August 2009
IMF Country Report No. 09/244

Greece: 2009 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; 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 2009 Article IV consultation with Greece, the following documents have been released and are included in this package:

- The staff report for the 2009 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **May 25, 2009**, 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 **June 30, 2009**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement of **July 20, 2009**, updating information on recent developments

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its **July 24, 2009** discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Greece.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

GREECE

Staff Report for the 2009 Article IV Consultation

Prepared by the European Department

(In consultation with other departments)

Approved by Ajai Chopra and Martin Mühleisen

June 30, 2009

Executive Summary

Background: Economic activity has held up better than in partner countries, but a recession seems unavoidable. Inflation is receding but remains above the euro-area average. Banks have weathered well the downturn so far, including with confidence-boosting government assistance and enhanced supervision. The increasing fiscal deficit reflects cyclical effects partly offset by cuts in the high structural deficit.

Challenges: Fiscal and external imbalances are high and competitiveness has weakened. Fiscal consolidation cannot be postponed. Reforms to bolster competitiveness and growth are essential to avoid slipping into stagnation.

Staff views: Greece needs a coherent fiscal adjustment path, based on durable measures, aimed at returning the debt ratio to a downward trajectory. Revenue enhancements are needed, but the main tasks are to address the wage bill and structurally worsening entitlement programs. The operating environment for banks remains challenging, and close domestic and cross-border supervision and cooperation is appropriate. The authorities need to work with social partners to forge a tri-partite approach, based on dialogue and transparency of tasks and burdens, to address serious competitiveness concerns.

Authorities' views: The authorities aim to cut the fiscal deficit as agreed with EU partners to limit debt accumulation, predicated on a more favorable economic outlook than staff's. They agree that competitiveness needs to be strengthened, and point to progress in privatizing state enterprises, tight public sector incomes policy, active labor market policies, and implementing the EU Services Directive by end-2009 as steps in this direction.

The mission team: B. Traa (Head), M. Moreno Badia, F. Jaumotte, D. Velculescu (all EUR).

Country interlocutors: the Minister of Economy and Finance, the Minister of Employment and Social Protection, the Governor of the Bank of Greece, Officials at the Prime Minister's office, and staff in these and other government ministries and agencies.

Outreach: included meetings with banks, trade unions, industrialists, and private analysts.

Contents Page

I. Context[1]

1. **The Greek economy expanded quickly through 2008, narrowing the income gap with the euro area**. Financial sector liberalization and lower interest rates after euro adoption caused a demand boom (Figure 1). Productivity catch-up, capital formation, and immigration raised supply capacity, but a positive output gap still emerged.

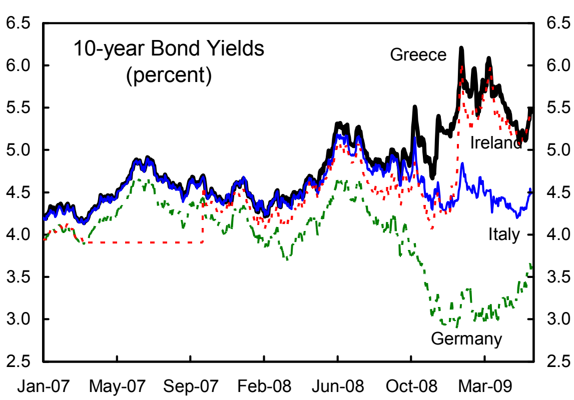
Macroeconomic Indicators (average 2000-2008)
(Percent, unless otherwise indicated)

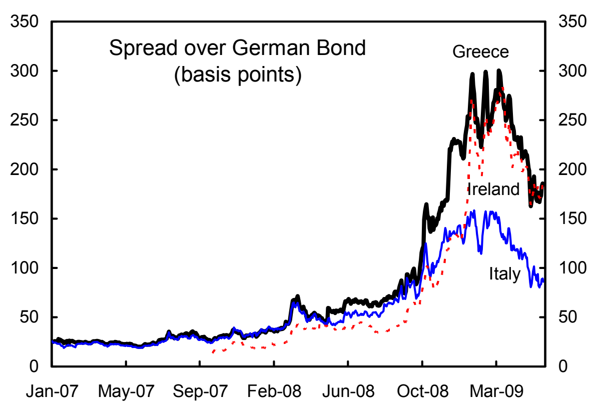
	Greece	Euro area
Per-Capita GDP growth	3.8	1.4
CPI inflation	3.4	2.3
Unemployment rate	9.7	8.2
CA deficit (percent of GDP)	-9.0	-0.1

Source: WEO.

2. **Imbalances persisted**. Continued high fiscal deficits prevented the public debt from falling below 95 percent of GDP. Inflation and labor-cost growth exceeded that of trading partners and eroded competitiveness. The current account deficit was 14½ percent of GDP in 2008. The international investment position (IIP) was -75 percent of GDP at end-2008.

3. **The global financial crisis weakened sentiment and sent spreads soaring, causing a financing scare.** Business and consumer confidence dropped, as elsewhere. Borrowing spreads on 10-year Bunds jumped to 300 bp (the highest in the euro area) before receding to 185 bp recently, and S&P downgraded Greece to two notches from minimum ECB collateral standards. Borrowing costs in absolute terms were kept in check with Bund yields falling and by issuing at shorter terms, but effective real rates increased. Greece's sensitivity to the financial crisis is linked to its precarious fiscal position and lack of structural progress, with higher spreads foreshadowing higher fiscal costs over the medium term.



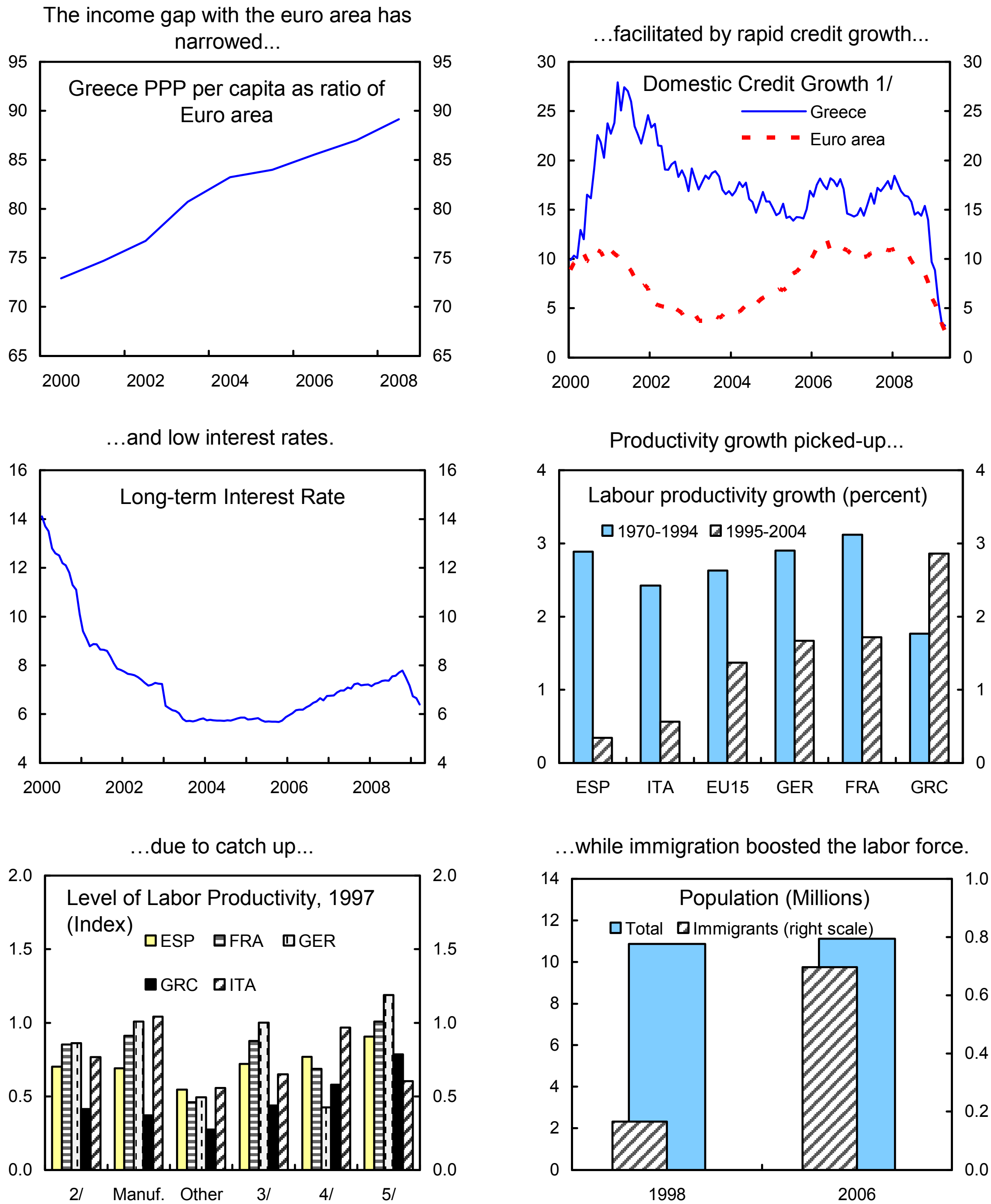


Source: Bloomberg.

4. **A lack of political consensus hampers policy making**. The center-right New Democracy party won re-election in September 2007 with a thin majority. The opposition socialist party has won the European Parliament ballot of June 7 and is asking for early elections, which could be triggered by Presidential elections in March 2010. Political cooperation is low, and demonstrations and strikes are common.

[1] This report reflects data through end-May 2009.

Figure 1. Greece--The Boom Years
(Percent)

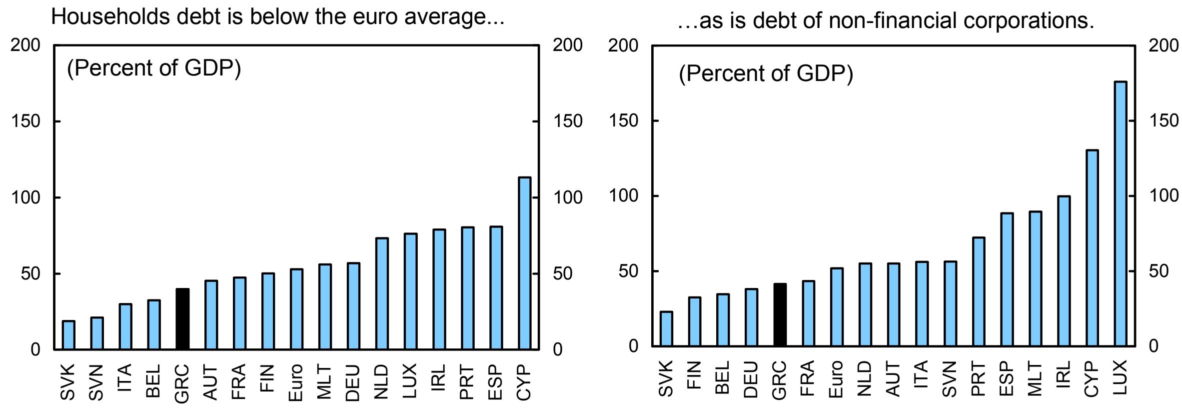


Sources: Greek Statistical Office; European Central Bank; EU KLEMS; and Eurostat.

1/ On-balance sheet data from the ECB.
2/ Electrical machinery, post and communication services .
3/ Market services, excluding post and telecommunications.
4/ Finance and business, except real estate.
5/ Personal services.

II. Cyclical Developments

5. **Growth slowed to 2.9 percent in 2008** (Table 1). Domestic demand eased, led by investment, and employment fell at year-end (Figure 2). Greece's relative resilience was partly explained by consumption, facilitated by high wage growth and moderate household and corporate indebtedness (the high debt is in the public sector). Import volumes contracted sharply, but the current account deficit still worsened with lower terms of trade and a near doubling of net factor payments since 2005.



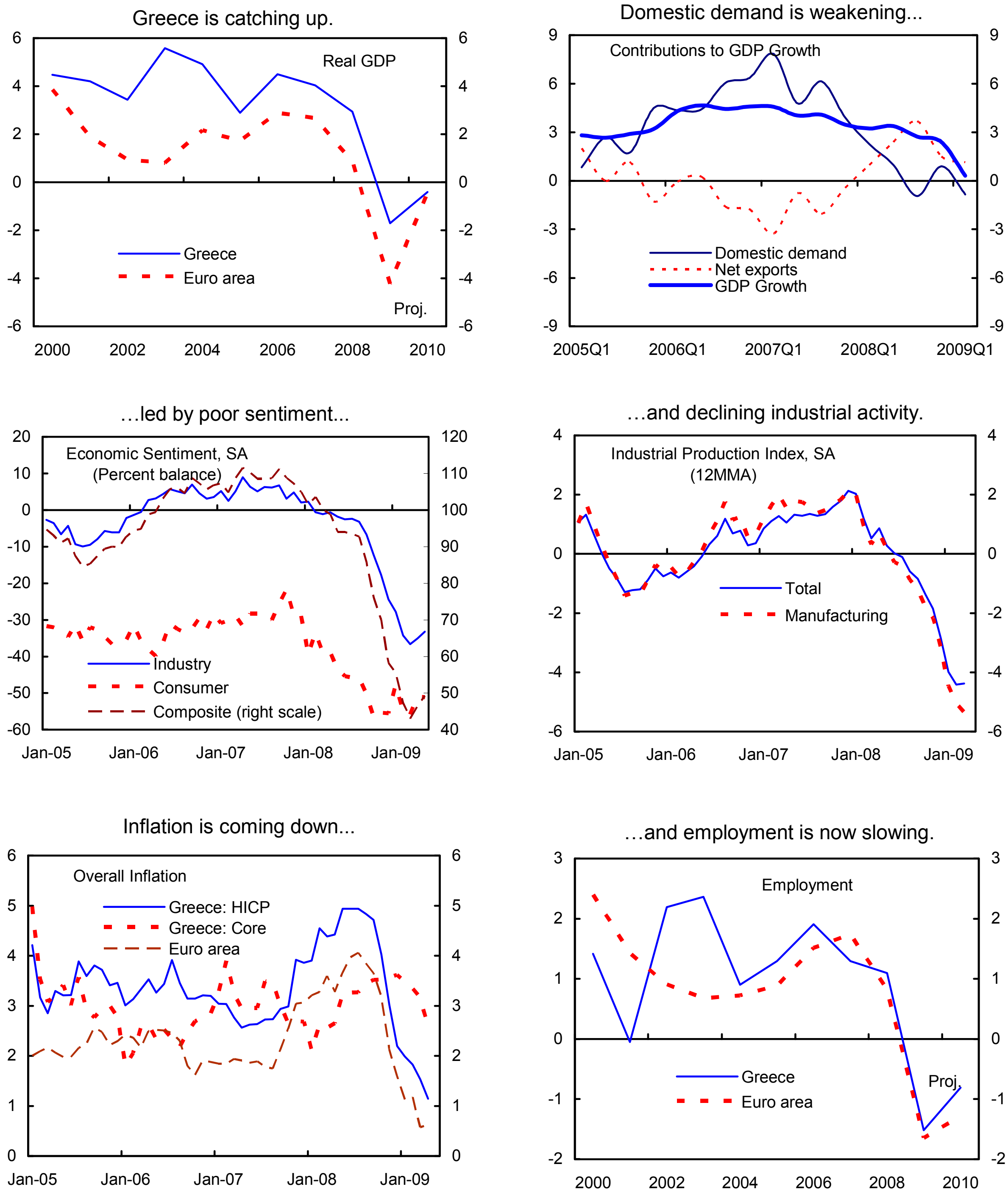
Source: ECB.

6. **National accounts data for Q1 2009 and high-frequency indicators suggest growth is slowing quickly**. First quarter output declined by 4.8 percent qoq, saar. Industrial production, orders, and retail sales have dropped sharply, as elsewhere (Figure 3). The Baltic Dry Index, reflecting demand for the key shipping industry in Greece, declined significantly from its peak in 2008. Tourism arrivals are down.

7. **Nevertheless, wage growth has remained high.** Wage agreements for 2008–2009 incorporated high inflation expectations, resulting in 12 percent nominal wage hikes over this period (Figure 4). With inflation declining at end-2008, real wage growth turned up, assisting household incomes. With wage growth outstripping the euro average, competitiveness further suffered and firms are now reducing overtime or cutting informal deals to lower costs. The authorities see the informal market as a buffer in Greece.

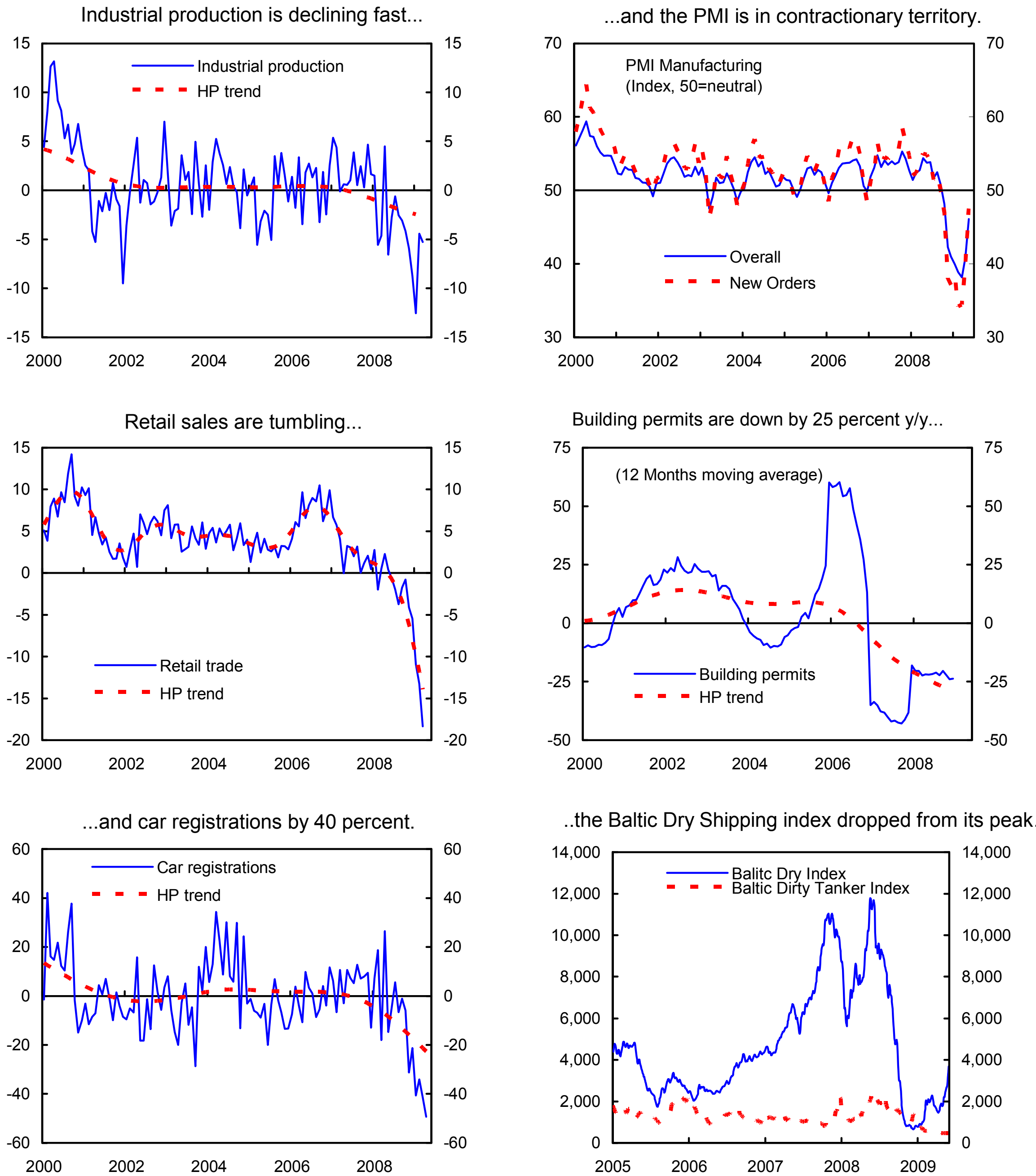
8. **A weakening operating environment has reduced bank profits**. So far, the global financial turmoil has had limited direct impact on banks because they have no legacy toxic assets or SIVs and are retail oriented. However, profitability is falling with higher funding costs, slowing activity, and asset quality erosion in Greece and Southeastern Europe (SEE). Credit growth has slowed (Figure 5). S&P and Moody's have downgraded several Greek banks. Bank equities are down sharply year-on-year (Figure 6).

Figure 2. Greece: Selected Indicators, 2000–10
(Year-on-year percent change, unless otherwise indicated)



Sources: European Commission; National Statistical Service; and IMF staff calculations and projections.

Figure 3. Greece--Cyclical Indicators Suggest a Sharp Slowdown
(Year-on-year percent change, unless otherwise indicated)



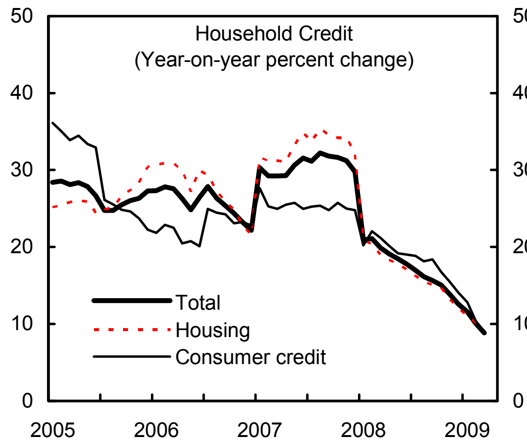
Sources: Bank of Greece; National Statistical Service of Greece; Eurostat; Markit; and Bloomberg.

Figure 4. Greece: Labor Markets, 2001–08
(Year-on-year percent change, unless otherwise indicated)

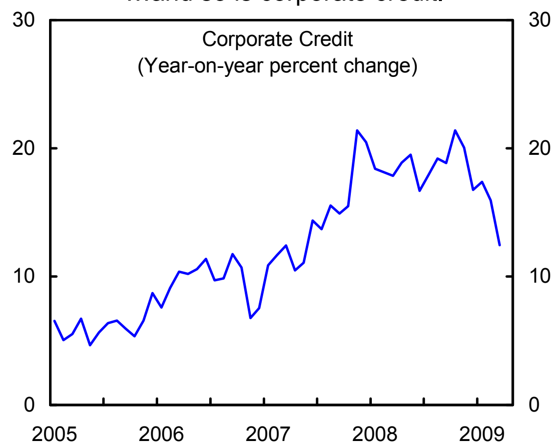
Sources: Eurostat; and IMF staff calculations.

Figure 5. Greece: Money and Banking Indicators, 2005–09

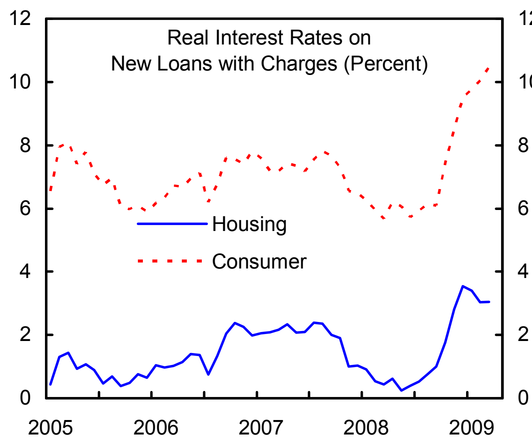
HH credit growth is slowing...



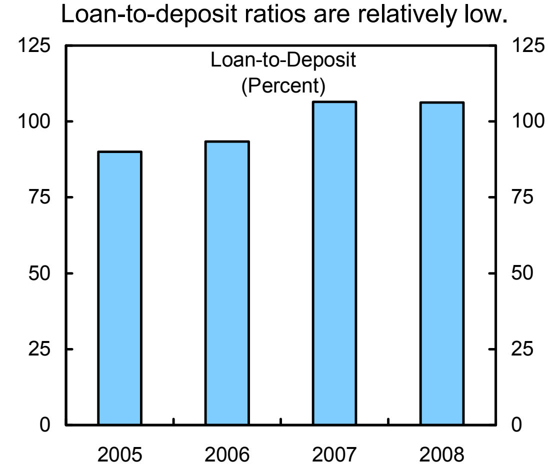
…and so is corporate credit.



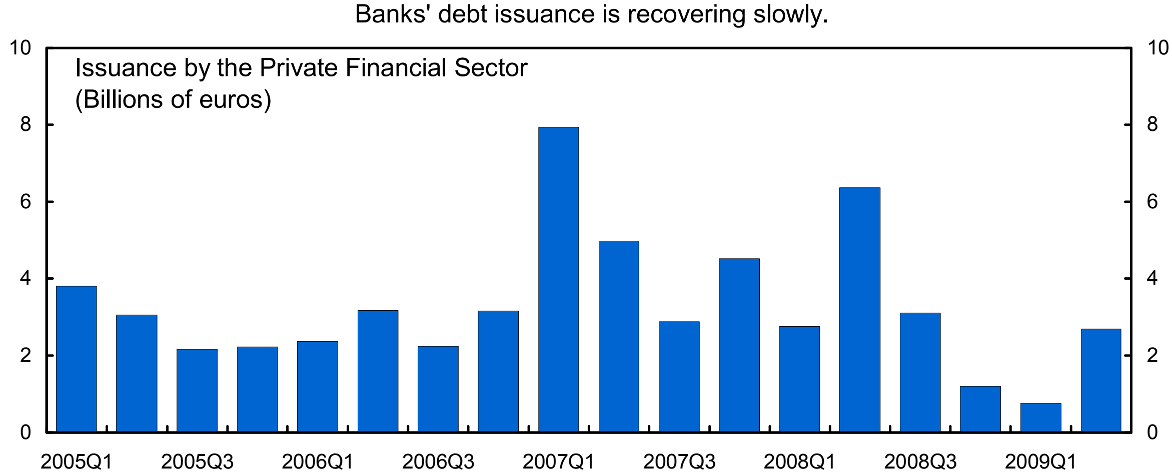
Real interest rates have risen.



Loan-to-deposit ratios are relatively low.

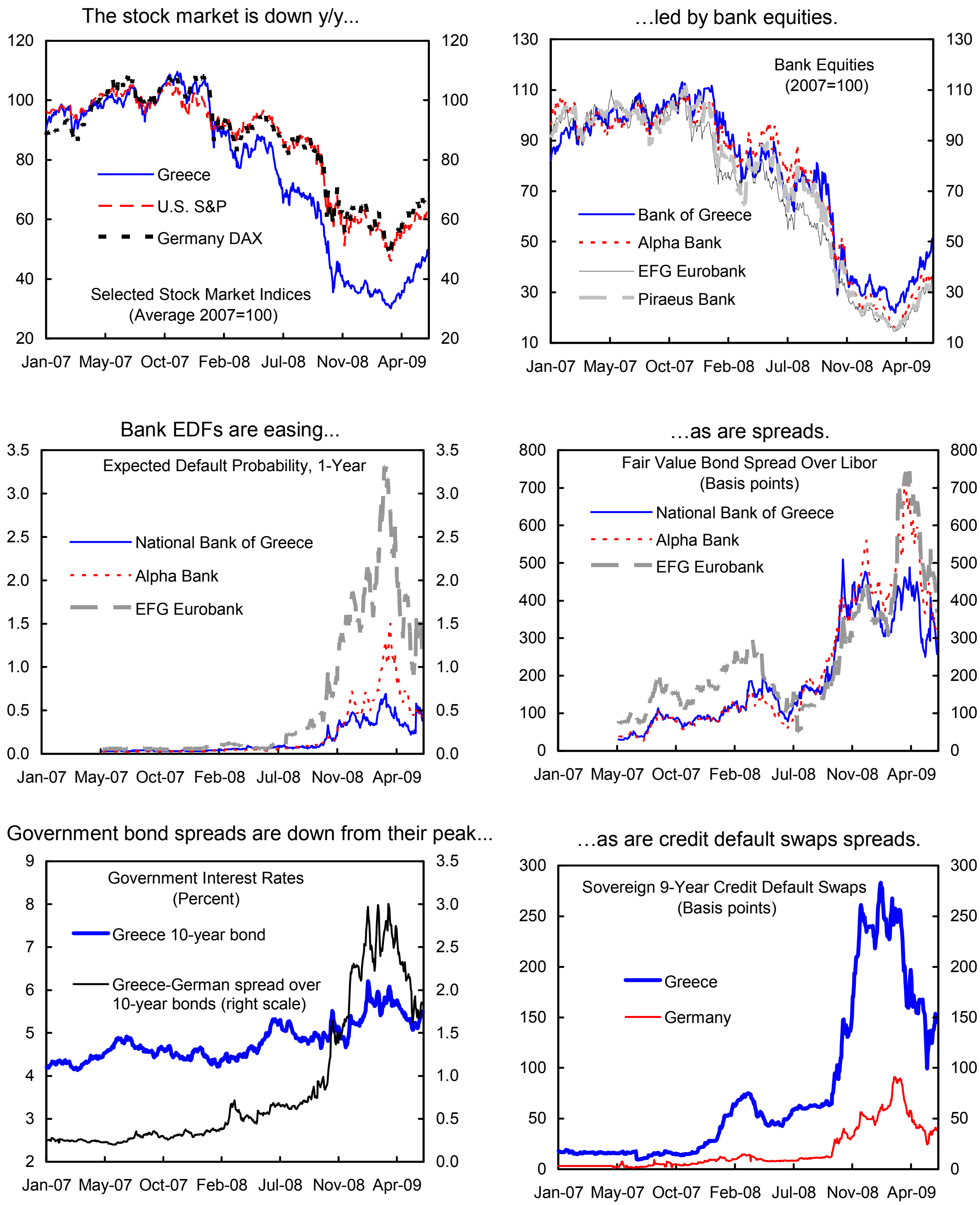


Banks' debt issuance is recovering slowly.



Sources: National Statistical Service; Bank of Greece; Bloomberg; ECB; and IMF staff calculations.

Figure 6. Greece: Financial Indicators, 2007–09



Sources: Bloomberg; and Moody's Creditedge.

9. **Revenue shortfalls and rising expenditure are widening the fiscal deficit**. The deficit exceeded the Maastricht limit in 2007, after exiting the EDP (Excessive Deficit Procedure) in 2006. It increased further to 5 percent of GDP in 2008 with a large structural deterioration. Entitlements and the wage bill now claim over ⅔ of spending.

10. **The government has completed funding for 2009 and spreads are easing again.** The debt office has been agile in placing over €50 billion (21 percent of GDP) in market borrowing in 2009, with some shortening of terms to limit costs.

Greece: General Government's Financing Needs, 2008–10

	2008	2009	2010
	(billions of euros)		
Borrowing requirements	47.1	61.3	40.7
Deficit	12.2	15.2	18.6
Amortization	26.3	32.7	18.6
Stock-flow adjustment	8.6	4.9	3.6
Bank recapitalization	…	4.1	…
Bank liquidity provision 1/	…	4.4	…
Financing source	47.1	61.3	40.7
Privatization receipts	…	1.0	…
Bank recapitalization	…	4.1	…
Bank liquidity provision 1/	…	4.4	…
Open market placements	47.1	51.8	40.7
	(percent of GDP)		
Borrowing requirements	19.4	25.1	16.5
Open market placements	19.4	21.2	16.5

Sources: Bloomberg, Ministry of Finance, and staff's calculations.

1/ The government will issue bonds for this amount, placed directly with banks.

III. Outlook: Uncertain, but Downside Risks Remain

11. **Staff projects negative growth in 2009 and 2010**. Greece is feeling the downturn with some delay. Moreover, even with the staff's weaker outlook relative to the authorities, Greece's growth decline from peak to trough would still be milder than for the euro-area as a whole. Further decoupling from the euro area, which is experiencing a sharp recession, is unlikely. The main forces in 2009 are lower investments and exports, destocking, and a decline in private consumption as confidence and employment have dropped. Net exports are expected to contribute to growth. Staff projects some recovery in late 2010, as partner countries emerge from the recession. Inflation is projected to remain above the euro average, with unemployment reaching over 10 percent in 2010. The medium-term recovery will likely be hindered by impaired competitiveness, still large external imbalances, and the need to cut the fiscal deficit to limit risks.

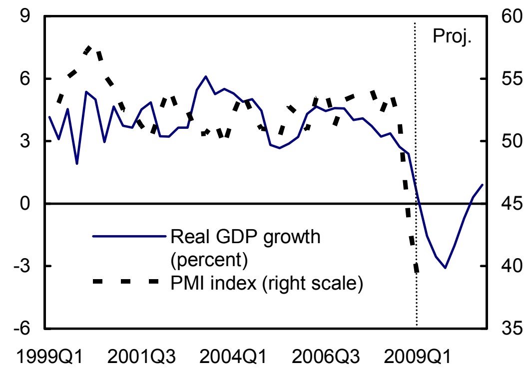
Greece: Medium–Term Baseline Scenario, 2008–14
(Percentage change, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014
Real GDP	2.9	-1.7	-0.4	0.6	1.2	1.6	1.8
Potential output	2.1	1.6	1.3	1.2	1.2	1.3	1.4
Output gap	4.1	0.7	-1.0	-1.6	-1.6	-1.4	-0.9
Total domestic demand	0.7	-2.5	-1.6	0.2	0.7	1.1	1.4
Private consumption	2.2	-0.4	-0.3	0.0	0.5	0.8	1.0
Public consumption	3.2	1.7	0.5	0.9	0.4	1.1	1.6
Gross fixed capital formation	-11.5	-10.2	-5.0	0.6	1.7	2.2	2.5
Foreign balance (contribution)	2.1	1.0	1.3	0.4	0.4	0.4	0.4
Exports of goods and services	2.2	-19.2	0.3	3.9	4.7	4.9	5.1
Imports of goods and services	-4.4	-16.5	-4.4	1.3	2.2	2.4	2.5
Unemployment rate (percent)	7.6	9.5	10.5	10.0	9.7	9.0	8.5
Consumer prices (HICP), period average	4.2	1.1	1.7	1.6	1.8	2.0	2.0
Current account	-14.4	-10.9	-10.4	-9.9	-9.3	-8.8	-8.4

Greece: Growth Forecasts
(Percent)

	Vintage	2009	2010
Average		-0.9	0.4
Ministry of Finance	Apr-09	0.5	1.3
Bank of Greece	May-09	-0.5	1.2
EU commission	Apr-09	-0.9	0.1
OECD	Jun-09	-1.3	0.3
Consensus	May-09	-1.6	0.1
IMF staff	Jun-09	-1.7	-0.4

Greece: Real GDP Growth and PMI for Manufacturing



12. **The current account deficit is expected to narrow**. Shipping receipts (a third of exports) have dropped with lower world trade and will take time to recover. Tourism receipts (over a third of exports) are also expected to fall, with lower demand from high-income countries and increased competition from neighbors whose exchange rates are weakening. Nevertheless, with lower absorption in the short run, imports are projected to contract sharply, leading to lower trade deficits. Over the medium term, the trade deficit is expected to improve with lower outlays for ships and recovering world demand. However, the net income deficit has become structural, reflecting the large negative IIP (Figure 7, Table 2, and Annex I on External Debt Sustainability). The authorities broadly share these views.

13. **Staff sees the balance of risks on the downside, and that sustained firmer policies are needed to address risks.** Staff sees risks that domestic demand may drop further in 2010 if real wages are reset downward in the next bargaining round, or if employment were to drop faster than currently foreseen.[2] Deteriorating competitiveness and high crowding-out public debt increase risks of prolonged slow growth. The large imbalances, and lack of reform consensus, could result in a change in market sentiment for Greece. Thus, the key implication of the different outlooks between staff and the authorities is that staff sees more urgency for stronger policies, which are needed to shore up confidence and to avoid a replay of the spike in spreads in an already weakened real/financial environment. If external financing weakens again, the current account deficit could unwind rapidly and growth could falter badly (Box 1).

14. **The authorities' outlook is more benign**. They note that staff has underestimated growth in Greece in recent years and expect activity to be slightly positive, in part supported by infrastructure spending with EU funds and mobilizing PPPs and more buoyant tourism activity compared to staff. Moreover, they see smaller spillover effects from the global downturn because of Greece's reliance on small and medium-size enterprises and relatively low dependence on exports. While the authorities acknowledged that some downward adjustment of their projections could not be excluded as further information on developments came in, they felt that the outlook would remain less risky than considered by staff.

[2] Staff's outlook for 2010 is weaker than consensus in part because of the delay in the Greek downturn by about one quarter, which causes a slightly larger negative carryover next year in the average growth number.

Box 1. Linkages and Spillovers

Greece's open economy is linked to the rest of the world through trade and financial channels.

Inward spillovers: **Greek exports are particularly vulnerable to shocks in SEE and the euro area.** Exporters have expanded their activities into SEE countries, which absorbed almost a quarter of total Greek nonfuel exports at end-2008. In the global crisis, Greek exports to the region would commensurately weaken. Moreover, transportation services are subject to downside risks from sharply declining global trade. Finally, tourism receipts are vulnerable to worse-than-expected recessions in advanced economies (Germany, U.K., Italy, U.S. bring half of tourism earnings) and to increased competition from neighboring countries (e.g., Turkey and Croatia). Banks' credit quality is likely to erode as external weakness feeds into the domestic economy, as well from direct lending to tourism and shipping.

The Greek banking sector is directly exposed to SEE. In a search for high profit margins, Greek banks have become major players in the previously fast-growing SEE countries. However, these exposures are turning into sources of pressure on banks' balance sheets and income as local economies deteriorate and foreign exchange volatility dents the repayment ability of unhedged borrowers.

Outward spillovers: **Euro-area countries hold a large part of Greece's external debt and could be affected should problems arise in Greece.** Greece's external debt is some 147 percent of GDP, of which around 2/3rds is public sector debt. External debt is poised to grow as external imbalances remain large. Euro-area countries already hold over €200 billion of this debt.

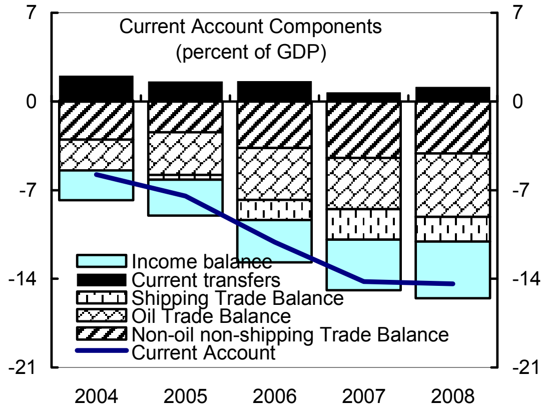
Abrupt financial adjustment in Greece could lead to banking problems in SEE. Subsidiaries of Greek banks in SEE have high loan-to-deposit ratios (far higher than in Greece itself), hitherto relying heavily on parents' funding. Therefore, SEE could face difficulties should the Greek (and other) banks constrain parental support in the face of liquidity or capital needs. The authorities agree that financial protectionism should be avoided, as this would also be highly damaging for Greece itself, given it's own very large external financing need. Greek banks are participating with others in the bank coordination initiative (Vienna) to seek an orderly transition toward lower external funding dependence in SEE.

IV. Policy Discussions: Bolstering Confidence and Sustainability

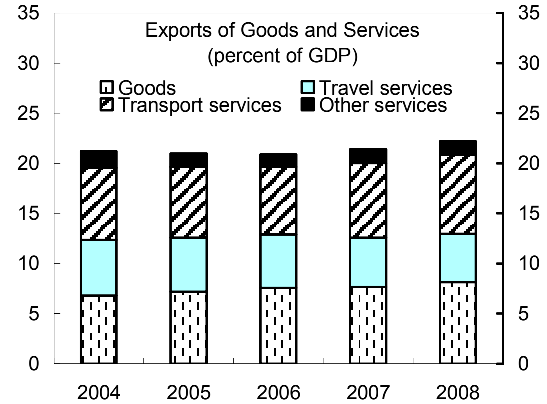
15. **Given high vulnerabilities in growth, public finances, and the financial sector, policies need to restore confidence and bolster sustainability**. Pressures in banking and the public finances could dampen sentiment, with detrimental effects on growth. Financial supervision should remain tight and the authorities should be ready to act were systemic pressures to arise. Greece cannot postpone fiscal consolidation. Given weak political support, adjustment will need to be realistic, yet show strong commitment to improving the fiscal balance step-by-step. Structural reforms are imperative to improve competitiveness for renewed growth.

Figure 7. Greece: External Trade and Debt Issues

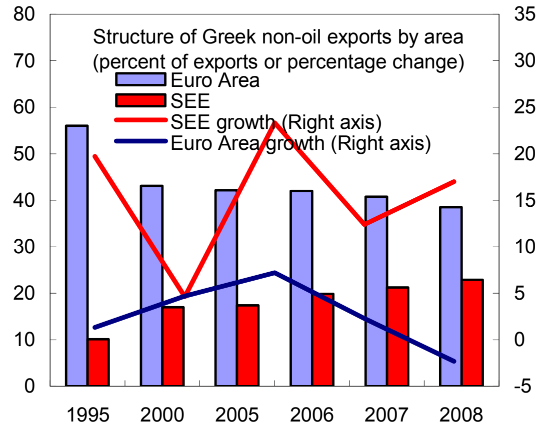
The CA has been deteriorating.



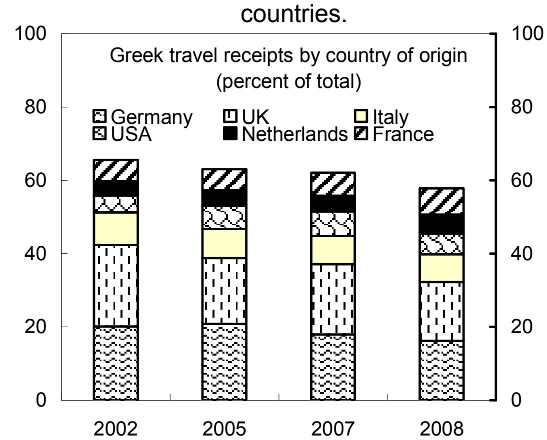
Exports have been concentrated in services...



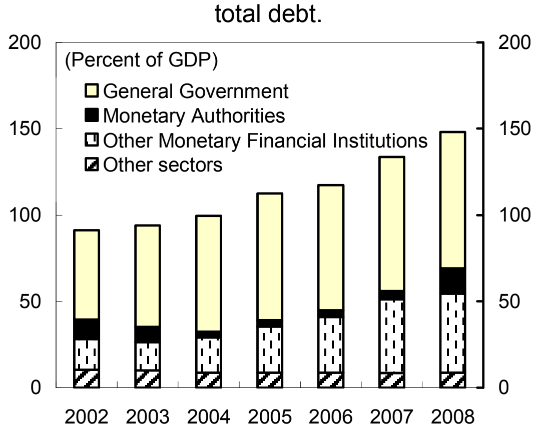
.. and increasingly directed toward the SEE area.



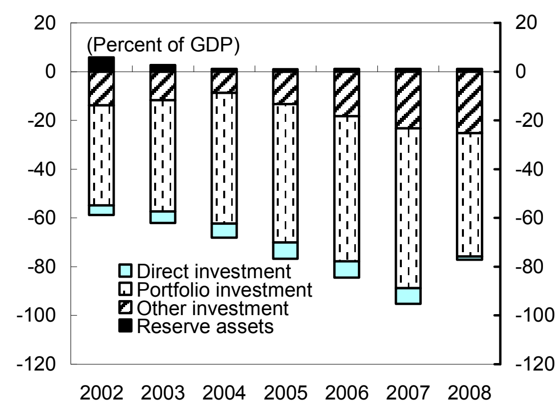
Most travel receipts come from a few large countries.



Public and bank debt comprise the bulk of total debt.



Portfolio and other investment dominate the IIP.



Sources: Bank of Greece; and IMF staff estimates.

A. Preserving Financial Sector Stability

The financial system appears resilient to the slowdown but the authorities should closely monitor banks and be prepared to act if needed.

16. **Greek banks have shown resilience, but also felt the effect of the crisis.** Banks have been aided by a traditional business model and a large deposit base at home. Greek firm and household leverage is moderate. Nevertheless, domestic credit growth and lending in SEE are slowing due to weaker prospects, growing risk aversion, and costlier funding. Declining profitability in 2008 reflected increased provisioning and margin compression. Bank capital is adequate but declining (Tables 3–5)

Greece: Banking Indicators (percent)

	2005	2006	2007	2008
Return on equity	15.9	12.7	14.8	3.0
Return on assets	0.9	0.8	1.0	0.2
CAR [1/]	13.2	12.2	11.2	9.4
Tier 1 [1/]	10.9	9.9	9.2	7.9
Capital to assets	5.9	6.7	6.6	4.5
Liquid/total asset ratio	34.0	33.6	35.1	38.7
NPL ratio	6.3	5.4	4.5	5.0
Impaired loan coverage ratio	61.9	61.8	53.4	48.9

Source: Bank of Greece.

1/ On a consolidated basis.

17. **Staff welcomed the authorities' proactive response to the financial crisis:**

- *Bank support package*. Greece was early to implement bank assistance via public capital injections, liquidity assistance, and funding guarantees, which bolstered confidence (Box 2). Staff stressed that to ensure sound lending and avoid market distortions, government's bank involvement should remain at arm's length. The package has not been fully used, but is best kept in place preemptively.

- *Supervision*. The Bank of Greece (BoG) has intensified monitoring and contacts with banks' managements so that additional steps (including increased provisioning and capital strengthening) are implemented to minimize risks, as appropriate.

- *Cross-border cooperation.* BoG has stepped up the exchange of information with counterparts in SEE and urged banks to bring credit expansion abroad more in line with local deposit growth and funding. Staff agreed that Greek bank loan/deposit ratios in some SEE countries are too high, but noted that the correction needs to be gradual and should avoid triggering financial nationalism, while encouraging the authorities to continue developing their strong relationships with supervisors in SEE. The authorities should also conduct crisis-management exercises with SEE partners.

- *Crisis management.* A new committee at BoG monitors financial stability and is implementing internal procedures for identifying signs of deterioration and providing timely information for the management of crisis.[3]

[3] An accompanying Selected Issues Paper provides more details.

- *Financial Stability Report (FSR)*. The authorities have started publishing a FSR to inform the public about the health of the financial system. Staff recommended the issuance of a simultaneous version in English and update of the report at midyear.

Box 2. Bank Support Measures Through end-May 2009

The banking package is in line with the common framework agreed by euro-area countries:

- The limit on deposit insurance was raised from €20,000 to €100,000 per person per bank.
- Capital injections are available up to €5 billion in preferred shares, including a buyback option after five years, dividend of 10 percent, and state representation on the board of directors with rights to veto top executives' pay. Ordinary dividends have been restricted up to 35 percent of profits in the form of shares. So far, €4.1 billion has been subscribed, increasing system high-quality Tier-1 capital from 7.9 to 10.1 percent.
- Liquidity assistance is providing up to €8 billion in special-issue zero-coupon government bonds eligible for ECB discounts against collateral. About €4.4 billion has been approved until now.
- Funding guarantees up to €15 billion (for a fee and a duration up to three years) can be issued until end-2009. So far, €3 billion have been used as borrowing costs have increased with the rise in sovereign spreads.

18. **Stress tests (conducted jointly by BoG and staff) suggest that the banking system has enough buffers to weather the expected downturn.** The tests ascertained four banking system risks:

- *Credit risk*. Nonperforming loans (NPL) have been persistently high during the upswing. Moreover, exposures to cyclically sensitive sectors—shipping, tourism, and construction—are large for some banks. Credit quality could therefore worsen in the downturn.
- *Cross-border risks*. Total exposure in SEE at €53 billion (203 percent of equity) is relatively large (Figure 8). Bank portfolios could experience pressure as local economies slow and foreign exchange volatility impairs borrowers.
- *Market risk*. Although trading books are relatively small, high volatility on equity, bond, and foreign exchange markets could generate losses.

Greece: Exposures and Market Shares in Emerging Europe, 2008

	Exposures (€ bill.)	Market shares (percent)
Southeastern Europe		
Albania	1.5	27.1
Bulgaria	10.2	28.7
Croatia	0.1	…
FYROM	1.3	24.6
Romania	19.6	16.2
Serbia	4.8	15.8
Turkey	15.3	4.4
Other		
Poland	5.1	1.2
Ukraine	1.6	0.3

Source: Bank of Greece.

- *Liquidity risk*. Banks are increasingly vulnerable to reduced wholesale funding as the bunching of maturities creates rollover risk (Figure 9). Reliance on short-term ECB repos has increased to some €45 billion.

The stress tests suggest that profits, capital cushions (including with the government's assistance), and stepped-up provisioning should provide enough resources to absorb foreseen losses. Assuming simultaneous shocks, some institutions may require up to a total of €2.9 billion in new capital (1.2 percent of GDP)—a relatively moderate amount. Banks appear to have enough liquid funds, but need to prepare gradual exit strategies to reduce dependence on ECB facilities.

Stress Test Scenarios 1/

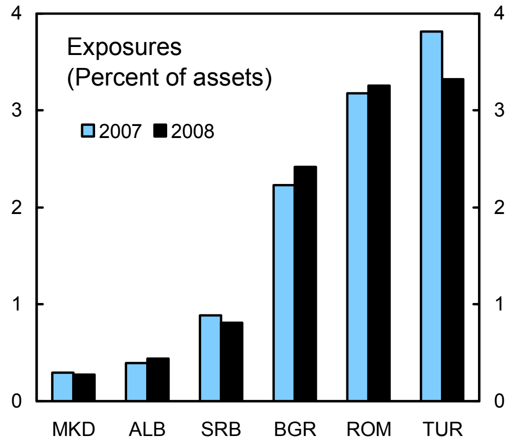
Risk	Parameters
Credit risk (Greece)	Real GDP growth: -3 percent cumulative decline over 2 years; unemployment: 12 percent; nominal lending rates increase: +400 bp. Tourism and construction: Increase in NPLs of 250 percent. Shipping industry: (1) Short term: sharp decrease on freight rates and resale vessels' values based on the lowest prices of 2000-08; (2) Medium term: average freight rates and resale vessels' values over 2000-08.
Cross-border risk (emerging Europe)	NPLs: Turkey and Poland (13); Romania, Bulgaria, and Albania (15); Other SEEs (20).
Market risk	Interest rates: +300 bp. Spreads of sovereign: +150 bp; spreads of foreign bonds: increase of 100 percent for corporates and by 50 percent for sovereign. Equity prices falling 40 percent. 30 percent appreciation/depreciation (euro against US$, £, ¥).
Liquidity risks	Inability to roll over 50 percent of wholesale funding; inability to roll over 10 percent of time deposits; 10 percent withdrawal of sight and saving deposits.

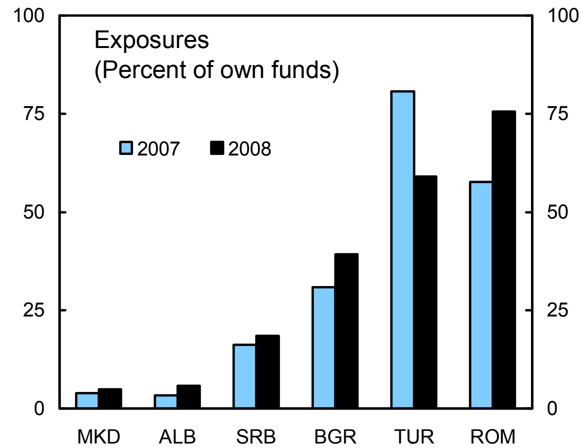
1/ Stress tests were conduced using data as of end-2008.

19. **Nevertheless, the authorities agreed that the near-term banking outlook remains challenging, and continued vigilance is needed.** The operating environment is expected to remain difficult as the world goes through the recession. Moreover, should the downturn be more prolonged and deeper than currently projected, and financial tightening return, domestic credit quality may deteriorate further than envisaged, and portfolios in SEE could face additional pressures. These risks need to be managed cautiously and the authorities should remain prepared to act if systemic pressures arise. In such case, the authorities agreed that market solutions should be sought first (e.g., merging banks). Staff stressed that if public support for individual banks were required, this should be designed to minimize government involvement with clear exit strategies.

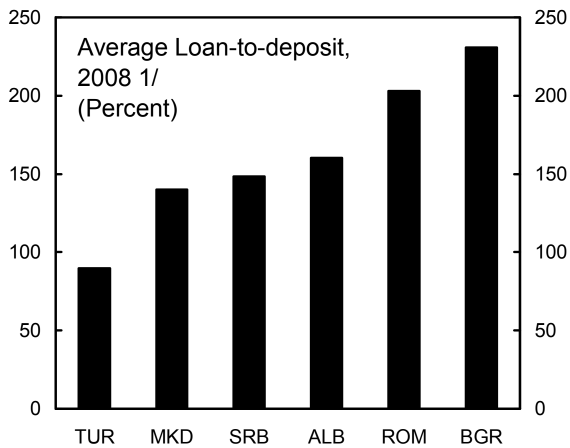
Figure 8. Greek Banks' Exposures in Southeastern Europe

Turkey, Romania, and Bulgaria are the key markets for Greece.

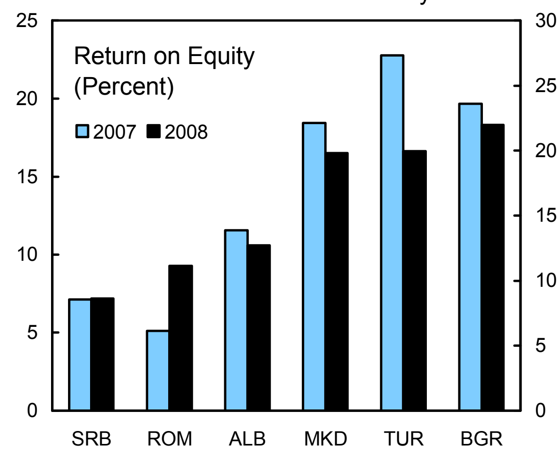




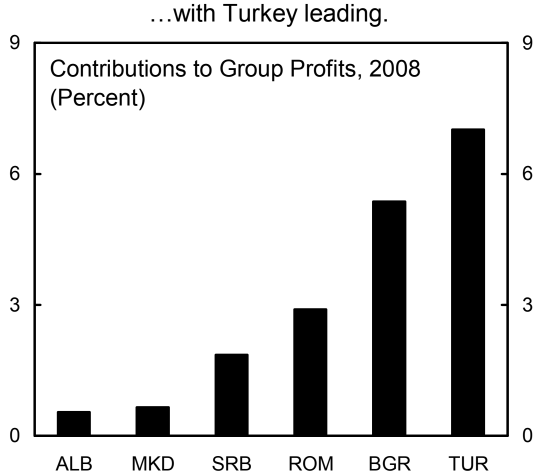
Loan-to-deposit is relatively high.



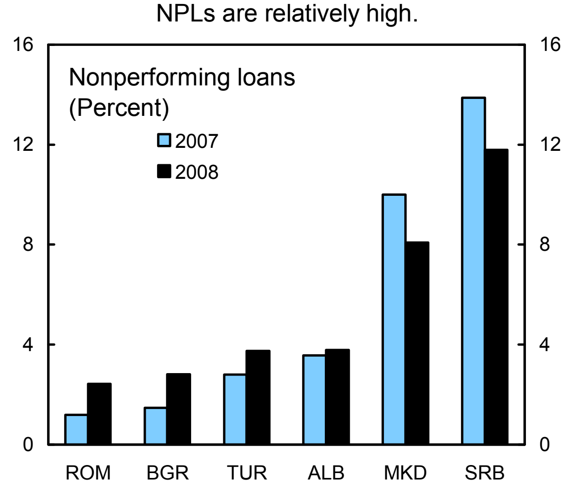
ROE has been satisfactory...



…with Turkey leading.

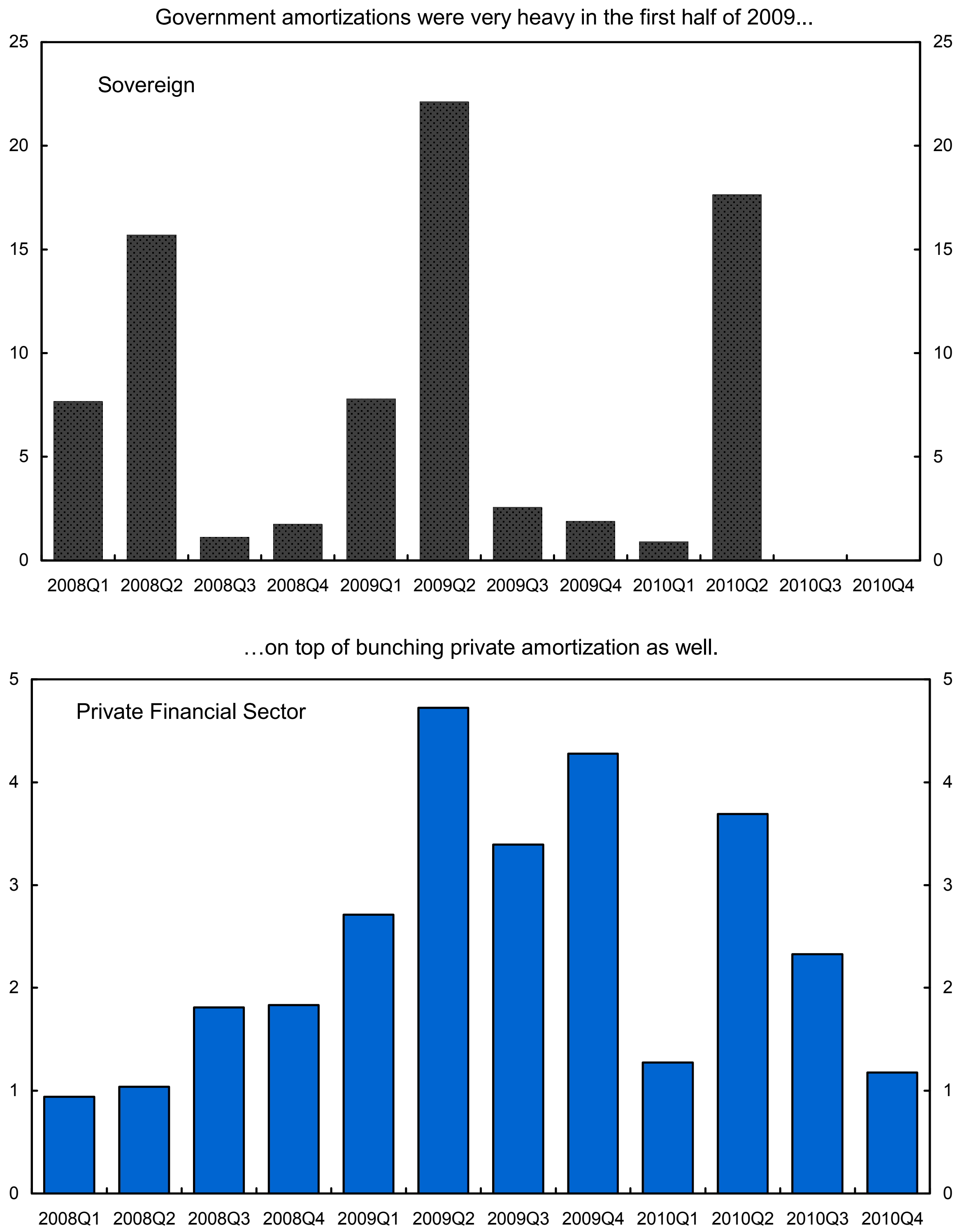


NPLs are relatively high.



Source: Bank of Greece; and IMF staff calculations.
1/ Simple average of bank-by-bank ratio.

Figure 9. Greece: Amortization Falling Due, 2008–10
(Billions of euros)



Sources: Bloomberg; and IMF staff calculations.

20. **The authorities stressed that the bank support package is not aimed at influencing credit allocation, either domestically or cross-border**. Furthermore, they noted that Greek banks had slowed credit growth in SEE for sensible internal prudential reasons, and banks themselves indicated that they were committed to keeping their exposures in SEE, as they see further potential growth in these countries. Finally, BoG explained that it has boosted banks' liquidity requirements. The authorities noted that conditions were improving with debt and interbank markets slowly opening up, which would, over time, allow banks to reduce reliance on ECB support.

21. **Weaknesses in the insurance sector are being addressed.** Insurance is underdeveloped in Greece (accounting for only 2 percent of GDP). After becoming operational in 2008, the Private Insurance Supervisory Committee intensified supervision, uncovering some instances of relatively small capital need. Corrective measures are being taken and staff urged prompt resolution of remaining issues.

22. **Finally, the discussions touched upon monetary conditions, which were seen as having been broadly supportive**. With the ECB setting interest rates for the average of the euro area, and Greece having run persistently higher-than-average inflation, real interest rates have been accommodative in recent years, Generally, this continued to be the case with policy rates falling and Greek inflation remaining above the average, but somewhat tighter lending standards and the increase in the sovereign benchmark spreads and downgrades were erasing some of these benefits and possibly already crowding out some private sector activity. Nevertheless, already issued Greek mortgages tend to be linked to the short-term euribor, which had fallen to record lows, imparting a cash-flow benefit on many households. Also, as noted, the liquidity assistance by the ECB (repos) had been, and will continue to be for the near term, of major assistance to Greek banks and, indirectly, to funding the sovereign. Interlocutors agreed that without these monetary accommodations, Greek financing pressures would have been considerably higher.

B. Strengthening the Fiscal Position

Operating control needs to improve, and policies should emphasize structural over one-off measures. Budgets need to aim at long-run sustainability.

Short run

23. **Greece is entering the downturn with an already weak fiscal position**. Failures to stick to budget plans, deficit-increasing one-off measures, expenditure slippages, and ad-hoc revenue efforts have coincided with persistent deficits above 3 percent since 2000 (Figure 10). Indeed, as monetary conditions had been accommodative, fiscal policy had not been nearly tight enough during the boom years. Social transfers have increased by over 3 percentage points of GDP, outpacing social contributions. The wage bill has also been rising. In this context, the European Commission has reinvoked the EDP for Greece, asking to reduce the deficit below 3 percent by 2010. Staff is concerned that large and growing data discrepancies (including "stock-flow adjustments") between cash accounts and those of the SGP could harbor a worse underlying deficit than currently reported. These data shortcomings are a recurring problem in Greece, with interlocutors noting that the debt

consistently rises faster than indicated by the SGP deficits reported to Eurostat. Restoring confidence requires durable consolidation and improved accounting systems that allow the authorities to respond in a timely way to slippages and the publication of more stable fiscal indicators.

24. **Staff projects the headline deficit to widen and public debt to increase sharply in 2009 and 2010.** With staff's projection of economic contraction and if no further measures are taken, the general government deficit is expected to reach 6.2 percent of GDP in 2009 and 7.5 percent in 2010 (Table 6). Including the banking assistance package, public debt could rise to 109 percent of GDP in 2009 and 115 percent of GDP by 2010.[4] In view of unfavorable fiscal outturn in the first quarter, staff sees the balance of risks on the downside. These projections factor in the fiscal consolidation measures implemented by the authorities through May 2009.

25. **The authorities concurred that there is no room for a fiscal stimulus.** Stimulus measures have been moderate, rightly focusing on assisting vulnerable groups such as the unemployed and poor. At the same time, staff advised against subsidies to high-income groups, including for car sales, new mortgage guarantees, and cash grants to self-employed professionals, which do little for growth but further increase the debt. The authorities said that these were targeted to high-employment sectors and were temporary.

26. **Consolidation measures taken so far could help to improve the structural primary balance by nearly 1 percent of GDP in 2009.** These efforts are welcome, especially the components that are durable, such as moderating public wages (extended to pensions), cuts in discretionary spending, higher excises, and the new property tax (delayed from 2008). At the same time, staff advised against further use of one-off measures such as the tax amnesty and the one-time PIT surcharge for high-income taxpayers, noting that these could even lead to lower future tax receipts if they induce more tax avoidance. The authorities have also announced a reduction in the wage bill

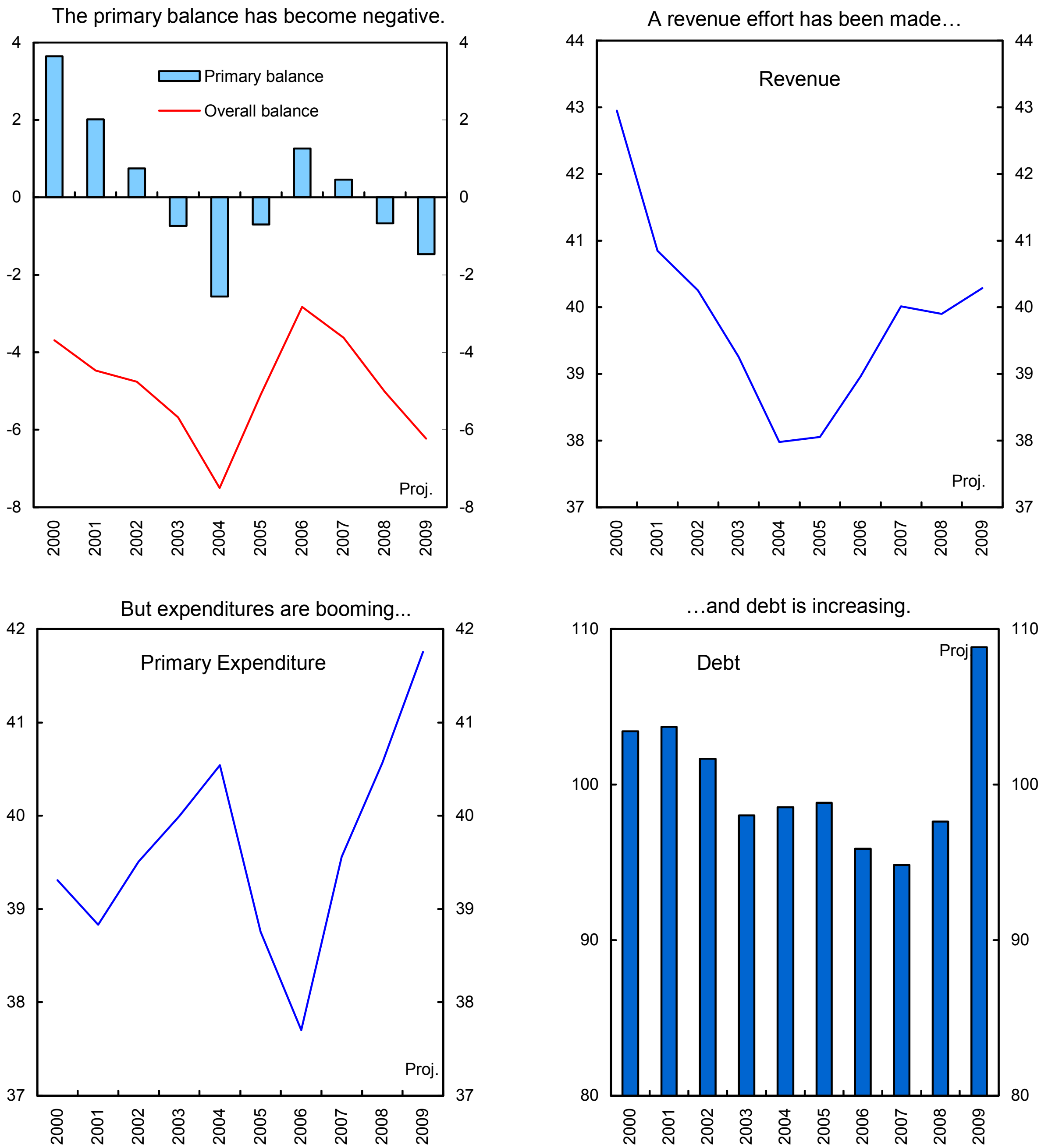
Greece: Main Fiscal Measures, 2009 1/
(Percent of GDP)

Deficit-reducing	1.8
Revenues	
Dividend tax	0.1
Property tax	0.2
Tax amnesty	0.3
Personal income tax surcharge	0.1
Increase in consumption excises	0.1
Increase in taxes on tobacco and alcohol	0.1
Expenditures	
Wage and pension freeze	0.2
Hiring restrictions	0.2
10% cut in elastic expenditures 2/	0.2
Improved public procurement for health	0.2
Deficit-increasing	0.4
Expenditures	
Farmer support package	0.2
Ad hoc income support to low-incomes	0.1
Interest subsidy for small enterprises	0.1
Support construction sector	0.02
Support tourism sector	n.a.
Active labor market policies	n.a.

1/ Staff estimates.
2/ Discretionary current spending, excluding wages and social transfers.

[4] Some of the banking assistance may not be counted as debt; the authorities are consulting with Eurostat.

Figure 10. Greece: Fiscal Indicators, 2000–09
(Percent of GDP)



Sources: Ministry of Finance; and IMF staff projections based on data provided by the authorities.

through attrition—replacing every two job leavers with one hire. However, there is concern that this objective could be complicated by the authorities' plan to substitute up to 60,000 persons from unemployed to the (local) public sector. The net cost may not be high, as unemployment benefits will be transformed into employment benefits, but there are risks that some could become permanent, thus burdening the wage bill in the future. Strict implementation of this measure will be key.

27. **The authorities have agreed under the EDP to reduce the deficit to 3.7 percent of GDP in 2009 and below 3 percent in 2010.** They acknowledge that these objectives are difficult, especially since the starting deficit in 2008 has been increased to 5.0 percent, and because growth is likely lower than initially foreseen. Indeed, the fiscal outturn in the first quarter of 2009 was very unfavorable, which the authorities ascribe to frontloading of expenditures to cushion the downturn. The government intends to take stock in June (after the EU elections) and then formulate new measures; nevertheless, they expect more revenues than staff, given their more optimistic outlook. Under the EDP, they will present a detailed plan to the EU Commission in October 2009. Staff noted that if growth falters, trying to reach the 3.7 percent target at all costs may not be helpful if this leads to plugging holes with poor quality measures that weaken confidence. An ambitious but doable high-quality plan is better than attempting a series of ad-hoc efforts.

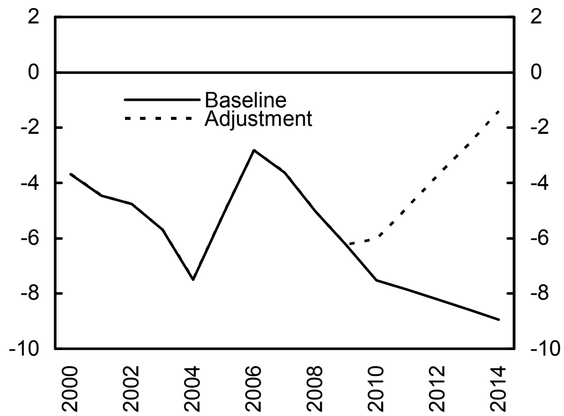
28. **Greece needs a coherent sustained fiscal adjustment plan based on permanent measures that can be monitored closely to cement credibility**. Given Greece's high level of debt and attendant vulnerabilities, such a plan should aim at boosting confidence, which could even support growth (an expansionary fiscal contraction). Staff recommended annual adjustment of about 1½ percent of GDP in permanent measures beginning in 2010 to place public debt on a declining path. Since, on baseline, the underlying structural balance is deteriorating every year (including because of aging pressures on social transfers), this effort would still take until 2013 before Greece is well below the 3-percent Maastricht limit. Such a strategy, permitting automatic stabilizers to function around the adjustment path, would lower the debt ratio from 2012.

Greece: Fiscal Baseline Scenario, 2008–14 1/
(Percent of GDP, unless otherwise indicated)

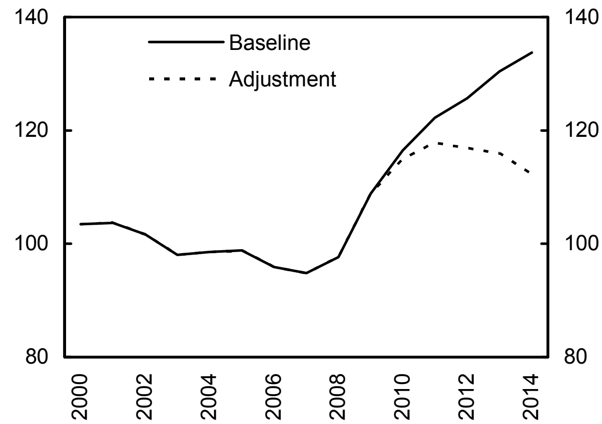
	2008	2009	2010	2011	2012	2013	2014
				Baseline			
Total revenues	39.9	40.3	40.1	40.2	40.4	40.6	40.7
Primary expenditures	40.6	41.8	42.5	42.6	42.9	43.2	43.5
Primary balance	-0.7	-1.5	-2.3	-2.4	-2.5	-2.6	-2.8
Interest expenditures	4.4	4.8	5.2	5.5	5.7	5.9	6.2
Overall balance	-5.0	-6.2	-7.5	-7.9	-8.2	-8.6	-8.9
Structural overall balance (over pot. output)	-7.4	-6.8	-7.0	-7.1	-7.4	-7.9	-8.5
Structural primary balance (over pot. output)	-2.8	-2.0	-1.9	-1.7	-1.8	-2.0	-2.4
Gross debt	98	109	116	122	126	130	134
				Adjustment scenario			
Overall balance	-5.0	-6.2	-6.0	-4.9	-3.7	-2.6	-1.4
Structural overall balance (over pot. output)	-7.4	-6.8	-5.5	-4.2	-3.0	-2.0	-1.0
Gross debt	98	109	115	118	117	116	112

1/ General government.

Greece: General Government Deficit
(Percent of GDP)



Greece: General Government Debt
(Percent of GDP)



Sources: Ministry of Finance; and IMF staff projections.

29. **The authorities concurred that fiscal consolidation measures should be high-quality, durable, and forward-looking.** On the revenue side, efforts should focus on income that escapes taxation in order to spread the tax burden more fairly. This can be done by broadening tax bases by phasing out exemptions and deductions; taxing the self-employed and the informal sector; and increasing further selected excise taxes to the euro-area average. On the spending side, wage moderation (extended to pensions) and restrictive hiring policies should be continued to curb the fast growing wage bill (text table). In this respect, the government explained that from 2010, it will implement a different wage-policy system for new employees, which should reinforce expenditure restraint. Longer-run action also needs to be taken to address the spending pressures arising from growing social transfers.

30. **The authorities differed with staff's proposal to postpone planned tax cuts.** Given low revenues, staff recommended that corporate and personal income tax rate cuts of 1 percent a year through 2014 be suspended until the deficit is confirmed to be below 3 percent of GDP. The authorities argued that this would be politically difficult, as these are commitments already passed in parliament. They also thought that revenue losses may be small due to the relatively small base of these taxes and Laffer-curve effects.

31. **Efforts are underway to improve expenditure control and introduce program budgeting**. In health care, steps are underway to lower procurement costs; hospitals are developing financial statements according to international accounting standards; and legislative action is being designed to curb pharmaceutical costs. Pilot initiatives are being expanded toward integrating full performance budgeting by 2012 and implementing top-down multiannual budget ceilings for each ministry by 2011. To this end, accounting is being improved toward a modified cash basis with help of new management information systems that should start operating in 2010. Staff welcomed these efforts.

32. **Public enterprise performance should be strengthened**. Recurring operating deficits give rise to debts that periodically get taken over by the Treasury. The authorities emphasized the progress made by privatizing Olympic Airlines and starting to restructure the railway company. Staff recommended setting a 5-year deadline to eliminate enterprise operating deficits, including by increasing tariffs to cover costs and incentives for good service and speeding up privatization.

Greece: Potential Fiscal Adjustment Measures

Revenue measures 1/

Personal Income Tax

- Cut nonstandard tax credits and deductions.
- Reduce income exemptions on capital gains of immovable property, profit from derivative and subsidies to young professionals.
- Tax the self-employed and the informal sector (with a moderate presumptive tax).

Corporate Income Tax

- Reduce special regimes for shipping operations and construction companies.
- Limit exempt income and nonstandard deductions.
- Tighten the liberal treatment of gains and loss valuation.
- Limit tax incentives to investment.

VAT

- Reduce the number of rates to at most two (from currently six).
- Limit the number of goods and services taxed at reduced rates.
- Cut nonstandard exemptions.
- Increase low VAT tax thresholds.

Property tax

- Narrow exemptions.
- Adopt market-based valuation to replace the notional “objective value”.
- Unify tax rates on residential and business buildings to limit opportunities for evasion.

Spending measures

Wage bill

- Reduce overstaffing by replacing only partially exits from the public sector.
- Contain wage rates.
- Simplify administrative procedures and establish one-stop shops for government services.

Defense

- Reduce defense spending towards OECD average.

Health

- Continue with the reform of the health sector, toward better management of public hospitals, improved pricing and costing mechanisms and an effective primary healthcare system.

Pensions

- Further reform the pension system, which could include basing pensions on lifetime earnings rather than the last five years of earnings; lowering accrual rates; eliminating 13th and 14th payments; further restricting conditions for early retirement; and clamping down on contribution evasion.

1/ For more details, see Country report No. 08/147.

Long-run

33. **Greece has the highest long-run aging costs in the euro area; policies need to be strengthened significantly to deal with this over time.** Greek population growth is forecast to turn negative in 2017, with growing dependency ratios and reduced labor input, resulting in declining potential growth over time (Figure 11). Calculations by the EU Aging Working Group show incremental aging costs of 15.9 percent of GDP through 2060—mostly a rise in pensions. Combining a long-run projection of future fiscal primary deficits on current policies that include these aging costs (in NPV terms) with other assets and liabilities already on the Greek public sector balance sheet results in a deeply negative public sector net worth of -395 percent of GDP at end-2008—underscoring grave fiscal vulnerabilities (Figure 12 and Table 7).[5]

Greece: Cross-Country Comparison of Aging Burden 1/

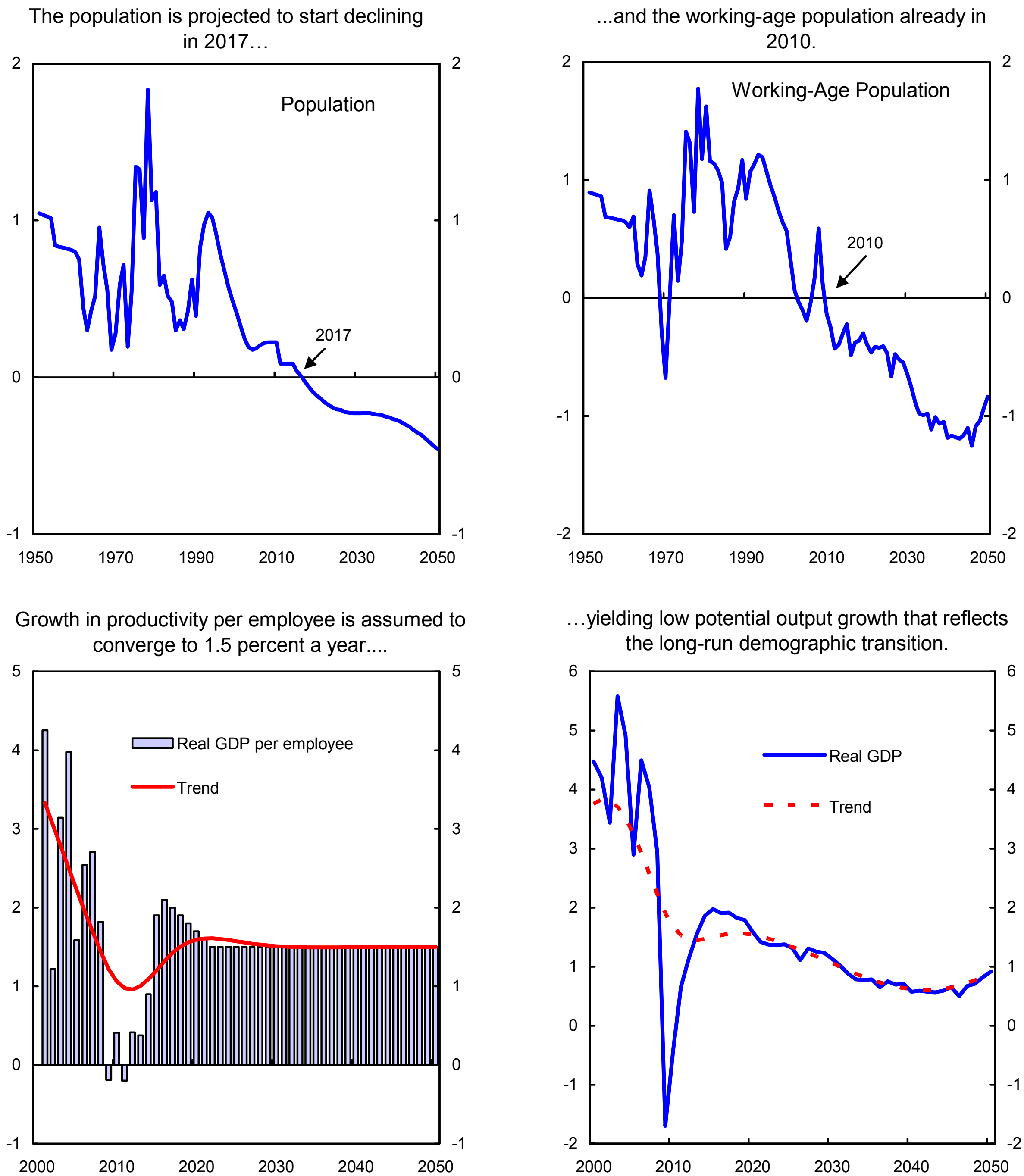
	(Percent of GDP)
Greece	**15.9**
Cyprus	10.8
Malta	10.2
Netherlands	9.4
Spain	9.0
Ireland	8.9
Belgium	6.9
Germany	4.8
EU-25	**4.7**
Portugal	3.4
Austria	3.1
France	2.7
Italy	1.6

Source: EU Commission, Aging Working Group (2009); and data provided by the Greek authorities.
1/ Incremental aging costs between 2007-2060.

34. **Greece urgently needs further pension reform.** The 2008 reform that combined 133 pension funds into 13 funds is a good step toward harmonizing pension regimes and implementing further reforms. This reform could generate needed savings if administrative improvements are implemented tightly, such as issuing and requiring social security numbers for all citizens and services; cross-checking data for revenue enhancement; and accelerating the implementation of new IT and accounting systems. However, early retirement incentives remain strong and statutory replacement rates very high, and staff noted that parametric reforms remain essential to ensure that pensions of next generations can be paid and should not be postponed. Because an informed domestic debate is crucial to foster consensus around ambitious reforms, staff suggested that the Actuarial Authority be provided the resources and data to prepare and publish annual actuarial reports for all funds as an input for drafting each year's budget.

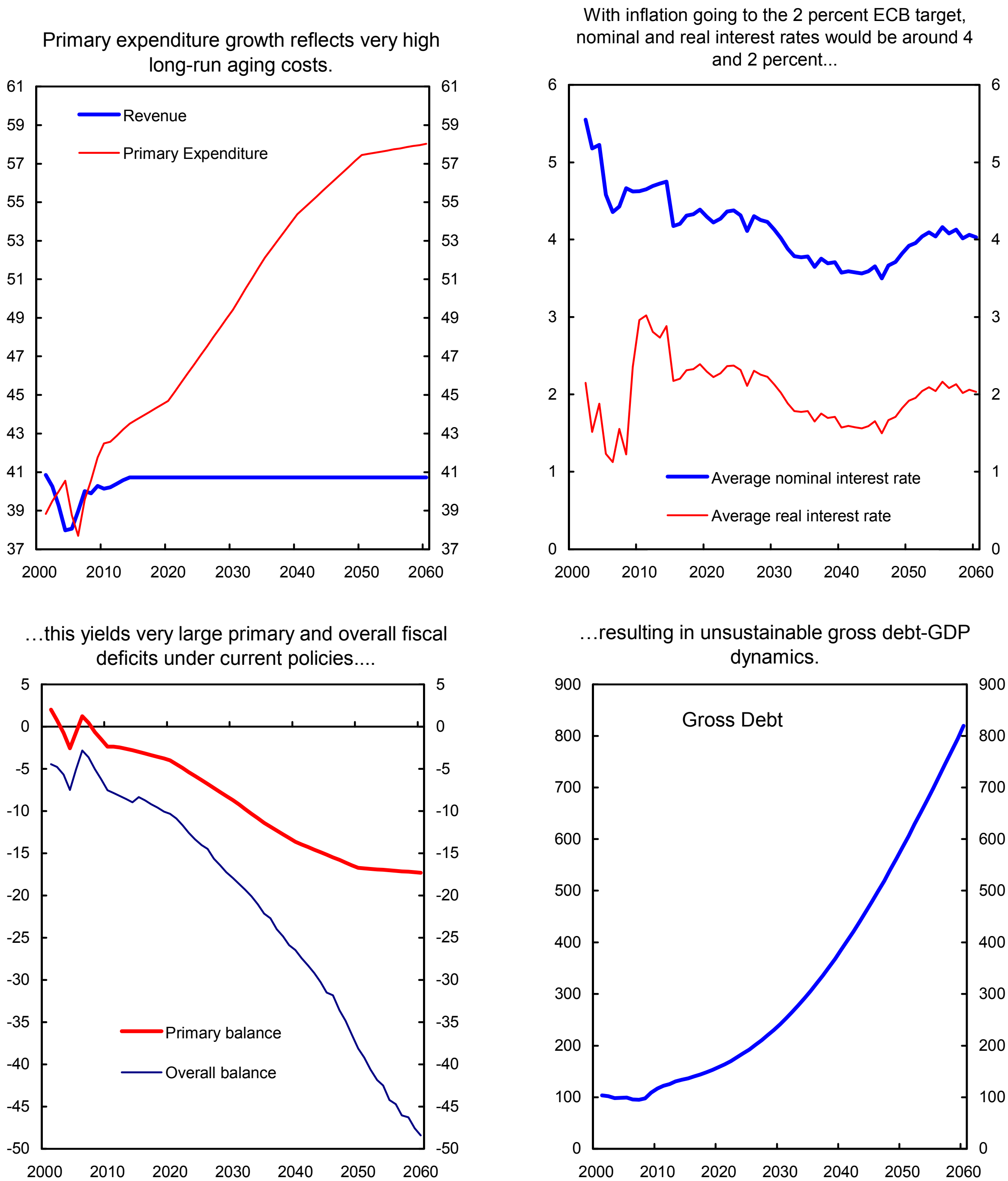
[5] An accompanying Selected Issues Paper presents the intertemporal public sector balance sheet as an early warning device.

Figure 11. Greece: Demographics and Long Run Growth, 1950–2050
(Year-on-year percent change)



Sources: Greece Statistical Office; and IMF staff calculations and projections.

Figure 12. Greece: Baseline Long-Run Fiscal Indicators, 2000–60
(Percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations and projections.

C. Enhancing Competitiveness

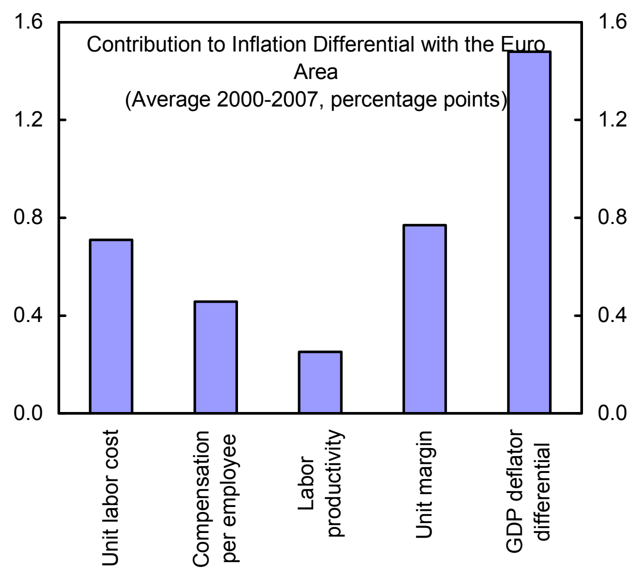
Competitiveness is slipping, and Greece needs deeper reforms to boost its potential.

35. **Indicators suggest a significant competitiveness gap.** Measures based on relative consumer prices and unit labor costs show a REER appreciation of 20–37 percent since Greece's entry into the euro area in 2001 (Figure 13). Although restructuring has taken place over the last decade, as suggested by technological upgrading of exports, increasing specialization in high-growth services, and orientation toward fast-growing Balkan markets, Greece has lost market share (at least in volume terms) and competitiveness relative to peers.[6] Strong wage growth and the appreciating euro are further eroding competitiveness. Staff estimates based on CGER methodologies indicate a comparable gap of 20–30 percent, broadly similar to last year's assessment. The authorities agreed that competitiveness has weakened, but pointed out that CGER estimates need to be interpreted carefully (especially in catching up countries)—they believe that the gap is smaller than estimated by staff.[7]

Estimates Applying the GCER Methodology to Greece

	Macroeconomic Balance	External Stability	Exchange Rate
REER Gap	22.5	33.8	32.7

36. **Comprehensive structural reforms can boost competitiveness and growth.** Greece's price competitiveness gap reflects high administrative costs and inefficiencies, high margins in several sectors, and rising labor costs. Addressing these impediments requires reforms in three areas:



- **Public administration should be streamlined and made more transparent**. The authorities have made progress in this area, but more action is needed to cut entities, reduce staffing, and limit

[6] See Country Report No 08/145.

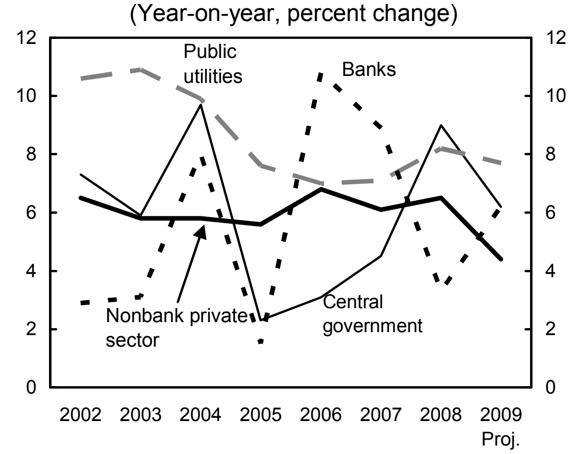
[7] A BoG Research Department paper concurs that Greece's current account and external debt are too high and that adjustment is necessary (Brissimis et. al, 2009, "Current Account Determinants and Sustainability in periods of Structural Change.")

political appointees to reduce costs and increase efficiency; accelerate privatization of public enterprises; and publish more information, including financial statements of state enterprises and hospitals, to increase public acceptance of reforms.

- **Product and service markets need to be further liberalized.** Greece is lagging peers on various indicators (Figure 14). Steps have been taken to improve the business environment, boost competition in the telecommunications industry, and modernize the electricity wholesale market, but more can be done to rationalize legislation and cut administrative burdens, liberalize network industries and unbundle the gas and electricity markets, implement an ambitious EU Services Directive to liberalize professional services, retail trade, and other activities, and enhance the resources of the Competition Authority to increase its effectiveness.

- **Labor market reforms are key to achieving lower unit labor costs**. More government spending cannot be used as a substitute for labor reforms to solve unemployment. Promoting a tri-partite social contract between employers, unions, and the public sector, should aim at cooperative bargaining to favor employment growth over income growth at this time, requiring understandings on wage moderation in return for investment and employment promotion. Greece can also facilitate more part-time work to boost participation of youths and women in the labor force, and ease employment protection legislation.

Nominal Average Earnings
(Year-on-year, percent change)



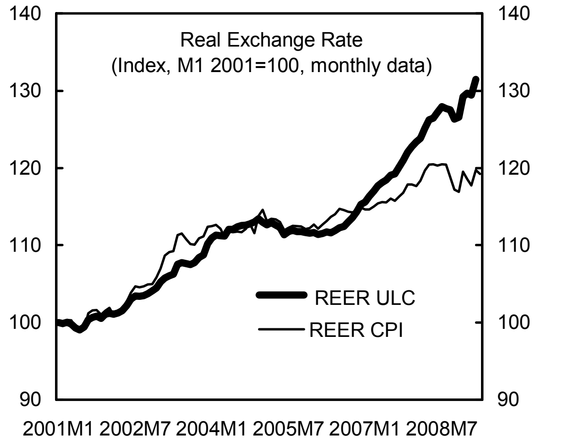
Source: Bank of Greece, *Monetary Policy Report* (February 2009).

37. **The authorities agreed with the thrust of these suggestions, albeit favoring a gradual implementation.** Drawing on cross-country experience, staff pointed out that the current crisis could be used to spur ambitious and faster reforms than achieved in Greece so far. [8] The authorities noted that they are committed to a comprehensive Lisbon reform agenda, as outlined in the National Reform Programme for 2008–2010. They planned on setting clear priorities and tackling reforms one at a time to manage opposition and steadily move the agenda forward.

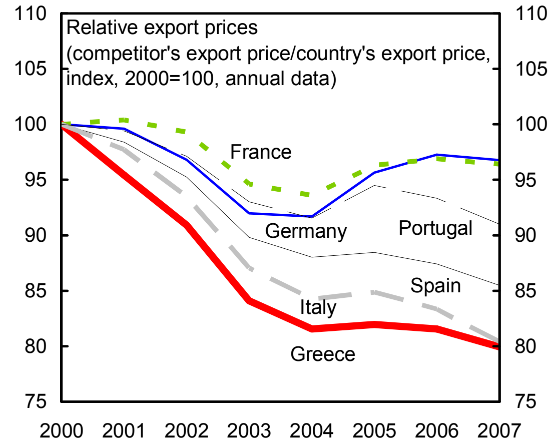
[8] See Selected Issues paper "Structural Reforms in Greece: Lessons from Other Countries."

Figure 13. Greece: Competitiveness Indicators

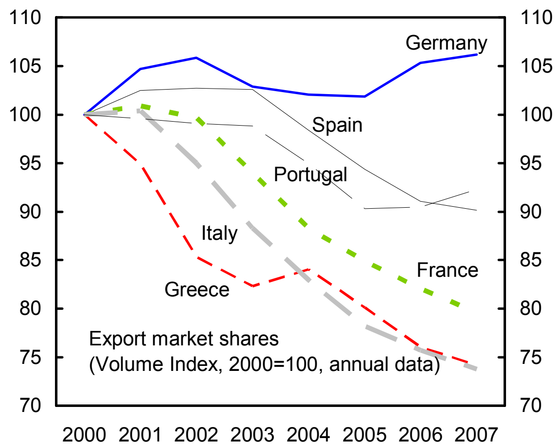
Greece's real exchange rate has been appreciating...



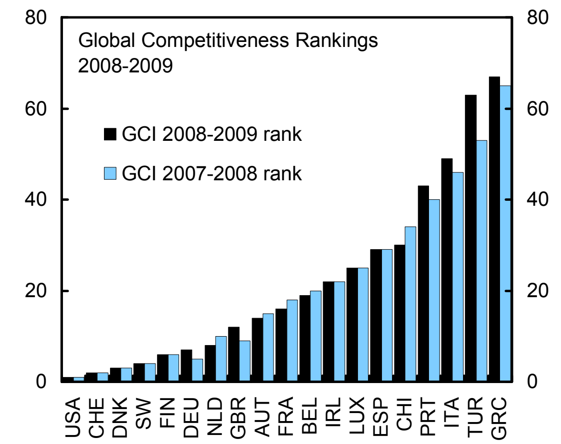
…its relative export prices have deteriorated…



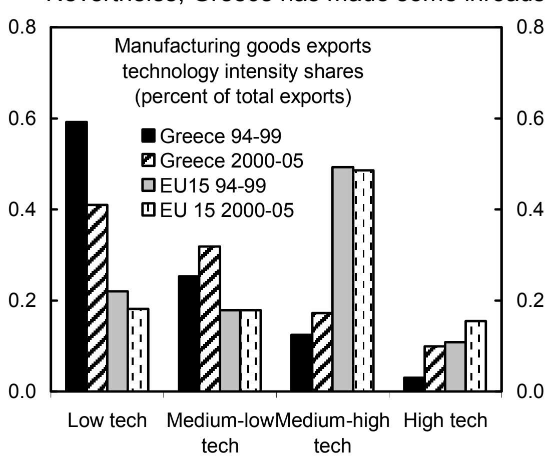
... it has lost market share relative to peers…

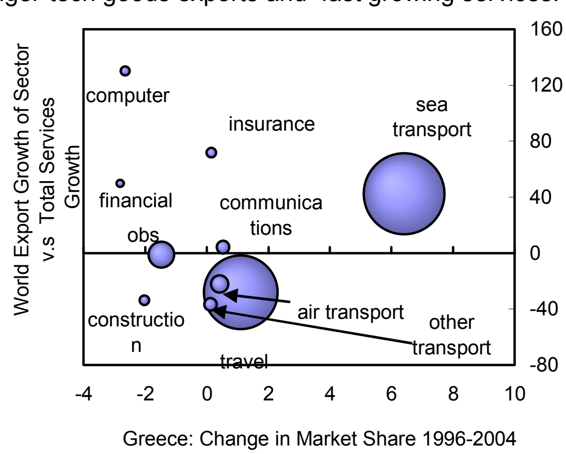


… and ranks poorly on competitiveness measures.



Nevertheles, Greece has made some inroads into higer-tech goods exports and fast growing services.

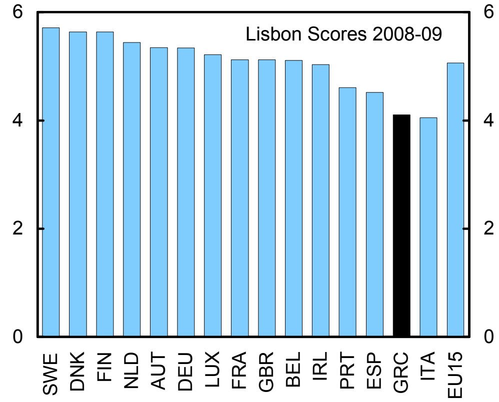




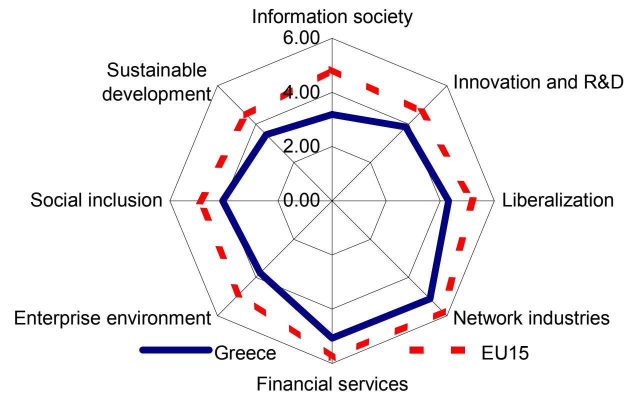
Sources: ECB; WEO; World Economic Forum; IMF, *BOP statistics*; Eurostat; and Comtrade.

Figure 14. Greece: Product Market Performance

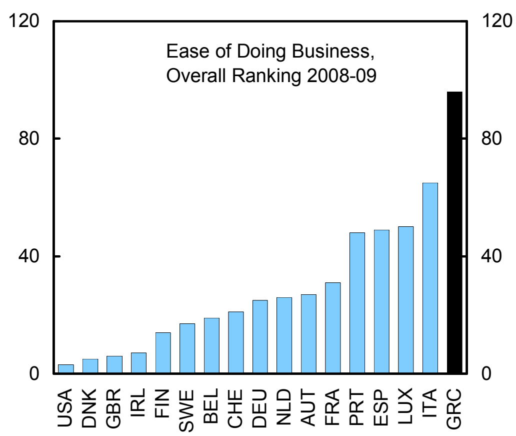
Greece is lagging behind on Lisbon objectives...



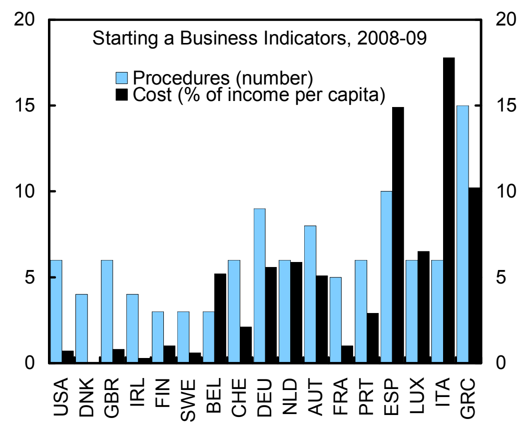
...especially on information society and enterprise environment.



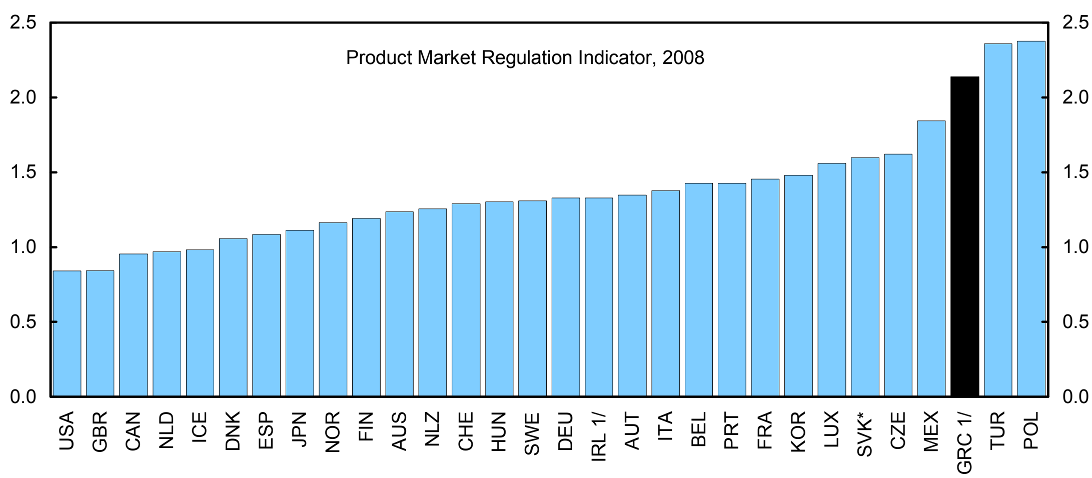
Doing business in Greece is difficult...



...due to bureaucracy and relatively high costs.



Greek product markets are some of the most heavily regulated in the OECD.



Sources: OECD; World Bank; World Economic Forum; and IMF staff estimates.
1/ 2008 data are unavailable so 2003 data are used instead.

Greece: Structural Reform Needs

Public Administration	
•	Cut entities, reduce staffing, and limit political appointees
•	Accelerate privatization of public enterprises
•	Place greater trust in the public by publishing more information
Goods and Services Markets	
•	Cut administrative burdens and red tape
•	Reform network industries by unbundling electricity and gas.
•	Achieve an ambitious transposition of the EU Services Directive.
•	Ensure adequate staffing and authority for the Competition Commission.
Labor Market	
•	Promote a social contract focused on employment growth through strong wage moderation
•	Expand part-time work opportunities
•	Reduce employment protection

V. Statistics

38. **Some data weaknesses hamper analysis** (Appendix II). Statistics on growth and the fiscal position tend to be revised significantly, complicating projections and policy making. Delays in fiscal data make it difficult for the authorities to respond in a timely manner. The mapping of fiscal and balance of payments data to the national accounts is not straightforward, and their differences tend to be unstable over time. Cash fiscal data show consistently weaker results than accrual SGP data, which is inadequately explained. The authorities said that several projects are underway to improve monitoring, accounting systems, and reporting, and they are working with Eurostat to revise and improve the national accounts in 2010. Staff welcomed these steps, which need firmer political support from the highest levels.

VI. Staff Appraisal

39. **The Greek economy has shown resilience but the staff nevertheless projects a recession**. Fiscal and external imbalances have grown and Greece needs a coherent and sustained plan to correct them and bolster confidence. Such a program should include maintaining a sound banking system, reducing public debt and deficits, and lowering costs in bureaucracy, product, service, and labor markets.

40. **Near-term prospects are sobering.** Greece has felt the downturn with some delay. Given that the economy is highly integrated with the euro area, which is experiencing a sharp recession, decoupling is unlikely. Moreover, underlying vulnerabilities need to be addressed with strong upfront policies. Greece can ill-afford a new spike in spreads in a weaker financial-real sector environment. Compounding these risks, high wage growth has further eroded

competitiveness as inflation persists above trading partners' average, and structural rigidities imply costs that have contributed to the large current account deficit. These factors increase the likelihood of a prolonged period of slow growth. Staff therefore views the balance of risks still on the downside.

41. **Greek banks have weathered the global crisis relatively well, but also felt the crisis**. Funding costs have increased while loan activity has dropped with deleveraging. The authorities' response has been appropriate and consistent with the EU framework—the bank assistance package has boosted confidence and proven highly valuable. Moreover, supervisors have intensified monitoring and expanded contacts with banks' managements to minimize risks.

42. **Stress tests suggest that the banking system has enough buffers to weather the expected slowdown.** Systemic risks appear contained as profits, capital cushions, and provisioning should provide enough resources to absorb impaired loans in Greece and SEE. Liquidity policies of the ECB are also helping, debt and interbank markets are slowly opening up, and there remains room under the banking package.

43. **Nevertheless, near-term operating conditions for banks remain challenging, and vigilance is needed.** Domestic credit quality may deteriorate further than envisaged, and portfolios in SEE could face further pressures. These risks need to be managed cautiously with a well-targeted set of policies. Direct involvement in banks should remain limited and focused on maintaining sound lending. Unused portions of the banking package should be kept in place preemptively. Banks need to prepare to unwind positions with the ECB.

44. **Greek banks' commitment to stay involved in SEE is welcome**. Moreover, the authorities continue to strengthen their relationships with Central Banks and supervisory colleagues in SEE countries, which could be further expanded by conducting joint crisis-management exercises.

45. **The authorities should remain prepared to act if systemic pressures were still to arise**. They are correct to seek market solutions first (e.g., merging banks), and if public support for individual banks is required, this should include exit strategies. The new Financial Stability Report is welcome and should become a regular feature.

46. **Fiscal consolidation cannot be postponed.** On unchanged policies, the headline deficit is expected to widen and public debt to increase sharply for several years. This outlook has been reflected in spiking spreads on government bonds as liquidity in financial markets tightened. Spreads are now easing, but a return to the low levels prior to the crisis is unlikely and risks of new spikes remain if policies are not strengthened. Given weaknesses in fiscal operating controls, downside surprises cannot be ruled out and should be countered as they occur.

47. **The deficit-reducing measures of 2009 are welcome and further steps are needed.** There is no room for stimulus. The government's response to the crisis has rightly included protecting the poor. Further measures must be consistent, durable, of high quality, and forward looking, to lower underlying deficits and debt. This plan should be clearly

communicated to the public and offer monitorable high-frequency milestones to establish a confidence anchor. With strong confidence, fiscal adjustment can be expansionary.

48. **Annual adjustment of about 1½ percent of GDP in permanent measures beginning in 2010 would place the debt ratio on a downward path by 2012**. Automatic stabilizers can be allowed to operate around this path. Pressure from special interest groups and sectors is likely to grow as economic weakness unfolds, but should be resisted.

49. **The measures should be of high quality.** There is a need to improve revenue from income that presently escapes taxation. The authorities' planned income policies are valuable if fully implemented as they would contribute to moderating the public wage bill and pension costs. Given very high projected aging costs, deeper social security reform should not be postponed; achieving a consensus with the public will require time and dialogue.

50. **Restoring competitiveness requires comprehensive structural reforms**. The government and social partners need to forge buy-in and stronger ownership of the agenda. This should involve streamlining the costly public sector, reducing administrative burdens, completing network industry reforms, and ambitiously implementing the EU Services Directive. Labor reforms should aim at lower unit labor costs and higher employment, supported in tripartite agreements between employers, unions, and the public sector. Greece also has room for more part-time work opportunities to assist youths and women. The authorities need to implement their efforts forcefully and without delay.

51. **Improving economic statistics deserves high priority.** Frequent data revisions and difficulties in reconciling aspects of the fiscal, external, and national accounts complicate monitoring, analysis, and policy making. Welcome improvements are underway, but publishing higher-quality economic statistics deserves firmer support from the highest levels.

52. It is recommended that Greece remain on the 12-month consultation cycle.

Table 1. Greece: Selected Economic Indicators, 2005–10

	2005	2006	2007	2008	2009	2010
				Prel.	Proj.	
	(Percentage change, unless otherwise indicated)					
Domestic economy						
Real GDP	2.9	4.5	4.0	2.9	-1.7	-0.4
Output gap (percent of pot. output)	0.4	1.8	3.2	4.1	0.7	-1.0
Total domestic demand	2.1	4.7	5.1	0.7	-2.5	-1.6
Private consumption	4.3	4.8	3.0	2.2	-0.4	-0.3
Public consumption	1.2	0.0	7.7	3.2	1.7	0.5
Gross fixed capital formation	-0.5	9.2	4.9	-11.5	-10.2	-5.0
Change in stocks (contribution)	-0.7	-0.3	1.0	1.5	-0.7	-0.6
Foreign balance (contribution)	0.5	-0.8	-1.6	2.1	1.0	1.3
Exports of goods and services	4.2	10.9	3.1	2.2	-19.2	0.3
Imports of goods and services	1.4	9.7	6.7	-4.4	-16.5	-4.4
Unemployment rate (percent)	9.9	8.9	8.3	7.6	9.5	10.5
Employment	1.3	1.9	1.3	1.1	-1.5	-0.8
Unit labor costs (economy wide)	-3.3	4.9	3.5	5.7	4.0	2.4
Consumer prices (HICP), period average	3.5	3.3	3.0	4.2	1.1	1.7
Core prices, period average 1/	3.3	2.4	3.1	3.1	...	...
GDP deflator	3.4	3.2	2.9	3.4	2.3	1.7
	(Percent of GDP)					
Balance of payments						
Current account	-7.5	-11.1	-14.1	-14.4	-10.9	-10.4
Trade balance	-6.2	-9.4	-10.9	-11.1	-7.8	-6.9
Export of goods and services	21.0	20.9	21.4	22.2	17.0	17.5
Export of goods	7.2	7.6	7.6	8.2	6.1	6.4
Exports of services	13.8	13.3	13.8	14.0	10.9	11.1
Imports of goods and services	27.1	30.2	32.3	33.2	24.8	24.4
Imports of goods	21.1	24.1	25.8	26.3	18.9	18.6
Imports of services	6.0	6.1	6.4	7.0	5.9	5.8
Net international investment position	-75.5	-83.6	-94.0	-75.7	-84.5	-92.2
Public finances (general government)						
Total revenues	38.1	39.0	40.0	39.9	40.3	40.1
Total expenditures	43.1	41.8	43.6	44.9	46.5	47.7
Overall balance	-5.1	-2.8	-3.6	-5.0	-6.2	-7.5
Primary balance	-0.7	1.3	0.5	-0.7	-1.5	-2.3
Structural overall balance (to pot. output)	-5.3	-3.6	-4.5	-7.4	-6.8	-7.0
Gross debt	99	96	95	98	109	116
Interest rates and credit						
Long-term lending interest rate 2/	5.8	6.3	7.2	7.2	6.4	...
Private credit growth 2/ 3/	21.2	21.1	21.5	15.9	10.8	...
Exchange rates						
Nominal effective exchange rate 4/	-2.7	1.8	2.3	1.6	-1.2	...
Real effective exchange rate (CPI-based) 4/	-1.4	2.3	2.6	1.4	-1.1	...
Real effective exchange rate (man. ULC-based) 5/	-2.5	6.7	5.3	4.2	2.4	...
Memorandum item:						
Nominal GDP (billions of euros)	198	213	228	243	244	247
Nominal GDP (percentage change)	6.3	7.9	7.0	6.5	0.5	1.3

Sources: National Statistical Service; Ministry of Economy and Finance; Bank of Greece; and IMF staff estimates.

1/ Core prices exclude energy, food, alcohol, and tobacco.
2/ As of March 2009.
3/ Domestic credit growth of households and enterprises.
4/ As of April, 2009.
5/ As of May, 2009.

Table 2. Greece: Summary of Balance of Payments, 2008–14 1/

	2008	2009	2010	2011	2012	2013	2014
		Proj.					
				(Billions of euros)			
Current account balance	-35.0	-26.6	-25.7	-25.1	-24.3	-23.8	-23.6
Balance of goods and services	-26.9	-19.1	-17.0	-16.3	-15.2	-14.3	-13.7
Goods balance	-44.0	-31.2	-30.2	-30.7	-31.0	-31.6	-32.7
Exports of goods	19.8	15.0	15.7	16.7	17.7	18.8	20.0
Imports of goods	63.9	46.2	45.9	47.4	48.6	50.4	52.8
Services balance	17.2	12.1	13.2	14.3	15.8	17.3	19.0
Credit	34.1	26.5	27.5	28.8	30.6	32.5	34.6
Debit	16.9	14.4	14.3	14.5	14.8	15.1	15.6
Income balance	-10.9	-10.7	-12.0	-12.4	-12.8	-13.4	-13.9
Credit	5.7	5.9	6.1	6.3	6.7	7.0	7.4
Debit	16.6	16.6	18.1	18.7	19.5	20.4	21.3
Current transfers (net)	2.8	3.2	3.4	3.6	3.7	3.9	4.0
Capital and financial account balance	35.0	26.6	25.7	25.1	24.3	23.8	23.6
Capital account balance	4.1	4.1	4.2	4.3	4.4	4.5	4.7
Financial account	30.9	22.5	21.5	20.8	19.9	19.3	18.8
Direct investment	1.7	0.7	1.0	1.3	1.3	1.4	1.4
Portfolio investment	16.4	14.7	14.8	14.9	14.6	14.0	13.2
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	12.8	7.1	5.7	4.6	4.0	3.9	4.3
Reserve assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(Percent of GDP)			
Memorandum items:							
Current account balance	-14.4	-10.9	-10.4	-9.9	-9.3	-8.8	-8.4
Balance of goods and services	-11.1	-7.8	-6.9	-6.5	-5.8	-5.3	-4.9
Goods balance	-18.1	-12.8	-12.2	-12.1	-11.9	-11.7	-11.7
Services balance	7.1	5.0	5.3	5.7	6.1	6.4	6.8
Income balance	-4.5	-4.4	-4.9	-4.9	-4.9	-5.0	-4.9
Current transfers	1.1	1.3	1.4	1.4	1.4	1.4	1.4
Capital and financial account balance	14.4	10.9	10.4	9.9	9.3	8.8	8.4
Of which:							
Direct investment	0.7	0.3	0.4	0.5	0.5	0.5	0.5
Portfolio investment	6.8	6.0	6.0	5.9	5.6	5.2	4.7
Other investment	5.3	2.9	2.3	1.8	1.5	1.4	1.5
External debt	149.2	159.0	168.6	175.2	179.5	182.2	184.1

Sources: Bank of Greece; and IMF staff projections.

1/ Bank settlements basis.

Table 3. Greece: Core Set of Financial Soundness Indicators for Deposit Taking Institutions, 2000–08

(Percent)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Regulatory capital to risk-weighted assets 1/	13.6	12.4	10.5	12.0	12.8	13.2	12.2	11.2	9.4
Regulatory Tier I capital to risk-weighted assets 1/	13.5	10.9	8.8	9.8	10.0	10.9	9.9	9.2	7.9
Nonperforming loans net of provisions to capital	33.4	29.4	28.9	27.0	26.5	19.2	15.4	16.8	26.1
Nonperforming loans to total gross loans	11.7	8.3	7.4	7.0	7.0	6.3	5.4	4.5	5.0
Sectoral distribution of loans 2/									
Consumer credit	9.3	10.6	11.3	12.3	14.3	15.2	16.3	15.0	14.1
Lending for house purchase	18.8	21.0	24.4	26.1	27.7	31.4	33.4	34.5	32.4
Non-financial corporations	70.5	65.7	60.4	57.7	54.4	50.5	47.1	47.2	50.4
Insurance corporations and pension funds	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Other financial intermediaries	1.1	2.2	3.2	2.6	2.3	1.6	1.8	1.5	1.5
Other	0.3	0.4	0.6	1.3	1.2	1.2	1.4	1.5	1.5
Return on assets (after taxes) 3/	1.4	1.0	0.5	0.6	0.4	0.9	0.8	1.0	0.2
Return on equity (after taxes) 3/	15.4	12.4	6.8	8.9	6.4	15.9	12.7	14.8	3.0
Interest margin to gross income 3/	54.5	62.8	72.5	73.9	77.0	75.5	72.3	71.8	84.5
Non-interest expenses to gross income 3/	53.0	59.0	69.0	63.0	64.3	54.5	52.2	52.6	60.9
Liquid assets to total assets 2/	46.4	41.1	39.5	37.0	33.4	34.0	33.6	35.1	38.7
Liquid assets to short-term liabilities 2/	60.7	53.0	48.7	46.5	43.2	47.0	46.5	48.0	50.0
Net open position in foreign exchange to capital 1/ 4/	...	3.5	7.2	5.7	3.5	2.8	4.8	3.9	6.3

Source: Bank of Greece.

1/ Data on a consolidated basis. Taking into consideration the capital increase of 850 million to Emporiki Bank by its French parent group which is confirmed by the French supervisory authorities, the total Capital Adequacy Ratio becomes 9.8 percent while the Tier I ratio becomes 8.2 percent for 2008.

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

3/ From 2004 in accordance with IFRS.

4/ Based on revised figures from 2002 onwards.

Table 4. Greece: Encouraged Set of Financial Soundness Indicators, 2000–08

(Percent)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Corporate Sector									
Total debt to equity	133.2	142.8	156.6	162.8	156.9	171.9	181.6	186.4	244.8
Return on equity 1/	11.6	7.8	8.3	10.2	8.8	7.0	9.0	9.9	7.1
Earnings to interest expenses 2/	2.5	2.0	2.1	2.6	2.4	1.9	2.0	2.0	1.1
Number of applications for protection from creditors	1756.0	1838.0	1156.0	2052.0	1635.0	1958.0	2281.0	1784.0	801.0
Deposit-taking institutions									
Capital to assets 3/	9.2	8.5	6.9	6.9	5.3	5.9	6.7	6.6	4.5
Geographical distribution of loans to total loans (enterprises and households) 4/									
Domestic	93.9	94.7	95.6	96.3	96.6	96.8	97.1	95.7	94.1
Other euro area countries	0.2	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.6
Non-euro area countries	5.9	5.1	4.2	3.5	3.2	3.1	2.9	4.2	5.3
Large exposures to capital	...	...	154.1	190.8	123.7	144.5	126.8	156.3	152.9
Trading income to total income 3/	17.3	13.1	4.9	4.6	3.0	3.8	8.6	8.2	-3.9
Personnel expenses to noninterest expenses 3/	61.8	59.8	59.0	58.2	61.6	59.9	59.1	59.0	57.9
Spread between reference lending and deposit rates (end of period) 5/	6.4	6.1	6.1	5.8	5.9	6.0	6.1	6.2	5.8
Customer deposits to total (non-interbank) loans 4/	176.3	166.0	147.4	135.3	130.6	127.5	126.3	125.2	127.4
Foreign currency-denominated liabilities to total liabilities 4/	24.5	16.6	12.8	13.2	12.9	12.7	13.1	13.1	12.7
Net open position in equities in capital 6/	...	21.5	12.9	10.4	5.8	3.1	4.7	2.1	0.8
Market liquidity									
Average bid-ask spread in the securities market	14.0	9.8	9.4	8.2	6.1	7.9	7.4	12.0	55.9
Average daily turnover ratio in the securities market 7/	0.1	0.2	0.2	0.1	0.2	0.1	0.1	0.2	0.1
Other financial corporations									
Assets to total financial system assets	17.3	16.5	15.4	16.2	16.3	13.7	12.4	10.4	6.4
Assets to GDP	37.6	32.3	27.4	29.2	28.7	27.4	26.1	24.5	14.8
Households									
Household debt to GDP	12.5	16.3	20.6	24.4	29.6	35.6	41.2	46.8	50.3
Real estate markets									
Residential real estate loans to total loans 4/	10.2	13.2	16.7	18.2	20.7	22.9	24.8	23.5	20.7

Sources: Bank of Greece; and ICAP, *Greek Financial Directory* , 2008.

1/ For 2000-2006, source is 'The Greek Corporation in 2007, Industry, Trade, Services', Hellenic Federation of Enterprises, Athens 2008. For 2007,2008
2/ Principal expenses not available.
3/ On a non-consolidated basis; from 2004 in accordance with IFRS.
4/ On an aggregate resident-based approach (i.e. commercial banks, cooperative banks, and foreign branches).
5/ Spread between rate on credit lines and savings deposit rate.
6/ Data on a consolidated basis.
7/ Figures refer to volumes of securities traded and not numbers.

Table 5. Greece: Structure of Financial System, 2000−08

	2000	2001	2002	2003	2004	2005	2006	2007	2008
					(Number)				
Banks	19	23	24	22	21	21	21	19	19
Private commercial	8	12	12	12	13	13	8	8	8
State-owned	7	7	7	6	3	3	3	3	3
Foreign-owned subsidiaries	4	4	5	4	5	5	10	8	8
Branches of foreign banks	22	21	21	20	23	23	24	27	30
Securities companies	90	88	103	98	75	65	60	67	70
General insurance companies 1/	90	89	89	92	89	86	81	81	81
Other credit institutions	16	17	17	17	18	18	17	17	17
Concentration 2/									
Banks	7	7	7	7	7	7	8	7	6
General insurance companies	...	...	10	10	11	11	11	11	11
Assets					(billions of euros)				
Banks	145.7	158.7	165.5	174.0	186.6	228.6	272.6	336.0	412.1
Private commercial	43.2	44.8	46.7	52.4	115.6	134.7	148.7	182.4	223.1
State-owned	84.4	92.6	92.1	91.5	40.7	44.2	37.9	41.6	48.3
Foreign-owned subsidiaries	18.1	21.3	26.8	30.1	30.4	49.7	85.9	111.9	140.8
Branches of foreign banks	22.3	17.8	17.4	19.2	23.0	28.5	31.8	36.8	39.4
General insurance companies 1/	13.2	12.4	9.1	10.2	10.9	15.5	17.5	19.6	14.6
Other credit institutions	13.6	15.2	16.6	17.7	20.7	24.3	10.8	10.5	10.5
Deposits									
Banks	89.9	98.6	102.9	112.4	125.8	151.3	183.1	219.7	251.5
Private commercial	23.6	25.9	26.9	30.8	69.5	86.9	95.1	113.5	133.7
State-owned	55.9	59.0	59.9	63.2	31.3	34.0	31.1	34.6	34.9
Foreign-owned subsidiaries	10.3	13.6	16.1	18.4	25.0	30.4	57.0	71.7	82.8
Branches of foreign banks	8.5	8.9	8.9	9.5	12.7	16.9	19.5	21.5	21.2

Source: Bank of Greece.

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

2/ Number of institutions (in each category) with 75 percent of total assets.

Table 6. Greece: General Government Accounts, 2005–10

	2005	2006	2007	2008	2009	2010
				Prel.	Proj.	
			(Billions of Euros)			
Revenues	75.2	83.1	91.3	96.9	98.4	99.3
Taxes on production and imports	22.8	25.5	27.8	30.0	30.9	31.2
Taxes on income and property	16.6	16.8	18.0	18.8	20.3	19.6
Social insurance contributions	26.1	28.0	31.8	33.9	33.3	33.7
Other	6.7	7.5	8.4	9.4	8.9	9.4
Capital transfers	3.1	5.2	5.4	4.8	5.0	5.4
Noninterest expenditures	76.6	80.4	90.3	98.6	102.0	105.1
Intermediate consumption	9.9	10.2	11.7	11.2	10.7	11.0
Remuneration of workers	22.3	23.3	25.2	27.2	29.1	30.0
Social transfers, excl. those in kind	31.8	35.2	39.4	44.6	48.2	49.8
Subsidies	0.3	0.3	0.3	0.3	0.3	0.2
Other current expenditure	3.3	3.1	4.4	4.1	3.6	3.5
Investment expenditure	9.0	8.2	9.3	11.1	10.1	10.5
Primary balance	-1.4	2.7	1.0	-1.6	-3.6	-5.8
Interest	8.7	8.7	9.3	10.6	11.6	12.8
Overall balance	-10.1	-6.0	-8.3	-12.2	-15.2	-18.6
			(Percent of GDP)			
Revenues	38.1	39.0	40.0	39.9	40.3	40.1
Taxes on production and imports	11.5	12.0	12.2	12.3	12.6	12.6
Taxes on income and property	8.4	7.9	7.9	7.7	8.3	7.9
Social insurance contributions	13.2	13.2	13.9	14.0	13.6	13.6
Other	3.4	3.5	3.7	3.9	3.6	3.8
Capital transfers	1.6	2.4	2.4	2.0	2.0	2.2
Noninterest expenditures	38.8	37.7	39.6	40.6	41.8	42.5
Intermediate consumption	5.0	4.8	5.1	4.6	4.4	4.5
Remuneration of workers	11.3	10.9	11.0	11.2	11.9	12.1
Social transfers, excl. those in kind	16.1	16.5	17.3	18.4	19.7	20.1
Subsidies	0.1	0.1	0.1	0.1	0.1	0.1
Other current expenditure	1.7	1.4	1.9	1.7	1.5	1.4
Investment expenditure	4.5	3.9	4.1	4.6	4.1	4.3
Primary balance	-0.7	1.3	0.5	-0.7	-1.5	-2.3
Interest	4.4	4.1	4.1	4.4	4.8	5.2
Overall balance	-5.1	-2.8	-3.6	-5.0	-6.2	-7.5
Memorandum items:						
Structural primary balance (over pot. output)	-0.9	0.6	-0.3	-2.8	-2.0	-1.9
Structural overall balance (over pot. output)	-5.3	-3.6	-4.5	-7.4	-6.8	-7.0
Gross debt	99	96	95	98	109	116
Nominal GDP (billions of euros)	198	213	228	243	244	247

Sources: Ministry of Economy and Finance; and IMF staff calculations.

Table 7. Greece: Public Sector Balance Sheet, 2007–14

	2007	2008	2009	2010	2011	2012	2013	2014
				(Billions of euros)				
Assets	192.5	196.0	205.5	208.0	212.6	214.4	221.9	226.0
Financial assets	76.1	72.1	81.0	81.9	83.5	81.4	84.2	83.1
Currency	11.9	12.7	12.8	12.9	13.2	13.6	14.1	14.6
Securities	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Loans	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9
Shares	42.0	35.8	36.0	36.4	37.2	38.4	39.8	41.3
Insurance reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking assistance package	0.0	0.0	8.5	8.5	8.5	4.1	4.1	0.0
Other	20.9	22.3	22.4	22.7	23.2	23.9	24.8	25.7
Public sector capital stock	116.4	123.9	124.6	126.1	129.0	133.0	137.7	142.9
Liabilities	1078.6	1155.9	1245.1	1331.6	1423.9	1517.9	1622.7	1722.1
Financial liabilities	235.4	249.2	273.1	292.0	312.5	330.4	354.6	376.7
Currency	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9
Securities	210.1	222.3	246.0	264.6	284.5	301.5	324.7	345.6
Loans	19.7	21.0	21.1	21.4	21.8	22.5	23.3	24.2
Other	4.9	5.2	5.2	5.3	5.4	5.6	5.8	6.0
NPV of future primary balances 1/	843.3	906.7	972.1	1,039.5	1,111.4	1,187.5	1,268.1	1,345.5
Net worth	-886.1	-959.9	-1039.6	-1123.6	-1211.3	-1303.5	-1400.7	-1496.1
				(Percent of GDP)				
Assets	84.4	80.7	84.1	84.1	84.0	82.2	82.2	80.6
Liabilities	472.7	475.8	509.8	538.4	562.8	582.2	600.8	614.6
Currency	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Securities	92.1	91.5	100.7	107.0	112.5	115.6	120.2	123.3
Loans	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Other	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
NPV of future primary balances 1/	369.6	373.2	398.0	420.4	439.3	455.5	469.6	480.1
Net worth	-388.4	-395.1	-425.7	-454.3	-478.8	-500.0	-518.7	-533.9
Memorandum items:								
Gross debt Maastricht (Billions of euros)	216	237	266	288	309	328	352	375
Gross debt Maastricht (Percent of GDP)	94.8	97.6	108.8	116.5	122.2	125.7	130.4	133.7

Source: IMF staff calculations that include the WEO Medium Term Baseline.

1/ Net present value of 50-year projected primary balances (discounted at the average nominal interest rate on public debt).

Greece: External Debt Sustainability Framework, 2004-2014
(Percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Debt-stabilizing non-interest current account 6/
1	Baseline: External debt	100.1	112.8	117.4	135.2	149.2	159.0	168.6	175.2	179.5	182.2	184.0	-1.0
2	Change in external debt	5.6	12.7	4.7	17.8	14.0	9.8	9.6	6.6	4.3	2.7	1.8	
3	Identified external debt-creating flows (4+8+9)	-7.0	-4.2	-2.6	0.2	28.6	10.5	8.8	6.1	4.8	3.7	3.2	
4	Current account deficit, excluding interest payments	2.8	4.0	7.1	9.5	9.1	4.5	3.6	2.8	2.0	1.4	0.9	
5	Deficit in balance of goods and services	5.4	6.2	9.4	10.9	11.1	7.8	6.9	6.5	5.8	5.3	4.9	
6	Exports	21.2	21.0	20.9	21.4	22.2	17.0	17.5	18.0	18.5	19.0	19.5	
7	Imports	26.6	27.1	30.2	32.3	33.2	24.8	24.4	24.5	24.3	24.3	24.4	
8	Net non-debt creating capital inflows (negative)	-5.5	-5.7	-5.4	-6.3	22.4	-2.9	-2.2	-2.7	-2.6	-2.4	-1.9	
9	Automatic debt dynamics 1/	-4.4	-2.5	-4.3	-3.0	-2.9	8.9	7.4	6.0	5.4	4.7	4.3	
10	Contribution from nominal interest rate	3.0	3.5	4.0	4.7	5.3	6.4	6.8	7.1	7.3	7.5	7.5	
11	Contribution from real GDP growth	-4.3	-2.7	-4.7	-4.4	-3.7	2.5	0.6	-1.1	-2.0	-2.7	-3.3	
12	Contribution from price and exchange rate changes 2/	-3.1	-3.2	-3.5	-3.3	-4.5	...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	12.6	16.9	7.2	17.5	-14.6	-0.7	0.8	0.5	-0.5	-1.0	-1.4	
	External debt-to-exports ratio (in percent)	472.0	537.7	562.5	632.5	672.6	935.0	965.3	972.6	970.1	960.4	944.0	
	Gross external financing need (in billions of euros) 4/	63.3	59.1	74.7	87.4	126.4	166.8	140.2	178.8	194.8	210.0	226.6	
	in percent of GDP	34.1	29.9	35.1	38.3	52.0	68.3	56.7	70.7	74.7	77.8	80.9	
	Scenario with key variables at their historical averages 5/						159.0	160.2	161.1	161.3	161.3	160.8	-6.1
	Key Macroeconomic Assumptions Underlying Baseline												
	Real GDP growth (in percent)	4.9	2.9	4.5	4.0	2.9	-1.7	-0.4	0.7	1.2	1.6	1.9	
	GDP deflator in euros (change in percent)	3.3	3.4	3.2	2.9	3.4	2.3	1.7	1.6	1.9	2.0	1.9	
	Nominal external interest rate (in percent)	3.4	3.7	3.8	4.3	4.2	4.3	4.3	4.3	4.3	4.3	4.3	
	Growth of exports (euro terms, in percent)	21.1	5.2	7.4	9.6	10.5	-22.9	4.0	5.5	5.9	6.2	6.6	
	Growth of imports (euro terms, in percent)	13.0	8.6	20.2	14.3	9.6	-24.9	-0.6	2.8	2.5	3.3	4.3	
	Current account balance, excluding interest payments	-2.8	-4.0	-7.1	-9.5	-9.1	-4.5	-3.6	-2.8	-2.0	-1.4	-0.9	
	Net non-debt creating capital inflows	5.5	5.7	5.4	6.3	-22.4	2.9	2.2	2.7	2.6	2.4	1.9	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in euro terms, g = real GDP growth rate, ε = nominal appreciation (increase in euro value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

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

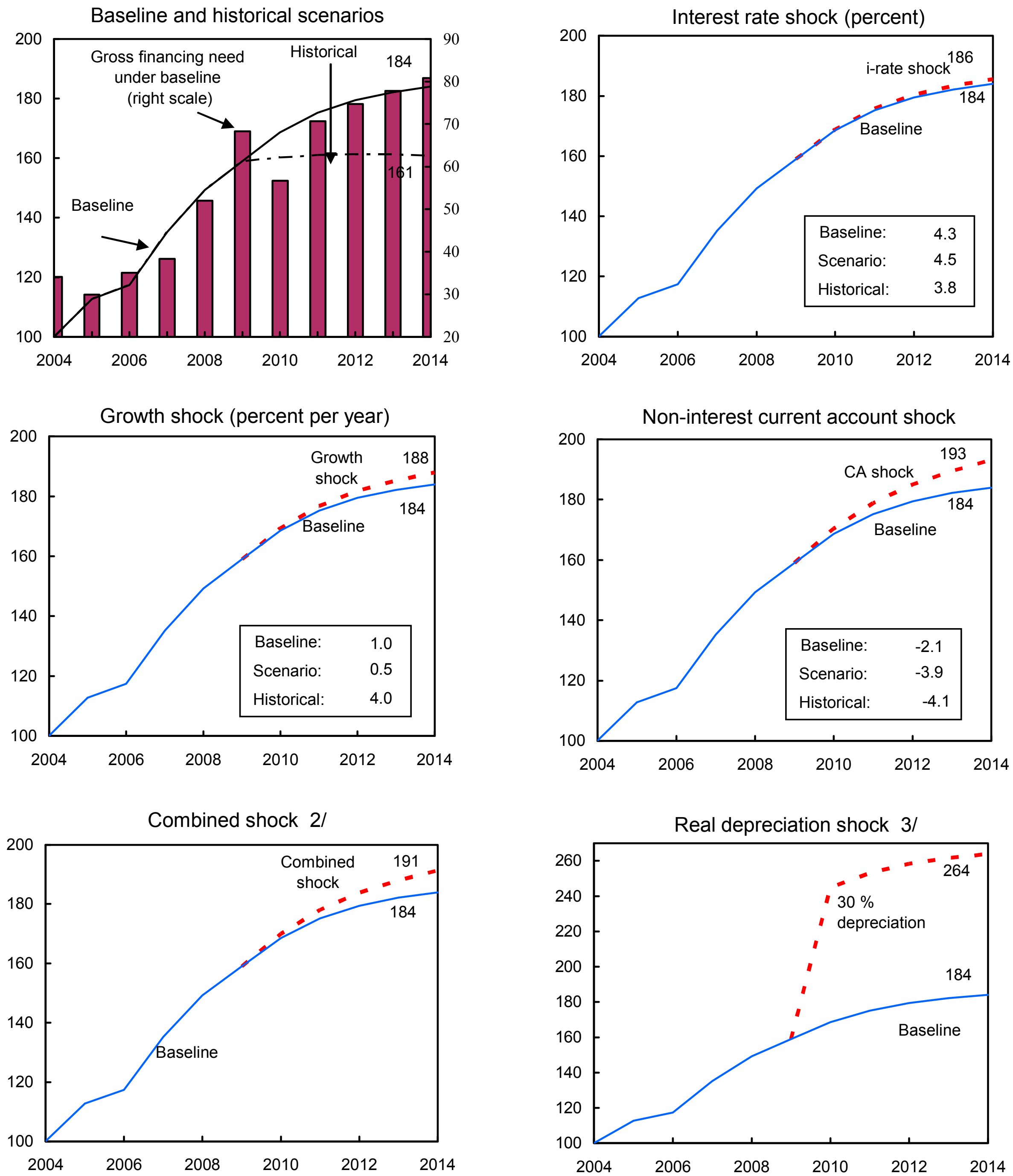
3/ For projection, line includes the impact of price and exchange rate changes.

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.

Greece: External Debt Sustainability: Bound Tests 1/
(Percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Data prior to 2009 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2009.

INTERNATIONAL MONETARY FUND

GREECE

Staff Report for the 2009 Article IV Consultation—Informational Annex

Prepared by the European Department

June 30, 2009

Contents Page

Appendix I. Greece: Fund Relations

(As of May 31, 2009)

I. **Membership Status**: Joined December 27, 1945. It has accepted the obligations of Article VIII, Sections 2, 3, and 4.

II. **Exchange Rate Arrangements**: Greece's currency is the euro, which floats freely and independently against other currencies. It maintains an exchange system free of restrictions apart from those resulting from European Council regulations, which were last notified to the Fund in accordance with Decision 144 under EBD/08/35, 4/18/08.

III. **General Resources Account**:	**SDR Million**	**Percent Quota**
Quota	823.00	100.00
Fund holdings of currency	668.27	81.20
Reserve position in Fund	154.77	18.81

IV. **SDR Department**:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	103.54	100.00
Holdings	15.34	14.81

V. **Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs)**:

	Forthcoming				
	2009	2010	2011	2012	2013
Principal					
Charges/Interest	0.20	0.41	0.41	0.41	0.41
Total	0.20	0.41	0.41	0.41	0.41

VI. **Article IV Consultation Cycle**: Greece is on a 12-month consultation cycle; the last Article IV consultation discussions were concluded on April 18, 2008 (EBM/08/34–1).

VII. **Last Article IV mission:** May 13–25, 2009 in Athens. The mission concluding statement is available at http://www.imf.org/external/np/ms/2009/052509.htm

Greece—Statistical Issues Appendix As of June 5, 2009	
I. Assessment of Data Adequacy for Surveillance	
General: Greek economic data have some weaknesses for surveillance. Most affected areas are: national accounts, government finance, balance of payments, and their inter-relationships.	
National Accounts: National accounts are broadly in line with the European System of Accounts (ESA95). However, introduction of a production method approach for the quarterly national accounts has resulted in volatility and large statistical discrepancies which render the data less useful for assessing conjunctural economic developments and projections. In line with other EU countries, Greece intends to change the GDP base in 2010. The interpretation of labor market developments continues to be hampered by difficulties in covering immigrants, which constitute, compared with other EU countries, a relatively large fraction of the Greek labor market, and by the large size of the unrecorded economy, which the recent national accounts revisions may not have fully captured.	
Government finance statistics: The National Statistical Service of Greece compiles data on general government revenue, expenditure, and deficit on an accrual basis in the context of the 1995 ESA Transmission Program and the Excessive Deficit Procedure. The absence of financing data impedes checks on data consistency, including reconciliation between the government deficit and debt, and between government finance statistics and other macroeconomic datasets. Fiscal data are difficult to match with public consumption and capital formation in the national accounts. Moreover, the differences are not stable over time. The mapping of fiscal cash accounts to the accrual SGP data is also unstable over time and tends to be in favor of the SGP accounts—i.e. indicating a lower deficit in the SGP. Over time, this difference tends to be at least partially reconciled and narrowed—leading to an ex-post increase in the SGP deficit. Fiscal data, even on cash revenue, are published with large delays. Social security data are weak and incomplete.	
External sector Statistics: Balance of payments data present some departures from the fifth edition of the Balance of Payments Manual (BPM5). Significant differences remain in comparison to national-accounts-based current account data. The discrepancies in exports and imports between the BOP and NA data also are unstable over time. Efforts are underway to address these problems.	
II. Data Standards and Quality	
Subscriber to the Fund's Special Data Dissemination Standard (SDDS) since November 8, 2002.	A data module of the Report on the Observance of Standards and Codes (ROSC) was published in 2003, and it was updated in 2004 and 2005 in the context of the Article IV staff report.

Greece: Table of Common Indicators Required for Surveillance
(As of June 5, 2009)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability[9]
Exchange Rates	Jun. 09	6/5/09	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr. 09	5/29/09	M	M	M		
Reserve/Base Money	May. 09	6/1/09	M	M	M	O, O, O, O	LO, O, O, O, O
Broad Money	Apr. 09	5/29/09	M	M	M		
Central Bank Balance Sheet	Apr. 09	5/29/09	M	M	M		
Consolidated Balance Sheet of the Banking System	Apr. 09	5/29/09	M	M	M		
Interest Rates[2]	Jun. 09	6/5/09	D	D	D		
Consumer Price Index	Apr. 09	5/7/09	M	M	M	O, O, O, O	O, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2008	3/11/09	A	A	A	LO, LO, LO, O	LO, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Mar. 09	5/11/09	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2009 Q1	05/20/09	Q	Q	Q		
External Current Account Balance	2009 Q1	5/22/09	M	M	M	O, LO, LO, O	O, O, O, O, O
Exports and Imports of Goods and Services	2009 Q1	5/22/09	M	M	M		
GDP/GNP	2009 Q1	6/4/09	Q	Q	Q	O, O, O, O	LO, LO, O, O, LO
Gross External Debt	2008 Q4	4/24/09	Q	Q	Q		
International Investment Position[6]	2008 Q4	3/30/09					

[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 discounts 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).
[8] Reflects the assessment provided in the data ROSC (published in October 2003, and based on the findings of the mission that took place during November 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[9] Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND

GREECE

Staff Report for the 2009 Article IV Consultation

Supplementary Information

Prepared by the European Department

Approved by Ajai Chopra and Martin Mühleisen

July 20, 2009

The following information has become available since issuing the staff report. This information does not alter the thrust of the staff appraisal. Also attached is a draft background section of the Public Information Notice (PIN).

The government has revised its outlook and announced new deficit-reducing measures:

- The authorities have revised down their growth forecast for 2009 from 1.1 percent to zero percent. They expect a recovery to begin at end-2009.

- The authorities continue to target a fiscal deficit of 3.7 percent of GDP in 2009. To help offset revenue shortfalls (mainly VAT) and some new expenditure increases, they introduced a package of fiscal measures expected to yield, in gross terms, 0.8 percent of GDP (the largest is a one-off revenue measure, see text table below). In addition, the authorities are stepping up their efforts at reducing tax evasion. They envision announcing further measures of a structural nature in October, to assist consolidation in the 2010 budget.

The staff has reduced its deficit projections from 2009 onward, reflecting this new information:

- Given the weaker macroeconomic outlook and more cautious fiscal estimates, the staff deficit projections remain wider than those of the authorities. Taking into account the revenue shortfalls, expenditure concessions, and the new measures, the staff headline deficit is reduced in net terms by 0.3 percentage point to 5.9 percent of GDP in 2009 and by 0.8 percentage point to 6.7 percent in 2010.

- These staff estimates do not yet include €500 million sale/lease-back operations of government properties planned for 2009 and 2010 each, which could reduce the headline deficit further. This would only have a temporary effect on the deficit.

- Taking into account the permanent components in measures and the effects of some expenditure increases, the structural balance is estimated to improve by a net 0.4 percentage point of GDP (full-year effects) in the medium term.

- The staff welcomes the additional policy steps taken under difficult circumstances. Nonetheless, significant durable fiscal consolidation from 2010 onward remains essential, including containing expenditures.

Greece: Fiscal Measures, June 2009 1/
(Percent of GDP)

Total measures	0.8
Revenues	
Increase of excise duty on petrol	0.1
Increase of duties paid by mobile phone subscribers	0.1
Tax on earnings from gambling	0.1
Special tax on automobiles and yachts	0.1
Settlement for semi-open air spaces 2/	0.5
Increase in lawsuit and court fees	0.02
Expenditures	
Reduction of Official Development Assistance	0.05
Memorandum items:	
One-off measures	0.5
Permanent measures 3/	0.3

1/ Measures announced by the Minister of Finance on June 25, 2009.

2/ Legalizing previously unauthorized construction, yielding a one-time revenue settlement.

3/ Equivalent to 0.6 percent of GDP on a full-year basis.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 09/100
FOR IMMEDIATE RELEASE
August 6, 2009

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2009 Article IV Consultation with Greece

On July 24, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Greece.[1]

Background

After a decade of strong growth led by a domestic demand boom, Greece has started to feel the effects of the global downturn, although with some delay. Despite initial resilience partly explained by high wage growth and accelerated government spending, growth slowed substantially in early-2009. The main driving forces were lower investment and exports, destocking, and a decline in private consumption, as confidence and employment softened. With slower domestic demand and contracting imports, the external current account deficit started to narrow from a deficit of 14.4 percent in 2008.

The general government balance remains under pressure with revenue shortfalls and some additional expenditure, which the government is attempting to offset in part with consolidation measures and tax administration efforts. Despite spreads soaring in early 2009, the government quickly completed funding for the year and spreads are now easing again. However, the debt ratio is increasing quickly from already high levels.

[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. 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.

Banks, which have retail-oriented business models and a large deposit base, have weathered well the first impact of the global crisis. The authorities were early to implement a valuable bank assistance package with capital injections, liquidity assistance, and funding guarantees, which bolstered confidence. However, banks' operating environment remains difficult. Profitability is falling with higher funding costs, slower activity, and asset quality erosion in Greece and in Southeastern Europe. Bank capital is declining but has remained adequate. Reflecting higher risks and the difficult economic environment, rating agencies have downgraded several Greek banks.

High wage growth through 2009 reflects the implementation of previous wage agreements. With wage growth and inflation outpacing the euro average, competitiveness is further suffering and firms have turned to reducing overtime or cutting informal deals to lower costs. External competitiveness is also hindered by insufficient domestic competition in several sectors, high administrative costs, and inefficiencies.

Executive Board Assessment

Executive Directors welcomed the extended period of strong growth through 2008, which had significantly narrowed the gap in real per-capita income with the EU-15. At the same time, they noted that Greece's large fiscal and external imbalances have made the economy vulnerable during the global downturn. They underscored the need to address the loss in competitiveness, which could lead the economy to face extended slow growth, especially if the external environment and global financial conditions were to remain weak. Directors emphasized the need to implement a comprehensive plan for fiscal consolidation and structural reform.

Directors observed that the banking system has weathered the global crisis well, even as it has felt the effects through higher funding costs, deleveraging, and asset-quality erosion. They welcomed the authorities' timely bank assistance package and their intensified domestic and cross-border monitoring. They commended the recent stress tests, which suggest that the banking system has enough buffers to weather the expected slowdown. Nonetheless, as near-term operating conditions for banks remain challenging, Directors advised continued vigilance. The authorities should continue to strengthen their relationship with central banks and supervisory colleagues in Southeastern Europe countries, including by conducting joint crisis-management exercises. Directors supported the authorities' intention, in case of systemic pressures, to seek market solutions first, and include clear exit strategies should public support for individual banks be required. Directors emphasized the need for banks to prepare for the unwinding of liquidity assistance from the ECB.

Directors emphasized that fiscal consolidation can no longer be postponed. The deficit-reducing measures of 2009 were in the right direction, and Directors called for further durable efforts to place the public debt on a sustainable downward path. They welcomed the measures to protect vulnerable groups, while encouraging the authorities to continue their income policies to help slow public wage and pension costs. Directors called for renewed efforts in social security reform, in light of the very high projected aging costs. They encouraged the authorities to discuss a clear fiscal strategy with the public and provide monitorable objectives to anchor confidence.

Directors noted the staff's finding that the real exchange rate has appreciated, resulting in significantly reduced competitiveness. While observing that the estimate should be interpreted carefully, Directors underscored the urgency of structural reform, in particular in public administration, public enterprises, and product and labor markets. They called for streamlining the public sector, further reducing administrative burdens, liberalizing network industries, and implementing the EU Services Directive. Labor reforms aimed at lowering unit labor costs and increasing employment—supported by agreements among employers, unions, and the public sector—will also be critical. Directors encouraged the authorities to strengthen their relationship with social partners to forge buy-in and stronger ownership of the structural agenda. They encouraged the authorities to strengthen official statistics and to publish more high-quality data to facilitate monitoring, analysis, and policy making.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2009 Article IV Consultation with Greece is also available.

Greece: Selected Economic Indicators, 2005–09

	2005	2006	2007	2008	2009 1/
Real economy (change in percent)					
Real GDP	2.9	4.5	4.0	2.9	-1.7
Domestic demand	2.1	4.7	5.1	0.7	-2.5
HICP (average)	3.5	3.3	3.0	4.2	1.1
Unemployment rate (in percent)	9.9	8.9	8.3	7.6	9.5
Public finance (general government; in percent of GDP) 2/					
Overall balance	-5.1	-2.8	-3.6	-5.0	-5.9
Primary balance	-0.7	1.3	0.5	-0.7	-1.2
Gross debt	98.8	95.9	94.8	97.6	108.5
Interest rates 3/					
Long-term lending interest rate	5.8	6.3	7.2	7.2	6.4
Government bond yield	3.6	4.1	4.5	4.8	5.2
Balance of payments (in percent of GDP)					
Trade balance	-6.2	-9.4	-10.9	-11.1	-7.8
Current account	-7.5	-11.1	-14.1	-14.4	-10.9
Fund position (as of May 31, 2009)					
Holdings of currency (in percent of quota)					81.2
Holdings of SDRs (in percent of allocation)					14.8
Quota (in millions of SDR)					823.0
Exchange rate 4/					
Exchange rate regime			Euro Area Member		
Present rate (July 9, 2009)			US$ 1.4026 per euro		
Nominal effective rate (2000 = 100)	109.4	111.4	113.9	115.7	115.3
Real effective rate (2000 = 100)	113.1	115.8	118.7	120.4	120.2

Sources: National Statistical Service; Ministry of Economy and Finance; Bank of Greece; and IMF staff estimates.

1/ Data for 2009 are projections.
2/ Includes measures announced by the Minister on June 25, 2009, subsequently to the mission.
3/ Data for 2009 are as of April.
4/ Data for 2009 are as of May.

Statement by Ms. Miranda Xafa on Greece
Executive Board Meeting
July 26, 2009

I would like to express my authorities' appreciation to Mr. Traa and his team for the fruitful discussions they held during the 2009 Article IV consultation. The authorities consider that the report prepared by the staff accurately identifies the main economic issues and policy priorities. They agree with the staff's view that restoring fiscal balance and strengthening competitiveness are the key challenges ahead. However, they wish to highlight some points that might have deserved more attention in the staff report, including the government's strategy for dealing with the crisis.

Impact of the Crisis

The deepening global downturn has affected the Greek economy substantially. After years of strong growth averaging 4 percent, real GDP is now expected to be flat this year and to recover only modestly in 2010, with the risks tilted to the downside. This performance largely reflects the sharp deterioration in global economic and financial conditions that led to a decline in Greece's exports and a worsening in external financing conditions. However, the global crisis also brought to the surface the structural weaknesses of the Greek economy. During the upswing, rapid growth helped achieve near-convergence of per capita incomes with the EU–27 average. Externally-funded credit growth raised outstanding credit to the private sector relative to GDP closer to the level prevailing in the Euro-area. But the benign global environment, characterized by strong external demand and low interest rates, masked a deterioration in competitiveness and an increase in both public and external debt.

The global financial crisis adversely affected market sentiment and caused credit spreads to widen sharply. Adverse debt dynamics leave no room for countercyclical policies to soften the growth adjustment. Instead, they call for corrective action to reverse the rise in debt and the erosion of competitiveness in order to lay the foundations for sustainable growth. The crisis has thus made it more urgent to address outstanding structural issues—fiscal consolidation and competitiveness. As discussed below, significant adjustment in fiscal trends and labor costs is already underway. The balance sheets of banks, corporations, and households are generally in good shape, and asset bubbles have been avoided. The underlying health of the financial system is a positive factor supporting a gradual recovery in domestic demand.

My authorities do not share the staff's assessment of tail risks. Fiscal consolidation is underway, and borrowing spreads have been easing, only partly reflecting global factors, to less than half of their peak level in early 2009. The government has completed its funding for the year, has raised an additional €8 billion to serve as a cushion, and faces a refinancing need next year that is just over half of that in 2009.

Signs of a reduction in external imbalances are already apparent. Despite a sharp drop in exports, the current account deficit narrowed to an annualized rate of 12 percent of GDP in January–May 2009 from 16 percent in the same period of 2008 as imports of goods and services fell by 26 percent. There are also signs that external competitiveness is improving in response to the wage freeze in the central government and restrained wage behavior in the private sector. This process is likely to accelerate, given favorable developments in relative labor costs. Eurostat data indicate a decline in nominal hourly costs of 3.3 percent in 2009:Q1 from the same quarter of the previous year, compared to an increase of 3.7 percent in the Euro area. Despite high wage growth under the 2008–09 collective agreement, companies have been lowering labor costs informally and rapidly through reduced overtime and unpaid days off. Going forward, wage restraint in the public sector is expected to be emulated by the private sector, supporting the efforts to strengthen the competitiveness of the Greek economy.

Fiscal Policy

Greece entered the downturn with a deficit of 5 percent of GDP in 2008 and a public debt ratio approaching 100 of GDP. The 2009 target of a general government deficit of 3.7 percent of GDP therefore implied a substantial consolidation in structural terms. With economic activity slowing more than anticipated in 2009, the general government deficit target would have been missed in the absence of fiscal consolidation measures, which needed to be tuned to political and economic realities. The authorities have formulated the following strategy for confronting these challenges: In the short run, the strategy aims to contain the mounting fiscal pressures while protecting the most vulnerable social groups and avoiding a more pronounced slowdown. Beyond 2009, the strategy aims to pursue further fiscal consolidation and structural fiscal reforms that will place the debt-to-GDP ratio firmly on a downward path and correct the external imbalance.

To help curb the deficit, the government announced in March a freeze on government wages and pensions in 2009 (with lower-paid workers and pensioners receiving a one-off payment of up to €500) and a one-off levy on high-income earners. Additional measures expected to yield 1 percent of GDP in the remainder of the year (1.4 percent of GDP on an annualized basis) were announced on June 25, following the European parliamentary elections. These measures, which largely offset the operation of automatic stabilizers, were difficult to take in the context of a deteriorating economy and a tense political environment. Even so, there is a risk that the general government deficit in 2009 could exceed the 3.7 percent of GDP target, which was based on a better economic outlook than is now envisaged.

As detailed in the staff supplement, the June package consists largely of one-off revenue measures that will have an immediate impact on the deficit. My authorities acknowledge that one-off measures cannot substitute for fundamental reform needed to address the sources of the excessive deficit. To this end, they are preparing a package of measures of a longer-term structural nature, to be announced this fall in the context of the 2010 budget. These would consist of high-quality consolidation measures focusing on the main sources of fiscal pressures: the public sector wage bill, and the deficits of the social security funds, public enterprises, and hospitals. The authorities have already begun to exercise more effective control over the finances of local governments, hospitals, and state entities, facilitated by the ongoing move to double-entry book-keeping and online mechanisms for cross-checking and auditing. The administrative reform of the social security funds concluded in 2008 could also result in considerable savings when fully implemented.

Financial Sector

Greek banks were not exposed to toxic structured products and their reliance on wholesale funding was manageable, given their large deposit base and access to ECB funding. Although banks were well capitalized and liquid, credit risk increased and asset quality deteriorated in the context of a weaker economic environment, with fragilities also stemming from exposure to Southeastern Europe. The authorities acted preemptively and implemented a bank support package amounting to €28 billion (11 percent of GDP) in late 2008 consisting of capital injections, liquidity support and funding guarantees. Stress tests conducted jointly by the Bank of Greece and Fund staff have concluded that the banking system as a whole has sufficient capital buffers to weather the recession, although some institutions were found to need additional capital under some stress scenarios. The Bank of Greece thus took preventive steps to ensure that banks' capital positions are robust and provisioning remains adequate. Greek banks received a €4 billion capital injection through the bank support package and raised an additional €2 billion from the market so far this year. Several banks also have been able to issue unsecured loans at spreads significantly lower than in the recent past.

In the inaugural issue of its Financial Stability Report in late June, the Bank of Greece notes that the impact of the global crisis on the Greek banking sector, though significant, was milder than elsewhere in the Euro area. The exposure of Greek banks to credit and liquidity risk increased and capital adequacy declined but stayed above statutory limits as the crisis deepened in late 2008. In line with supervisory expectations, these negative trends continued into the first quarter of 2009, with NPLs rising to 6 percent, causing the provisions-to-NPL ratio to fall to 44 percent. Although this ratio does not take into account the sizeable guarantees and collateral held by Greek banks, its steady decline across all categories of loans points to the need for continued vigilance. Overall, however, the capital and liquidity buffers of the Greek banking sector remain fundamentally sound and continue to provide a satisfactory margin of safety to cover risks and ensure financial stability.