43.7	43.1	42.7	42.5	42.1
Primary balance	4.1	4.2	3.7	3.1	2.7	2.6	2.4	2.2
Cyclically-adjusted primary balance	8.4	7.5	5.9	4.2	3.1	2.7	2.4	2.3
Overall balance	1.0	0.9	0.1	-0.5	-0.8	-0.9	-1.2	-1.3
Gross public debt 4/	179.3	184.9	176.5	171.4	166.3	161.0	155.6	152.0
Memorandum item:								
Nominal GDP (billions of euros)	180.2	184.7	189.4	195.3	202.2	208.3	213.9	219.6

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

1/ Based on Labor Force Survey.

2/ Includes deferred interest payments on EFSF loans.

3/ Includes transfers related to ANFA/SMP profits.

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

Table 2. Greece: Summary of Balance of Payments, 2017–24

	2017	2018	2019	2020	2021	2022	2023	2024
		Est.			Projections			
				(Billions of euros)				
Current account balance 1/	-4.3	-6.5	-5.3	-5.7	-6.4	-6.8	-8.5	-9.3
Balance of goods and services	-1.8	-3.2	-3.1	-3.8	-4.3	-4.8	-5.1	-5.4
Goods balance	-19.8	-22.5	-23.9	-26.2	-28.4	-29.8	-30.5	-31.4
Exports	28.0	32.4	33.7	35.2	36.8	38.3	39.1	40.0
Imports	47.9	54.9	57.6	61.4	65.2	68.1	69.7	71.4
Services balance	18.0	19.3	20.8	22.4	24.0	24.9	25.5	26.0
Credit	33.7	37.2	39.7	42.1	44.7	46.5	47.5	48.6
Debit	15.6	17.9	18.8	19.7	20.6	21.6	22.1	22.6
Primary income 1/	-2.0	-2.9	-2.6	-2.8	-3.0	-3.2	-3.4	-3.9
Credit	6.6	6.3	6.3	6.5	6.9	7.3	7.7	7.8
Debit 1/	8.5	9.2	8.9	9.3	9.9	10.6	11.1	11.7
Secondary income	-0.6	-0.5	0.4	0.9	1.0	1.2	0.0	-0.1
Credit 2/	1.9	2.0	3.6	3.6	3.8	4.0	2.8	2.8
Debit	2.5	2.5	3.1	2.7	2.8	2.8	2.8	2.9
Capital account balance	0.9	0.4	0.7	0.8	0.9	1.0	0.9	0.8
Financial account balance	5.9	16.1	-6.6	-2.4	-4.7	-4.9	-7.1	-6.6
Direct investment	-2.7	-2.9	-3.2	-3.5	-2.7	-2.5	-2.5	-2.6
Portfolio investment	-20.5	-0.7	5.0	-1.8	-4.2	-2.3	-1.9	-3.6
Financial derivatives	0.4	0.7	-1.0	0.1	0.2	0.2	0.1	0.1
Other investment 3/	28.8	18.9	-7.5	2.7	1.9	-0.2	-2.8	-0.6
Net errors and omissions	0.5	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	-8.8	-21.2	2.0	-2.5	-0.7	-1.0	-0.5	-1.9
Reserve assets	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-0.7	-1.8	-4.4	0.0	-2.0	-2.0	-1.4	-0.3
Program-related financing 4/	9.6	22.9	2.4	2.5	2.7	3.0	1.9	2.2
				(Percent of GDP)				
Current account balance 1/	-2.4	-3.5	-2.8	-2.9	-3.2	-3.3	-4.0	-4.2
Balance on goods and services	-1.0	-1.7	-1.6	-2.0	-2.1	-2.3	-2.4	-2.4
Goods balance	-11.0	-12.2	-12.6	-13.4	-14.0	-14.3	-14.3	-14.3
Services balance	10.0	10.5	11.0	11.5	11.9	12.0	11.9	11.8
Primary income 1/	-1.1	-1.6	-1.4	-1.4	-1.5	-1.6	-1.6	-1.8
Secondary income 2/	-0.3	-0.3	0.2	0.5	0.5	0.6	0.0	0.0
Capital account balance	0.5	0.2	0.4	0.4	0.5	0.5	0.4	0.4
Financial account balance	3.3	8.7	-3.5	-1.3	-2.3	-2.3	-3.3	-3.0
Direct investment	-1.5	-1.6	-1.7	-1.8	-1.3	-1.2	-1.2	-1.2
Portfolio investment	-11.4	-0.4	2.6	-0.9	-2.1	-1.1	-0.9	-1.6
Financial derivatives	0.2	0.4	-0.5	0.1	0.1	0.1	0.1	0.1
Other investment 3/	16.0	10.2	-3.9	1.4	1.0	-0.1	-1.3	-0.3
Net errors and omissions	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	-4.9	-11.5	1.1	-1.3	-0.4	-0.5	-0.3	-0.8
Reserve assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-0.4	-1.0	-2.3	0.0	-1.0	-0.9	-0.6	-0.1
Program-related financing 4/	5.4	12.4	1.2	1.3	1.3	1.4	0.9	1.0
Gross external debt	227.2	222.4	219.3	212.7	206.3	201.6	198.6	196.5
Public sector 5/	193.2	180.8	178.3	171.3	164.9	159.9	156.8	154.4
Private sector	34.0	41.6	41.1	41.4	41.4	41.6	41.9	42.1
Memorandum item:								
Current account balance in cash terms	-1.8	-2.9	-2.2	-2.3	-2.5	-2.5	-3.1	-3.2
Deferred interest payments on EFSF loans	0.6	0.6	0.6	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 revisions).

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

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

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

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

Table 3. Greece: General Government Operations, 2017–24 [1/]

	2017	2018	2019	2020	2021	2022	2023	2024
			Projections					
			(Billions of euros)					
Revenue	87.3	88.3	90.4	91.5	92.6	94.4	96.1	97.4
Indirect taxes	30.6	31.3	31.9	32.3	32.9	33.5	34.2	34.5
Direct taxes	17.7	18.6	18.3	18.1	18.2	18.8	19.2	19.8
Social contributions	26.0	26.3	26.8	27.6	28.3	29.1	29.8	30.6
Other current revenue	5.3	4.1	3.7	3.9	3.9	3.9	3.5	3.1
Sales	5.3	5.3	5.8	5.8	5.8	5.9	6.0	6.0
Capital revenue	2.5	2.7	4.0	3.8	3.6	3.3	3.3	3.3
Primary expenditure	79.8	80.6	83.4	85.4	87.2	88.8	90.9	92.5
Social benefits	38.4	38.3	38.8	38.9	39.4	40.0	40.8	41.4
Subsidies	1.7	1.6	1.8	1.8	1.8	1.8	1.8	1.7
Other current expenditure	2.7	3.4	4.4	4.1	4.2	4.4	4.5	4.5
Compensation of employees	21.5	21.7	22.4	23.5	24.0	24.6	25.2	25.9
Intermediate consumption	9.2	8.4	9.2	9.6	10.1	10.4	10.8	10.9
Investment	5.0	4.3	4.9	5.5	5.8	5.8	6.0	6.1
Capital transfers payable	1.3	2.9	2.0	1.9	1.8	1.8	1.8	1.9
Primary balance	7.5	7.7	7.0	6.1	5.4	5.5	5.1	4.9
Cash basis	5.5	6.1	6.0	4.0	3.6	3.7	4.2	4.7
Interest	5.6	6.1	6.9	7.0	7.0	7.4	7.7	7.8
Overall balance	1.9	1.6	0.2	-0.9	-1.6	-1.9	-2.5	-2.8
Gross debt 2/	323.1	341.4	334.4	334.8	336.3	335.4	332.8	333.8
			(Percent of GDP)					
Total primary revenue	48.5	47.8	47.7	46.8	45.8	45.3	44.9	44.4
Indirect taxes	17.0	17.0	16.8	16.5	16.3	16.1	16.0	15.7
Direct taxes	9.8	10.1	9.7	9.3	9.0	9.0	9.0	9.0
Social contributions	14.4	14.2	14.2	14.1	14.0	14.0	13.9	13.9
Other current revenue	3.0	2.2	1.9	2.0	1.9	1.9	1.6	1.4
Sales	2.9	2.9	3.1	3.0	2.9	2.8	2.8	2.7
Capital revenue	1.4	1.5	2.1	2.0	1.8	1.6	1.6	1.5
Total primary expenditure	44.3	43.6	44.0	43.7	43.1	42.7	42.5	42.1
Social benefits	21.3	20.7	20.5	19.9	19.5	19.2	19.1	18.9
Subsidies	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.8
Other current expenditure	1.5	1.8	2.3	2.1	2.1	2.1	2.1	2.1
Compensation of employees	11.9	11.8	11.8	12.0	11.9	11.8	11.8	11.8
Intermediate consumption	5.1	4.6	4.8	4.9	5.0	5.0	5.0	5.0
Investment	2.8	2.3	2.6	2.8	2.8	2.8	2.8	2.8
Capital transfers payable	0.7	1.6	1.0	1.0	0.9	0.9	0.9	0.8
Primary balance	4.1	4.2	3.7	3.1	2.7	2.6	2.4	2.2
Cash basis	3.0	3.3	3.2	2.1	1.8	1.8	2.0	2.1
Interest	3.1	3.3	3.6	3.6	3.5	3.6	3.6	3.5
Overall balance	1.0	0.9	0.1	-0.5	-0.8	-0.9	-1.2	-1.3
Gross debt 2/	179.3	184.9	176.5	171.4	166.3	161.0	155.6	152.0
Nominal GDP (billions of euros)	180.2	184.7	189.4	195.3	202.2	208.3	213.9	219.6

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

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

2/ General government debt includes the stock of deferred interest.

Table 4. Greece: Monetary Survey, 2013–19

	2013	2014	2015	2016	2017	2018	2019 June
	(Billions of euros)						
Aggregated balance sheet of Monetary Financial Institutions (MFIs)							
Total assets	517.6	501.5	550.2	494.8	427.7	402.4	386.6
Cash (held by credit institutions)	2.0	1.9	1.7	1.8	1.8	1.8	1.7
Claims on Bank of Greece	4.0	3.5	1.7	0.9	2.0	6.9	5.2
Claims on other MFIs	107.3	86.2	134.4	86.2	50.7	27.9	23.2
Claims (Loans) on non MFIs	238.9	234.2	224.8	214.4	201.0	186.1	168.3
Domestic	233.8	229.7	220.3	209.9	197.5	183.1	168.3
General government	15.9	17.7	15.9	14.8	13.7	12.9	7.1
Other sectors	217.9	212.0	204.3	195.1	183.8	170.2	161.1
Other countries	5.2	4.5	4.6	4.5	3.4	3.0	0.0
Securities 1/	94.3	102.0	113.7	121.2	103.4	105.6	109.2
Other assets	66.0	69.1	69.1	65.8	64.3	69.5	73.1
Fixed assets	5.1	4.7	4.7	4.7	4.5	4.6	5.7
Total Liabilities	495.2	501.5	550.2	494.8	427.7	402.4	396.4
Liabilities to Bank of Greece	73.0	56.0	107.6	66.6	33.7	11.1	8.6
Liabilities to other MFIs	93.0	92.6	107.5	97.6	79.2	62.1	53.2
Deposits and repos of non MFIs	196.5	191.0	145.8	150.6	157.6	185.3	190.3
Domestic	182.6	177.2	139.2	142.4	150.9	178.1	182.0
Other countries	13.9	13.8	6.6	8.2	6.7	7.2	8.4
Capital and reserves	67.0	75.0	91.2	89.1	83.5	69.9	72.0
Banknotes and coins in circulation	25.4	27.9	29.6	30.7	31.9	33.6	28.8
Other liabilities	40.3	59.0	68.5	60.3	41.8	40.5	43.5
Money and credit							
Broad money	193.2	192.6	158.4	161.9	171.0	178.4	180.8
Credit to the private sector 2/	217.5	211.6	203.9	194.7	183.4	169.8	160.7
Credit to government	21.8	23.6	23.7	19.1	18.9	18.2	15.9
	(Annual percentage change)						
Broad money	2.7	-0.3	-17.8	2.2	5.7	4.3	5.2
Domestic private sector deposits	1.4	-2.4	-23.5	3.4	4.2	6.3	6.3
Credit to the private sector 2/	-3.9	-3.1	-3.6	-4.5	-5.8	-7.5	-9.9
Credit to government	-18.1	8.0	0.7	-19.7	-0.7	-3.8	-1.9
	(Percent of GDP)						
Broad money	107.0	108.0	89.5	91.8	95.2	97.0	97.3
Domestic deposits	101.1	99.3	78.7	80.8	84.0	96.8	97.9
Credit to the private sector 2/	120.5	118.6	115.2	110.5	102.1	92.2	86.5
Credit to government	12.1	13.2	13.4	10.8	10.5	9.9	8.6
Memorandum items:	(Percent)						
Capital to assets	6.9	7.7	9.2	9.2	11.2	8.9	10.0
Loans to customer deposits	108.9	109.3	138.3	131.2	127.1	106.7	96.1
Velocity	0.9	0.9	1.1	1.1	1.1	1.0	1.0

Sources: Bank of Greece; and IMF staff calculations.

1/ Holdings of securities other than shares and derivatives.

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

Table 5. Greece: Core Set of Financial Indicators (Deposit Taking Institutions), 2013–19
(Percent, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019 Mar.
Core set							
Regulatory capital to risk-weighted assets 1/	13.5	14.1	16.5	16.9	17.0	16.0	15.6
Regulatory Tier I capital to risk-weighted assets 1/	13.1	13.8	16.4	16.8	17.0	15.3	14.9
Nonperforming loans net of provisions to capital 2/	138.9	120.5	80.8	81.6	172.4	157.6	159.5
Nonperforming loans to total gross loans 2/	31.9	33.8	36.6	36.3	45.6	42.0	42.2
Bank provisions to nonperforming loans	49.3	55.8	67.6	68.9	46.8	51.1	52.1
Return on assets (after taxes)	...	-1.0	-2.5	0.1	-0.2	0.0	0.2
Return on equity (after taxes)	...	-10.4	-29.3	0.8	-1.3	-0.4	1.6
Interest margin to gross income	78.2	81.8	85.3	79.6	78.4	71.9	69.6
Non-interest expenses to gross income	71.2	61.1	61.0	53.6	59.5	64.3	59.9
Liquid assets to total assets 3/	29.9	28.9	29.7	27.0	17.7	19.6	19.7
Liquid assets to short-term liabilities 3/	40.0	40.1	40.4	36.3	24.3	26.5	27.0
Net open position in foreign exchange to capital 1/	4.6	5.4	5.6	0.8	1.3	0.7	0.6
Encouraged set							
Spread between reference lending and deposit rates (end-of-period, basis points) 4/	7.0	6.2	5.9	5.6	5.3	5.0	4.9
Customer deposits to total (noninterbank) loans 3/	90.4	90.3	71.8	76.0	68.1	81.3	82.8
Foreign currency-denominated liabilities to total liabilities 3/	5.9	5.6	3.1	3.5	4.3	4.4	4.5
Market liquidity							
Average bid-ask spread in the securities market (basis points)	185.0	157.0	173.0	149.0	100.0	67.0	41.0
Households							
Household debt to GDP	64.5	63.0	62.3	60.2	57.0	52.4	50.5
Real estate markets							
Residential real estate loans to total loans 3/	26.4	26.8	27.6	27.2	29.1	30.4	30.7
Memorandum items:							
Assets (billions of euros)							
Banks	383.0	375.0	367.8	342.2	292.2	...	...
Branches of foreign banks		9.1	5.8	5.9	5.3	...	...
General insurance companies 5/	16.2	16.3	16.6	15.9	16.9	...	...
Other credit institutions	12.9	13.0	12.0	3.2	3.3	...	...
Deposits (billions of euros)							
Banks	177.2	174.3	128.7	134.6	138.7	...	...
Branches of foreign banks	3.5	2.5	2.8	3.6	3.4	...	...

Source: Bank of Greece.

1/ Data on a consolidated basis.

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

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

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

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

Table 6. Greece: General Government Financing Requirements and Sources, 2018–24

(Billions of euros)

	2018	2019	2020	2021	2022	2023	2024
		Proj.					
Gross borrowing need	35.9	21.5	11.2	11.2	13.5	14.0	15.1
Overall deficit	-1.0	-0.2	1.8	2.0	2.0	1.5	0.9
Primary deficit (cash)	-6.1	-6.0	-4.0	-3.6	-3.7	-4.2	-4.7
Interest payments (cash)	5.0	5.8	5.8	5.6	5.7	5.7	5.6
Amortization	18.7	29.7	12.1	11.1	16.0	18.6	16.3
Short-term (T-bills)	14.3	11.2	9.2	6.2	6.2	6.2	6.2
Medium and long-term (non-official)	2.6	14.1	2.1	0.8	5.1	6.5	5.3
ECB holdings	1.9	5.8	1.4	0.0	1.3	0.0	1.3
Official creditors	1.8	4.4	0.7	4.1	4.6	5.8	4.8
IMF	1.8	4.4	0.0	2.0	2.0	1.4	0.3
GLF/EFSF/ESM	0.0	0.0	0.7	2.1	2.6	4.5	4.5
Other	18.3	-7.9	-2.6	-1.9	-4.6	-6.1	-2.1
Arrears clearance	1.9	1.0	1.4	0.0	0.0	0.0	0.0
Privatization	-0.8	-0.4	-1.1	-0.3	-0.1	-0.1	-0.1
ECB related income (SMP/ANFA)	-0.3	-1.6	-1.5	-1.5	-1.4	-0.1	0.0
Reimbursement of the step-up margin 1/	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Government deposits: replenishment (+) / drawdown (-)	17.6	-6.9	-1.4	-0.1	-3.0	-6.0	-2.0
Gross financing sources	35.9	21.5	11.2	11.2	13.5	14.0	15.1
Market access	14.2	21.5	11.2	11.2	13.5	14.0	15.1
Short-term (T-bills)	11.2	9.2	6.2	6.2	6.2	6.2	6.2
Medium and long-term	3.0	12.3	5.0	5.0	7.2	7.8	8.8
Official financing	21.7	0.0	0.0	0.0	0.0	0.0	0.0
ESM	21.7	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items:							
Deposits of general government 2/	38.4	31.6	30.2	30.1	27.1	21.1	19.1
Available to state government 3/	30.0	23.1	21.7	21.6	18.6	12.6	10.6
State government in BoG 4/	20.3	12.8	15.7	16.4	14.2	9.0	7.8
State government in commercial banks	6.5	3.5	0.0	0.0	0.0	0.0	0.0
General government entities in BoG	3.2	6.8	6.0	5.2	4.4	3.6	2.8
General government entities in commercial banks 5/	8.5	8.5	8.5	8.5	8.5	8.5	8.5

Sources: Ministry of Finance; and IMF staff projections.

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

2/ Preliminary figures as of end-September 2019: total general government deposits (€40 billion) consist of €31.9 billion available to state government and €8.1 billion of general government entities' deposits in commercial banks.

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

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

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

Table 7. Greece: External Financing Requirements and Sources, 2017–24

(Billions of euros, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024
		Est.	Projections					
Gross financing requirements	160.1	120.1	106.5	105.0	101.3	104.7	112.8	117.9
Current account deficit	4.3	6.5	5.3	5.7	6.4	6.8	8.5	9.3
Medium and long-term debt amortization	15.9	7.6	21.3	6.4	8.5	12.1	16.2	13.6
Public sector	12.7	4.4	17.4	2.3	4.4	7.9	11.9	9.2
Of which: GLF/EFSF/ESM/IMF	2.7	1.8	4.4	0.7	4.1	4.6	5.8	4.8
Banks	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Other	1.6	1.6	2.3	2.4	2.5	2.6	2.7	2.8
Short-term debt amortization	139.9	106.0	79.9	92.9	86.4	85.8	88.1	95.0
Public sector and Bank of Greece	87.3	70.6	34.3	48.5	41.1	39.5	41.0	47.2
Bank of Greece 1/	85.7	64.4	28.7	43.7	37.6	36.0	37.5	43.7
Public sector	1.6	6.2	5.5	4.7	3.5	3.5	3.5	3.5
Banks 2/	45.4	27.6	35.9	34.9	36.0	37.1	38.1	39.0
Other	7.2	7.8	9.7	9.5	9.3	9.1	9.0	8.8
Source of financing	151.2	99.1	114.5	102.5	100.6	103.7	112.2	116.1
Capital account (net)	0.9	0.4	0.7	0.8	0.9	1.0	0.9	0.8
Foreign direct investment (net)	2.7	2.9	3.2	3.5	2.7	2.5	2.5	2.6
Equities (net)	2.0	0.7	0.0	-0.2	-0.5	-0.8	-1.1	-1.7
Assets drawdown (- increase)	29.5	3.6	2.4	2.4	2.0	1.8	1.6	1.3
Bank of Greece	-16.8	-6.5	0.0	0.0	0.0	0.0	0.0	0.0
Government	-0.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Banks	38.2	2.2	-4.9	-1.1	-1.3	-1.2	-1.0	-1.1
Other sector	8.1	8.4	7.2	3.5	3.3	3.0	2.6	2.3
New borrowing and debt rollover	115.6	90.4	108.3	96.0	95.5	99.2	108.4	113.1
Medium and long-term borrowing	9.4	11.2	15.4	9.6	9.8	11.1	13.3	14.1
Public sector	4.2	5.6	10.0	4.1	4.1	5.2	7.3	7.9
Banks	3.0	2.1	2.1	2.1	2.1	2.2	2.2	2.2
Other	2.2	3.5	3.3	3.5	3.6	3.7	3.8	3.9
Short-term borrowing	106.2	79.2	92.9	86.4	85.8	88.1	95.0	99.0
Public sector and Bank of Greece	71.2	34.4	48.5	41.1	39.5	41.0	47.2	50.4
Bank of Greece 1/	64.3	28.8	43.7	37.6	36.0	37.5	43.7	46.9
Public sector 3/	6.9	5.5	4.7	3.5	3.5	3.5	3.5	3.5
Banks 2/	28.0	37.2	34.9	36.0	37.1	38.1	39.0	40.0
Other	7.0	7.6	9.5	9.3	9.1	9.0	8.8	8.6
Other	0.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Program-related financing 4/	9.6	22.9	2.4	2.5	2.7	3.0	1.9	2.2
Of which: interest deferral	1.1	1.2	1.1	1.2	1.4	1.7	1.9	2.2

Sources: Bank of Greece; and IMF staff estimates.

1/ Includes liabilities to Eurosystem related to TARGET2.

2/ Includes currency and deposits and securitized loans.

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

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

Table 8. Greece: Indicators of Fund Credit Under Existing Payment Schedule, 2019–24

(Millions of SDRs, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024
(Projected debt service to the Fund)						
Amortization	1,704	1,704	1,704	1,587	1,112	251
Total Charges and Fees	249	147	81	49	23	9
Total debt service	1,953	1,851	1,785	1,636	1,135	260
Percent of exports of goods and services	3.3	3.0	2.7	2.4	1.6	0.4
Percent of GDP	1.3	1.2	1.1	1.0	0.7	0.1
Percent of deposits available to state government 1/	10.3	10.4	10.1	10.7	11.0	3.0
(Projected level of credit outstanding)						
Outstanding stock	6,359	4,655	2,951	1,363	251	0
Percent of quota	262	192	121	56	10	0
Percent of GDP	4.1	2.9	1.8	0.8	0.1	0.0
Memorandum items:						
Exports of goods and services (billions of euros)	73	77	81	85	87	89
GDP (billions of euros)	189	195	202	208	214	220
Quota (millions of SDRs)	2,428.9	…	…	…	…	…

Source: IMF staff estimates.

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

Annex I. Implementation of Past IMF Recommendations

Staff has urged a rebalancing of the fiscal policy mix and comprehensive reforms in financial, labor, and product markets to achieve higher sustainable (and more equitable) growth, address crisis legacies and vulnerabilities, and regain competitiveness within the currency union (2018 Article IV consultation and 2019 First PPM report). However, in the period between Greece's exit from the European program in August 2018 and the mid-2019 elections, significant reversals occurred in nearly all areas, thereby dampening growth prospects. Since the elections, there have been, on balance, some positive adjustments including on tax policy, business deregulation, and promoting labor market flexibility.

Recommendations	Policy Actions
Fiscal Policy	
Use fiscal space and rebalance the policy mix for growth-enhancing measures and targeted social protection	*On balance, the fiscal policy mix has deteriorated*. During 2018, the authorities continued a pattern of growth-denting expenditure compression, with some of the freed-up resources used for ad hoc 'social dividends'. Some fiscal resources were also diverted to make a one-off payment to uniformed personnel to comply with a constitutional court ruling against the 2012 wage cuts (one of several fiscal risks identified during the 2018 AIV consultation). In December 2018, the government legislated pension contribution cuts for the self-employed, farmers, and professionals (some retroactive to 2017), which went against the harmonization of pension contribution rates under the programs. In addition, a 50 percent subsidy on employer's contributions to pensions was introduced for the youth (thereby helping employment prospects but further eroding harmonization). The government reintroduced an 'Easter' (13th month) pension bonus for about 2.5 million pensioners (which had been abolished in 2012) and reversed earlier reforms to survivors' pensions by reinstating the previous benefit level (70 percent of the deceased's pension instead of 50 percent) and relaxing age-related eligibility criteria. In January 2019, the authorities cancelled the May 2017 legislation to align existing retirees' pension benefits with the unified pension formula. The expansionary growth-friendly and socially inclusive measures (in what were intended as a fiscally neutral actions) were also cancelled or substantially scaled back (including a higher scale roll-out of a means tested housing benefit). Just ahead of elections, the government abandoned the planned (and already pre-legislated) reduction of the child-differentiated personal income tax credit, aimed at broadening the tax base, and corresponding tax cuts and other off-setting growth-friendly and socially measures.

	The government has also taken measures that go against program era efforts at VAT unification by repeatedly extending the VAT discount on five islands (most recently in June 2019) and by reducing the VAT rates for food catering and food products and select non-alcoholic beverages sold in stores from 24 percent to 13 percent and for energy (gas, electricity) from 13 percent to 6 percent in May 2019. Though intended to replace the island VAT discount, the government additionally legislated a poorly targeted "island-transport equivalent subsidy" that will cost over EUR 500 million, cumulatively, by the end of 2021. The scope of the latter was further expanded in April 2019 to cover airport tickets and additional beneficiaries. Since elections, the new government has prioritized cuts to direct and property tax rates, but more could have been achieved if staff advice to broaden the tax base were followed. Likewise, the new government does not intend to adjust benefits of existing retirees as envisaged in the 2017 pre-legislated package. It also plans to maintain the 13th month pension bonus. As a result, critical needs that could have been addressed through better-targeted social spending will remain unmet (see main text).
Explore a smoothing mechanism that provides some flexibility to the high primary surplus targets agreed with European partners to accommodate one-off fiscal shocks and cyclical developments	*No tangible progress*. In May 2019, the government announced it would set aside €5.5 billion from the existing cash buffer (that they indicated represented past fiscal overperformance) to 'cover' lower (hoped for) fiscal targets through 2022 (thereby 'smoothing' the fiscal targets over 2016-22). However, this went against commitments to European partners and no proposal was officially submitted. No other smoothing proposals have emerged, and the risk of a further weakening of the policy mix in case one-off contingent fiscal risks materialize or of pro-cyclicality during a downturn remains elevated. The new government, however, has expressed interest in pursuing a smoothing mechanism.
Develop a fiscal risks contingency plan	*No tangible progress*. The Constitutional Court issued the final ruling that past civil servant bonus cuts are constitutional, thus removing this risk. The Council of State has ruled on the constitutionality of the 2016 pension reforms, but the decision was not published in time for an assessment. A decision on the public sector wage-grid remains pending. The authorities have not prepared any contingency plan beyond relying on budgetary reserves, but the new government intends to explore adding a fiscal risk statement to future budgets.
Continue fiscal structural reforms to modernize the tax administration and public financial management.	*No progress (on balance)*. IAPR pay legislation, originally targeted for 2017-18, has been further delayed, threatening the full implementation of the broader IAPR HR reforms. However, the new government indicated this is a priority reform and will commit funds for this in the 2020 budget. Separately, a new

	provision enacted in 1H2019 compromises tax compliance by advertising a monetary threshold for tax refund audits (EUR 10,000). With respect to government arrears, the structural causes of their accumulation are still not well identified despite two rounds of audits, thus undermining the effectiveness of the action plan for arrears clearance. There has been some important progress in upgrading the Treasury Single Account (TSA), but important elements of reforming the Chart of Accounts have been further delayed (e.g., the full extension of the general ledger to all State bank accounts and the recording of commitments in the financial management information system is expected to take even longer). In May 2019, the government reintroduced time-consuming and inefficient ex-ante audits by the Hellenic Court of Auditors for all General Government entities, excluding the Ministry of Health and the welfare organization OPEKEPE (but only through end-July 2019). The authorities received OECD TA to strengthen public investment management, but the TA was not sufficiently granular to address Greece's shortcomings in expenditure implementation. The installments for the so-called pharmaceutical 'clawback' collection from 2016-17 were unilaterally increased from 24 to 48 months and the new government adopted a provision extending it further to up to 120 months. In addition, the timing of adjustments to the price bulletins for pharmaceuticals were shifted to an annual basis, from bi-annual, and the reference countries were modified, likely resulting in a slower decline in the price of generics. Several measures were taken that erode earlier public sector wage reforms. Most significantly, the unified public sector wage grid was compromised by extending the "personal difference" top-up, first granted in 2011, to 1,400 new Ministry of Finance, Ministry of Economy (MoE), the Fiscal Council, and the Court of Auditors employees. Subsequently, the personal difference was extended to all MoE employees hired up to April 2019.
Strengthen the payment culture to improve tax compliance and facilitate NPE reduction.	*Reversals*. In May 2019, the government introduced three new installment schemes for tax, social security (SSC), and municipal debt. In late June 2019 and again in August 2019, the terms of the installment schemes were further relaxed. The lack of a detailed assessment of the debtors' payment capacity and compliance history in the three schemes entails risks to the broader payment culture and comes on top of the recent introduction of subsidies for mortgage debtors (see below).
Financial Sector Policies	
In a comprehensive and well-coordinated manner, set and provide policy support for	*Slow progress, but recent movement*. Staff's call for a more comprehensive and coordinated approach to reviving the banking sector has gained some traction, but actions to date have been limited to selected key components of

ambitious NPE targets, pro-actively build up capital buffers, strengthen existing legal NPE-reduction toolkits and internal governance, and assess the costs and benefits of any future state support (to accelerate the cleanup of bank balance sheets).	what could be a broader effort. The new NPE reduction plans are more ambitious (and the PM has called for further acceleration), but they leave banks with weakened balance sheets for too long. Important legal reforms (including e-auctions and OCW) have been implemented, but with shortcomings, and the direct impact has been modest (e.g., the share of failed auctions remains high). The 'Hercules' APS scheme has progressed, but without any comparative cost-benefit assessment. Rather than scaling back primary residence protection, a mortgage subsidization scheme was adopted in April 2019 (nominally set to expire by end-2019) that largely perpetuates (and in some areas expands) the legacy of its predecessor, the Katseli law. While staff's call for a comprehensive and coordinated assessment of possible state-supported NPE reduction schemes has gained traction, actions to date by the key European and Greek stakeholders have been limited to selected key components of what could be a broader effort.
Continue CFM liberalization in line with the agreed conditions-based roadmap from May 2017.	*CFMs have been fully removed, effective September 1, 2019.* The final step took place despite remaining gaps relative to the conditions-based liberalization roadmap.
Structural Reforms	
Pursue more flexible labor market policies to preserve competitiveness gains and job creation.	*Reversals, though with some recent forward progress.* Reversals of several program era reforms have increased risks to employment and competitiveness. In September 2018, the government reinstated automatic extension of collective agreements and the favorability principle. In May 2019, the government introduced further rigidities and legal uncertainties by adopting provisions that introduce a poorly defined requirement on employers to justify dismissals. This was subsequently removed in August by the new government, which also submitted legislation to parliament to introduce opt-outs to collective bargaining, reform the arbitration framework, and enhance the representatives of industrial action (see main text).
Implement the new minimum wage framework in a prudent manner and discontinue seniority premiums.	*Reversals*. Contrary to staff advice, the statutory minimum wage was increased well in excess of productivity growth. At the same time, the government abolished the subminimum wage for employees below 25 years of age, implying an effective minimum wage increase of 27.2 percent for this category of workers, though employers' costs increased by less (19.7 percent) as a mitigating government-funded social contribution subsidy for the youth was simultaneously enacted. Seniority premiums were maintained, counter to the agreed program-era objective to move to a single minimum wage free from top-ups. The originally legislated process for adjusting the minimum wage was advanced by six

	months (returning to the normal schedule from 2020), with the expert panel overstepping its envisaged duties by formulating its own assessment.
Reduce non-wage costs through product and service market liberalization and accelerate privatizations to attract more FDI	*Stalled efforts, though with some recent progress*. Progress on de jure liberalization of closed professions has stalled, with little 'on the ground' impact of existing legal changes. Some key closed professions, including lawyers, notaries, and professionals in retail distribution, remain the least liberalized in the eurozone. Modernization of the public works engineers' registries, originally expected in July 2017, remained stuck in the Council of State until July 2019 when a Presidential Decree was issued. New legislation was passed that restored licensing rather than a notification procedure for part of the tourism sector—representing a direct setback from previous reform objectives. The 3-hour minimum time restriction for private vehicle services remains in place (the artificial segmentation of the transportation market limits competition for taxis and reduces consumer welfare), though it was reduced to half an hour for some islands during summer periods. In May, new barriers on private car rentals were introduced by setting high minimum fees, which were subsequently reduced in August by the new government. No progress has been made towards adjusting manning requirements for passenger vessels to make them compatible with those of the International Maritime Organization. One bright spot has been recent progress on a 'signature' privatization project (Hellenikon). This comes after little progress through 2018 and 2019H1. In addition, the new government submitted legislation to parliament to facilitate investment and reduce red tape (see main text).

Annex II. External Sector Assessment

A. Overall Assessment

1. The external position of Greece in 2018 was weaker than consistent with medium-term fundamentals and desirable policies. This is a deterioration from the "moderately weaker" assessment for 2017 (and in part due to a historical current account revision in late 2018 affecting 2015-17). The CA deficit widened in 2018 mainly due to strong growth in imports that more than offset a sound performance of exports (including a continued boom in the tourism sector). The CA deficit is expected to widen over the medium-term under the staff's baseline projections. The deficit is expected to be financed mostly by FDI and flows from debt relief measures by European partners. Staff projects the path of the large negative net international investment position (NIIP) to be broadly flat in the medium-term.

B. Potential Policy Responses

2. To reduce the external position gap and a large negative NIIP, Greece should accelerate reforms to improve competitiveness and employment conditions. As the post-crisis external adjustment is assessed to have been more cyclical than structural[1], labor and product market reforms are critical to improving competitiveness and the still weak external position. These reforms (see main text) should aim at strengthening the labor market, boosting productivity, and reducing non-wage costs, including through reforms to reduce product market rigidities and increase competition and in the financial sector. Prudent macroeconomic policies (supported by better public sector governance) need to be in place to help lower public debt, which will also help reduce the large and negative NIIP.

Foreign asset and liability position and trajectory	**Background.** Greece's NIIP slightly improved in 2018, reaching minus 142 percent of GDP (from minus 144 percent of GDP in 2017) [1/] driven mainly by a reduction in central bank liabilities. The official sector accounts for 74 percent of total external liabilities (with 68 percent attributed to the general government and 6 percent to the central bank). **Assessment.** The large negative NIIP (as a percent of GDP) is projected to stay broadly unchanged in the medium term in line with projected CA developments. The currency (largely euro-denominated) and interest rate (largely fixed) structure of the NIIP helps mitigate the risks posed by the large negative position, but only to a limited extent. General government external liabilities are expected to gradually decline in percent of GDP over the medium-term, mainly due to growth and primary fiscal surpluses but also debt relief extended to the general government, with rising private-to-private funding filling the external funding gap. The NIIP could deteriorate in the medium term if downside risks materialize (e.g., from weaker growth and even higher CA deficits).

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

[1] See Selected Issues Papers "The Quality of Greece's External Adjustment" and "Reforms, Labor Market Dynamics, and Competitiveness".

Current account	**Background.** The CA deficit in 2018 increased by 1.1 ppt to 3.5 percent of GDP (including deferred interest payments) because of strong growth in imports. The CA and trade deficits are projected to widen in the medium-term (by about ¾ percent of GDP). **Assessment.** Staff assesses Greece's external position in 2018 as weaker than one consistent with medium-term fundamentals and desirable policies. With the cyclically-adjusted CA balance estimated in the range of -5.2 to -5.9 percent of GDP (based on an estimated negative output gap of 4 to 6 percent) and the EBA norm of -2.6 percent, the EBA CA model indicates a CA gap of -2.6 to -3.3 percent of GDP with a mid-point estimate of -3 percent of GDP. An identified policy gap amounts to 2.9 percent of GDP, largely because of an expected fiscal expansion in the medium-term. The large negative residual (-5.9 percent) may reflect potential distortions in product and labor markets that hinder Greece's international competitiveness. For example, staff assesses that the rigidities in the labor market, as reflected in the OECD Employment Protection Legislation index, could explain around 20 percent of the negative residual. The external sustainability approach yields a similar medium-term CA norm of -2.1 percent of GDP which is needed to bring about a strong medium-term improvement in the NIIP and to stabilize it at a more sustainable level of around -70 percent of GDP (the average level over 2000-2010 in Greece's pre-crisis era, as opposed to the current level of -142 percent of GDP).
Real exchange rate	**Background.** The ULC-based REER (ULC-REER)[2/], which helps gauge production costs relative to trading partners, adjusted substantially over the last decade, falling by 22.3 percent during 2007–15 helped by the macroeconomic adjustment and the 2012 labor market reform that lowered the minimum wage and made wage bargaining more flexible. The REER-CPI fell by less over the same period, reflecting partially offsetting increases in non-wage costs and product market rigidities. The REER-CPI increased slightly in 2016-18, by 2.4 percent, due in part to an increase of Greek inflation driven by tax hikes and oil prices, as well as rising wages. In 2018, although Greece's ULC increased by 1.1 percent, the REER-ULC declined by 0.9 percent due to even higher increases in ULCs among trading partners. **Assessment.** The EBA REER models indicate a range of overvaluations of 9.5 percent (index model) and 20.8 percent (level model) in 2018. Staff considers the REER model results less reliable in the case of Greece given (i) a large unexplained residual (10.9 percent in the index model and 22.4 percent in the level model), (ii) a large standard error of the norm for the index model, and (iii) the CPI-based REER was affected by non-wage costs (notably the consumption tax increases in 2016 and 2017). Staff therefore bases the REER assessment on the EBA CA model: consistent with a mid-point CA gap of -3 percent and a semi-elasticity of 0.3, the REER is assessed to be overvalued by 10 percent.
Capital and financial accounts: flows and policy measures	**Background.** Greece's financial account has been dominated by official financing flows. Net FDI inflows have increased since 2016 (though from a low base) driven by privatization deals, financial sector M&As, and, more recently, investments in real estate. As of September 2019, Greece's CFMs and payment restrictions have been fully lifted. Financing conditions have also eased with the Greek government successfully accessing the markets several times over the last two years at progressively lower yields. Following successful sovereign issuances, Greek banks and corporates also issued bonds in 2017-2019 (at an increasing pace) after a three-year hiatus. **Assessment.** The recent removal of CFMs places greater urgency on banking sector reforms in support of a normalization of financial conditions and sentiment (e.g. progress in reducing non-performing loans and continuing return of deposits). A steady improvement in the business climate, including from continued efforts on structural reforms, and further reduction in uncertainty are needed to promote sustainable FDI and expand access to external funding markets.
FX intervention and reserves level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by the EA are typically low relative to the standard metrics, but the currency is free floating.

[2/] This metric is what the ECB refers to as "harmonized competitiveness indicators", which also considers the intra-EA trade.

Annex III. Debt Sustainability Analysis

Greece's public debt-to-GDP is expected to continue a downward trend over 2019–28 with still contained GFNs under staff's baseline scenario. However, the debt path is projected at a higher level relative to GDP than in the 1st PPM DSA (March 2019), due to lower nominal GDP over the projection period and lower primary surpluses over 2019-2025. Notwithstanding, GFNs-to-GDP are on average slightly lower (though still rising) compared to the March 2019 DSA, thanks to the government's active liability management and reductions in projected sovereign borrowing costs in the medium-term (benefiting from better market conditions). However, materialization of risks from weaker growth, lower fiscal primary balances, and/or contingent liabilities could raise debt and GFNs ratios above staff's baseline projections. Over the longer term, staff's view continues to be that public debt sustainability is not assured under a realistic set of macro-fiscal assumptions. External debt is also high and expected to decline only gradually over the medium-term (NIIP is very negative and expected to be broadly stable). Macroeconomic shocks and policy slippages could result in adverse dynamics.

A. Public Sector DSA

This public sector DSA updates the medium-term DSA assessment included in the First PPM Discussions Staff Report (March 2019).

Recent Developments

1. The Public Debt Management Agency (PDMA) has continued its efforts to increase the proportion of public debt with fixed interest rates.

- ***Hedging official sector Greek Loan Facility (GLF) loans***. PDMA has hedged €52.2 billion out of the total €52.9 billion loans. Specifically, a 20-year swap changed the interest rate from 3-month Euribor rates to fixed rates of 94 basis points. The transaction—which was executed with banks, including several domestic ones—is broadly neutral in NPV terms.[1] GLF loans fully mature by 2041.

- ***The cancellation of the 'Titlos' interest rate swap***.[2] In February 2019, the government cancelled the swap (that had a notional value of €4 billion) and issued to the NBG three bonds totaling €3.3 billion that mature in 2023 (€0.3 billion), 2025 (€1 billion), and 2026 (€2.1 billion) with fixed coupon rates of 2.9, 3.3, and 3.6 percent, respectively. This transaction, undertaken on market terms, has resulted in (i) a decline of public debt by €0.7 billion, (ii) a lower interest payment bill with a fixed interest rate for the full duration of the bonds[3], and (iii) the return of €3.4 billion of government T-bills that had been posted as collateral for the swap.

[1] Assuming a 5 percent discount rate and long-term Euribor rates hovering around 2 percent.

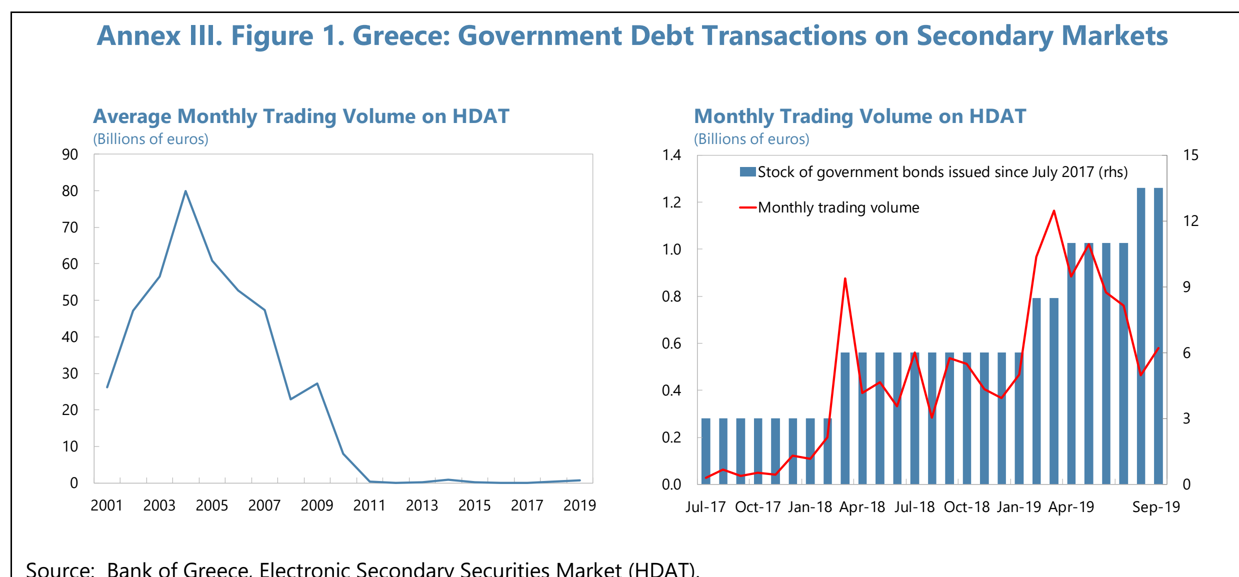
[2] At end-2017, the National Bank of Greece (NBG) cancelled the bond issued by Titlos PLC (a SPV) and terminated the Titlos PLC securitization.

[3] Before the swap cancellation, Greece paid the six-month Euribor rate plus 660bps and received payments from the NBG based on a 4.5 percent interest rate (the swap was scheduled to mature in 2037).

2. The government has requested approval from European partners for a partial prepayment of IMF loans. The Greek authorities have asked the EFSF/ESM to waive the proportional early repayment clause (*pari passu*) on their loans to allow early repayments of IMF loans totaling SDR 2.2 billion (€2.7 billion, the portion of Greece's outstanding IMF credit that is currently subject to the 300-basis point surcharges). Under the existing payment schedule, this amount is to be paid down by January 2021. The early repayment would result in total (gross) savings of around SDR 56 million (€70 million) from lower interest payments.[4]

3. The PDMA is also working towards increasing the liquidity in secondary sovereign debt markets. The volume of traded debt in secondary markets remains at very low levels compared to pre-crisis years (Figure 1) but has improved recently as the government regained market access. The PDMA considers that a regular presence in the capital markets and the planned liability management operations such as swapping old illiquid bonds with new liquid and effectively tradable bonds will help increase the volumes of Greek traded debt and increase the liquidity in secondary markets. This, in turn, would help reduce the cost of borrowing and broaden the investor base. Planned operations include issuing government bonds in exchange for the PSI bonds leftover from the 2017 swap (€4.0 billion) and part of the outstanding T-bills.

Annex III. Figure 1. Greece: Government Debt Transactions on Secondary Markets

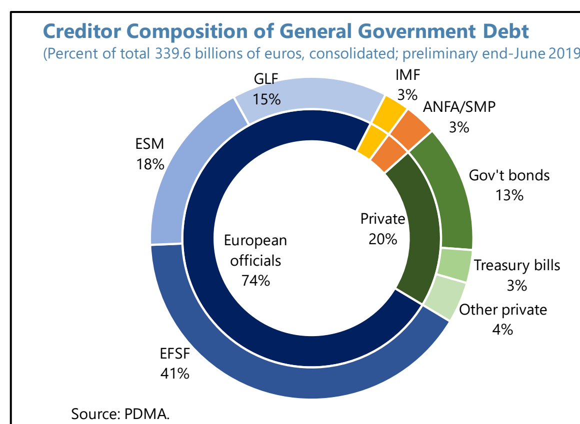


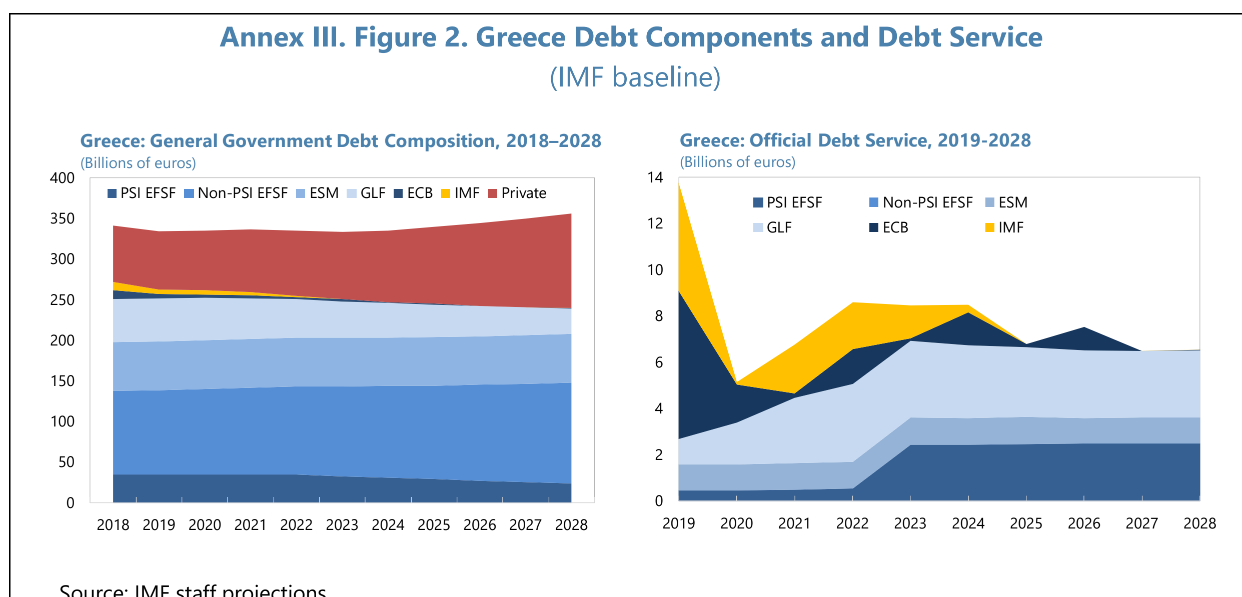
Source: Bank of Greece, Electronic Secondary Securities Market (HDAT).

[4] Assumes the prepayment is made in November 2019.

Debt Profile

4. Greece public debt is expected to gradually shift in composition from official to private sector held debt (Figure 2). Most of Greece's public debt is currently held by the official sector (80 percent of total public debt), which comes with a favorable maturity and interest rate structure. As official sector debt matures, the proportion of total public debt held by the private sector is expected to rise from 20 percent in 2018 to around 30 percent by 2028.





Macro Assumptions

5. Macro assumptions underpinning the DSA are as follows:

- ***Growth and inflation***. Real growth is projected to average 2.1 percent in 2019-2020, before gradually declining to 0.9 percent by the end of the projection period (slightly below the assumption in the March 2019 DSA). Inflation is expected to increase to 0.7 percent on average in 2019-2020 (lower relative to the March 2019 DSA) and further up to 1.8 percent going forward (unchanged from the March 2019 DSA). Nominal GDP under the updated baseline scenario is about 3 percent lower by 2028 than in the March 2019 DSA. This change to the nominal GDP projections explains about a quarter, or 2½ percentage points, of the overall 10½ percentage point deterioration in debt-to-GDP by 2028, compared to the March 2019 DSA.

- ***Fiscal policy***. The baseline primary balance is now expected to be about 1 percent of GDP lower than in the March 2019 DSA on average over 2019-2025, reflecting recently legislated and announced tax and expenditure policy changes and a change in the accounting basis of primary balance from accrual to cash in the DSA for projections (to better reflect actual financing needs).[5] Staff projects the primary cash balance to drop to 2.6 percent of GDP in 2019-2020 on average. The primary cash balance would then decline to 1.9 percent on average in 2021-2024 and further down to 1.5 percent of GDP from 2025 onwards (unchanged from the March 2019 DSA). These changes contribute roughly an 8-percentage point increase in the debt-to-GDP ratio (about three quarters of the total deterioration by 2028), compared to the March 2019 DSA.

- ***Arrears***. The DSA assumes that the remaining stock of arrears (€2.4 billion as of end-2018) will decline to €1.4 billion in 2019 and be fully cleared by end-2020, in line with the authorities' action plan agreed with the EIs in the context of the previous Enhanced Surveillance Review.[6] In comparison staff projected full clearance in 2019 in the March 2019 DSA.

- ***Privatization***. Staff projects revenues from privatization to total €2.4 billion over the next 10 years (broadly unchanged from the March 2019 DSA). These include non-bank assets sales only (concessions are recorded above the line).

- ***Use of cash buffer and market borrowing***. The State government's cash buffer stood at about €32 billion at end-September 2019.[7] Staff expects that the authorities will draw down about €19 billion of their deposits over 2019-2024 (including the €15.7 billion provided through ESM loans, which requires its approval). The projected use of the cash buffer is broadly unchanged from the March 2019 DSA. Total deposits immediately available to the State would decline to about €11 billion by end-2024 (covering six months of GFN or the entire stock of outstanding T-bills). The authorities successfully placed €10.8 billion of market debt in 2019, including three government bond issuances totaling €7.5 billion (at an average cost of 3.1 percent and maturity of 7.3 years) and €3.3 billion of bonds issued in the context of the Titlos swap cancellation (¶2). With favorable market conditions, the authorities reopened the 10-year GGB (auctioned in March 2019) in October for €1.5 billion at a cost of 1.5 percent in a liability management exercise aimed at lowering the T-bill stock (and associated rollover risks). Further market issuances are assumed to total: (i) €5-7 billion in 2020-2022, and (ii) €9-10 billion in 2023-2024 (depending on market

[5] The cash primary balance is lower than the accrual balance by about €8 billion (about 4 percent of 2019 GDP) cumulatively over 2019-2024, due to the following: (i) hospitals and other health-related expenditures in cash terms are higher than the accrual expense limits and are clawed back; and (ii) cash transfer receipts by the State (these include EU-funded projects' claims submitted in the current year but reimbursed in the following year).

[6] The action plan draws on earlier external audits and TA. Given technical difficulties, the authorities and the EIs have begun to discuss an updated action plan which could see the timeline for clearance extended.

[7] The cash buffer including deposits of general government entities at commercial banks, which are not immediately available to the State government, stood at about €40 billion.

sentiment and liability management objectives). The projected market issuances are higher than in the March 2019 DSA due to the less favorable macro assumptions (mostly fiscal).

- ***Interest rates***. Projections for official interest rates are slightly below those the March 2019 DSA. Staff's methodology to project market interest rates also remains broadly unchanged except for the assumption on the 4 percent floor of market rates (removed in this DSA in light of recent market developments characterized as both lower risk-free rates and a sharp compression of the Greek risk premium). Under these assumptions, staff projects the effective interest rate on total public debt to increase slightly, from under 2 percent currently to 2.4 percent by the end of the projection period (versus 2.8 percent in the March 2019 DSA).

Outlook

6. Public debt trends downward but at a somewhat higher level, while GFNs-to-GDP on average declines slightly compared to the March 2019 DSA. Debt-to-GDP is projected to decline from about 185 percent of GDP in 2018 to about 145 percent of GDP in 2028. However, given the revised growth and fiscal assumptions noted above, debt-to-GDP is expected to be higher by about 10 percentage points by 2028 relative to the March 2019 DSA. The GFNs-to-GDP ratio would remain comfortably below 15 percent of GDP throughout the projection period, supported by the large cash buffer that the government will be gradually drawing down. The average GFNs-to-GDP is now expected to be 7.9 percent over 2019-2028 (about 0.3 percentage point lower than in the March 2019 DSA). This assessment assumes that €11 billion in short-term debt (T-bills) at end-2018 will roll over at a rate of about 80 percent in 2019 and a rate of 70 percent in 2020 (as the government is expected to take the advantage of the favorable market conditions to exchange short-term bills for long-term bonds) and in full thereafter.

Realism of Baseline Assumptions

7. Staff's past macro assumptions have been optimistic. The median forecast errors for real growth and the primary balance have been -3.1 percent and -0.7 percent, respectively (implying percentile ranks of 1 and 29 percent, respectively). The median forecast error for inflation, at -0.8 percent (a percentile rank of 24 percent), has also contributed to somewhat higher debt outcomes compared to projections. Going forward, the projected three-year change in the cyclically adjusted primary balance is negative, with a percentile rank of 63 percent. The three-year average CAPB level, however, is larger at 3.9 percent of GDP and has a percentile rank of 23 percent.

Risks and Stress Tests

8. The IMF's 10-year DSA assessment signals risks to medium-term sustainability, including from potentially weaker growth, lower primary balances and/or the materialization of contingent liabilities (see DSA tables and figures including stress scenarios).

Macro-Fiscal Stress Test

- An assumed real GDP growth shock would reduce growth to -1.7 percent on average in 2020 and 2021. Under this scenario, debt-to-GDP would increase to 192 percent (25 percentage points higher than in the baseline) in 2021 before declining gradually in the outer years, helped by the concessional nature of official sector debt and debt relief flows provided by Greece's European partners. GFNs-to-GDP would remain below the 15-percent medium-term threshold until 2028 when it reaches 17 percent.

- The primary balance shock that assumes a lower cash primary balance by about 2 percent of GDP (half standard deviation of the past 10 years) on average in 2020-2022 would raise debt-to-GDP by about 11 percentage points relative to the baseline by 2024. GFNs would be on average 3 percent of GDP higher than the baseline in 2020-28 and would breach the 15 percent medium-term threshold in 2028. In this scenario, real GDP growth would need to be higher by about 1 percentage point on average in 2020-2028 (implying a 2 percent medium-term growth rate) to eliminate the breaches of the GFN threshold in 2028. Conversely, if the accrual primary balance were to be 3.5 percent of GDP in 2020-2022 as agreed in 2018 with the European Institutions, debt-to-GDP would be about 3½ percentage points lower by 2028 and GFNs-to-GDP would be 1 percentage point lower on average in 2020-2028 than in the baseline (assuming same deposit drawdown profile).

- The real interest rate shock that raises effective interest rates by about 400 basis points a year on average over 2020–2028 would have more moderate impacts on debt and GFN ratios as the shock would only apply to a small portion of the debt portfolio which is subject to interest rate variations.

- The macro-fiscal stress test (combining all the shocks mentioned above) would lead to higher debt-to-GDP, at about 180-190 percent throughout the projection period. Under such scenario, GFNs-to-GDP would breach the 15 percent medium-term threshold as early as 2025 and the 20 percent long-term threshold by 2028.

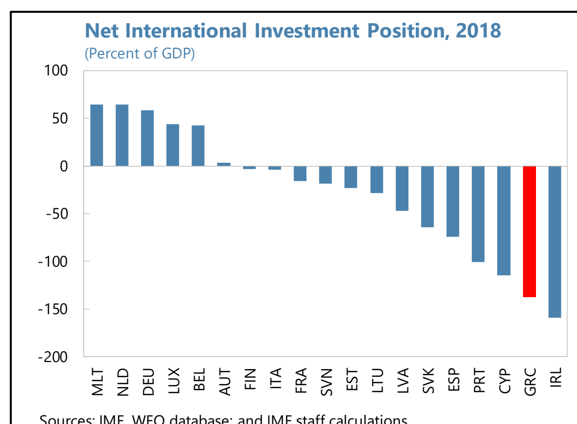
Contingent Liability Shock

- This scenario assumes, over 2019-2024 (i) the materialization of fiscal and financial risks (about 7 percent of 2019 GDP, as outlined in the PPM downside scenario); (ii) risks associated with the rollover of T-bills (2.5 percent of GDP); and (iii) potential fiscal costs of banking sector support (2.4 percent of GDP). Under this scenario, real GDP growth and inflation are assumed to decline to -2 percent and 0.3 percent on average in 2020-2022, respectively, and interest rates would increase by about 70bps on average over the same period. As a result, debt-to-GDP would jump to about 203 percent of GDP by 2022 before declining gradually in the outer years. GFNs-to-GDP would be above the 15 percent medium-term threshold in 2022 and 2025-2027 and would breach the 20 percent long-term threshold by 2028.

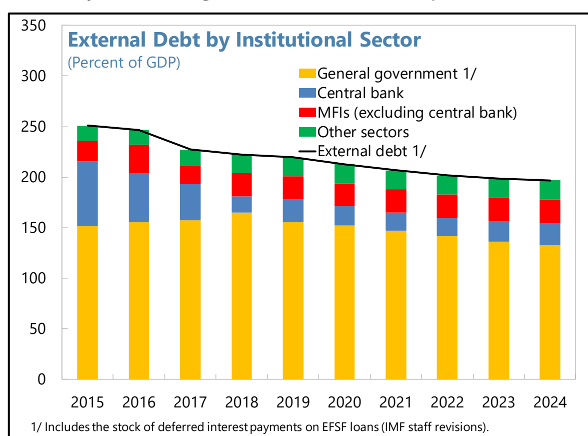
B. External Sector DSA

9. Greece's external debt is higher than that of most other European economies. While Greece's external debt declined substantially from its peak of 251 percent of GDP in 2015, it is still at a sizable 222½ percent of GDP.[8] This decline was mostly driven by the reduction in the central bank's external liabilities (the reduction in ELA and normalization of TARGET2 imbalances). As of end-2018, most external debt—three quarters—originated from the public sector.

10. Similarly, at minus 142 percent of GDP in 2018, Greece's NIIP is among the weakest in Europe. The NIIP strengthened by about 2 percentage points of GDP in 2018, the first such improvement since 2012. This improvement was driven by a stronger net position of the central bank (BoG)—by 23 percent of GDP compared to 2017—which was partially offset by weaker net positions of general government, banks, and other sectors.

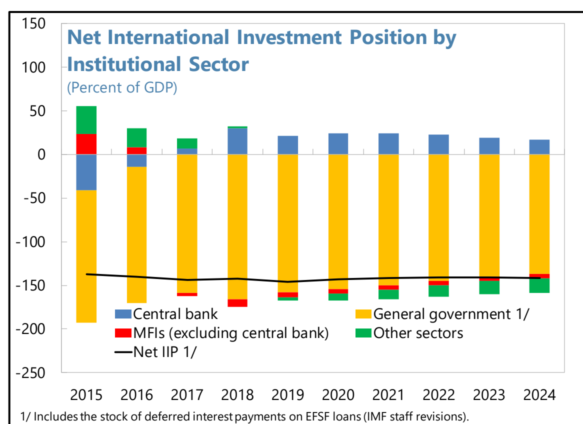


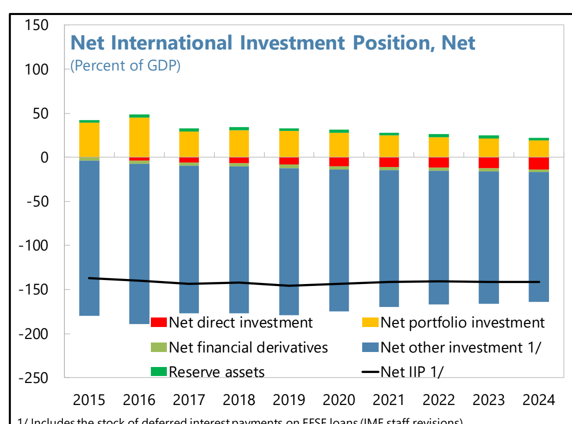
11. Staff projects a gradual decline in external debt and a flat NIIP in the medium term. External debt is expected to decline to about 197 percent of GDP, and the NIIP is projected to stay broadly unchanged at about -141 percent of GDP by 2024, despite widening current account deficits. This is due to the projected recovery in growth and inflation as well as the concessional nature of public debt and debt relief-related flows. The external position is weaker than in the March 2019 DSA where external debt and NIIP are projected to decline/improve to 182 and -115 percent of GDP, respectively, by 2024.[9]



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

[9] The change in the medium-term NIIP can be attributed to a base effect in 2018 (with the actual NIIP turned out to be weaker than *projected* in March), a slower reduction of the general government's external indebtedness (discussed above), and larger current account deficits in 2019-2024.





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

- ***Interest rate shock.*** A 350-basis point interest rate shock would worsen the income account and raise the debt ratio by 10 percentage points above the baseline by 2024.

- ***Growth shock.*** A decline in average growth by 2 percentage points would tile the external debt trajectory upward with the ratio projected to be 26 percentage points higher at end-2024 than in the baseline.

- ***Larger current account deficits.*** Deterioration in the baseline current account projections by a half standard deviation in 2020–24 would raise the debt ratio by 18 percentage points compared to the baseline by 2024.

- ***Combined shock.*** Under a combined (¼ standard deviation) shock involving higher interest rates, lower growth and a smaller current account, debt dynamics would be worse, with the debt ratio remaining elevated at 221 percent of GDP in 2024, 24 percentage points higher than in the baseline.

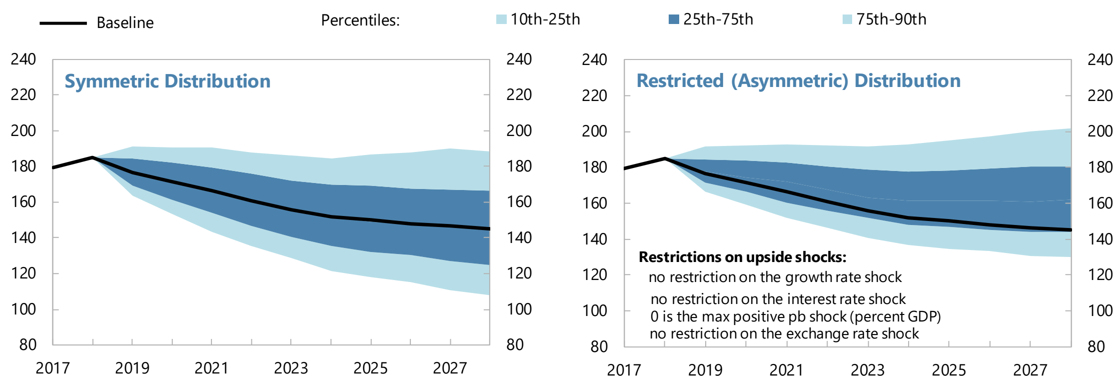
Annex III. Figure 3. Greece Public DSA Risk Assessment (Baseline Scenario)

Heat Map

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

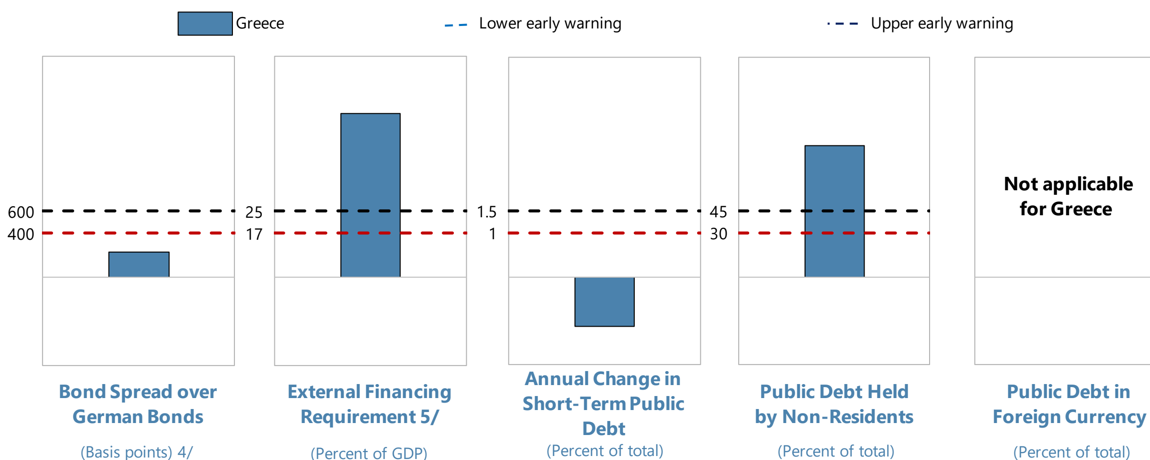
Evolution of Predictive Densities of Gross Nominal Public Debt

(Percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

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

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

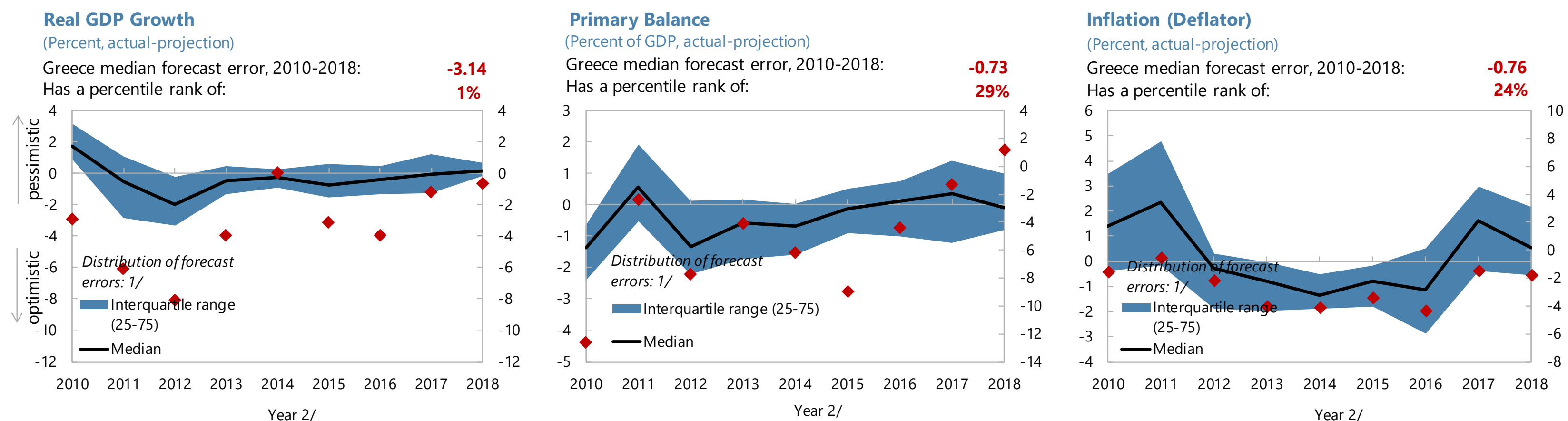
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ An average over the last 3 months, 12-Jul-19 through 10-Oct-19.

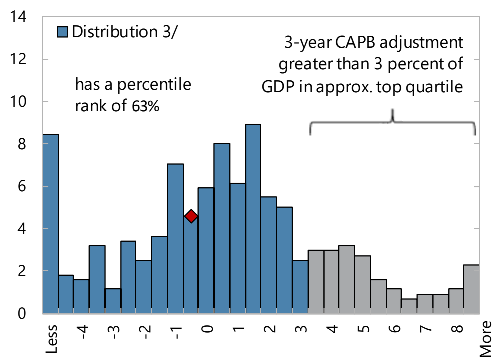
5/ Includes liabilities to the Eurosystem related to TARGET.

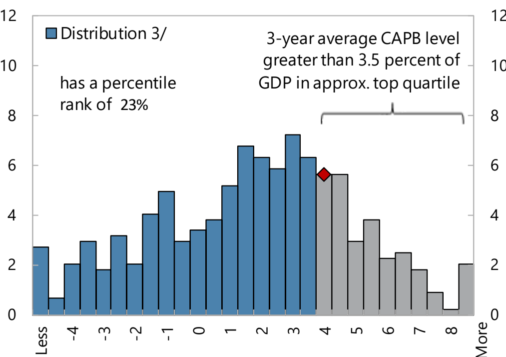
Annex III. Figure 4. Greece Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus program countries



Assessing the Realism of Projected Fiscal Adjustment





Source : IMF Staff.

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

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

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

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

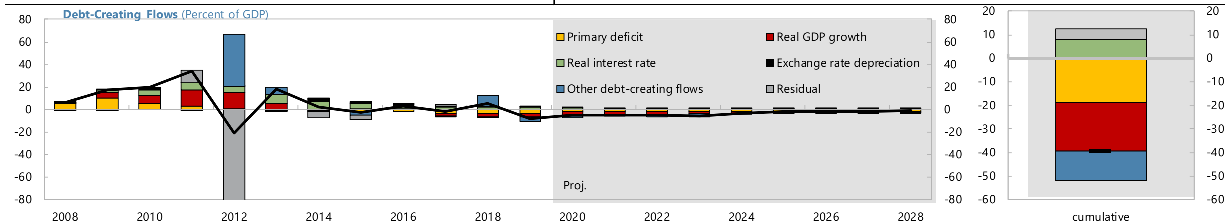
(Percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections										As of October 28, 2019		
	2008–2016 2/	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Sovereign Spreads		
Nominal gross public debt 3/	160.0	179.3	184.9	176.5	171.4	166.3	161.0	155.6	152.0	150.0	148.1	146.5	145.1	Spread (bp) 4/		156
Public gross financing needs	22.2	12.0	18.7	11.4	5.8	5.6	6.5	6.6	6.9	8.5	8.9	7.7	10.1	CDS (bp)		170
Real GDP growth (percent)	-3.3	1.5	1.9	1.8	2.3	2.0	1.4	0.9	0.9	0.9	0.9	0.9	0.9	Ratings	Foreign	Local
Inflation (GDP deflator, percent)	0.4	0.6	0.5	0.7	0.7	1.5	1.5	1.8	1.8	1.8	1.8	1.8	1.8	Moody's	B1	B1
Nominal GDP growth (percent)	-3.0	2.1	2.5	2.6	3.1	3.5	3.0	2.7	2.7	2.7	2.7	2.7	2.7	S&Ps	BB-	BB-
Effective interest rate (percent) 5/	3.3	1.9	1.9	1.8	1.8	1.8	1.9	2.0	2.0	2.1	2.2	2.3	2.4	Fitch	BB-	BB-
Memorandum item:																
Gross financing need 6/	…	5.4	23.8	13.2	7.3	8.4	9.2	7.9	7.4	8.6	…	…	…			

Contribution to Changes in Public Debt

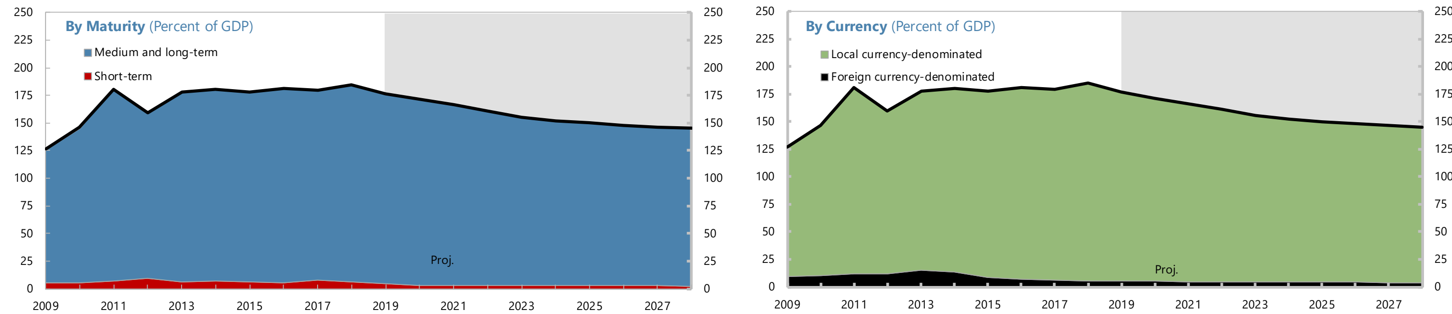
	Actual			Projections											
	2008–2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Cumulative	Debt-stabilizing primary balance 11/
Change in gross public sector debt	8.7	-1.8	5.6	-8.4	-5.1	-5.1	-5.3	-5.5	-3.6	-2.0	-1.9	-1.6	-1.3	-39.7	-0.4
Identified debt-creating flows	18.0	-3.4	6.2	-8.5	-5.6	-5.6	-5.8	-5.9	-4.1	-2.4	-2.3	-2.1	-1.9	-44.2	
Primary deficit	2.1	-3.0	-3.3	-3.2	-2.1	-1.8	-1.8	-2.0	-2.1	-1.5	-1.5	-1.5	-1.5	-18.9	
Primary (noninterest) revenue and grants	44.7	48.4	47.7	47.8	46.8	45.7	45.1	44.7	44.1	43.5	43.0	42.4	41.9	445.1	
Primary (noninterest) expenditure	46.8	45.3	44.4	44.7	44.7	43.9	43.4	42.7	42.0	42.0	41.5	40.9	40.4	426.2	
Automatic debt dynamics 7/	10.4	-1.1	-0.7	-1.2	-2.3	-2.9	-1.8	-1.1	-1.0	-0.9	-0.7	-0.6	-0.4	-12.7	
Interest rate/growth differential 8/	9.9	-0.4	-1.0	-1.3	-2.2	-2.8	-1.8	-1.1	-0.9	-0.9	-0.7	-0.6	-0.4	-12.6	
Of which: real interest rate	4.7	2.3	2.4	2.0	1.8	0.5	0.6	0.3	0.4	0.4	0.5	0.7	0.8	8.0	
Of which: real GDP growth	5.2	-2.7	-3.4	-3.3	-4.0	-3.4	-2.3	-1.4	-1.3	-1.3	-1.2	-1.2	-1.2	-20.7	
Exchange rate depreciation 9/	0.5	-0.8	0.3	…	…	…	…	…	…	…	…	…	…	…	
Other identified debt-creating flows	5.5	0.8	10.2	-4.2	-1.3	-0.9	-2.2	-2.9	-1.0	0.0	-0.1	0.0	0.0	-12.6	
Net privatization proceeds	-0.2	-0.7	-0.4	-0.2	-0.6	-0.2	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	-1.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other liabilities (arrears clearance and cash buffer flows)	5.7	1.5	10.6	-4.0	-0.7	-0.8	-2.1	-2.8	-0.9	0.0	0.0	0.0	0.0	-11.4	
Residual, including asset changes 10/	-9.4	1.6	-0.6	0.2	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.5	4.5	



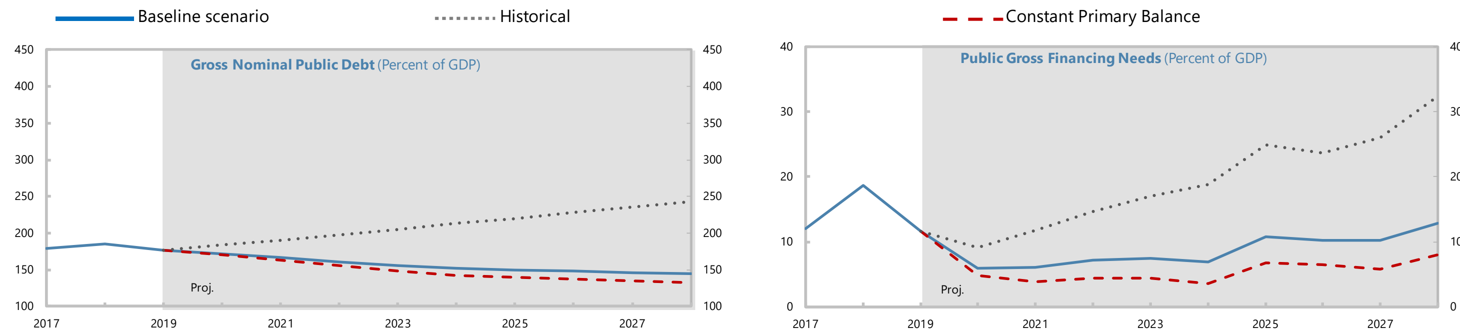
Source: IMF staff projections.
1/ Public sector is defined as general government.
2/ Based on available data.
3/ Public debt includes the stock of deferred interest.
4/ Bond Spread over German Bonds.
5/ Defined as interest payments divided by debt stock at the end of previous year.
6/ Gross financing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

Annex III. Figure 5. Greece Public DSA—Composition of Public Debt and Alternative Scenarios (Baseline Scenario)

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

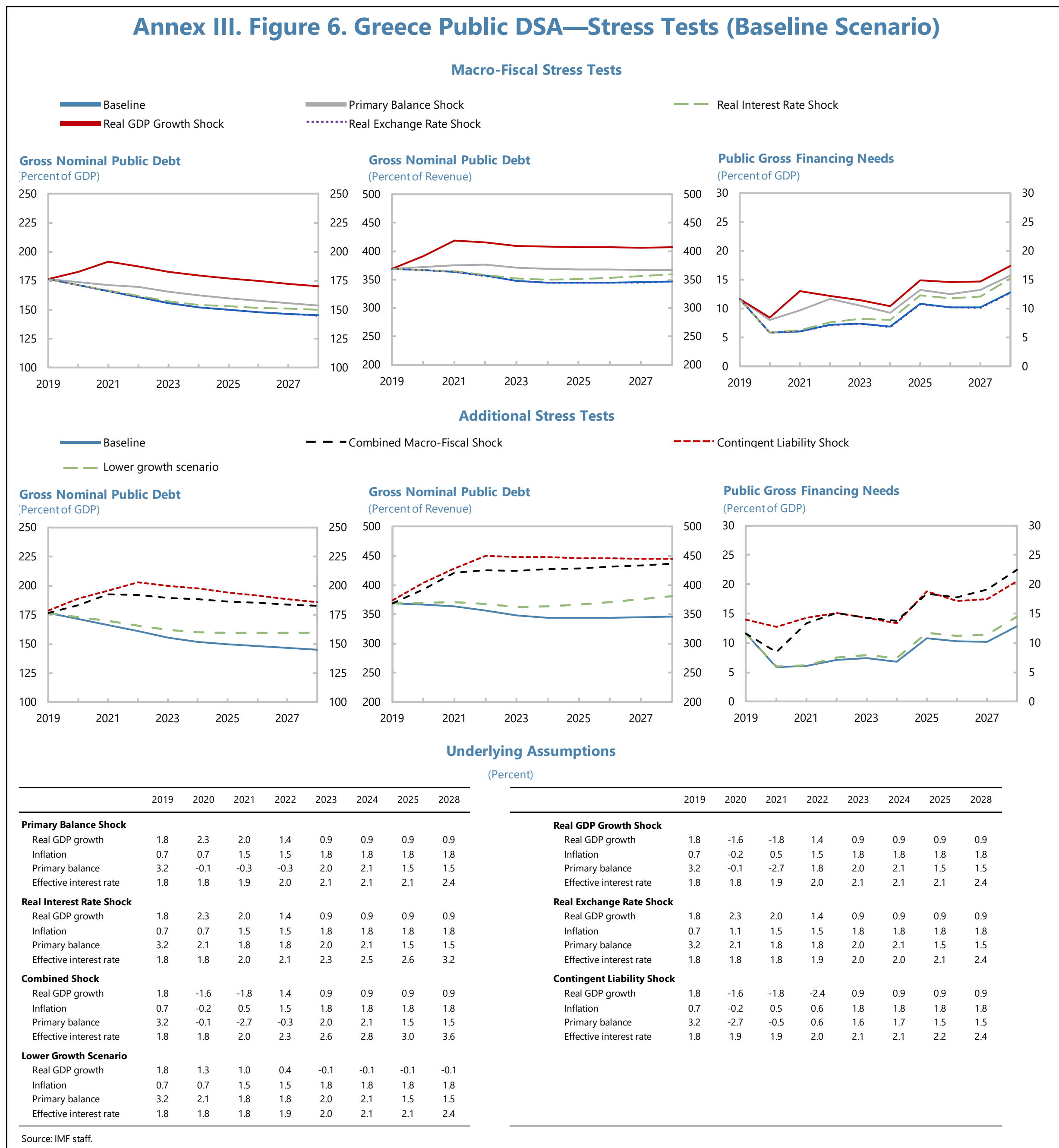
(Percent)

Baseline scenario	2019	2020	2021	2022	2023	2024	2025	2028
Real GDP growth	1.8	2.3	2.0	1.4	0.9	0.9	0.9	0.9
Inflation	0.7	0.7	1.5	1.5	1.8	1.8	1.8	1.8
Primary balance	3.2	2.1	1.8	1.8	2.0	2.1	1.5	1.5
Effective interest rate	1.8	1.8	1.8	1.9	2.0	2.0	2.1	2.4
Constant primary balance scenario								
Real GDP growth	1.8	2.3	2.0	1.4	0.9	0.9	0.9	0.9
Inflation	0.7	0.7	1.5	1.5	1.8	1.8	1.8	1.8
Primary balance	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Effective interest rate	1.8	1.8	1.8	1.9	2.0	2.0	2.0	2.3

Historical scenario	2019	2020	2021	2022	2023	2024	2025	2028
Real GDP growth	1.8	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Inflation	0.7	0.7	1.5	1.5	1.8	1.8	1.8	1.8
Primary balance	3.2	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	1.8	1.8	2.0	2.1	2.3	2.5	2.6	3.1

Source: IMF staff.

Annex III. Figure 6. Greece Public DSA—Stress Tests (Baseline Scenario)



Underlying Assumptions

(Percent)

	2019	2020	2021	2022	2023	2024	2025	2028
Primary Balance Shock								
Real GDP growth	1.8	2.3	2.0	1.4	0.9	0.9	0.9	0.9
Inflation	0.7	0.7	1.5	1.5	1.8	1.8	1.8	1.8
Primary balance	3.2	-0.1	-0.3	-0.3	2.0	2.1	1.5	1.5
Effective interest rate	1.8	1.8	1.9	2.0	2.1	2.1	2.1	2.4
Real Interest Rate Shock								
Real GDP growth	1.8	2.3	2.0	1.4	0.9	0.9	0.9	0.9
Inflation	0.7	0.7	1.5	1.5	1.8	1.8	1.8	1.8
Primary balance	3.2	2.1	1.8	1.8	2.0	2.1	1.5	1.5
Effective interest rate	1.8	1.8	2.0	2.1	2.3	2.5	2.6	3.2
Combined Shock								
Real GDP growth	1.8	-1.6	-1.8	1.4	0.9	0.9	0.9	0.9
Inflation	0.7	-0.2	0.5	1.5	1.8	1.8	1.8	1.8
Primary balance	3.2	-0.1	-2.7	-0.3	2.0	2.1	1.5	1.5
Effective interest rate	1.8	1.8	2.0	2.3	2.6	2.8	3.0	3.6
Lower Growth Scenario								
Real GDP growth	1.8	1.3	1.0	0.4	-0.1	-0.1	-0.1	-0.1
Inflation	0.7	0.7	1.5	1.5	1.8	1.8	1.8	1.8
Primary balance	3.2	2.1	1.8	1.8	2.0	2.1	1.5	1.5
Effective interest rate	1.8	1.8	1.8	1.9	2.0	2.1	2.1	2.4

	2019	2020	2021	2022	2023	2024	2025	2028
Real GDP Growth Shock								
Real GDP growth	1.8	-1.6	-1.8	1.4	0.9	0.9	0.9	0.9
Inflation	0.7	-0.2	0.5	1.5	1.8	1.8	1.8	1.8
Primary balance	3.2	-0.1	-2.7	1.8	2.0	2.1	1.5	1.5
Effective interest rate	1.8	1.8	1.9	2.0	2.1	2.1	2.1	2.4
Real Exchange Rate Shock								
Real GDP growth	1.8	2.3	2.0	1.4	0.9	0.9	0.9	0.9
Inflation	0.7	1.1	1.5	1.5	1.8	1.8	1.8	1.8
Primary balance	3.2	2.1	1.8	1.8	2.0	2.1	1.5	1.5
Effective interest rate	1.8	1.8	1.8	1.9	2.0	2.0	2.1	2.4
Contingent Liability Shock								
Real GDP growth	1.8	-1.6	-1.8	-2.4	0.9	0.9	0.9	0.9
Inflation	0.7	-0.2	0.5	0.6	1.8	1.8	1.8	1.8
Primary balance	3.2	-2.7	-0.5	0.6	1.6	1.7	1.5	1.5
Effective interest rate	1.8	1.9	1.9	2.0	2.1	2.1	2.2	2.4

Source: IMF staff.

Annex III. Table 2. Greece External Debt Sustainability Framework

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018	10-Year Historical Average	10-Year Standard Deviation	2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 6/
Baseline: External debt (includes the stock of deferred interest)	238.8	251.0	246.7	227.2	222.4			**219.5**	**212.8**	**206.6**	**201.7**	**198.8**	**196.7**	**-2.8**
Change in external debt	0.9	12.2	-4.4	-19.5	-4.8			-2.9	-6.7	-6.2	-4.8	-2.9	-2.2	
Identified external debt-creating flows (4+8+9)	0.5	-0.6	0.9	-4.4	-3.3			-4.3	-5.3	-3.2	-1.6	1.2	1.7	
Current account deficit, excluding interest payments	-1.3	-1.7	-0.5	-0.5	0.6			-0.1	0.0	0.2	0.2	0.8	1.0	
Deficit in balance of goods and services	2.2	0.6	0.9	1.0	1.7			1.6	2.0	2.1	2.3	2.4	2.4	
Exports	32.4	31.8	30.8	34.2	37.6			38.8	39.6	40.3	40.7	40.6	40.4	
Imports	34.6	32.5	31.8	35.2	39.4			40.4	41.5	42.5	43.1	42.9	42.8	
Net non-debt creating capital inflows (negative)	-4.5	-3.5	-2.6	-1.7	-1.5			-2.9	-3.2	-2.4	-2.1	-1.1	-0.8	
Automatic debt dynamics 1/	6.3	4.6	3.9	-2.1	-2.4			-1.3	-2.1	-1.0	0.2	1.4	1.5	
Contribution from nominal interest rate	3.6	3.2	2.8	2.9	3.0			2.9	2.9	2.9	3.1	3.1	3.2	
Contribution from real GDP growth	-1.8	1.3	0.5	-3.6	-4.1			-4.2	-5.0	-4.0	-2.9	-1.7	-1.7	
Contribution from price and exchange rate changes 2/	4.4	0.1	0.6	-1.5	-1.3			-1.4	-1.7	-3.1	-3.2	-3.5	-3.5	
Residual, incl. change in gross foreign assets (2-3) 3/	0.4	12.8	-5.2	-15.1	-1.5			2.8	0.3	0.0	0.0	-0.5	-0.4	
External debt-to-exports ratio (in percent)	737.6	788.1	800.1	663.6	590.7			566.1	537.5	512.2	495.1	490.2	487.2	
Gross external financing need (in billions of US dollars) 4/	226.0	194.4	183.8	171.2	141.8			120.7	117.3	114.2	119.0	129.0	135.8	
in percent of GDP	95.2	98.8	94.1	84.1	65.0			56.8	53.6	50.0	50.2	52.7	53.6	
Scenario with key variables at their historical averages 5/								**220.8**	**234.2**	**251.0**	**268.5**	**285.9**	**305.1**	**19.3**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	0.7	-0.4	-0.2	1.5	1.9	-2.6	3.9	1.8	2.3	1.9	1.4	0.9	0.9	
GDP deflator in US dollars (change in percent)	-1.8	-16.8	-0.5	2.7	5.2	-2.0	6.7	-4.3	0.5	2.4	2.4	2.4	2.5	
Nominal external interest rate (in percent)	1.5	1.1	1.1	1.2	1.4	1.3	0.9	1.3	1.4	1.4	1.5	1.6	1.7	
Growth of exports (US dollar terms, in percent)	5.3	-18.5	-3.9	15.7	17.9	1.4	14.9	0.3	5.1	6.4	4.9	2.8	2.9	
Growth of imports (US dollar terms, in percent)	3.1	-22.3	-2.8	15.6	19.8	-1.8	17.0	0.0	5.8	6.8	5.3	3.0	3.1	
Current account balance, excluding interest payments	1.3	1.7	0.5	0.5	-0.6	-1.8	4.8	0.1	0.0	-0.2	-0.2	-0.8	-1.0	
Net non-debt creating capital inflows	4.5	3.5	2.6	1.7	1.5	1.6	1.7	2.9	3.2	2.4	2.1	1.1	0.8	

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

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

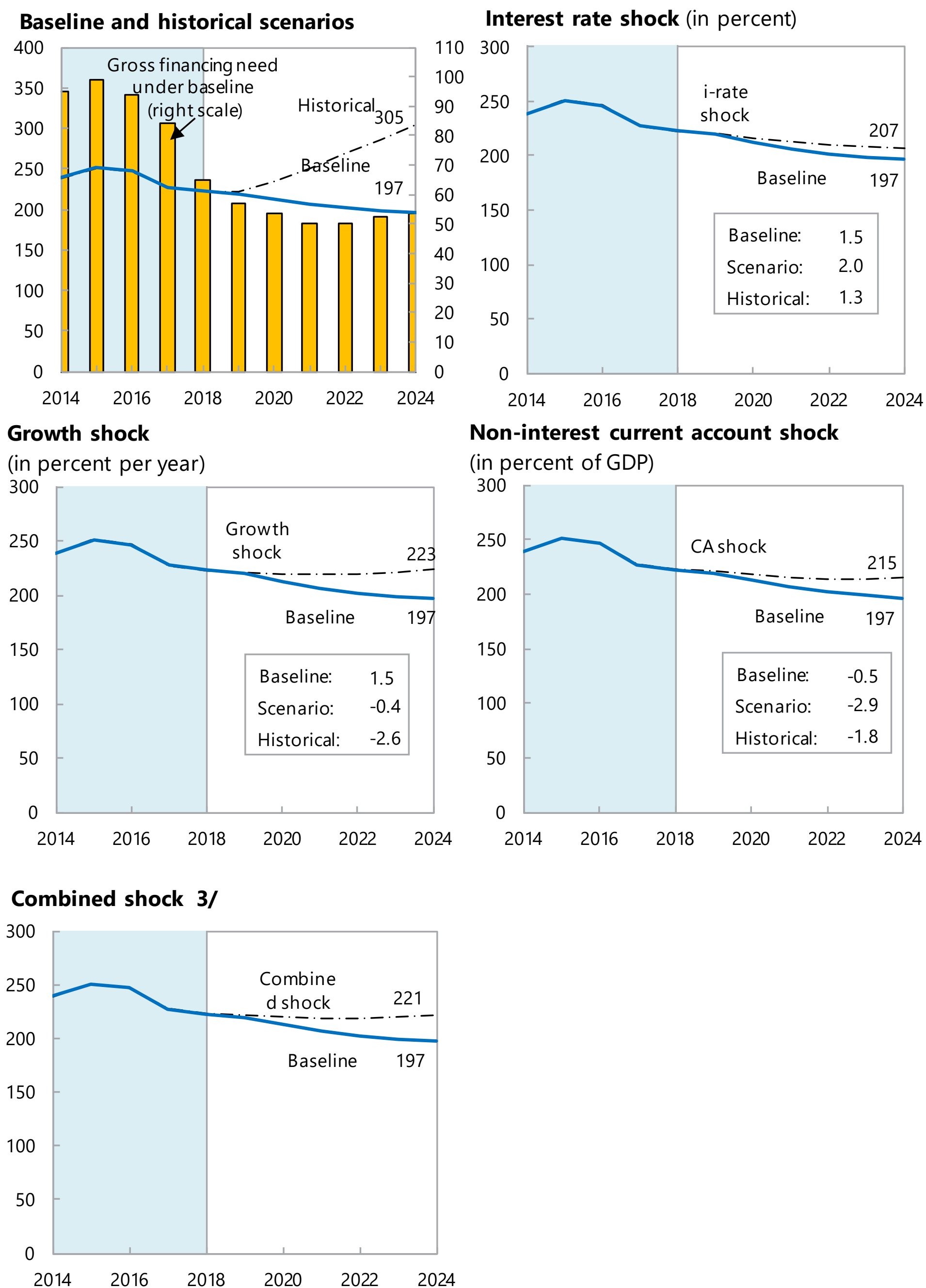
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Annex III. Figure 7. Greece External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



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

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

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

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

Annex IV. Risk Assessment Matrix

Source of Risk	Likelihood of Risk and Transmission	Expected Impact if Realized	Recommended Policy Response
		Domestic	
Continued backtracking of previously implemented reforms and contingent fiscal risks (but also upside risks from new reforms)	**Medium** Slowdown in structural reforms and continued backtracking of previously implemented reforms, due to court rulings of past (fiscal) measures or inability to overcome vested interests. However, the reform momentum may also accelerate and be sustained, encouraging further positive market trends and improvements in consumer and investor confidence.	**High** Large one-off payments may trigger fiscal pressures and lead to confidence losses. Policy reversals could erode competitiveness and hamper medium-term growth. Early and decisive realization of the government's pro-growth, investment-driven objectives could boost growth beyond baseline expectations.	Prioritize growth-friendly, socially inclusive policies consistent with long term fiscal sustainability. Devise strategy to deal with large contingent fiscal shocks. Allocate windfall from better growth outcomes (further investment, higher consumption and fiscal revenue) to boosting infrastructure, the social safety net, and long-term growth-friendly areas such as education and health.
Sharp deterioration of sentiment towards banks	**Medium** Delays in adequately cleaning up private sector balance sheets weigh on banks, undermining the recovery. Deterioration of investor/depositors' sentiment vis-à-vis banks.	**High** Re-emergence of liquidity pressures and accelerated capital depletion exacerbated by the bank-sovereign nexus. Further deterioration of bank balance sheets could trigger deposit outflows. Reduced credit growth would undermine growth and informality could increase due to heightened uncertainty.	Accelerate clean-up of banks' and private sector balance sheets. Proceed with proactive build-up of capital buffers. Communicate a credible and ambitious strategy (aimed at restoring bank sustainability). Strengthen operational preparedness to crisis management.
		External	
Weaker-than-expected growth in Europe.	**High** Weak foreign demand, Brexit, or concerns about some high-debt countries delays investment; faltering confidence reduces private consumption. Inflation expectations drift lower, and the region enters a prolonged period of anemic growth and low inflation.	**High** Adverse impact on growth and the external position due to reduced export and tourism demand and weaker investment.	Seek flexibility from European partners to provide a counter-cyclical buffer to a global downturn. Rebalance fiscal mix further in favor of investment. Accelerate structural reforms to spur productivity and competitiveness.

Sharp rise in risk premia.	**High** The recent market rally (and easy monetary policy) may have attracted investors subject to abrupt sentiment changes. Global shocks could trigger risk-off events and repricing of risk premia.	**Medium** Higher sovereign/bank spreads (raising sustainability and stability risks); higher borrowing costs, further strained balance sheets, and credit compression. Low external financing would lead to lower growth and less-benign debt dynamics.	Ensure adequate fiscal rebalancing. Accelerate banking sector reforms, including steps to reduce risks from the sovereign-bank nexus. Keep on course with commitments to European partners to ensure financing.
Rising protectionism and retreat from multilateralism	**High** Escalating and unpredictable trade actions, WTO disputes, peril to the global trade system. Additional barriers and the threat of new actions; adverse confidence effects and financial market volatility. Economic fragmentation due to lack of consensus about globalization benefits, undermining of the global rules-based order, with adverse effects on investment, growth, and stability.	**Medium /Low** Lower growth and weaker external position.	Accelerate reforms to ensure broad-based growth and cushion risks to external demand (i.e. boost investment and private incomes).
Intensification of geopolitical tensions and security risks	**High** Geopolitical flashpoints could lead to socio-economic disruptions and more migration to Greece.	**High** Lack of integration of migrants could put social cohesion at risk. Could lower tourism revenues, raise unemployment and put pressure on the budget.	Make use of fiscal buffers for temporary costs. Push for new system to relocate refugees across member states. Generate fiscal space to address costs related to migration flows. Consider reforms to facilitate integration of qualified workers.

Annex V. Inclusive Growth Indicator

1. Following Bloch and Fournier (2018), this Annex examines the growth-friendliness and inclusiveness of Greek public spending over time and relative to the rest of the EA. Indicators are based on the evolution of the government's primary expenditure composition combined with (standardized) respective coefficient estimates. Estimates are obtained from long-run growth convergence regressions and inequality effect estimates (Fournier and Johansson 2016). Table 1 summarizes the estimates. The estimates indicate that old-age pension spending and subsidies 'harm' economic growth with little impact of the former on equality. Investment has the highest growth return but marginally hurts equality, while targeted social protection helps growth and equality.

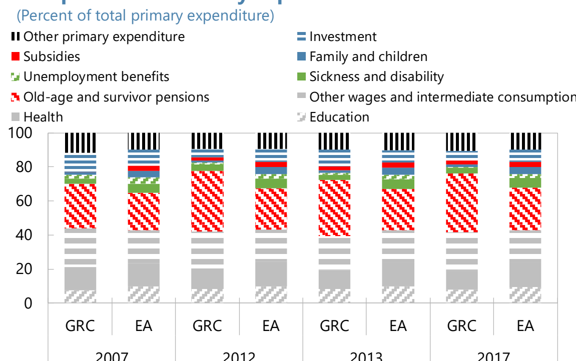
Annex V. Table 1. Calculated Weights for Public Spending Mix Indicators

Spending Item	Growth effect	Inequality reduction effect	Inequality-inclusive growth effect
Subsidies	-3.0	1.2	-1.9
Old-age and survivor pensions	-0.9	-0.1	-1.0
Other wages and intermediate consumption	0.6	-1.1	-0.6
Health	0.2	0.0	0.2
Education	0.2	0.0	0.2
Unemployment benefits	0.2	1.0	1.2
Sickness and disability	0.8	0.9	1.7
Family and children	1.7	1.6	3.3
Investment	2.8	-0.3	2.5

Source: Bloch and Fournier (2018).
Note: Other primary expenditure is weighted with 0.

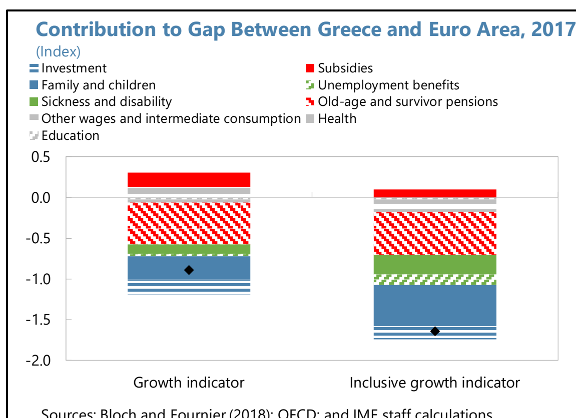
2. Starting from a level comparable to the rest of the EA in 2003, Greece's spending mix (inclusive growth indicator) deteriorated below the EA indicator by 2005, and then fell sharply during the crisis. While the EA indicator for inclusive growth only mildly declined in the two years after the onset of the global financial crisis, the indicator for Greece started to fall already in 2005 when spending shifted away from investment (between 2003 and 2005). When the crisis hit, Greece's indicator reached its low point in 2012 due to an increase in the relative importance of old-age pensions and subsidies. After some temporary improvement from 2012 to 2013 due to pension reforms and improvement of investment, the indicator fell back to the 2012 level, largely due to a compression of investment spending. By 2017, the gap between the EA average and Greece's inclusive growth spending indicators remained, explained by Greece's higher relative spending on pensions and lower spending on targeted social protection and investment (see chart on composition of expenditures).

Composition of Primary Expenditure
(Percent of total primary expenditure)



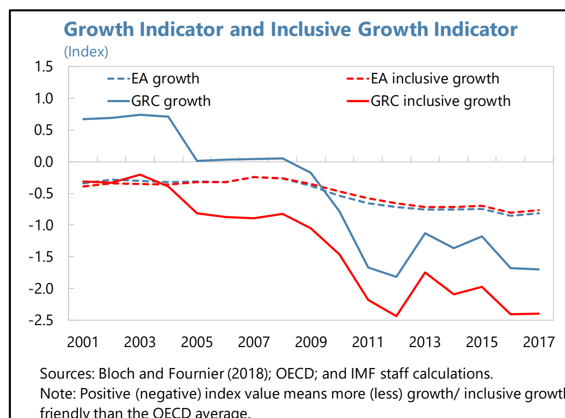
Sources: Bloch and Fournier (2018); OECD; and IMF staff calculations.

Contribution to Gap Between Greece and Euro Area, 2017
(Index)



Sources: Bloch and Fournier (2018); OECD; and IMF staff calculations.

Growth Indicator and Inclusive Growth Indicator
(Index)



Sources: Bloch and Fournier (2018); OECD; and IMF staff calculations.
Note: Positive (negative) index value means more (less) growth/ inclusive growth friendly than the OECD average.

References

Blochi, Debra and Fournier, Jean-Marc, 2018, “The deterioration of the public spending mix during the global financial crisis”, OECD Economics Department Working Papers No. 1465.

Fournier, Jean-Marc and Johansson, Åsa, 2016, “The Effect of the Size and the Mix of Public Spending on Growth and Inequality”, OECD Economics Department Working Papers No. 1344.

INTERNATIONAL MONETARY FUND

GREECE

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 28, 2019

Prepared By

European Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS ____ 2

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FUND RELATIONS

(as of September 30, 2019)

Membership Status: Joined December 27, 1945.

Exchange Rate Arrangements: Greece's currency is the euro, which floats freely and independently against other currencies. Greece has accepted the obligations of Article VIII, Sections 2, 3, and 4. As of September 1, 2019, it maintains an exchange system free of restrictions on payments and transfers for current international transactions, except for those measures adopted solely for security reasons, which have been notified to the Fund in accordance with the procedures of Decision 144 (52/51).

General Resources Account:

	SDR Million	Percent Quota
Quota	2,428.90	100.00
IMF's Holdings of Currency	8,591.56	353.72
Reserve Tranche Position	575.02	23.67

SDR Department:

	SDR Million	Percent Allocation
Net Cumulative Allocation	782.36	100.00
Holdings	8.99	1.15

Outstanding Purchases and Loans:

	SDR Million	Percent Quota
Extended Arrangements	6,735.64	277.31

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	May 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				
	2019	2020	2021	2022	2023
Principal	376.70	1,704.08	1,704.08	1,587.49	1,112.15
Charges/Interest	51.36	149.94	83.37	50.54	23.76
Total	428.06	1,854.03	1,787.45	1,638.03	1,135.91

Article IV Consultations:
The last Article IV was concluded on July 27, 2018, following consultation discussions that ended on June 29, 2018. Greece is on the standard 12-month consultation cycle.

Resident Representative:
Mr. Dennis Botman (Senior Resident Representative) assumed his position in September 2016.

Technical Assistance:

Department	Purpose	Date
STA	Government Finance Statistics	November 2016
FAD	IT Strategy Development in Tax Administration	December 2016
FAD	Institutional Reforms in Tax Administration	January 2017
FAD	IT Strategy Development in Tax Administration	February 2017
STA	Government Finance Statistics	February 2017
FAD	Chart of Accounts, Cash Management and Reconciliation	March 2017
STA	Government Finance Statistics	May 2017
FAD	Roadmap for IT Strategy Implementation in Tax Administration	August 2017
FAD	Restructuring Tax Debt	September 2017
FAD	Strategic Planning in Tax Administration	October 2017
FAD	Implementing a Treasury Single Account	November 2017
FAD	Roadmap for IT Strategy Implementation in Tax Administration	January 2018
FAD	Assessment of Tax Administration	February 2018
FAD	Follow-up on Tax Administration Reforms	February 2018
FAD	Chart of Accounts, Accounting and Treasury Single Account Reforms	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	Revenue Administration: Enhancing Operating Practices (Russell)	November 2018
FAD	Revenue Administration: Development of IT Capability (Poulin)	November 2018
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: Revenue Administration VAT Gap Analysis (Hutton)	August 2019

STATISTICAL ISSUES

As of September 30, 2019

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

Greece: Table of Common Indicators Required for Surveillance (As of September 30, 2019)					
	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	September 30, 2019	September 30, 2019	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	August 2019	September 12, 2019	M	M	M
Reserve/Base Money	August 2019	September 26,2019	M	M	M
Broad Money	August 2019	September 26,2019	M	M	M
Central Bank Balance Sheet	August 2019	September 26,2019	M	M	M
Consolidated Balance Sheet of the Banking System	August 2019	September 26,2019	M	M	M
Interest Rates[2]	September 30,2019	September 30,2019	M	M	M
Consumer Price Index	August 31, 2019	September 10, 2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	April 2019	July 1, 2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	August 2019	September 30, 2019	M	M	M

Greece: Table of Common Indicators Required for Surveillance (concluded)
(As of September 30, 2019)

Stocks of Central Government and Central Government-Guaranteed Debt[5]	2019Q2	August 19, 2019	Q	Q	Q
External Current Account Balance	July 2019	September 20, 2019	Q	Q	Q
Exports and Imports of Goods and Services	July 2019	September 20, 2019	Q	Q	Q
GDP/GNP	June 2019	September 4, 2019	Q	Q	Q
Gross External Debt	2019Q2	September 30, 2019	Q	Q	Q
International Investment Position[6]	2019Q2	September 30, 2019	Q	Q	Q

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

Statement by Michalis Psalidopoulos,
Alternate Executive Director for Greece
November 13, 2019

My Greek authorities welcome the Staff Report and the accompanying Selected Issues papers and thank staff for the extensive and constructive discussions and their strong engagement during their last visit to Greece. The authorities, however, feel that despite its merits, the Report focuses excessively on past legacies and challenges and understates recent positive developments that improve significantly the short- and medium-term prospects of the Greek economy. Overall, my authorities assess, and indeed market developments concur, that the Greek economic outlook is much more favorable than the one depicted in the Report.

Historical context

Greece has received extensive financial assistance from its European partners and the IMF from 2010 to 2018, in the context of three consecutive programs (two of which with IMF participation). Greece has exited in August 2018 the third program and is currently under Enhanced Surveillance status. Over the past decade, Greece achieved unprecedented fiscal adjustment; recorded substantial competitiveness gains reflected in equally substantial current account improvements; and implemented a wide range of reforms covering product, services and labor markets; the tax, pension and healthcare systems; governance; and institutional performance. This progress was achieved under the most extreme recession a Western economy has experienced over the past seven decades, resulting at the peak of the crisis in a 25% drop of GDP and very extensive social costs. Admittedly, policy mistakes occurred, and the speed of progress was not uniform across programs. Nevertheless, given the facts described above, and in view of acknowledged policy-design mistakes on behalf of institutions' representatives co-determining Greek programs, stating that the Greek recovery "*has fallen **far short** of expectations*" (p.1) and that " *the **authorities largely failed** in efforts to achieve a much-needed deep structural transformation of the economy*" (p. 22, box 2) is inaccurate and does not constitute a balanced assessment of economic developments in Greece over the program era.

State of play

A key feature of the Report is the projection of modest/declining growth rates in the short- and medium-term (Table 1, p. 33) and the existence of fiscal sustainability risks (p.1). The main themes underpinning this assessment are succinctly summarized in par. 1, page 4. The authorities acknowledge the existence of important legacy issues at the start of their time in office. Nevertheless, and as the experience of other program countries suggests, legacy issues do not constitute an insurmountable obstacle to economic recovery. Two key prerequisites for the latter are the ownership of the reforms necessary for recovery and a critical mass of social support for their implementation. The Greek authorities have ownership of their reform agenda and have been elected with a mandate to implement it, hence strong social consensus is now in place. As a result, a very significant part of the basis underpinning the Report's pessimistic projections has now been removed. The Greek economy has entered a new era and the Report's projections, based on assumptions/parameters characterizing the past, are highly questionable.

The authorities' growth and fiscal projections, as reported in the 2020 Draft Budgetary Plan (DBP), are much more optimistic than staff's. Developments in financial markets and leading economic indicators strongly (and not "cautiously", as mentioned in p.5) support this optimism. Some highlights include: yields and spreads of government bonds, at all maturities, have dropped to all-time historic lows, including negative interest rates in recent TB-issues; Greek Enterprises, like OTE, Hellenic Petroleum and Wind Hellas, have issued new bonds, at favorable terms; and the Economic Sentiment Indicator has been recording the highest confidence levels since 2008. Clearly, markets signal agreement with the authorities' economic plan; and disagreement with the Report's pessimistic projections.

Fiscal policy

Greece has achieved the primary balance targets set by the third adjustment program and Enhanced Surveillance. The authorities assess that the 2019 target will also be met, as strongly indicated by the 10-month budget execution. The authorities endorse recommendations by staff and have taken decisive action to address them. This is reflected in the DBP 2020, which includes significant reductions in corporate/personal/other taxes; reduction in social security contributions (for full-time employees only); and a host of business-friendly tax clauses. To broaden the tax base, the DBP 2020 increases the level of electronic transactions necessary for claiming the tax credit. The authorities have also initiated a full recalculation of objective property values, as a result of which new regions will enter the zone system and the property tax. Work has also started towards introducing electronic books, electronic invoices and direct link of the cash machines to the tax office. In the area of public financial management (PFM) the General Accounting Office has reduced the budget ceilings of the 2020 ordinary budget by approximately 0.5 billion EUR; and implements significant reforms including the Unified Chart of Accounts, Spending Reviews, Performance Budgeting and the Treasury Single Account. Finally, the Independent Authority of Tax Revenues currently implements HR and IT reforms. Overall, the authorities are committed to growth-oriented, inclusive fiscal policies and tax

reductions whilst safeguarding agreed fiscal targets. In this context, they welcome the view of the Report that primary balance targets should be lowered and that a smoothing mechanism to allow temporary deviations from fiscal targets in the event of adverse shocks be set in place.

Public debt sustainability

The authorities find staff's assessment of public debt sustainability to be extremely pessimistic, not least because it does not consider the aggressive reduction of Greek bond yields and credit spreads observed over the past eighteen months, and in particular the past three months. The Report's annual projections are far higher than PDMA's projections, which are very conservative both on an accrual and on a cash basis. According to the initial methodology of the Institutions, the 5-year new funding cost of the Hellenic Republic (HR) had to be close to 3.4% instead of the current 0.4%. This factor has a strong impact regarding the future debt- to- GDP levels and the annual GFN vs GDP, i.e. on both indexes used to assess Greek debt sustainability. Staff adopts extremely conservative assumptions about future interest rates related to the funding cost of the HR and the European Institutions. Regarding the latter, and taking into account that the Greek debt portfolio is 95% at fixed rate, having also time to net re-fixing close to 18 years, and that the EFSF's liability portfolio is about 90% at fixed rate, it is difficult to explain an increase by 0.8 billion euros of the annual interest payments (on an accrual basis) for the year 2019 compared to 2018, or an increase by 0.4 billion euros for the year 2022 compared to 2021 and an increase by 0.3 billion euros for the year 2023 compared to 2022 (as depicted at page 37, Table 3, line "interest"). Overall, it is difficult to explain why the Greek debt is "less sustainable in the long term", when the previous Report reached a conclusion of a "more sustainable" Greek public debt, when a massive reduction in Greek credit spreads has taken place, projecting a far lower debt servicing cost and a far better investors' perception regarding the Greek debt sustainability and economic growth. The market reaction following the recent approval by European Institutions of the Greek request for a partial early repayment of its IMF loan is a credible signal of Greece's improved debt sustainability outlook. This will be further enhanced by reforms authorities plan to introduce to the pension system, as per their recent announcements.

Banking developments

The Report acknowledges improvements that have been brought so far to the Greek banking system and highlights some legacy issues, which are reflected in a high proportion of NPEs, limited liquidity and low profitability rates. The authorities acknowledge these challenges, but expect the pace of ongoing banking recovery, to whose achievement they assign top priority, to accelerate sharply in the near future. All capital controls have been abolished (as from September 1st, 2019); Greek banks have eliminated their ELA exposure; and private deposits are making a steady recovery. Over the last four quarters, the NPL stock has declined by 13.5 billion EUR, 15% on an annual basis, with reduction in 2019Q2 being the highest since 2017. On the back of this progress, in October 2019, the Greek authorities received approval from the European Commission for the "Hercules" Asset Protection Scheme (APS), a fiscal-neutral scheme aiming

at a systemic reduction of around 40% of the current NPE stock at a lower cost for bank capital ratios. Hercules securitization will offer the investors a yield bearing asset at a period of negative interest rates and booming markets. Investors have positively reacted, and all Greek systemic banks are expected to join this scheme. The draft legislation relating to Hercules will soon be submitted to the Parliament, paving the way for a more liquid, transparent and institutionalised secondary NPEs market that will attract a broader pool of global capital.

Hercules is a bold step of the government's strategy to reboot the Greek financial system including far reaching reforms of its capital markets. To the same end, the authorities are working on other reform initiatives, including revising the personal insolvency and bankruptcy law and simplifying the current out-of-court settlement process for commercial loans. The new single insolvency framework will utilize an electronic platform with digital processes for debt restructuring, pre-agreed debt settlement proposals between creditors, a Credit Bureau for data collection and scoring, Early Warning as well as certified property valuators, financial experts and mediators alleviating courts. Finally, bank balance sheets are supported by the accelerating recovery of the real estate market. Based on the above, the authorities expect a significant increase in the capacity of the banking system to finance the real economy, supporting growth in the short-term through increased liquidity and in the medium-term through increased levels of investment.

Labor market reform

The Report acknowledges that labor market conditions are improving but assesses the quality of recovery to be weak. The authorities share the view that the reforms introduced in 2011-13 led to a significant restoration of the Greek economy's competitiveness and have been a key factor underpinning increasing employment rates observed since 2014. They also agree on the benefits of labor market flexibility within the single currency area and have initiated decisive action towards that direction. Over the past three months, they have repealed three labor law provisions legislated earlier in 2019 restricting labor market flexibility, introduced conditional opt-outs from sectoral collective agreements and legislated a public registry for worker and employer organizations allowing for online voting for critical decisions. This will attest capacity and representativeness when deciding about a strike or about collective labor agreements. The authorities are also working towards modernising legislation with respect to labour force termination, in harmony with the Revised European Social Chapter, and rationalising/simplifying the procedures for overtime reporting, paid leave and others. Furthermore, the DBP 2020 includes provisions relating to childcare aiming to increase female labour market participation. Finally, authorities aim to further codify, simplify and modernise Labour Law, aiming to create stability and flexibility in labour law arrangements that will increase competitiveness and foster jobs' creation and preservation.

Growth enhancing measures

The authorities endorse the necessity of growth enhancing reforms and are determined to push ahead with their implementation. During the programs' era, Greece implemented reforms covering labor, products and services markets, which the Report somewhat underplays. These contributed to improvement in Greece's performance in international business and regulation-quality rankings, as well as to substantial gains in unit labor cost-based competitiveness gains (app. 20% over 2010-2018). However, the CPI-based counterpart figure improved only by 8%, with no further progress since 2015. Authorities acknowledge this and are determined to reinvigorate the reforms' pace. Indeed, developments over the past three months confirm this determination. Large investment projects like Hellenikon and the Piraeus Port extension have been unblocked, privatisations, like the Athens International Airport, have been resumed, and a credible plan to restore the viability of the country's largest corporation, the Public Power Corporation has been put in place. Last month, the Parliament voted an Omnibus Development Law including provisions for further liberalisation of product markets and a host of growth-friendly provisions, whose implementation is expected to result into medium-term growth gains estimated by the Bank of Greece in the region of 0.5% of GDP. The authorities plan, soon, to bring to Parliament legislation postulating further privatisations (e.g. reginal ports), profitable use of publicly owned real estate (through HCAP) and increasing competition in the energy sector. Last, but not least, they have committed to decarbonisation and moving toward renewable energy sources, which reflects the authorities' strong commitment to combating climate change, including a pledge to stop using lignite for electricity production by 2028. Overall, the authorities believe that their reform agenda will bring about a regime change in the Greek economy, resulting into medium-term growth rates significantly higher than those envisaged by staff.

Transparency and governance

The authorities share staff's assessment that Greece has strengthened its AML/CFT regime in line with international standards and on the importance of upgrading public-sector governance, transparency and institutional performance as key drivers of sustainable growth. The authorities believe in the Rule of Law, meritocracy, predictability, transparency and stability. One of their first legislative initiatives was the introduction of a single Independent Transparency Authority unifying all the disparate entities auditing and overseeing the government. The same legislation introduced a new institution, the Presidency of the Government, responsible for overseeing the implementation of the Government program; a provision for assessing the performance of Government officials and entities based on established KPIs and metrics, in line with international best practices; the introduction of newly created administrative General Secretaries, empowering institutional memory in the public sector and an ambitious and comprehensive project of digitization. The authorities believe that this important legislative initiative will make a significant contribution towards improving transparency and institutional performance, which is not recognised sufficiently by staff's analysis. The authorities plan to actively pursue further their institutional agenda, by focusing in areas including the justice system.

Concluding remarks

The thorough and detailed exposition of current trends and realities in the Greek economy lead my authorities to the conclusion that the country is fully on track to accelerate economic recovery and regain its former position in the world economy on a sound basis. The authorities are adamantly committed to fulfill their obligations and to deliver enhanced and inclusive growth while preserving social cohesion. They are looking forward to the support of their partners in the EU and consider the cooperation and advice of the IMF as having great importance for them going forward, as in the past. Based on the analysis presented above, they are looking forward to future IMF staff reports, involving a more balanced assessment of past events and a higher emphasis on forward looking analysis.