



# GREECE

March 2019

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

In the context of the First Post-Program Monitoring Discussions, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 6, 2019, following discussions that ended on January 25, 2019, with the officials of Greece on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 19, 2019.
- A **Statement by the Executive Director** for Greece.

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

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March 12, 2019

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700 19<sup>th</sup> Street, NW  
Washington, D.C. 20431 USA

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

On March 6, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the First Post-Program Monitoring Discussions<sup>1</sup> with Greece.

The economic recovery in Greece is accelerating and broadening. Growth is projected to reach 2.4 percent this year (up from an estimated 2.1 percent in 2018) supported by exports, private consumption and investment as sentiment improves. A gradual recovery in private deposits has facilitated a further relaxation of capital flow management measures, though bank lending remains negative. Over the medium term, economic expansion is expected to slow down to just above 1 percent.

Greece's medium-term debt repayment capacity is adequate, but subject to rising risks amid still significant vulnerabilities. Debt-to-GDP is projected to remain on a downward trajectory in the medium term thanks to continued high primary surpluses agreed with European partners, nominal GDP growth, and debt relief, which provided for a substantial precautionary cash buffer and low debt service on official loans. However, risks (both domestic and external) have intensified, and crises legacies—including high public debt and impaired private balance sheets— and a weak payment discipline continue to pose significant vulnerabilities.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors welcomed the commendable progress in implementing reforms which have helped restore stability and growth, reduce unemployment, improve debt sustainability and re-access markets. Building on Greece's growth momentum, they encouraged the

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<sup>1</sup> Member countries with IMF credit outstanding exceeding the smaller of SDR1.5 billion or 200 percent of quota are subject to Post-Program Monitoring (PPM). PPM takes place between successive Article IV consultations and gives special attention to matters related to capacity to repay the Fund, vulnerabilities, and risks.

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

authorities to address still-significant vulnerabilities and strengthen the economy's resilience and inclusion by enhancing labor market flexibility, rebalancing the fiscal policy mix, and strengthening bank balance sheets to support sustainable and more inclusive growth. Directors recognized that Greece's medium-term repayment capacity remains adequate, but noted rising downside risks that require further actions to strengthen the economy.

Directors noted that further efforts are needed to lock in competitiveness gains, enhance productivity, and ensure labor market flexibility. They expressed concern about the risks to employment and competitiveness from the combination of the recent reversal of the 2012 collective bargaining agreement reform and the increase in the statutory minimum wage, which was well above productivity growth. Looking ahead, Directors encouraged the authorities to accelerate reforms that could both mitigate these downside risks and help boost productivity and lower non-wage costs. They recommended further steps to improve the business climate and facilitate higher and more diversified investment, including long-needed deeper product market reforms aimed at improving product choice, quality, and competition.

Directors emphasized the importance of adopting a more growth-friendly and socially inclusive fiscal policy mix. They called for a further fiscal rebalancing, while meeting medium-term fiscal targets agreed with European partners. Directors supported the planned tax cuts in 2020, prioritizing lower direct tax rates while broadening the personal income tax base. They also recommended allocating more fiscal space to public investment and better targeted social spending. To support these objectives, Directors also called for accelerating public financial management reforms and tax compliance efforts and addressing the structural causes of arrears. They also recommended deeper contingency planning for the possible realization of rising fiscal risks.

Directors encouraged the authorities to take a more comprehensive, well-coordinated approach to strengthening bank balance sheets and reviving growth-enhancing lending. Noting the high level of non-performing exposures (NPEs), they encouraged the authorities to bring together key stakeholders and base policy measures on cost-efficiency assessments of various NPE reduction options, while considering the impact of forthcoming regulatory changes and related fiscal implications. Directors encouraged further strengthening of the legal toolkit to facilitate private-sector based NPE reduction before considering state support, and to avoid measures that could further erode payment discipline, while improving bank internal governance. Liberalization of capital flow management measures should continue in line with the conditions-based roadmap.

## Greece: Selected Economic Indicators

Population (millions of people)	10.8				Per capita GDP (€'000)	16.7		
IMF quota (millions of SDRs)	2,428.9				Literacy rate (percent)	97.1		
(Percent of total)	0.51				Poverty rate (percent)	34.8		
Main products and exports: tourism services; shipping services; food and beverages; industrial products; petroleum products; chemical products.								
Key export markets: E.U. (Italy, Germany, Bulgaria, Cyprus, U. K.), Turkey, U.S.								
	2017	2018	2019	2020	2021	2022	2023	2024
					(proj.)			
<b>Output</b>								
Real GDP growth (percent)	1.5	2.1	2.4	2.2	1.6	1.2	1.2	1.2
<b>Employment</b>								
Unemployment rate (percent)	21.5	19.6	18.5	17.5	16.2	15.0	14.3	13.6
<b>Prices</b>								
CPI inflation (period avg., percent)	1.1	0.8	1.1	1.4	1.7	1.7	1.8	1.8
<b>General government finances (percent of GDP) 1/</b>								
Revenue	48.3	49.0	47.5	46.0	45.2	44.4	44.2	44.0
Expenditure	47.3	48.6	47.7	45.9	45.1	44.4	44.7	44.7
Overall balance	1.0	0.4	-0.2	0.1	0.1	0.0	-0.5	-0.6
Overall balance (excl. program adjustors)	0.8	0.3	...	...	...	...	...	...
Primary balance	4.1	3.8	3.5	3.5	3.5	3.5	3.0	2.8
Public debt	179.3	183.3	174.2	167.3	160.9	153.8	147.2	143.2
<b>Money and credit</b>								
Broad money (percent change)	5.7	4.2	...	...	...	...	...	...
Credit to private sector (percent change)	-5.8	-7.5	...	...	...	...	...	...
3-month T-bill rate (percent)	2.3	1.1	...	...	...	...	...	...
<b>Balance of payments</b>								
Current account (percent of GDP)	-2.4	-3.4	-2.7	-2.6	-2.6	-2.6	-3.0	-3.4
FDI (percent of GDP)	-1.5	-1.6	-1.8	-1.5	-1.5	-1.5	-1.5	-1.5
External debt (percent of GDP)	224.0	217.7	208.2	200.8	194.3	189.2	184.9	181.8
<b>Exchange rate</b>								
REER (percent change) 2/	1.0	0.8	-0.2	-0.7	-0.6	-0.4	-0.3	...

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

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

2/ Published data for trading partners not available yet for 2024.



# GREECE

## FIRST POST-PROGRAM MONITORING DISCUSSIONS

February 19, 2019

### KEY ISSUES

**The economic recovery in Greece is accelerating and broadening.** Growth and job creation in Greece are expected to accelerate further in 2019. Public sector financing needs remain manageable under the baseline due to strong fiscal balances, low debt servicing costs, and a large cash buffer. While access to external funding is improving, spreads remain high, and domestic credit growth remains negative. In this scenario, Greece's capacity to repay the Fund is assessed to be adequate.

**However, vulnerabilities remain significant and downside risks are rising.** Greece's crisis legacies - high public debt, impaired private balance sheets - along with a still-weak payment culture make the economy vulnerable to increasing external (e.g., global slowdown, sharp tightening of financial conditions) and domestic risks (e.g., ongoing court cases challenging key reforms, and reform fatigue). If selected fiscal risks materialize, the sovereign's repayment capacity could become challenged over the medium term.

**Policies to promote stronger growth and strengthen the economy's resilience were the focus of the discussions.** In this regard, policy priorities include the following:

- **Enhancing labor market flexibility and boosting productivity and competitiveness.** Greece should reconsider recent changes in collective bargaining policies and press ahead with its unfinished reform agenda. This would also help mitigate any negative effects on competitiveness and employment from rising wage pressures.
- **Pursuing a more growth-friendly and socially inclusive fiscal policy mix and strengthening contingency planning against fiscal risks.** Fiscal policy should target lower direct tax rates, higher public investment, and better targeted social spending, and proceed with the planned broadening of the tax base. To support these objectives, Greece should accelerate public financial management reforms and tax compliance efforts, while also preparing a contingency plan for potential fiscal shocks.
- **Speeding up efforts to clean up bank balance sheets, restore lending, and improve Greece's weak payment culture.** A more comprehensive, well-coordinated approach by the government, involving key stakeholders, is needed to support a faster reduction of banks' non-performing exposures and restore growth-enhancing lending.

Approved By  
**Philip Gerson (EUR)**  
 and **Hugh**  
**Bredenkamp (SPR)**

Discussions were held during January 21–25, 2019. The mission met with Finance Minister E. Tsakalotos, Central Bank Governor Y. Stournaras, Deputy Prime Minister Y. Dragasakis and other Cabinet Ministers, and staff of their ministries. Mission members included: P. Dohlman (Head), D. Kim, M. Mendez, N. Novikova, S. Weber, M. Song (all EUR), B. Shukurov (SPR), C. DeLong (LEG), T. Bayle (MCM), S. Mbaye (FAD). D. Botman, E. Argyropoulos, N. Kalavrezou, M. Kalimeri (IMF, Resident Representative Office) assisted the mission. M. Psalidopoulos (OED) participated in key meetings. V. Bezerra de Menezes (EUR) assisted from headquarters.

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## CONTEXT<sup>1</sup>

**1. Greece exited the program era last August with reduced imbalances and accelerating growth.** Chronic fiscal deficits have been eliminated and the external position has been greatly improved. The debt relief secured from European partners, along with a large cash buffer, has further mitigated vulnerabilities (see CR 18/248). The economic recovery is broadening, and unemployment is trending down. An increase in private deposits and other bank balance sheet adjustments has allowed a gradual relaxation of capital flow management (CFM) measures. Sovereign bond spreads have narrowed somewhat though they remain the highest in the euro area (EA).

**2. However, vulnerabilities and growth impediments remain significant, and downside risks are rising.** Crisis legacies, including high public debt and impaired private balance sheets, along with a still-weak payment culture pose significant vulnerabilities. The business environment is poor, given an unfinished structural reform agenda and labor market reversals. Downside risks, not least from legal challenges to past fiscal measures, recent labor market policy decisions, and election uncertainty, have increased (Annex I). Looking ahead, the main challenge is to deliver a mix of policies that reduces vulnerabilities and raises productivity and socially inclusive growth prospects.

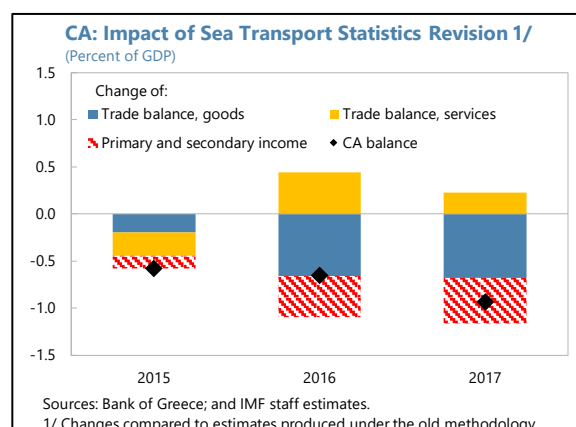
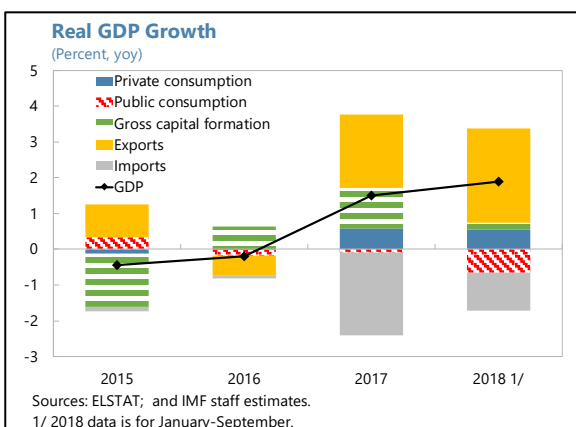
## RECENT DEVELOPMENTS AND OUTLOOK

**3. GDP growth accelerated in 2018.** Growth reached an estimated 2.1 percent, up from 1.5 percent in 2017 (Figure 1, Table 1), boosted by exports (helped by record-high tourist arrivals) and higher private consumption (notably in durables). Household spending was supported by declining unemployment (18.6 percent in October, Figure 2) and rising disposable income (3 percent y-o-y in 2018Q3). Investment growth has disappointed, however, due to high base effects and still-weak investor sentiment. Most short-term indicators are consistent with continued growth momentum, despite a slowdown elsewhere in Europe. Headline inflation averaged 0.8 (0.4 core) percent in 2018 y-o-y, mildly lower than in 2017. The real estate market is recovering, especially in Athens.

**4. External balances deteriorated somewhat in 2018** (Table 2). The current account (CA) deficit was wider than anticipated, reaching 3.4 percent of GDP (though in part due to methodological revisions). Higher export prices and strong external demand were more than offset by rising imports due to the private consumption recovery, energy price hikes, and the large import share in exports and investment (Figure 3). The primary income deficit widened due to higher payments on foreign investments.

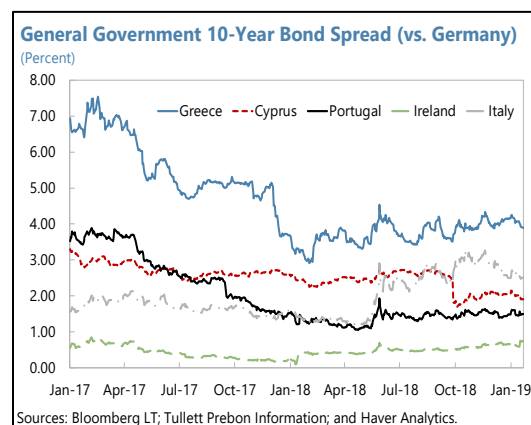
<sup>1</sup> The Fund's post-program monitoring (PPM) was initiated in July 2018 and focuses on risks to Greece's repayment capacity to the IMF. The first PPM mission was conducted jointly with the European Institutions' (EI) second quarterly enhanced surveillance (ES) review. The ES framework involves assessment of policy commitments which, if satisfactorily met, trigger the return of ANFA/SMP profits and the waiver of the step-up interest rate margin for part of the EFSF loans (about 0.8 percent of GDP annually through 2022).





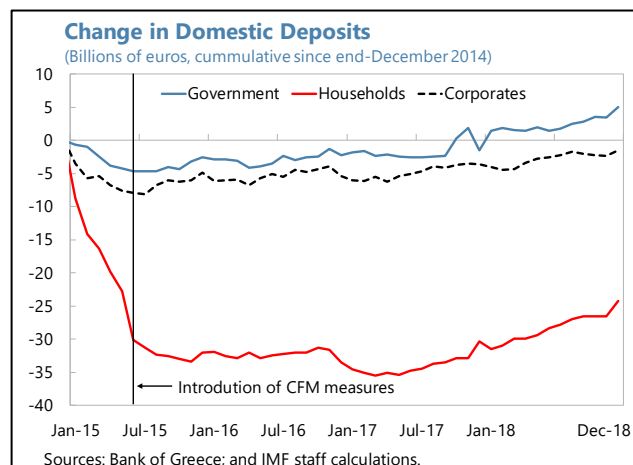
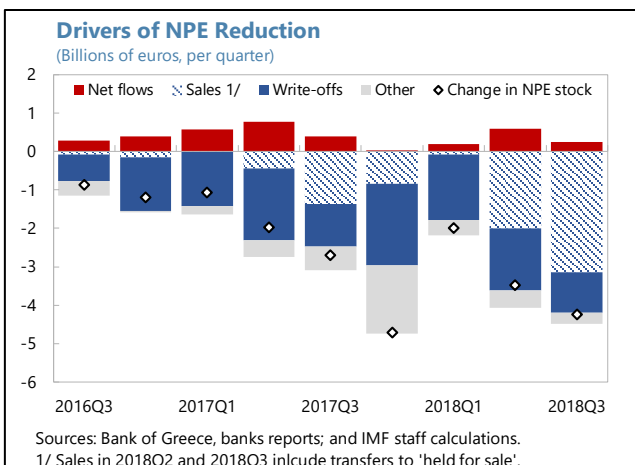
**5. The government exceeded its 2018 primary fiscal balance target of 3.5 percent of GDP, even after providing another year-end ‘social dividend’.** Absent the  $\frac{1}{2}$  percent of GDP dividend spending, the fiscal surplus would have reached an estimated 4.2 percent of GDP. The excess surplus was due to a mix of higher revenues (e.g., higher value-added tax (VAT) helped by strong tourism), lower tax refunds, and, once again, under execution of investment spending (Figure 4, Table 3). Government arrears continue to trend down, but at €1.4 billion (net) through December, remain well above a zero-target set for the ESM program exit.

**6. Though spreads remain elevated, the authorities recently tapped markets for the first time since program exit.** Despite positive actions by rating agencies at program completion, Greek sovereign spreads remain the highest in the euro area (with the 10-year fluctuating around 400bps). At end-January, the authorities issued a €2.5 billion 5-year sovereign bond yielding 3.6 percent, sold mainly to foreign investors. In the private sector, some banks have benefited from investment grade ratings assigned to their covered bonds, but demand for new issuances and unsecured funding is lacking. FDI inflows have remained stable.



**7. Bank liquidity improved further in 2018, but balance sheets remain significantly impaired and deleveraging continues** (Figure 5). An ongoing recovery in private deposits and an increase in State government (‘PDMA’) deposits in commercial banks have facilitated near-elimination of Emergency Liquidity Assistance (ELA) and further liberalization of capital flow management (CFM) measures (Annex II).<sup>2</sup> However, the banking system as a whole remains short of prudential liquidity requirements and non-performing exposures (NPEs) remain the highest in Europe, at 47 percent of outstanding loans (€85 billion) at end-September. Sales of NPEs have increased recently, but write-offs remain among the key drivers of NPE reduction, and new NPE creation exceeds curing. Private net credit growth remains negative (down 1.1 percent in December y-o-y).

<sup>2</sup> The Fund approved the retention of exchange restrictions subject to Fund jurisdiction until July 26, 2019.



**8. Economic activity is expected to accelerate further in 2019, and then gradually moderate as the output gap closes.** In 2019, staff expects GDP growth to reach 2.4 percent, driven primarily by stronger consumption. The latter reflects higher household income (helped by a nearly 11 percent hike in the statutory minimum wage, the first since 2012) and an expansionary fiscal stance.<sup>3</sup> Over the medium-term, domestic demand is expected to continue to drive growth as investment-led growth (financed mostly by own funds and external sources, including FDI, private debt issuances, privatization deals, and structural EU funds) and consumption recover. The net export contribution to growth is expected to become neutral as higher exports are offset by higher (domestic demand fueled) imports. The output gap is projected to close by 2024. The CA deficit is forecast to narrow temporarily in the next several years due to ANFA/SMP profit transfers and then widen. Unemployment is expected to gradually decline, but will remain in double digits, reflecting structural bottlenecks. Average inflation is expected to rise to just under 2 percent over the medium term.

### **Authorities' Views**

**9. The authorities anticipate a more robust and broad-based economic acceleration.** Though they broadly agree with the 2019–20 projections, they project stronger external and domestic demand-driven GDP growth over the medium term. The government cited in particular the supportive effects from its National Growth Strategy (NGS).<sup>4</sup> The Bank of Greece (BoG) added that growth so far has been achieved without credit growth and investment, and hence (on the expectation that these elements will eventually rebound) projected higher potential growth and a longer period of cyclical expansion at rates above potential growth. They shared staff's view that rising imports, driven by higher consumption and investments, will likely keep the CA balance in

<sup>3</sup> The 2019–22 fiscal primary surplus targets agreed with European partners (floor of 3.5 percent of GDP) are projected to be met. However, adjusting for the economic cycle, the fiscal stance will be expansionary (even more so in 2019, given a lower primary balance on a cash basis).

<sup>4</sup> Staff supports the high-level objectives in the NGS but assesses that further measures will be needed to achieve them. See CR 18/248 for further details.

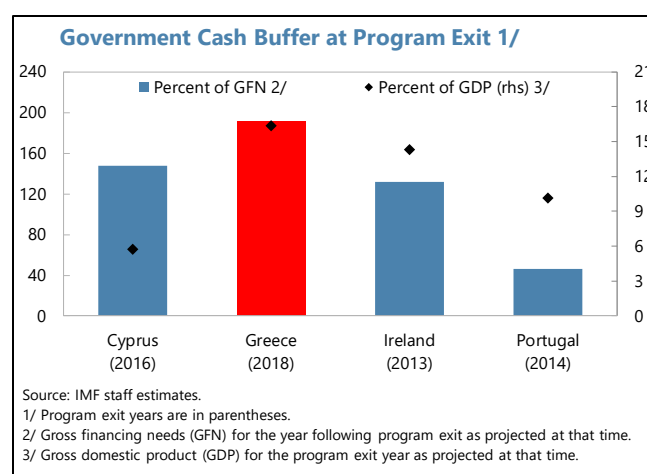
deficit, but stable over the medium term. They also noted that the economy has, in their view, become more export-oriented, with Greece gaining market share, including in higher value-added product markets. The BoG pointed to the recovery in private deposits, and significant improvement in bank liquidity and NPE management, as other positive signs of the recovery.

## CAPACITY TO REPAY THE FUND

*Greece's repayment capacity is broadly adequate under staff's baseline scenario, supported by a sizable cash buffer and low medium-term gross financing needs (GFN).*

### Liquidity Considerations

**10. Greece exited the European program with a substantial liquidity buffer.** Cash available to the government is estimated at about €30 billion (16 percent of GDP; 101 percent of 2019 debt service payments) as of end-2018. This is substantially higher than in other EA countries upon program exit and provides flexibility as to the timing of additional market issuances. Specifically, under the baseline, the buffer would allow the government to service its debt through end-2022 without any further market financing, if needed.



**11. The authorities are planning regular market borrowing and a gradual depletion of their cash buffer.** The government financing plan foresees issuance of around €7 billion of medium-to long-term bonds in 2019 and €2–5 billion a year over 2020–23, with the exact amount contingent on market sentiment and liability management objectives. Staff projects that the cash buffer will decline this year to about €23 billion (12 percent of GDP; 112 percent of 2020 debt service) and then gradually fall to a still-significant level of about €10 billion by 2024 (covering six months of GFN or around 100 percent of outstanding T-bills).

**12. Greece is projected to stay current on, and may partially prepay, Fund obligations.** Outstanding credit was SDR 7.7 billion (318 percent of quota) as of end-January 2019, with manageable annual payments averaging SDR 1.5 billion over 2019–23 (and a final SDR 0.3 billion payment in 2024). The authorities are exploring whether they could prepay the amounts subject to surcharges (amounts above SDR 4.6 billion).

## Solvency Considerations

**13. Staff's medium-term public debt sustainability assessment (DSA) is broadly unchanged.** (Annex III). Over a 10-year horizon, Greece's public debt declines gradually from very high levels and GFN is manageable at 8 percent of GDP on average. Staff will update its longer-run assessment at the time of the 2019 AIV Consultation.

<b>Greece: General Government Financing Needs and Sources, 2018-24</b>							
(Billion of euros unless otherwise specified)							
	2018	2019	2020	2021	2022	2023	2024
	Prel.			Proj.			
<b>Gross financing needs</b>	35.9	16.8	11.8	11.8	12.5	15.0	22.3
Primary deficit (cash)	-3.1	-5.7	-5.7	-6.5	-7.3	-6.2	-6.0
Debt service (cash)	24.0	29.6	20.5	20.7	25.4	27.2	29.6
o/w short-term principal payments (T-bills)	14.3	11.2	9.8	9.8	9.8	9.8	9.8
o/w medium and long-term principal payments	4.6	12.4	5.1	5.4	9.9	11.8	14.2
o/w to IMF	1.8	2.1	2.1	2.1	1.9	1.4	0.3
o/w to other official	1.9	5.8	2.1	2.3	4.0	4.5	5.8
Other 1/	0.4	0.1	-1.7	-1.7	-1.6	-0.1	-0.1
Government deposits: replenishment (+) / drawdown (-)	14.6	-7.2	-1.2	-0.6	-4.1	-5.9	-1.1
<b>Gross financing sources</b>	35.9	16.8	11.8	11.8	12.5	15.0	22.3
Short-term (T-bills)	11.2	9.8	9.8	9.8	9.8	9.8	9.8
Medium and long-term	3.0	7.0	2.0	2.0	2.6	5.2	12.5
ESM	21.7	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memo item:</i>							
Deposits available to state government 2/	30.0	22.9	21.7	21.0	17.0	11.1	10.0
in % of GDP	16.2	11.9	10.9	10.2	8.0	5.1	4.4
in % of T-bills	210	204	220	214	173	113	101
in months of next year's GFN	21	23	22	20	14	6	6
in % of next year's debt service	101	112	105	83	62	38	49
Debt service to IMF	2.2	2.4	2.3	2.2	2.0	1.4	0.3
in % of deposits available to state government 2/	7.2	10.4	10.5	10.5	11.8	12.6	3.2
Primary deficit (accrual)	-7.0	-6.8	-6.9	-7.2	-7.3	-6.5	-6.4
Sources: Ministry of Finance; and IMF staff projections.							
1/ Includes arrears clearance, privatization proceeds and ANFA/SMP transfers.							
2/ Total deposits of general government excluding deposits of general government entities in commercial banks.							

## Authorities' Views

**14. The authorities are confident that they will fully meet their debt obligations, including to the Fund.** The government expects to tap markets on a regular basis and affirmed that they see their large cash buffer as providing flexibility on issuance timing. The government is considering an early repayment to the IMF as part of its broader liability management strategy but will first consult with its European official sector creditors (given *pari passu* considerations). The authorities stressed that interest rate risks have been significantly reduced due to debt relief measures and hedging operations that have locked in low fixed rates on a significant portion of public debt for the next decade.

## RISKS AND POLICY DISCUSSION

*Greece faces significant domestic and external risks to growth. (Annex I). Realization of some or more of these risks, combined with Greece's already-significant vulnerabilities, could weaken growth prospects and (absent additional steps) hinder Greece's capacity to repay the Fund. This calls for a redoubling of efforts to mitigate these risks and vulnerabilities.*

### A. Risks to Growth

**15. Greece made significant gains in competitiveness and in strengthening growth prospects during the program era, but still has further to go.** During the program era, labor costs converged towards levels in trading partners, but the government's efforts to lower non-wage costs, generate investment, and boost productivity and exports remain incomplete.<sup>5</sup> Staff's most recent competitiveness assessment indicated that, despite significant improvements, Greece's external position was weaker than consistent with medium-term fundamentals and desirable policies.<sup>6</sup>

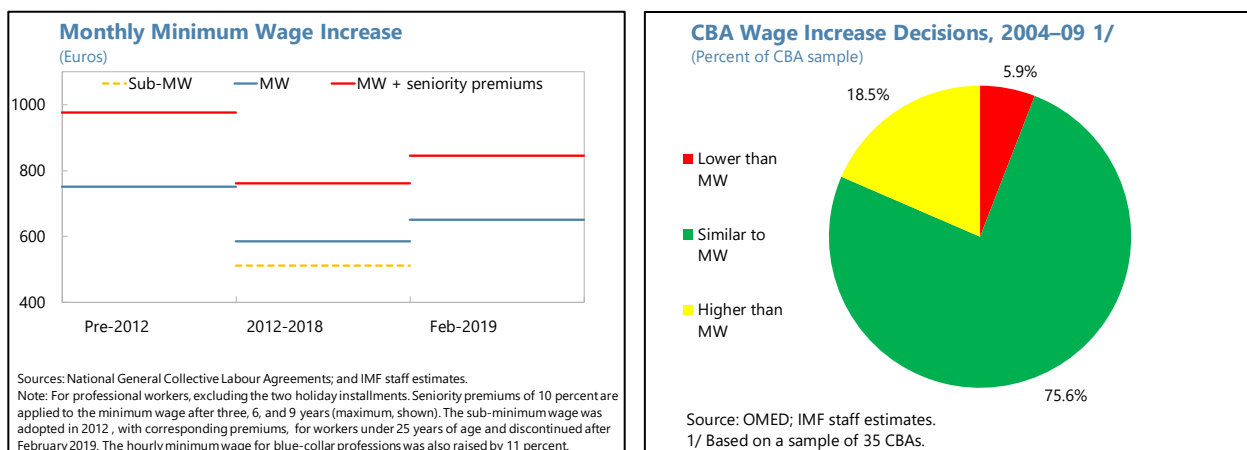
**16. Downside risks to growth have, on balance, increased.** On the upside, the positive momentum in exports (notably upscale tourism), expansionary measures in the 2019 budget, wage hikes (€118), and lagged effects from past and new structural reforms may support higher domestic demand and growth than projected. However, investments and growth prospects are threatened by external risks (deterioration in trading partner growth, a potential sharp tightening of global financial conditions, a slowdown in global trade) and domestic risks (reform fatigue, recent policy decisions, election uncertainty, and banking sector risks).

**17. A particular area of concern is reduced labor market flexibility and rising wage pressures, which threaten to reverse competitiveness gains and weaken growth prospects** (Annex IV). The government's recent reversal of the 2012 collective bargaining agreement (CBA) reforms was followed by a statutory minimum wage hike of nearly 11 percent in early 2019 (well above productivity growth).<sup>7</sup> Simultaneously, the youth subminimum wage was abolished, resulting in an effective 27 percent increase for this group (which still faces a 35 percent unemployment rate). While these actions will likely support near-term domestic demand and growth, wage growth far in excess of productivity growth poses risks to social inclusion (formal employment) and competitiveness through cost increases. Moreover, these risks could be magnified if, as in the past, minimum wage hikes spread to the broader wage structure via CBAs and due to the possibility of appealing unilaterally to compulsory arbitration for labor disputes (where decisions may be binding without the consent of all parties).

<sup>5</sup> Progress on the NGS objectives include development of the one-stop shop for businesses, a legislative fast-track for strategic investments, higher research and development spending, simplification of investment licensing procedures, advances on land registry/spatial planning, and network industry reforms (energy, infrastructure). However, investment remains low and Greece ranks last relative to the rest of the EU in one third-party indicator (Doing Business).

<sup>6</sup> See CR 18/248. Staff will update its competitiveness assessment in the context of the 2019 AIV Consultations.

<sup>7</sup> The monthly salary for professional workers, paid 14 times a year, was raised to €650. The daily minimum wage also increased by 11 percent to €29.



**18. Staff emphasized the importance of policies to mitigate risks and facilitate higher sustainable employment and growth.** Specifically, staff recommended the following:

- *Pursue more flexible labor market policies.* Staff urged the government to reintroduce firm-level flexibility to set labor market practices. At a minimum, more transparent application and periodic assessment of the market representativeness mechanism in CBAs (and their impact) would help address unintended adverse effects on smaller and less productive firms.
- *Introduce (mitigating non-wage) measures aiming to boost investment, productivity, and competitiveness.* To mitigate downside risks from the authorities' labor policies, staff urged the authorities to reduce non-wage costs through, for example, cuts to income taxes (see fiscal mix discussion) and lowering the cost of financing (see financial sector discussion). Greece should also do more to facilitate higher (and more diversified) investment, including long-needed product market reforms aimed at improving product choice, quality, and competition. Steps to improve the business climate included in the government's NGS are welcome, but alone will be insufficient (Greek markets continue to be amongst the most heavily regulated within the OECD).

**Authorities' Views**

**19. The government disagreed with staff's views on labor market policies and expects stronger wage growth to boost labor productivity via higher labor utilization.** The government argued that the minimum wage hike will help balance bargaining dynamics and domestic demand. Adverse employment effects would be minimal, given the low share of workers earning the minimum wage and what they view as a monopsonic structure in the low-skilled job market. They expect spillover effects on the rest of the wage distribution to be limited, and productivity growth to accelerate with higher labor utilization. The boost to domestic demand should also help eliminate slack. To the extent that higher wage costs drive (marginal) firms to reduce their workforce or go out of business, the government expects the affected workers to migrate to higher value-added jobs.

**20. The authorities broadly shared staff’s view of the other key risks, transmission channels, and policy options to mitigate these risks (and boost growth).** The government agreed that efforts to reduce non-wage costs could help mitigate employment risks. They expect that their planned reforms in tax policy, energy, and infrastructure investment management, as elaborated in their NGS, would help achieve this. They expect that these steps will also boost private investment, while the Hellenic Development Bank and external donors will provide financing for specific, currently underserved, market segments. The BoG cautioned that achieving greater export diversification would be difficult in the short run, given the interrelated risks of slowing global growth, tighter financial conditions, and rising protectionism.

## B. Risks from Fiscal Policies and Spending Pressures

**21. Staff projects primary surpluses to be in line with the targets agreed with European partners, but the policy mix should be improved.** The authorities cancelled the pre-legislated 2019 pension reform and scaled back (and reconfigured) the accompanying expansionary measures. A targeted housing benefit and a planned hike in investment were scaled down or substituted by property tax cuts and a discounted pension contribution rate for the self-employed (thereby reversing the earlier unification of SSC rates). A corporate income tax (CIT) rate reduction, originally planned for 2020, will instead be gradually phased in.

<b>Fiscal Measures and Impacts on Overall Balance in 2019</b> (Millions of euros)	
	<b>2019</b>
<i>Measures that were canceled</i>	
Pension reform	-2,065
2019 expansionary measures (excl. child and housing benefit)	1,130
Investment budget upscaling	250
<i>Measures that were adjusted</i>	
Housing benefit reduced to 400 million	200
<i>Measures that were added</i>	
Reduction of SSCs for self-employed etc.	-177
Subsidization of SSCs for young employees	-51
Reduction of ENFIA by 10% in 2019	-263
Hiring 4,500 teachers permanently.	-22
<b>Total net change compared to prelegislated package</b>	<b>-998</b>
of which: child benefit (already reflected in Art IV baseline)	235
<b>Total net change compared to Art IV baseline</b>	<b>-763</b>

Sources: MoF, staff estimates.

**22. Fiscal structural reforms, supported by Fund technical assistance (TA), are showing mixed progress.** Tighter cash pooling and the introduction of the Treasury Single Account (TSA) for the general government took a step forward with the recent issuance of operational directives and the creation of a BoG banking platform for general government entities. Fiscal reporting and budget execution are being strengthened with the rollout of a new Chart of Accounts in the State in 2019, and the adoption of action plans to combat new arrears accumulation. The revenue agency (IAPR) is taking steps to transition to a modern risk-based compliance management system. However, an important HR reform in IAPR remains stalled, and the identification of structural causes of arrears is making little progress.

**23. Greece is facing a series of fiscal risks that could adversely affect its capacity to meet its fiscal commitments to European partners, and to service its debt obligations.** These risks include the following:

- **Legal challenges to past wage and pension reforms** (Annex VI. Box 1). Court rulings on challenges to past reforms could result in significant one-off retroactive payments and forward-looking fiscal obligations. For example, an affirmative ruling in a legal challenge to the 2012



pension reform could result in one-off net costs exceeding 3 percent of GDP, while rulings on public sector wages could add an additional one-off payment of 1.4 percent of GDP (and smaller amounts annually, going forward). The 2016 pension reform is also being challenged, with even larger potential fiscal consequences.

- **Possible realization of fiscal contingent liabilities.** The stock of public guarantees to non-government entities is about 5½ percent of GDP, including a significant amount of government guarantees related to bank loans (calls on some of which are pending). Other fiscal risks linked to the financial sector are outlined below (Section C).
- **Pre-election policy pledges.** Some recently-announced policy intentions have not yet been included in staff's baseline due to uncertainty about their implementation, including (i) further reduction of property tax and VAT rates, which could reduce the primary balance by about ½ percent of GDP starting from 2021; and (ii) further increases in public sector hiring (net hiring has increased over the past two years driven mostly by temporary staff partly funded by third parties, e.g. EU funds, which were not fully covered by the hiring limits under the program (see text chart).

#### 24. In this context, staff recommended that the authorities take actions in four areas:

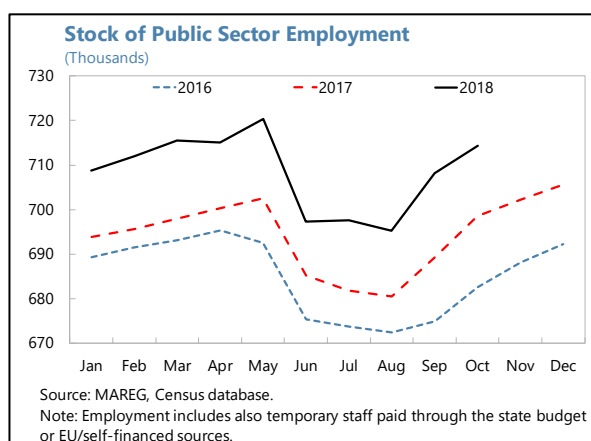
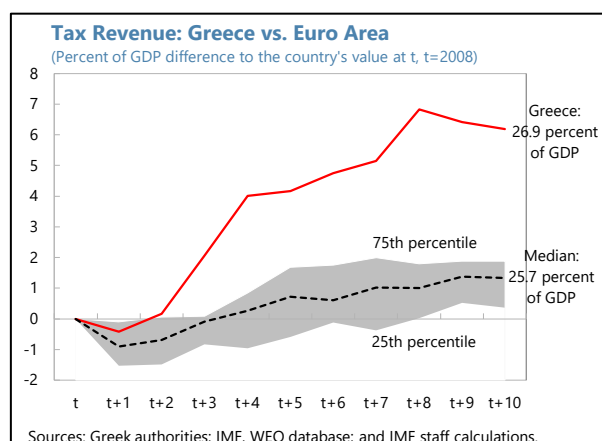
- *Rebalancing the fiscal policy mix to support inclusive growth.* The focus should be on lowering taxes to facilitate growth, such as distortionary wage and profit tax rates, and to increase efficient investment and targeted social spending. This implies creating space within the fiscal framework agreed with European partners. In this context, staff recommends that the authorities (i) implement the already legislated tax cuts (including planned personal income tax (PIT) rate reductions for low income earners) funded by the broadening of the PIT base in 2020; (ii) reallocate spending toward growth-supporting policies such as investment; and, relatedly, (iii) tackle persistent under-execution of investment spending.
- *Developing a contingency strategy for dealing with potential fiscal shocks.* If one-off contingent fiscal risks are realized, staff recommends that the authorities preserve growth-friendly and socially inclusive expenditures, drawing where appropriate on fiscal (cash) buffers and/or adjusting fiscal targets. In this context, staff advised the authorities to explore with European partners the possibility of accommodating such shocks through a smoothing mechanism.<sup>8</sup> Where contingent risks create *permanent costs* (e.g. by reversing macro-critical past reforms), targeted remedies should be pursued in the affected areas unless fiscal measures that are less detrimental to growth can be identified. Relatedly, staff advised the authorities to carefully consider the cost-effectiveness (including for debt sustainability) of any new significant contingent liability obligations, such as in the financial sector (see discussion below).
- *Further improving tax compliance.* Tax compliance and debt collection indicators are improving but remain well below advanced country standards. Staff welcomed ongoing efforts to build a

<sup>8</sup> There is also merit in exploring a smoothing mechanism for cyclical developments.



compliance risk matrix and urged the authorities to use the output as an integral part of the IAPR's tax compliance practice. Staff also encouraged the authorities to accelerate the related revenue administration reforms and continue applying anti-money laundering tools (which can contribute to the fight against tax evasion). Staff recommended that the government reconsider plans to introduce yet another tax and social security debt installment scheme, as it would risk further undermining an already weak payment culture.

- *Accelerating other fiscal structural reforms to improve efficiency, build fiscal space, and mitigate fiscal risks.* More efforts are required for Greece to fully benefit from PFM and tax administration reforms launched during the programs. Recommended priorities include: (i) completing HR reforms in the tax administration; (ii) identifying and addressing the remaining structural roots of arrears;<sup>9</sup> (iii) strengthening public investment management (see above); (iv) accounting reforms to strengthen the timeliness and quality of fiscal data; and (v) full implementation of the TSA reform, while considering the impact on bank liquidity.



## Authorities' Views

**25. The authorities were confident that the fiscal targets for the period 2019–22 would be met and pointed to their good fiscal track record since 2016 and the ongoing reform initiatives.** Nevertheless, they acknowledged the importance of monitoring and insuring against possible fiscal risks. They viewed the (canceled) 2019 pre-legislated package as 'obsolete' given strong fiscal performance, concerns about social fairness, and because larger-than-expected fiscal space provided room for a modest set of expansionary measures within the existing fiscal envelope. The authorities acknowledged that fiscal risks might possibly arise from ongoing court cases and other factors and were open to a broader discussion of ways to address fiscal risks. They stressed that both the scope and timeline of such risks were uncertain and any impact most likely could be covered through contingency buffers in the budget. They indicated that the scope and pace of further improvements in the fiscal policy mix, including the already legislated 2020 tax reform, will

<sup>9</sup> In this regard, the authorities are exploring ways to streamline payment processes following Fund advice. An updated audit of government arrears is expected in June 2019, which should lay the groundwork for strengthened action plans in this area.

be reviewed in the context of the MTFS update and the 2020 budget later this year. The authorities were positive towards staff's recommendation to smooth the effects of any large realized fiscal risks but stressed that this would first need to be discussed with their European partners. They acknowledged the need for more work to identify and address the structural roots of arrears, especially in the health sector, and reaffirmed their commitment to improving tax compliance and implementing other fiscal structural reforms. They expect their execution of the public investment budget and other spending commitments to improve as they implement related technical assistance recommendations (including from the OECD).

### C. Risks from the Financial Sector

**26. The Greek banking system remains highly vulnerable.** NPEs remain high, and the quality of the performing loan book is uncertain due to borrowers' stretched balance sheets, the high share of variable interest rate loans, and a weak payment culture. Under Single Supervisory Mechanism (SSM) pressure, banks are aiming for faster NPE reduction, but their efforts are limited by low capital (fully-loaded), weak profitability, and tight liquidity. At the same time, any delays in system clean-up would slow the return of lending and would leave the banking system (and financial stability) vulnerable to a materialization of risks (e.g., sharp tightening of global financial conditions). This could in turn fuel a negative feedback loop of declining confidence, reemerging liquidity shortages, and capital depletion.

**27. The financial sector also poses substantial fiscal risks.** The State has significant exposure to the banking system through direct ownership (significant stakes in three out of the five largest banks and smaller stakes in the remaining two), deposits (see ¶18), and contingent liabilities (including an irrevocable contingent liability to cover bank losses through conversion of deferred tax credits, or 'DTCs').<sup>10</sup> The State also relies on bank participation in its debt issuances and interest rate hedging. Banks' total exposure to the sovereign is close to 180 percent of their combined CET1. Given current exposures, staff estimates that a 100 basis points increase in sovereign securities' yields would result in a ½ percentage point drop in CET1 ratios, on average (Box 1).

**28. Various stakeholders are calling for a more active policy stance to repair bank balance sheets, but there are mixed views about the best way forward.** Staff from the EIs and the IMF continue to press for improvements and better take up of private sector-led NPE reduction strategies, but progress has been slow, particularly with respect to housing loan recoverability. The government, Hellenic Financial Stability Fund (HSFS), and BoG have proposed a variety of State-supported NPE reduction solutions, which will need to be assessed for compatibility with EU state-aid rules (Annex V). Banks would prefer a menu of options, with some banks moving ahead independently of these proposed schemes.

<sup>10</sup> As of end-September 2018, the stock of such DTCs was over €16 billion (59 percent of significant institutions' CET1).

**29. In this context, staff stressed the urgency of comprehensive, well-coordinated actions to repair private sector balance sheets, improve the payment culture, and (ultimately) revive bank lending.** This will require efforts in several interlinked areas:

- *Building up capital to support ambitious NPE reduction targets.* This could imply issuance of equity or, given the current lack of demand, non-dilutive capital instruments in private markets.
- *Strengthening existing NPE reduction toolkits, aimed at facilitating private solutions.* Staff urged the authorities to address remaining legislative and institutional impediments in the current toolkits. This includes revisiting (and scaling back) the design of primary residence protection and reducing the backlog of household insolvency court cases. Staff further advised the authorities to address obstacles to the efficient conduct of e-auctions and out-of-court workouts (OCW), including support for multilateral restructurings under the OCW mechanism. Efforts to improve interbank cooperation (e.g., the NPL Forum) should continue.
- *Carefully assessing options for State support of system-wide NPE reduction.* Such strategies may become inevitable if private solutions fail to speed up sustainable NPE reduction. Staff urged the authorities and key European stakeholders to carefully assess the cost-efficiency of various proposals in a comprehensive way, including their impact on bank and sovereign balance sheets, growth, and moral hazard (Annex V). These efforts would be more effective if done in the context of a broader plan prepared and championed by the government, including well-coordinated steps among the various European and Greek stakeholders.
- *Improving banks' viability and governance.* Further efforts to restore banks' capacity for organic capital generation, including additional cost efficiency steps and measures to strengthen banks' internal governance, would help boost resilience and prospects for new private capital.
- *Liberalizing CFMs.* Staff discussed the authorities' plans for further CFM relaxation and their (and stakeholders') assessment of the CFMs' impact on normal business activity and investments. Staff stressed that the relaxation should continue in line with the conditions-based approach as described in the CFM roadmap, with due analysis of financial stability risks and a forward-looking assessment of bank liquidity needs.

### **Authorities' Views**

**30. The government agreed that a comprehensive, well-coordinated approach to NPE resolution is appropriate, but also felt that key elements of this approach are already in place.**

The authorities noted that banks are working with the SSM on NPE reduction strategies. They expressed confidence that e-auctions will continue to increase, and that recent OCW amendments will lead to more multilateral restructurings going forward. They noted that despite a recent influx of household insolvency filings, the overall backlog continues to decline. The government did not view coordination as a major issue, and felt that their current plans, backed by their NGS, were sufficient to achieve their objectives. State-supported schemes could be introduced swiftly, to support NPE reduction and/or address ongoing residential mortgage distress while limiting moral hazard. In this context, the government intends to move ahead with its own 'asset protection scheme' (APS) at this juncture, given its more advanced stage of planning. The BoG believed that the APS scheme could be complemented by the AMC option, which would also help to address the issue of DTCs.

### Box 1. Greek Banks' Exposure to Domestic Sovereign Risk

**Banks are subject to sovereign risk through three types of exposure.** *First*, direct exposures, including direct credit and derivative transactions with the State as counterparty. Most exposures are reported at fair value, and market volatility would therefore immediately impact banks' profits or capital. *Second*, contingent exposures, of which a significant part relates to deferred tax assets (DTAs) eligible for conversion into deferred tax credits (DTCs). The conversion would be triggered when banks face after-tax losses and would entail a subscription of new shares by the State. In addition, banks hold state-guaranteed loans. *Third*, indirect exposures, including financial assets issued by the private sector with a reference interest rate linked to traded public debt instruments. Information on such exposures is scarce.

**Staff estimates that a 100bp increase in yields on sovereign securities would cause the CET1 ratios of the four major banks to drop by around ½ percentage point on average.** The shock is applied to exposures measured at fair value, assuming the proportions of T-Bills and Greek Government Bonds (GGBs) in the total sovereign portfolios are about 40 and 60 percent, respectively and that the modified durations of these instruments are 0.3 years and 12 years, respectively.

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

**31. Medium-term debt sustainability appears to be robust under standard macro-fiscal stress tests (Annex III), but Greece's capacity to service its debt could be compromised if selected risks to government finances were to materialize and market access remains restricted** (Annex VI). Temporary shocks to growth, the primary balance, and interest rates would not significantly endanger Greece's capacity to repay the Fund. These shocks would moderately raise the debt path (with debt ratios nevertheless still falling) and the GFN would remain below 15 percent of GDP through 2022 (GFN would be marginally higher than 15 percent of GDP in 2023, the year of a final large repayment). While safeguards to Fund resources will continue to be provided by the Fund's long-standing de facto preferred creditor status, Greece's ability to service all other debt obligations in a downside scenario would depend on some combination of a strong fiscal policy response, new official sector financing, and/or debt restructuring. In this context, the authorities will need to address the full range of vulnerabilities in the design of their debt management strategy and continue their efforts to promote good investor relations.

### **Authorities' Views**

**32. The authorities consider that the risks assumed under the downside scenario are unlikely to materialize simultaneously.** They were confident in their capacity to repay the Fund and other creditors (not least due to their large cash buffer). They noted that, in the unlikely case where downside shocks in excess of the significant existing fiscal buffers indeed materialize, there would be space for a policy adjustment to ensure achievement of fiscal targets and to preserve market access in the medium term.

## STAFF APPRAISAL

**33. The Greek economic recovery continues, but reform momentum is slowing and downside risks are rising.** Although GDP growth is expected to accelerate this year, the slowdown (and in some cases reversal) in key reform areas could hamper efforts to shift towards higher sustainable and more socially inclusive growth over the medium term. This is occurring in a context of high crisis legacy vulnerabilities and rising external and domestic risks, not least of which is pre-election uncertainty.

**34. To maintain its hard-earned competitiveness and boost medium-term prospects, Greece should press ahead with its unfinished reform agenda.** The authorities' growth strategy provides laudable high-level objectives, and they are encouraged to further elaborate credible measures to achieve them. Greater labor market flexibility as well as structural reforms in other areas (including product markets), aiming to boost productivity and lower non-wage costs, remain essential. Such reforms are even more critical considering the risks to employment and competitiveness posed by the recent large minimum wage hike and the abolition of the sub-minimum wage.

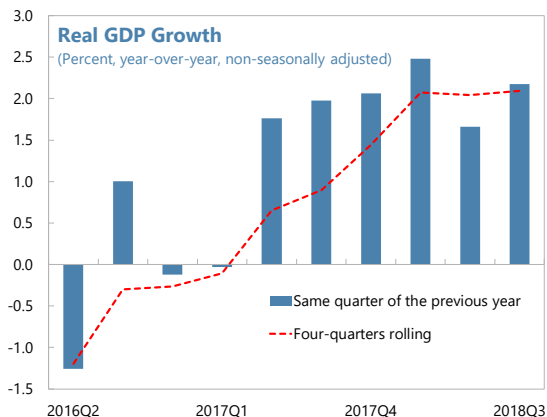
**35. Fiscal policy priorities include freeing up fiscal space (to lower tax rates and increase targeted social spending and investment) and preparing a fiscal risk contingency plan.** Achieving sustainably higher and more inclusive growth while meeting the fiscal targets agreed with European partners is challenging but can be facilitated through budget-neutral improvements in the fiscal policy mix. Priorities include cuts to wage and profit tax rates, funded by the planned broadening of the PIT base next year. Rising fiscal risks from ongoing court challenges to core pension and wage reforms (and from the financial sector) call for a fiscal contingency plan. Accelerating structural revenue and public financial management reforms, and avoiding yet another tax installment scheme, will help boost spending efficiency and tax payment culture, and mitigate risks. It is also critical to promptly identify and address the structural causes of arrears.

**36. A more comprehensive and well-coordinated approach is needed to restore bank balance sheets and boost growth-enhancing lending.** More work is needed to assess the combined impact of various policies, proposals, prudential regulatory changes, and other developments on bank balance sheets. The government should take a more forceful lead in bringing together key Greek and European stakeholders to conduct this broader assessment and to develop a more comprehensive, well-sequenced strategy for restoring bank profitability and capital and liquidity buffers, aiming to restore lending. The government should press ahead with efforts to further strengthen the NPE reduction legal toolkit and avoid measures that could further erode an already weak payment culture. Public financial support (e.g., for market-based NPE reduction schemes) seems increasingly unavoidable, but a comparative cost-benefit analysis of the various proposals is warranted before moving ahead. Further improvements in internal bank governance are also needed. CFM liberalization should continue in line with the conditions-based roadmap.

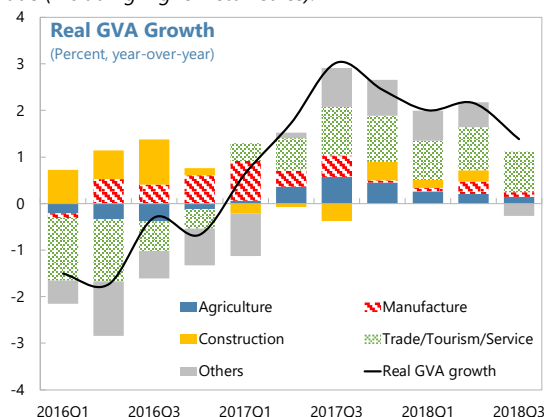
**37. Medium-term public debt repayment capacity remains robust, but subject to rising risks amid still significant vulnerabilities.** Greece's capacity to repay the Fund is adequate, and public debt-to-GDP is projected to decline over the medium term. This reflects the return to growth, the high primary surplus path required by European partners, moderate GFNs (thanks to recent debt relief), and a substantial precautionary cash buffer. However, a strong policy response and/or other measures would be required to ensure the sovereign's repayment capacity over the medium term if significant downside risks were to materialize.

**Figure 1. Greece: Macroeconomic Developments**

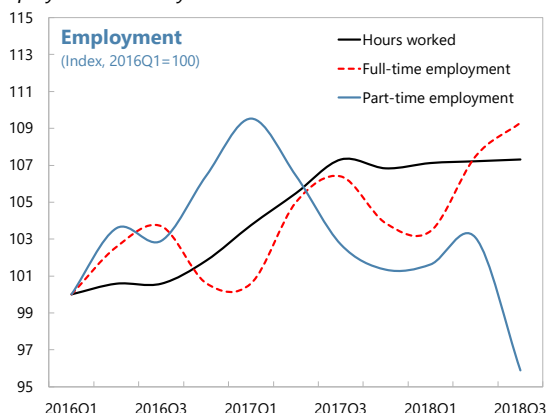
The economy continued to expand in 2018...



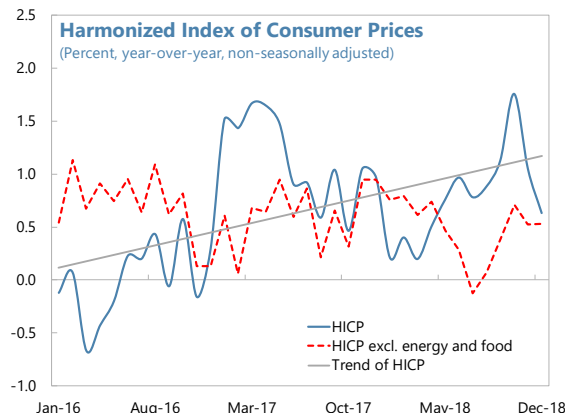
...driven by a record-high tourism season and more dynamic trade (including higher retail sales).



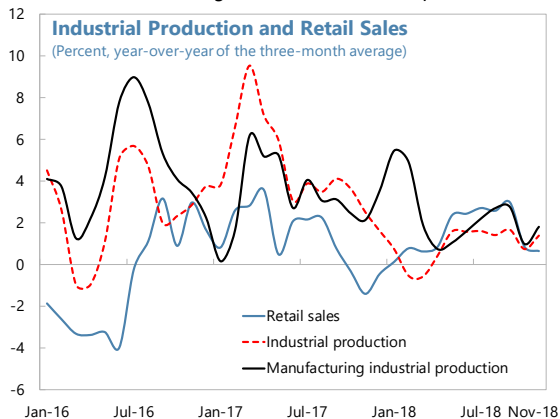
New full-time jobs and longer working hours are driving the employment recovery.



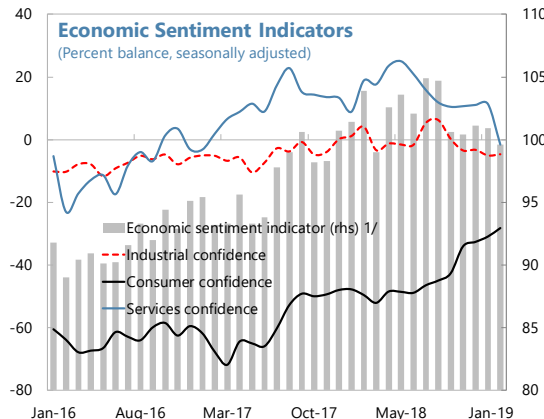
Year-end inflation declined to 2017 levels thanks to lower oil prices.



Industrial production dipped due to a sluggish electricity sector, but manufacturing and retail sales are up...



...while economic sentiment recovers, mostly due to improved consumer confidence.

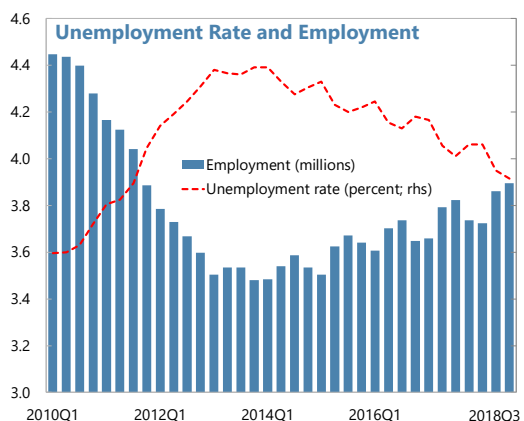


Sources: Bank of Greece; Eurostat; ELSTAT; Haver Analytics; and IMF staff calculations.

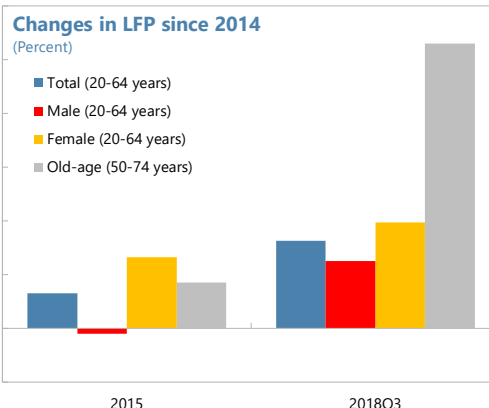
1/ The overall economic sentiment indicator (ESI) is derived from five sectoral confidence indicators with the following weights: industrial (40 percent), service (30 percent), consumer (0 percent), construction (5 percent) and retail trade (5 percent).

**Figure 2. Greece: Labor Market and Employment Developments**

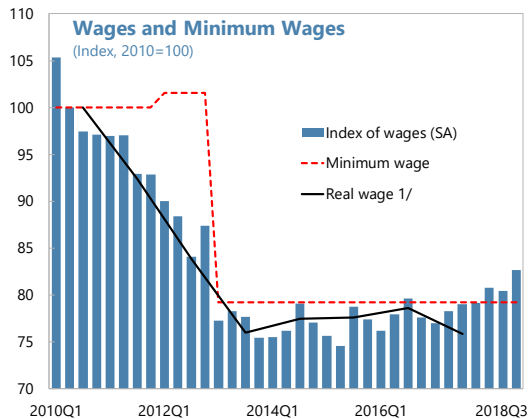
*New job creation is lowering unemployment...*



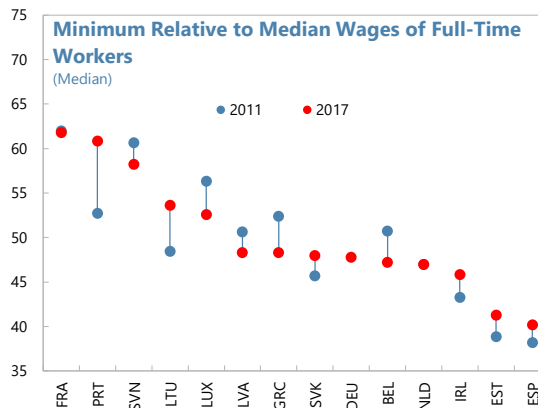
*...and absorbing a higher labor force participation (LFP).*



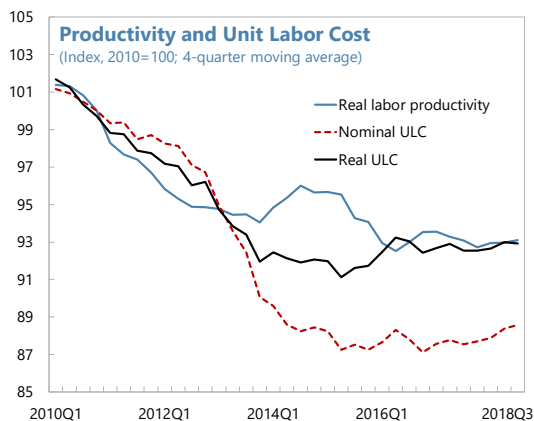
*Wages are beginning to rise...*



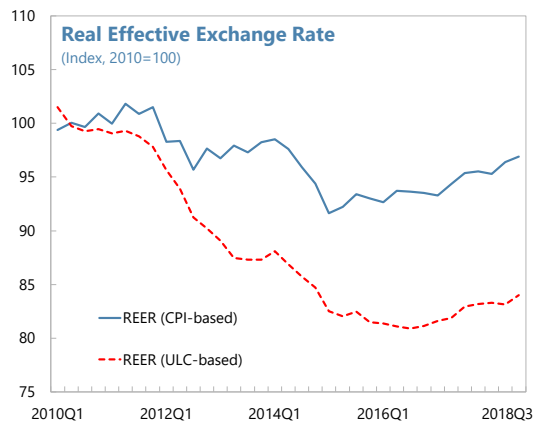
*...bringing the minimum wage (median) closer to peers...*



*...but also pushing up unit labor costs...*



*...with risks to trade competitiveness.*



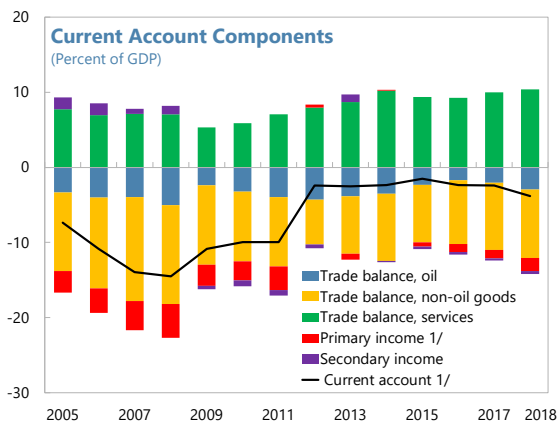
Sources: Bank of Greece; EC Aging report; ELSTAT; Eurostat; International Labour Organization; OECD; and IMF staff estimates. 1/ Based on annual data.

Note: Quarterly data is available up to 2018Q3. As of February 2019, the minimum wage increased by 11 percent to €650 for monthly wages and to €29 for daily wages.

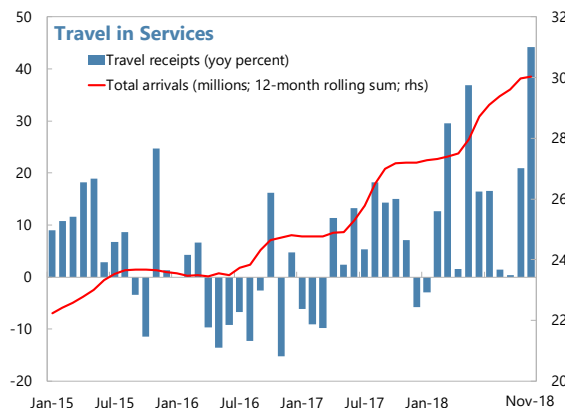


**Figure 3. Greece: External Sector Developments**

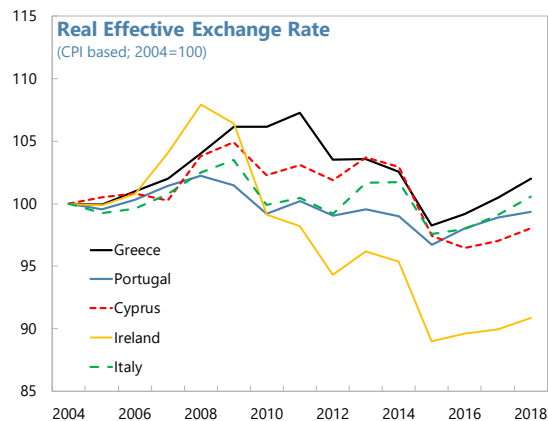
The current account balance remains negative, with deteriorating trade in goods partially offset by rising services...



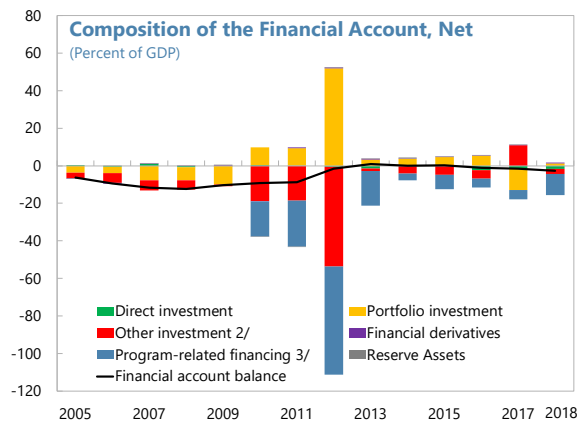
...helped by buoyant travel receipts (tourism).



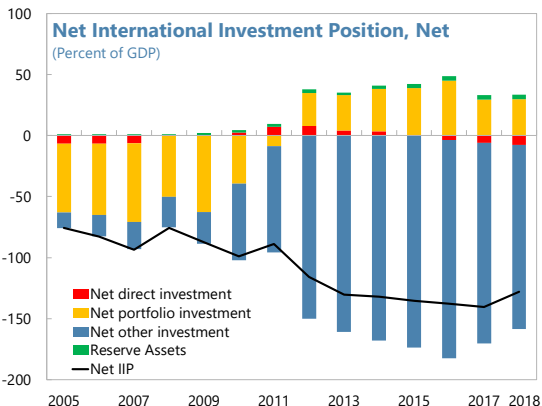
Following significant depreciation, the REER has been appreciating since 2015 (similar to other EA countries).



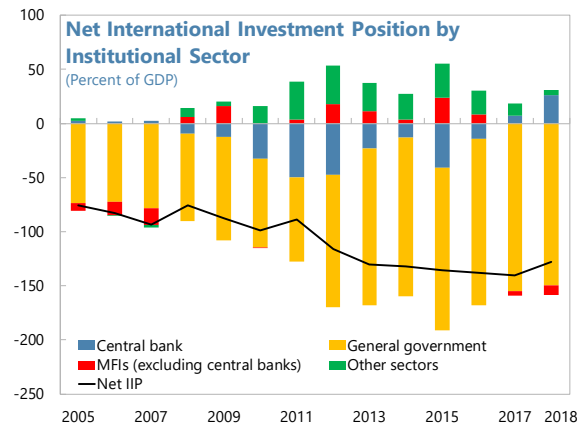
The financial account has been largely balanced.



The NIIP improved slightly in 2018, mainly due to higher other investment (net)...



...in turn driven by higher net assets of monetary authorities (ELA reduction; normalization of TARGET2 balances).



Sources: Bank of Greece; ELSTAT; Eurostat; European Central Bank; and IMF staff calculations.

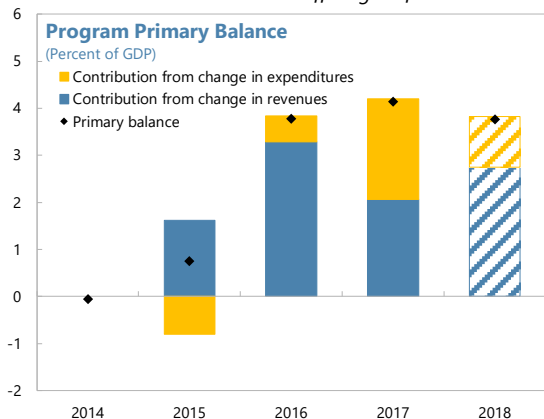
1/ Includes deferred interest payments on EFSF loans (IMF staff revisions).

2/ Includes liabilities to Eurosystem related to TARGET2. Excludes official financing (IMF staff revisions).

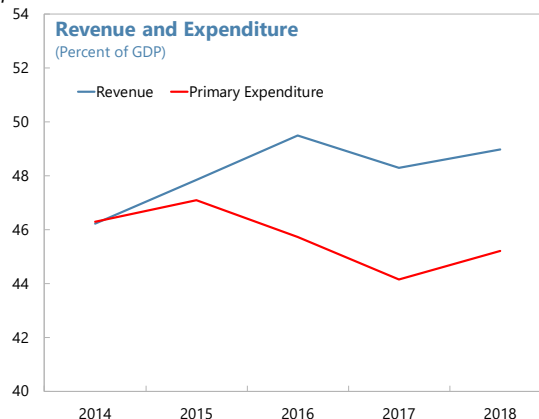
3/ Includes official financing and deferred interest payments on EFSF loans (IMF staff revisions).

**Figure 4. Greece: Fiscal Developments**

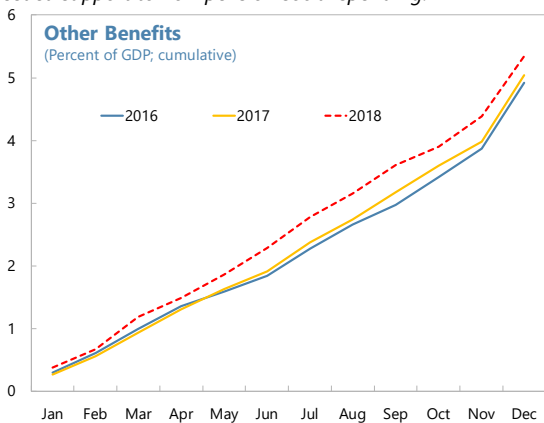
The 2018 primary surplus is projected above target despite a year-end social dividend and one-off wage refunds...



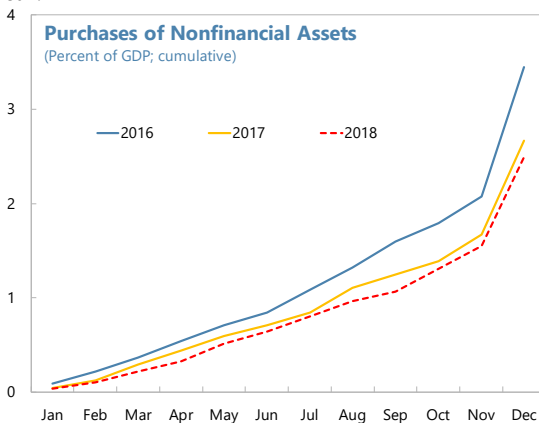
... that drove up expenditures following two consecutive years of decline.



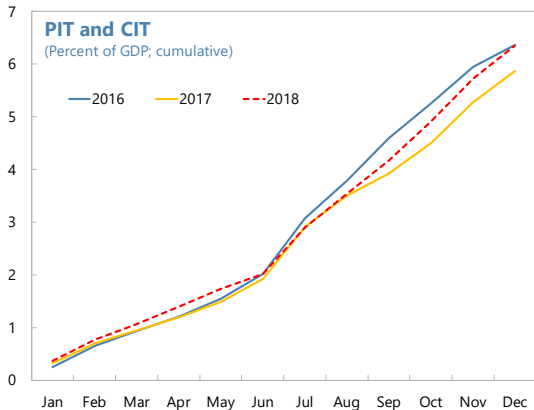
Other benefits (e.g., family benefits) are providing some needed support to non-pension social spending.



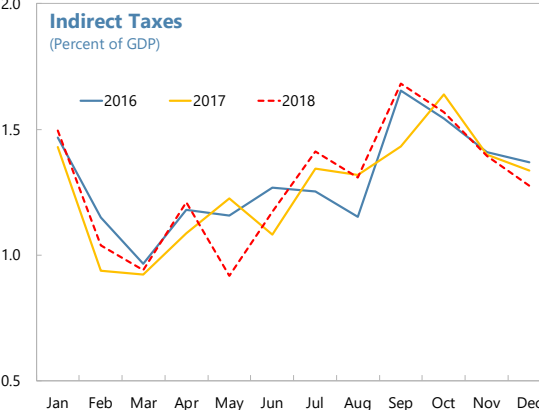
While the execution of investment spending continues to be weak.



Direct State tax revenues from PIT and CIT were broadly in line with expectations...



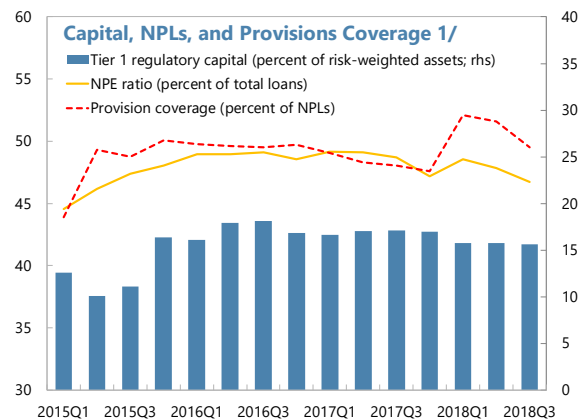
...while indirect State revenues overperformed, also thanks to a strong tourism season.



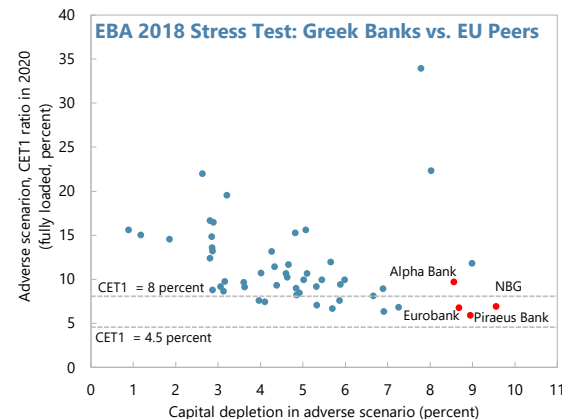
Sources: Ministry of Finance; and IMF staff estimates

**Figure 5. Greece: Financial Sector Developments**

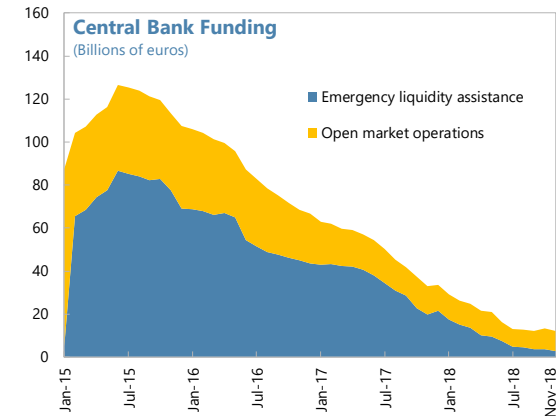
*NPEs remain high, while provision coverage is declining.*



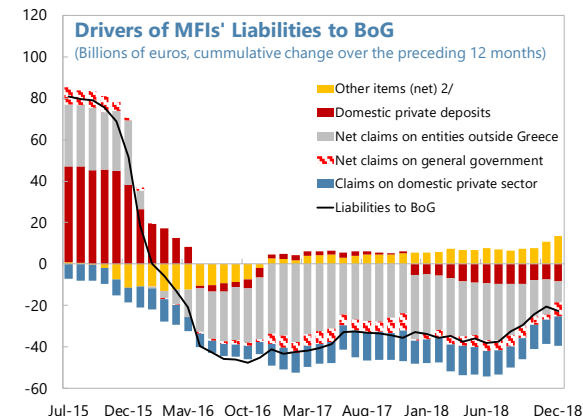
*Banks remain vulnerable to adverse conditions...*



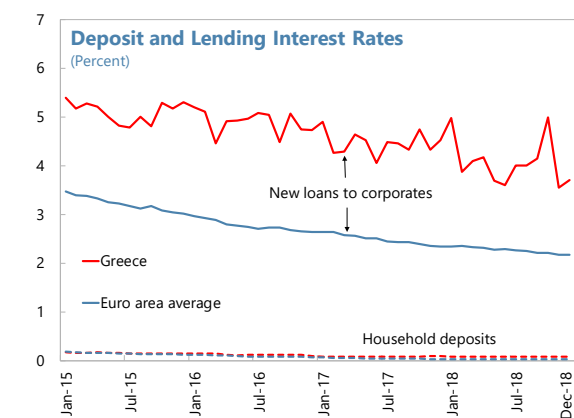
*Central bank funding is back to normal ...*



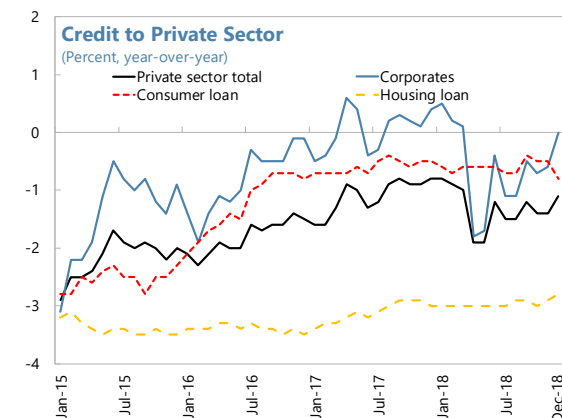
*...thanks to deleveraging and recovery in deposits*



*Lending interest rates remain high and...*



*...credit continues to contract in most categories*



Sources: Bank of Greece; European Banking Authority; ELSTAT; Haver Analytics; S&P Market Global Intelligence; and IMF staff calculations.

1/ Non-performing Exposures are defined as loans that are 90 days or more past due, unlikely to be repaid in full without realizing collateral, and impaired according to accounting rules, as well as loans that have been restructured for less than a year.  
 2/ Other items (net) include change in capital and reserves.

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

	2017	2018	2019	2020	2021	2022	2023	2024
	(Percentage change, unless otherwise indicated)							
<b>Domestic economy</b>								
Real GDP	1.5	2.1	2.4	2.2	1.6	1.2	1.2	1.2
Total domestic demand	1.0	1.2	2.3	2.0	1.7	1.1	1.2	1.2
Private consumption	0.9	1.0	1.2	0.8	0.7	0.7	0.9	1.1
Public consumption	-0.4	0.3	0.5	0.5	0.4	0.4	0.6	0.7
Gross fixed capital formation	9.1	4.0	10.7	9.2	7.9	3.6	3.3	1.8
Exports of goods and services	6.8	8.1	5.7	5.4	4.3	3.3	2.3	1.5
Imports of goods and services	7.1	5.2	5.2	4.8	4.3	2.9	2.2	1.5
Final Consumption (contribution)	0.5	0.8	0.9	0.7	0.5	0.6	0.7	0.9
Gross fixed capital formation (contribution)	1.1	0.5	1.4	1.3	1.2	0.6	0.5	0.3
Change in stocks (contribution)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance (contribution)	-0.3	0.8	0.1	0.1	-0.1	0.1	0.0	0.0
Unemployment rate (percent) 1/	21.5	19.6	18.5	17.5	16.2	15.0	14.3	13.6
Employment	2.2	2.1	2.1	1.5	0.9	0.9	0.2	0.1
Unit labor costs	0.1	0.8	1.0	1.3	1.7	1.6	1.8	1.8
Consumer prices (HICP), period average	1.1	0.8	1.1	1.4	1.7	1.7	1.8	1.8
GDP deflator	0.6	0.8	1.0	1.4	1.7	1.7	1.8	1.8
	(Percent of GDP, unless otherwise indicated)							
<b>Balance of payments</b>								
Current account 2/	-2.4	-3.4	-2.7	-2.6	-2.6	-2.6	-3.0	-3.4
Trade balance	-1.0	-1.6	-1.6	-1.5	-1.6	-1.6	-1.5	-1.5
Export of goods and services	34.2	37.7	38.5	39.5	40.1	40.5	40.6	40.2
Export of goods	15.6	17.7	17.9	18.2	18.3	18.5	18.5	18.3
Exports of services	18.7	20.0	20.6	21.3	21.8	22.0	22.1	21.8
Imports of goods and services	35.2	39.4	40.1	41.0	41.7	42.1	42.0	41.7
Imports of goods	26.6	29.8	29.8	30.1	30.3	30.6	30.5	30.3
Imports of services	8.7	9.6	10.3	10.9	11.4	11.5	11.5	11.4
Primary income 2/	-1.1	-1.4	-1.5	-1.6	-1.5	-1.6	-1.5	-1.8
Secondary income 3/	-0.3	-0.3	0.5	0.5	0.5	0.5	0.0	0.0
Net international investment position	-140.5	-127.8	-125.5	-122.9	-120.5	-118.4	-116.1	-115.0
Gross external debt	224.0	217.7	208.2	200.8	194.3	189.2	184.9	181.8
Private sector capital flows (net)	4.2	12.7	3.4	1.6	1.4	1.2	-0.4	-1.1
<b>Public finances (general government)</b>								
Total revenues	48.3	49.0	47.5	46.0	45.2	44.4	44.2	44.0
Total expenditures	47.3	48.6	47.7	45.9	45.1	44.4	44.7	44.7
Primary expenditures	44.2	45.2	44.0	42.5	41.7	40.9	41.2	41.2
Primary balance	4.1	3.8	3.5	3.5	3.5	3.5	3.0	2.8
Cyclically-adjusted primary balance	8.4	6.8	5.6	4.7	4.1	3.8	3.1	2.8
Overall balance	1.0	0.4	-0.2	0.1	0.1	0.0	-0.5	-0.6
Gross debt 4/	179.3	183.3	174.2	167.3	160.9	153.8	147.2	143.2
<b>Memorandum item:</b>								
Nominal GDP	180.2	185.5	191.9	198.7	205.3	211.3	217.6	224.0

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

1/ Based on Labor Force Survey.

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

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

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

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

	2017	2018	2019	2020	2021	2022	2023	2024
	Proj.							
	(Billions of euros)							
Current account balance 1/ 2/	-4.3	-6.2	-5.1	-5.3	-5.4	-5.4	-6.5	-7.5
Balance of goods and services	-1.8	-3.1	-3.0	-3.1	-3.2	-3.3	-3.2	-3.5
Goods balance	-19.8	-22.4	-22.9	-23.7	-24.7	-25.5	-26.2	-26.8
Exports	28.0	32.9	34.3	36.2	37.6	39.0	40.2	41.0
Imports	47.9	55.2	57.2	59.9	62.2	64.6	66.4	67.9
Services balance	18.0	19.3	19.9	20.6	21.4	22.3	23.0	23.4
Credit	33.7	37.1	39.6	42.3	44.8	46.6	48.0	48.9
Debit	15.6	17.8	19.7	21.6	23.4	24.3	25.0	25.5
Primary income 2/	-2.0	-2.6	-3.0	-3.1	-3.1	-3.3	-3.3	-4.0
Credit	6.6	6.7	7.1	7.2	7.4	7.6	7.8	7.9
Debit 2/	8.5	9.3	10.0	10.3	10.5	10.9	11.0	11.9
Secondary income 3/	-0.6	-0.5	0.9	0.9	1.0	1.2	0.0	-0.1
Credit 3/	1.9	2.1	3.5	3.5	3.8	3.9	2.7	2.7
Debit	2.5	2.6	2.6	2.6	2.8	2.8	2.7	2.8
Capital account balance	0.9	1.4	1.1	1.3	1.6	1.6	1.5	1.5
Financial account balance 1/	6.0	16.2	-3.7	-3.5	-3.1	-2.8	-4.4	-4.1
Direct investment	-2.7	-3.0	-3.5	-3.1	-3.1	-3.1	-3.2	-3.3
Portfolio investment	-20.5	2.5	3.0	-0.7	-2.3	0.0	-0.5	-4.0
Financial derivatives	0.4	2.5	-0.2	0.2	0.2	0.1	0.1	0.1
Other investment 4/	28.8	14.2	-2.9	0.1	2.2	0.2	-0.9	3.1
Net errors and omissions	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	-8.8	-21.0	-0.3	-0.4	-0.6	-1.1	-0.6	-1.9
Reserve assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-0.7	-1.8	-2.1	-2.1	-2.1	-1.9	-1.4	-0.3
Program-related financing 5/	9.6	22.8	2.4	2.5	2.7	3.0	2.0	2.2
	(Percent of GDP)							
Current account balance 1/ 2/	-2.4	-3.4	-2.7	-2.6	-2.6	-2.6	-3.0	-3.4
Balance on goods and services	-1.0	-1.6	-1.6	-1.5	-1.6	-1.6	-1.5	-1.5
Goods balance	-11.0	-12.1	-11.9	-11.9	-12.0	-12.1	-12.0	-12.0
Services balance	10.0	10.4	10.4	10.4	10.4	10.5	10.6	10.4
Primary income 2/	-1.1	-1.4	-1.5	-1.6	-1.5	-1.6	-1.5	-1.8
Secondary income 3/	-0.3	-0.3	0.5	0.5	0.5	0.5	0.0	0.0
Capital account balance	0.5	0.7	0.6	0.7	0.8	0.7	0.7	0.7
Financial account balance 1/	3.3	8.7	-1.9	-1.8	-1.5	-1.3	-2.0	-1.8
Direct investment	-1.5	-1.6	-1.8	-1.5	-1.5	-1.5	-1.5	-1.5
Portfolio investment	-11.4	1.4	1.6	-0.4	-1.1	0.0	-0.2	-1.8
Financial derivatives	0.2	1.4	-0.1	0.1	0.1	0.1	0.1	0.1
Other investment 4/	16.0	7.6	-1.5	0.1	1.1	0.1	-0.4	1.4
Net errors and omissions	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	-4.9	-11.3	-0.1	-0.2	-0.3	-0.5	-0.3	-0.9
Reserve assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-0.4	-1.0	-1.1	-1.0	-1.0	-0.9	-0.6	-0.1
Program-related financing 5/	5.4	12.3	1.2	1.3	1.3	1.4	0.9	1.0
Gross external debt	224.0	217.7	208.2	200.8	194.3	189.2	184.9	181.8
Public sector 6/	190.0	178.8	169.2	161.7	155.1	149.6	145.1	141.6
Private sector	34.0	38.9	39.0	39.1	39.2	39.5	39.8	40.1
Memorandum item:								
Current account balance in cash terms	-1.8	-2.8	-2.1	-2.0	-1.9	-1.8	-2.1	-2.4
Deferred interest payments on EFSF loans	0.6	0.6	0.6	0.6	0.7	0.8	0.9	1.0

Sources: Bank of Greece; and IMF staff estimates.

1/ Reflects the authorities' revision of sea transport statistics.

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

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

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

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

6/ Includes debt of the monetary authority.

**Table 3. Greece: General Government Operations, 2017–24<sup>1/</sup>**

	2017	2018	2019	2020	2021	2022	2023	2024
	Proj.							
	(Billions of euros)							
Revenue	87.1	90.8	91.2	91.4	92.9	93.8	96.1	98.6
Indirect taxes	30.8	32.4	31.4	31.9	32.3	32.8	33.4	34.3
Direct taxes	18.1	19.0	18.2	18.5	18.8	19.2	19.7	20.3
Social contributions	26.0	26.3	27.1	27.7	28.3	28.8	29.4	30.1
Other current revenue	4.3	4.5	4.4	3.6	3.8	3.8	3.9	4.0
Sales	5.4	5.8	5.9	5.9	5.8	5.9	6.0	6.2
Capital revenue	2.5	2.8	4.2	3.9	3.9	3.3	3.7	3.7
Primary expenditure	79.6	83.9	84.4	84.5	85.7	86.4	89.8	93.4
Social benefits	38.4	39.3	39.6	38.9	39.0	39.2	40.4	41.4
Subsidies	1.7	1.8	1.9	1.9	1.9	1.9	2.0	2.0
Other current expenditure	2.7	3.0	3.2	3.2	3.1	3.2	3.3	3.4
Compensation of employees	21.5	22.3	23.0	23.8	24.3	24.6	25.3	26.0
Intermediate consumption	8.9	11.0	9.1	8.9	9.5	9.8	10.4	10.7
Investment	5.0	5.8	6.8	7.0	7.0	7.0	7.5	7.9
Capital Transfers Payable	1.4	0.7	0.8	0.8	0.8	0.8	1.0	2.0
Primary balance	7.5	7.0	6.8	6.9	7.2	7.3	6.5	6.4
Cash basis	5.5	3.1	5.7	5.7	6.5	7.3	6.2	6.0
Interest	5.6	6.2	7.1	6.8	7.0	7.4	7.6	7.8
Overall balance	1.8	0.8	-0.3	0.1	0.2	0.0	-1.1	-1.4
Gross debt 2/	323.1	339.9	334.2	332.4	330.6	325.1	320.7	321.2
	(Percent of GDP)							
Total primary revenue	48.3	49.0	47.5	46.0	45.2	44.4	44.2	44.0
Indirect taxes	17.1	17.4	16.4	16.0	15.8	15.5	15.4	15.3
Direct taxes	10.0	10.3	9.5	9.3	9.1	9.1	9.0	9.1
Social contributions	14.4	14.2	14.1	13.9	13.8	13.6	13.5	13.5
Other current revenue	2.4	2.4	2.3	1.8	1.8	1.8	1.8	1.8
Sales	3.0	3.1	3.1	3.0	2.8	2.8	2.8	2.8
Capital revenue	1.4	1.5	2.2	2.0	1.9	1.5	1.7	1.7
Total primary expenditure	44.2	45.2	44.0	42.5	41.7	40.9	41.3	41.7
Social benefits	21.3	21.2	20.6	19.6	19.0	18.6	18.6	18.5
Subsidies	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Other current expenditure	1.5	1.6	1.7	1.6	1.5	1.5	1.5	1.5
Compensation of employees	11.9	12.0	12.0	12.0	11.8	11.6	11.6	11.6
Intermediate consumption	5.0	5.9	4.8	4.5	4.6	4.6	4.8	4.8
Investment	2.8	3.1	3.6	3.5	3.4	3.3	3.5	3.5
Capital Transfers Payable	0.8	0.4	0.4	0.4	0.4	0.4	0.4	0.9
Primary balance	4.1	3.8	3.5	3.5	3.5	3.5	3.0	2.8
Cash basis	3.1	1.7	3.0	2.9	3.2	3.4	2.8	2.7
Interest	3.1	3.3	3.7	3.4	3.4	3.5	3.5	3.5
Overall balance	1.0	0.4	-0.2	0.1	0.1	0.0	-0.5	-0.6
Gross debt 2/	179.3	183.3	174.1	167.3	161.0	153.9	147.3	143.4
Nominal GDP (billions of euros)	180.2	185.5	191.9	198.7	205.3	211.3	217.6	224.0

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

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

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

Table 4. Greece: Monetary Survey, 2013–18

	2013	2014	2015	2016	2017	2018 Dec.
(Billions of euros)						
Aggregated balance sheet of Monetary Financial Institutions (MFIs)						
Total assets	517.6	501.5	544.6	469.7	387.3	358.0
Cash (held by credit institutions)	2.0	1.9	1.7	1.8	1.8	1.8
Claims on Bank of Greece	4.0	3.5	1.7	0.9	2.0	6.9
Claims on other MFIs	107.3	86.2	134.1	86.1	50.4	28.1
Claims (Loans) on non MFIs	238.9	234.2	225.6	213.8	201.1	187.4
Domestic	233.8	229.7	221.0	209.3	197.7	183.9
General government	15.9	17.7	16.7	14.2	13.8	13.7
Other sectors	217.9	212.0	204.3	195.1	183.9	170.2
Other countries	5.2	4.5	4.6	4.5	3.4	3.5
Securities 1/	94.3	102.0	107.8	97.5	63.8	64.0
Other assets	66.0	69.1	68.9	65.0	63.5	64.8
Fixed assets	5.1	4.7	4.7	4.7	4.7	4.9
Total Liabilities	495.2	501.5	544.6	469.7	387.3	358.0
Liabilities to Bank of Greece	73.0	56.0	107.6	66.6	33.7	11.1
Liabilities to other MFIs	93.0	92.6	107.5	97.6	35.4	21.1
Deposits and repos of non MFIs	196.5	191.0	145.8	150.6	153.6	169.0
Domestic	182.6	177.2	139.2	142.4	147.0	161.9
Other countries	13.9	13.8	6.6	8.2	6.5	7.1
Capital and reserves	67.0	75.0	91.2	89.1	83.6	70.3
Banknotes and coins in circulation	25.4	27.9	29.6	30.7	30.9	31.9
Other liabilities	40.3	59.0	62.9	35.1	50.2	54.6
Money and credit						
Broad money	193.2	192.6	158.4	161.9	171.0	178.3
Credit to the private sector 2/	217.5	211.6	203.9	194.7	183.4	169.8
Credit to government	21.8	23.6	23.7	19.1	18.9	18.2
(Annual percentage change)						
Broad money	2.7	-0.3	-17.8	2.2	5.7	4.2
Domestic private sector deposits	1.4	-2.4	-23.5	3.4	4.2	6.3
Credit to the private sector 2/	-3.9	-3.9	-3.6	-4.5	-5.8	-7.5
Credit to government	-18.1	8.0	0.7	-19.7	-0.7	-3.8
(Percent of GDP)						
Broad money	107.0	108.0	89.5	91.8	95.2	96.4
Domestic deposits	101.1	99.3	78.7	80.8	81.8	87.5
Credit to the private sector 2/	120.5	118.6	115.2	110.5	102.1	91.8
Credit to government	12.1	13.2	13.4	10.8	10.5	9.8
Memorandum items:						
(Percent)						
Capital to assets	6.9	7.7	9.2	9.2	11.2	8.9
Loans to customer deposits	108.9	109.3	138.3	131.2	127.1	106.7
Velocity	0.9	0.9	1.1	1.1	1.1	1.0

Sources: Bank of Greece; and IMF staff calculations.

1/ Holdings of securities other than shares and derivatives.

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

**Table 5. Greece: Core Set of Financial Indicators (Deposit Taking Institutions), 2013–18**  
(Percent, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018
						Sep.
<b>Core set</b>						
Regulatory capital to risk-weighted assets 1/	13.5	14.1	16.5	16.9	17.0	16.2
Regulatory Tier I capital to risk-weighted assets 1/	13.1	13.8	16.4	16.8	17.0	15.7
Nonperforming loans net of provisions to capital 2/	138.9	120.5	80.8	81.6	172.4	161.4
Nonperforming loans to total gross loans 2/	31.9	33.8	36.6	36.3	45.6	44.1
Bank provisions to nonperforming loans	49.3	55.8	67.6	68.9	46.8	50.1
Return on assets (after taxes)	...	-1.0	-2.5	0.1	-0.2	-0.1
Return on equity (after taxes)	...	-10.4	-29.3	0.8	-1.3	-0.7
Interest margin to gross income	78.2	81.8	85.3	79.6	78.4	72.5
Non-interest expenses to gross income	71.2	61.1	61.0	53.6	59.5	62.0
Liquid assets to total assets 3/	29.9	28.9	29.7	27.0	17.7	18.1
Liquid assets to short-term liabilities 3/	40.0	40.1	40.4	36.3	24.3	24.6
Net open position in foreign exchange to capital 1/	4.6	5.4	5.6	0.8	1.3	1.8
<b>Encouraged set</b>						
Spread between reference lending and deposit rates (end-of-period, basis points) 4/	7.0	6.2	5.9	5.6	5.3	5.1
Customer deposits to total (noninterbank) loans 3/	90.4	90.3	71.8	76.0	68.1	78.8
Foreign currency-denominated liabilities to total liabilities 3/	5.9	5.6	3.1	3.5	4.3	4.5
<b>Market liquidity</b>						
Average bid-ask spread in the securities market (basis points)	185.0	157.0	173.0	149.0	100.0	96.0
<b>Households</b>						
Household debt to GDP	64.5	63.0	62.3	60.2	57.0	53.7
<b>Real estate markets</b>						
Residential real estate loans to total loans 3/	26.4	26.8	27.6	27.2	29.1	30.9
<b>Memorandum items:</b>						
<b>Assets (billions of euros)</b>						
Banks	383.0	375.0	367.8	342.2	292.2	...
Branches of foreign banks		9.1	5.8	5.9	5.3	...
General insurance companies 5/	16.2	16.3	16.6	15.9	16.9	...
Other credit institutions	12.9	13.0	12.0	3.2	3.3	...
<b>Deposits (billions of euros)</b>						
Banks	177.2	174.3	128.7	134.6	138.7	...
Branches of foreign banks	3.5	2.5	2.8	3.6	3.4	...

Source: Bank of Greece.

1/ Data on a consolidated basis.

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

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

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

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



**Table 6. Greece: General Government Financing Requirements and Sources, 2018–24**  
(Billions of euros)

	2018	2019	2020	2021	2022	2023	2024
	Prel.			Proj.			
Gross borrowing need	35.9	16.8	11.8	11.8	12.5	15.0	22.3
Overall deficit	2.0	0.3	-0.1	-1.0	-1.6	-0.6	-0.5
Primary deficit (cash)	-3.1	-5.7	-5.7	-6.5	-7.3	-6.2	-6.0
Interest payments (cash)	5.1	6.1	5.6	5.5	5.7	5.6	5.5
Amortization	18.9	23.6	14.9	15.2	19.7	21.6	24.0
Short-term (T-bills)	14.3	11.2	9.8	9.8	9.8	9.8	9.8
Medium and long-term (non-official)	2.8	10.3	2.3	1.0	5.3	5.9	9.4
ECB holdings	1.9	5.8	1.4	0.0	1.3	0.0	1.3
Official creditors	1.8	2.1	2.8	4.4	4.6	5.8	4.8
IMF	1.8	2.1	2.1	2.1	1.9	1.4	0.3
GLF/EFSF/ESM	0.0	0.0	0.7	2.3	2.6	4.5	4.5
Other	15.0	-7.1	-3.0	-2.4	-5.6	-6.0	-1.2
Arrears clearance	1.5	2.8	0.0	0.0	0.0	0.0	0.0
Privatization	-0.8	-1.1	-0.3	-0.3	-0.1	-0.1	0.0
o/w CoCo repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ECB related income (SMP/ANFA)	-0.3	-1.5	-1.5	-1.4	-1.4	-0.1	0.0
Government deposits: replenishment (+) / drawdown (-)	14.6	-7.2	-1.2	-0.6	-4.1	-5.9	-1.1
Gross financing sources	35.9	16.8	11.8	11.8	12.5	15.0	22.3
Market access	14.2	16.8	11.8	11.8	12.5	15.0	22.3
Short-term (T-bills)	11.2	9.8	9.8	9.8	9.8	9.8	9.8
Medium and long-term	3.0	7.0	2.0	2.0	2.6	5.2	12.5
Official financing	21.7	0.0	0.0	0.0	0.0	0.0	0.0
ESM	21.7	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memo items:</i>							
Deposits of general government 1/ available to state government 2/ state government in BoG 3/ state government in commercial banks general government entities in BoG general government entities in commercial banks 4/	37.5 30.0 20.3 6.5 3.2 7.5	30.3 22.9 16.4 2.2 4.3 7.4	29.1 21.7 17.9 0.0 3.8 7.4	28.5 21.0 17.8 0.0 3.3 7.4	24.4 17.0 14.2 0.0 2.8 7.4	18.5 11.1 8.8 0.0 2.3 7.4	17.4 10.0 8.2 0.0 1.8 7.4
Primary deficit (accrual)	-7.0	-6.8	-6.9	-7.2	-7.3	-6.5	-6.4

Sources: Ministry of Finance; and IMF staff projections.

1/ Total general government deposits (€37.5 billion) consist of state government deposits (€26.8 billion) and general government entities' deposits (€10.7 billion) in the BOG and commercial banks as of end-December 2018.

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

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

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

**Table 7. Greece: External Financing Requirements and Sources, 2017–24**  
(Billions of euros, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024
					Proj.			
Gross financing requirements	158.0	119.6	103.1	94.0	92.5	94.1	99.4	106.3
Current account deficit	4.3	6.2	5.1	5.3	5.4	5.4	6.5	7.5
Medium and long-term debt amortization	13.8	7.3	14.6	7.9	8.3	11.5	14.9	16.6
Public sector	12.2	4.1	11.3	4.6	4.9	8.0	11.3	12.9
<i>Of which: GLF/EFSF/ESM/IMF</i>	2.7	1.8	2.1	2.8	4.4	4.6	5.8	4.8
Banks	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Other	0.0	1.6	1.7	1.8	1.8	1.9	2.0	2.1
Short-term debt amortization	139.9	106.0	83.4	80.8	78.8	77.2	78.1	82.2
Public sector and Bank of Greece	87.3	70.6	39.6	37.1	34.9	33.2	34.1	38.2
Bank of Greece 1/	85.7	64.4	35.2	33.2	31.1	29.4	30.2	34.3
Public sector	1.6	6.2	4.4	3.9	3.9	3.9	3.9	3.9
Banks 2/	45.4	27.6	36.2	36.1	36.4	36.6	36.8	36.9
Other	7.2	7.8	7.7	7.6	7.4	7.3	7.2	7.1
Source of financing	149.1	98.6	102.8	93.5	91.8	93.0	98.8	104.4
Capital account (net)	0.9	1.4	1.1	1.3	1.6	1.6	1.5	1.5
Foreign direct investment (net)	2.7	3.0	3.5	3.1	3.1	3.1	3.2	3.3
Equities (net)	2.0	0.7	0.1	0.0	-0.2	-0.3	-0.4	-0.2
Assets drawdown (- increase)	29.5	1.3	5.8	2.6	1.9	1.4	0.6	-0.8
Bank of Greece	-16.8	-5.5	0.0	0.0	0.0	0.0	0.0	0.0
Government	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Banks	38.2	-1.2	0.2	-1.2	-0.9	-0.5	-0.7	-0.7
Other sector	8.1	8.3	5.5	3.8	2.8	1.9	1.3	-0.1
New borrowing and debt rollover	113.5	92.2	92.3	86.5	85.4	87.2	93.9	100.6
Medium and long-term borrowing	7.3	8.8	11.5	7.8	8.2	9.2	11.7	18.1
Public sector	3.7	4.2	6.8	2.8	3.1	3.8	6.2	12.3
Banks	3.0	2.5	2.6	2.6	2.7	2.8	2.8	2.9
Other	0.6	2.1	2.2	2.3	2.4	2.6	2.7	2.9
Short-term borrowing	106.2	83.4	80.8	78.8	77.2	78.1	82.2	82.5
Public sector and Bank of Greece	71.2	39.6	37.1	34.9	33.2	34.1	38.2	38.4
Bank of Greece 1/	64.3	35.2	33.2	31.1	29.4	30.2	34.3	34.5
Public sector 3/	6.9	4.4	3.9	3.9	3.9	3.9	3.9	3.9
Banks 2/	28.0	36.2	36.1	36.4	36.6	36.8	36.9	37.1
Other	7.0	7.7	7.6	7.4	7.3	7.2	7.1	7.0
Other	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program-related financing	9.6	22.8	2.4	2.5	2.7	3.0	2.0	2.2
<i>Of which: interest deferral</i>	1.1	1.1	1.1	1.2	1.5	1.7	2.0	2.2

Sources: Bank of Greece; and IMF staff estimates.

1/ Includes liabilities to Eurosystem related to TARGET2.

2/ Includes currency and deposits and securitized loans.

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

**Table 8. Greece: Indicators of Fund Credit, 2019–24**  
(Millions of SDRs, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024
(Projected debt service to the Fund)						
Amortization	1,704	1,704	1,704	1,587	1,112	251
Total Charges and Fees	254	168	96	59	28	12
Total debt service	1,958	1,872	1,801	1,647	1,140	263
Percent of exports of goods and services	3.3	2.9	2.7	2.4	1.6	0.4
Percent of GDP	1.3	1.2	1.1	1.0	0.6	0.1
Percent of deposits available to state government 1/	10.5	10.6	10.5	11.9	12.6	3.2
(Projected level of credit outstanding)						
Outstanding stock	6,359	4,655	2,951	1,363	251	0
Percent of quota	262	192	121	56	10	0
Percent of GDP	4.1	2.9	1.8	0.8	0.1	0.0
Memorandum items:						
Exports of goods and services (billions of euros)	74	78	82	86	88	90
GDP (billions of euros)	192	199	205	211	218	224
Quota (millions of SDRs)	2,428.9	...	...	...	...	...
Source: IMF staff estimates.						
1/ Total deposits of general government excluding deposits of general government entities in commercial banks.						

## Annex I. Risk Assessment Matrix<sup>1</sup>

Source of Risk	Relative Likelihood and Transmission	Expected Impact if Realized	Recommended Policy Response
<b>Domestic</b>			
<b>Backlash against past reforms</b>	<p><b>High</b></p> <p>Reform fatigue could dent the pace of structural reforms or result in back-tracking, especially given political pressures ahead of the 2019 elections. Court rulings reversing some of the past fiscal measures, could lead to a snowball effect, attracting more applicants.</p>	<p><b>High</b></p> <p>Large one-off payments may trigger liquidity pressures. Policy reversals could lead to loss of confidence and fiscal pressures and could hamper medium-term growth.</p>	<p>Prioritize growth-friendly, socially inclusive policies consistent with long term fiscal sustainability.</p> <p>Stay on track with implementation of structural reform agenda agreed during the program period.</p> <p>Devise strategy to deal with large contingent fiscal shocks.</p>
<b>Sharp deterioration of sentiment towards banks</b>	<p><b>Medium</b></p> <p>Delays in cleaning up banks' balance sheets weigh on their profitability, undermining the recovery. Sharp deterioration of investor/depositors' sentiment vis-à-vis banks as some of the trends crystalize or growth/fiscal underperform.</p>	<p><b>High</b></p> <p>This could trigger reemergence of liquidity pressures and accelerated capital depletion, exacerbated by the bank-sovereign nexus. Growth would weaken and 'informality' could increase due to heightened uncertainty.</p>	<p>Accelerate clean-up of banks' and private sector balance sheets. Proceed with proactive build-up of capital buffers.</p> <p>Communication of a credible and ambitious strategy (aimed at restoring bank sustainability).</p> <p>Relaxation of CFMs should continue in line with the conditions-based roadmap.</p>
<b>Weaker recovery of domestic demand</b>	<p><b>Medium</b></p> <p>More-adverse-than-expected impact of high primary surpluses on growth, a lower-than-expected output gap, smaller gains from fiscal and structural reforms. Delays in investments due to policy uncertainty.</p>	<p><b>High</b></p> <p>Lower growth could undermine fiscal performance, perpetuate debt and banks problems.</p>	<p>Stay on track with implementation of agreed policies; pursue a more growth friendly consolidation by tackling structural challenges on the expenditure side, lowering tax rates, and broadening tax bases.</p>

<sup>1</sup>The risk assessment matrix shows events that could materially alter the baseline path discussed in this report (the scenario most likely to materialize in the view of staff). The relative likelihood is staff's subjective assessment of the risk surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risk and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

<b>External</b>			
<b>Sharp tightening of global financial conditions</b>	<b>High</b> Tighter financial conditions cause higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns could be triggered by a sharper-than-expected increase in U.S. interest rates or materialization of other risks.	<b>Medium</b> Lower growth, liquidity pressures, and higher debt service costs for banks, non-financial corporates, and the sovereign.	Accelerate clean-up of banks' and private sector balance sheets.  Relaxation of CFMs should continue in line with the conditions-based roadmap.
<b>Rising protectionism and retreat from multilateralism</b>	<b>High</b> Global imbalances and fraying consensus about the benefits of globalization lead to escalating and sustained trade actions and spreading isolationism. This threatens the global trade system, regional integration, labor mobility, as well as global and regional policy and regulatory collaboration.	<b>Medium/Low</b> In the short term, escalating trade tensions could increase uncertainty about growth leading to higher financial market volatility (with follow-on negative consequences for growth and investments). These policy shifts could reduce the cross-border flow of trade, hitting Greek shipping exports.	Diversify exports, accelerate reforms to boost competitiveness, including prudent labor policies and productivity-enhancing reforms.

Color of the cells schematically indicates the degree of CFMs tightness from 'dark orange' (reflecting the status when such measures were introduced) to 'light orange' (partial liberalization compared to initiation) and 'green' (full relaxation) <sup>1</sup>

Type of restrictions		CFM introduced June-July 2015	2018 Article IV July 2018	Current status (since October 2018)
Pillar I	<b>Early loan repayment</b>	Allowed only if made through transfer from abroad or in cash	Early repayment of loans allowed	
	<b>Early redemption of time deposits</b>	Allowed only under specific circumstances	Early redemption of time deposits allowed	
Pillar II	<b>Cash withdrawals</b>	€60 daily limit and a cumulative €420 weekly limit per depositor <sup>2</sup>	€5,000 monthly limit per depositor 100% of funds credited from abroad 100% of funds credited in cash	Unlimited (within Greece)
	<b>New accounts/ Customer IDs<sup>2</sup></b>	Permitted in certain cases for selected groups of individuals and companies	Unlimited	
Pillar III	<b>Individuals' physical transfer of funds abroad</b>	€2,000 per person per travel abroad	€3,000 per person per travel abroad	€10,000 per person per travel abroad <sup>3</sup>
	<b>Transfers abroad for general purposes</b> - cash withdrawals abroad - bank transfers	Permitted up to and counting towards the cash withdrawal limit applying domestically Not permitted (some exceptions applied)	Permitted up to and counting towards the cash withdrawal limit applying domestically €4,000 over two months per customer, up to an aggregate monthly ceiling for all banks and sub-allocated by bank	€5,000 monthly limit per depositor €4,000 over two months per customer, up to an aggregate monthly ceiling for all banks and sub-allocated by bank Profits and dividends up to 100% per year of the invested funds <sup>4</sup>
	<b>Business transfers abroad for normal business activity subject to:</b> -BTAC's approval <sup>5</sup> -bank subcommittees' approval -bank branches' approval	€100K per day Not applicable Not applicable	Over €700K per customer per day Up to €700K per customer per day; weekly limit per bank Up to €40K per customer per day; weekly limit per bank	Over €1,000K per customer per day Up to €1,000K per customer per day; weekly limit per bank Up to €100K per customer per day; weekly limit per bank

1/ The table covers main elements of the framework only and does not include all applicable exceptions. **Significantly**, CFM legislation provides for various exemptions, e.g. for funds invested or transferred from abroad after introduction of restrictions.

2/ Restrictions set per depositor /customer are based on the definition of a *Customer ID*, which is a unique identification number given to every customer holding an account with a bank, and is used across all branches of the same bank.

3/ Consistent with a common practice on physical transfers.

4/ Provided that the invested funds have been transferred to Greece from abroad by the beneficiary after in September 2018.

5/ BTAC stands for Bank Transactions Approval Committee.

## Annex III. Debt Sustainability Analysis

*Greece's debt is expected to trend down over 2019–28 and Gross Financing Needs (GFN) are projected to be relatively low, at about 8 percent on average during this period, under staff's baseline scenario. In addition, a large cash buffer provides comfort amid an uncertain external environment. However, materialization of risks from weaker growth, lower fiscal primary balances, and/or contingent liabilities could raise debt ratios and the GFN in the medium term. External debt is also high and expected to decline gradually over the medium term; macroeconomic shocks and policy slippages could result in adverse dynamics.*

### A. Public Sector DSA

#### **Baseline Scenario**

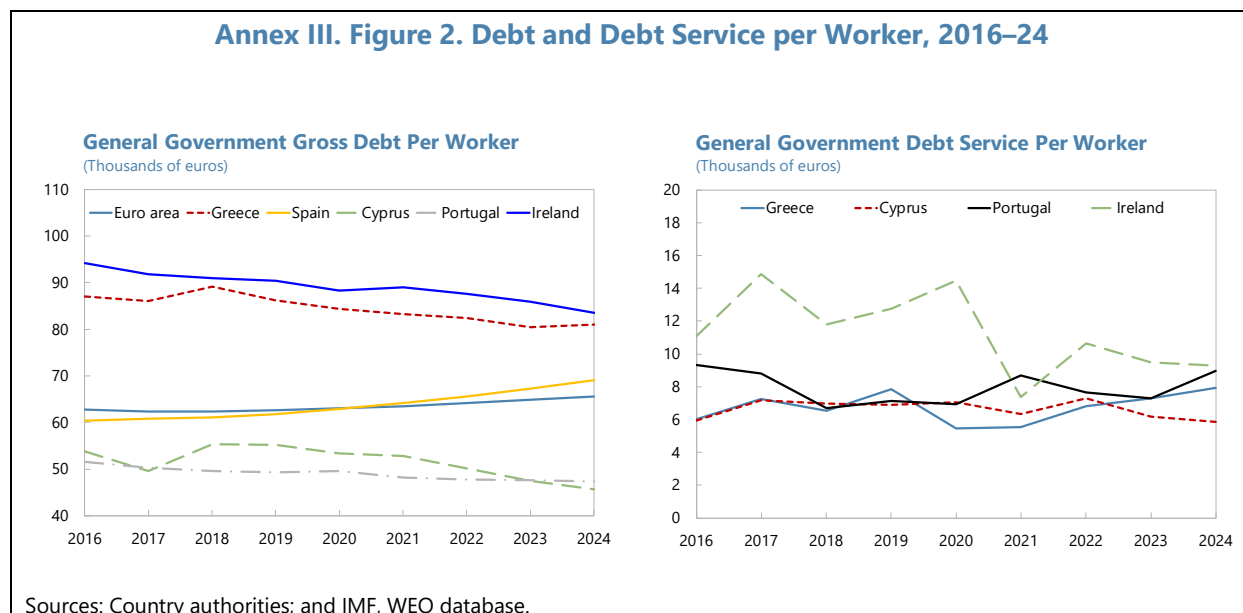
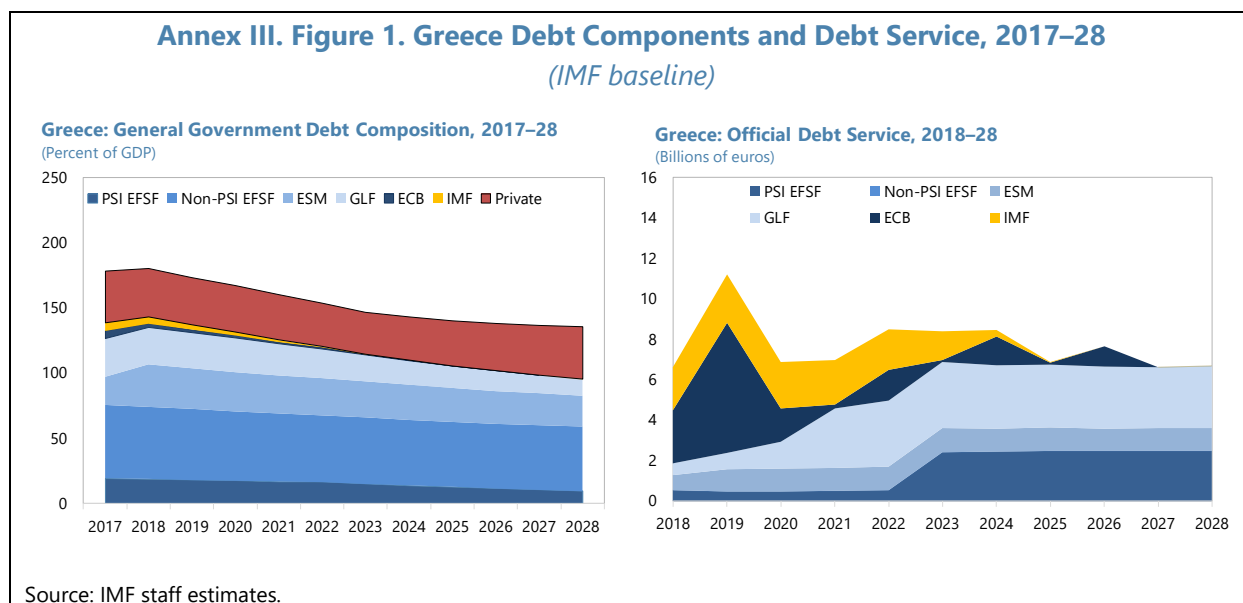
- 1. The public sector DSA, which is based on the GFN framework, updates the medium-term DSA assessment included in the July 2018 Article IV Staff Report.** Macro assumptions underpinning the DSA remain broadly unchanged relative to July.
- 2. Since Greece's debt relief agreement with European partners in June 2018, the government has hedged much of the €53 billion official sector Greek Loan Facility (GLF) loans.** As of December 2018, the total amount hedged was about €42 billion (specifically, a 10-year swap changed the interest rate from 3-month Euribor rates to fixed rates of around 99bps). The transaction — which was executed with banks, including several domestic ones—is broadly neutral in NPV terms.<sup>1</sup>
- 3. Medium-term debt and GFN trends appear manageable.** Debt-to-GDP trends downward and GFN remains below 15 percent of GDP throughout the projection period. An agreement with the ESM to draw down the €15.7 billion cash buffer (funded by ESM disbursements) by end-2023 also contributes to containing the GFN.<sup>2</sup> This assessment assumes some €14 billion in short-term debt (T-bills)—after having rolled-over at a rate of 78 percent in 2018—will roll over at a rate of 88 percent in 2019 and in full from 2020 onwards. Debt per worker in Greece is significantly higher than in many countries in the euro area, but debt service per worker is comparable to that in other EA countries (given the concessional nature of Greece's debt, which further benefited from the debt relief agreed in June) (Figures AIII-1 and AIII-2).

<sup>1</sup> Assuming a 5 percent discount rate and long-term Euribor rates hovering around 2 percent.

<sup>2</sup> The €15.7 billion of the cash buffer that was funded by ESM disbursements is expected to be fully drawn down by end-2023.

**Realism of Baseline Assumptions**

**4. Staff’s past macro assumptions have been optimistic.** The median forecast errors for real growth and the primary balance have been -3.9 percent and -1.5 percent, respectively (implying percentile ranks of 2 and 22 percent, respectively). The median forecast error for inflation, at -1.4 percent (a percentile rank of 14 percent), has also contributed to somewhat higher debt outcomes compared to projections. Going forward, the projected three-year change in the cyclically adjusted primary balance is small, with a percentile rank of 65 percent. The three-year average CAPB level, however, is larger at 6.3 percent of GDP and has a percentile rank of 28 percent. Staff’s 2025–28 projections on nominal GDP growth and the primary fiscal balance remain unchanged.





## Risks and Stress Tests

**5. The IMF's 10-year DSA assessment signals risks to sustainability, including from potentially weaker growth, lower primary balances and/or the materialization of contingent liabilities** (see DSA tables and figures including stress scenarios).<sup>3</sup>

- *Macro-fiscal stress tests.* An assumed shock would bring real GDP growth to -2 percent on average in 2020 and 2021. Under this scenario, debt-to-GDP would increase to 185 percent (higher by 24 percentage points than in the baseline) before declining gradually in the outer years, helped by the recovery in economic activity. GFN-to-GDP would continue hovering below the 15-percent medium-term threshold through 2022 and would remain below the 20-percent long-term threshold through 2027 but would exceed it in 2028. The primary balance shock that assumes a lower primary balance of about 1 percent of GDP in 2020 and 2021, and the real interest rate shock that raises effective interest rates by about 40bps a year on average over 2020–28, have more moderate impacts on debt and GFN ratios. Given that nearly all scheduled Fund repayments will be completed by end-2023, these scenarios are not expected to place Greece's repayment capacity at significant risk.
- *Contingent liability shock.* This scenario assumes the materialization of fiscal and financial risks as well as risks associated with the rollover of T-bills and the cancellation of ANFA/SMP transfers, as discussed in Annex VI. Under this scenario, real GDP growth and inflation would decline to -2 percent and 0.6 percent on average in 2020 and 2021, respectively, and interest rates would increase by 60bps on average in the medium term. As a result, debt-to-GDP would jump to about 190 percent of GDP by 2023 and rise further to 195 percent of GDP by 2024 before declining gradually in the outer years. GFN-to-GDP would breach the 20 percent long-term threshold as early as 2023. If this scenario materializes, Greece's capacity to service all of its public sector debt would be jeopardized.

## B. External Sector DSA

**6. At about 220 percent of GDP, Greece's external debt is higher than that of most other European economies.** Similarly, at minus 141 percent of GDP in 2017, Greece's net international investment position is the second weakest in Europe (after Ireland). The weak international investment position will continue to represent a drag on the recovery as the availability of external savings remains limited and domestic savings need to be mobilized to make room for investment.

**7. External debt is projected to decline gradually to 182 percent of GDP in 2024.** This improvement would be supported by the projected recovery in growth and inflation, FDI inflows, and the normalization of TARGET 2 imbalances.

<sup>3</sup> The GFN row of the heatmap improved compared to the July 2018 DSA because GFN in 2018 is now estimated at below the 20 percent of GDP threshold (that triggered a red zone in the July DSA). GFN under the primary balance, real interest rate, and exchange rate shocks remains below 20 percent of GDP in the projection period (i.e., a green zone). Under the real GDP growth and contingent liabilities shocks, GFN breaches the 20 percent of GDP threshold in the projection period (i.e., a yellow zone).

**8. Macroeconomic shocks and policy slippages could result in adverse dynamics.**

- *Interest rate shock.* A 90bps interest rate shock would worsen the income account and raise the debt ratio by 14 percentage points above the baseline by 2024.
- *Growth shock.* A decline in average growth by 2 percentage points would continue to see debt decline, but the ratio would be some 27 percentage points higher at end-2024 than in the baseline.
- *Larger current account deficits.* Deterioration in the baseline current account projections by a half standard deviation in 2020–24 would raise the debt ratio by 20 percentage points compared to the baseline by 2024.
- *Combined shock.* Under a combined shock involving higher interest rates, lower growth and a smaller current account, debt dynamics would be worse, with the debt ratio reaching 208 percent of GDP in 2024, 26 percentage points higher than in the baseline.

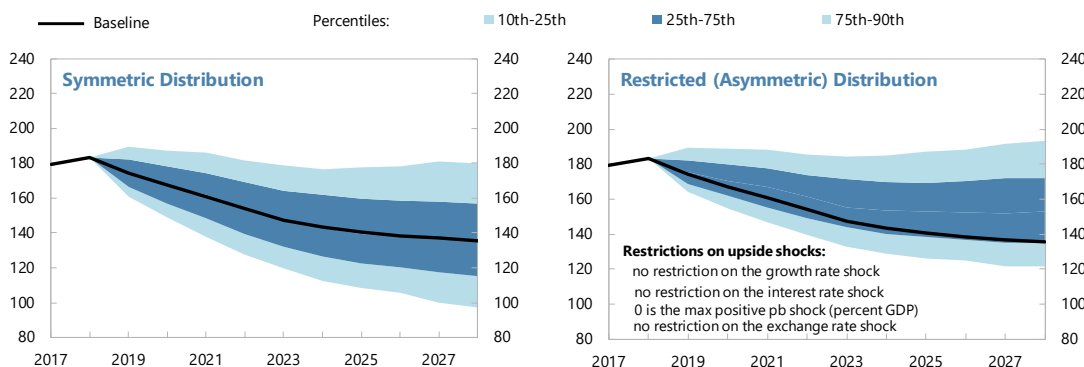
### Annex III. Figure 3. Greece Public DSA Risk Assessment (Baseline Scenario)

#### Heat Map

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

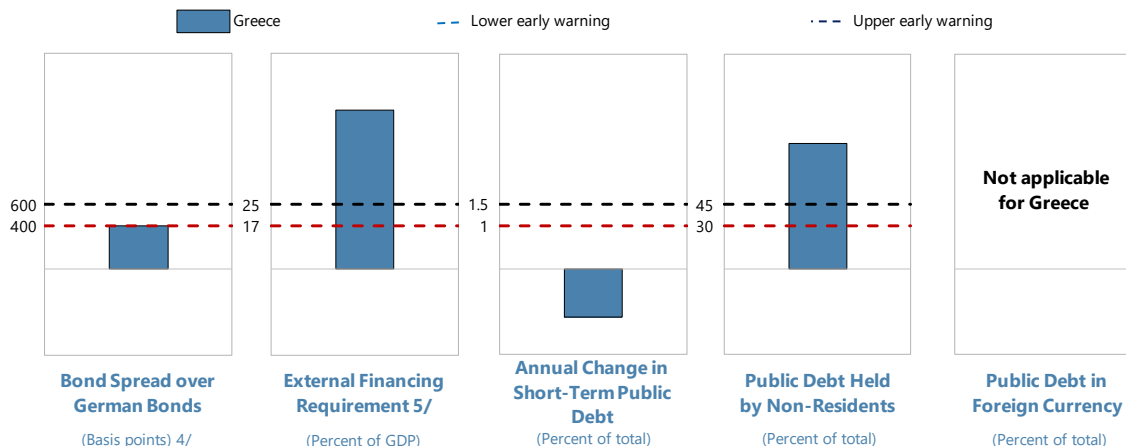
#### Evolution of Predictive Densities of Gross Nominal Public Debt

(Percent of GDP)



#### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

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

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

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

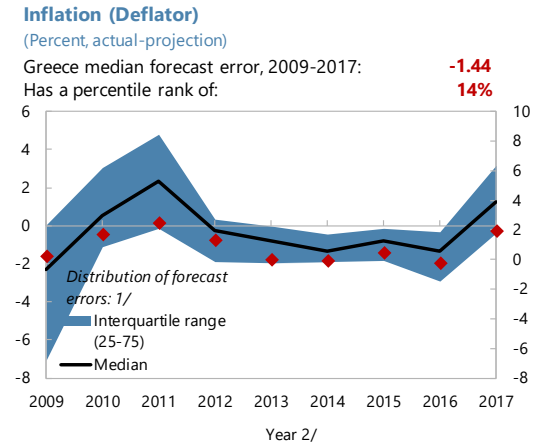
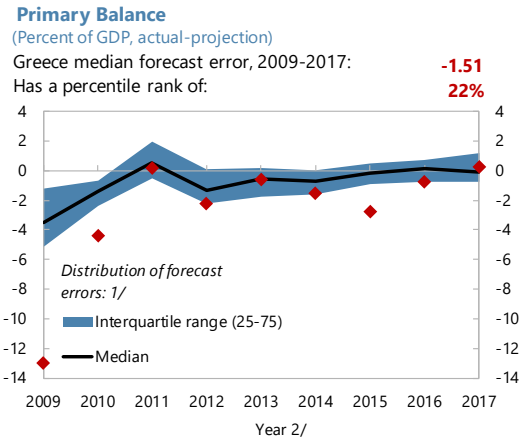
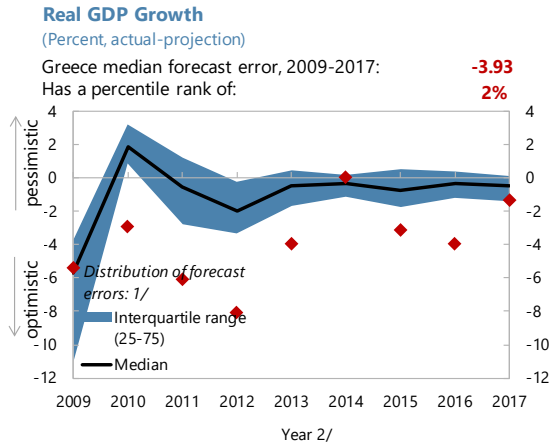
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ An average over the last 3 months, 02-Nov-18 through 31-Jan-19.

5/ Includes liabilities to the Eurosystem related to TARGET.

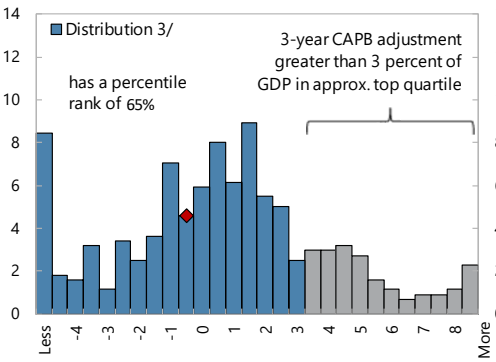
### Annex III. Figure 4. Greece Public DSA – Realism of Baseline Assumptions

#### Forecast Track Record, versus program countries

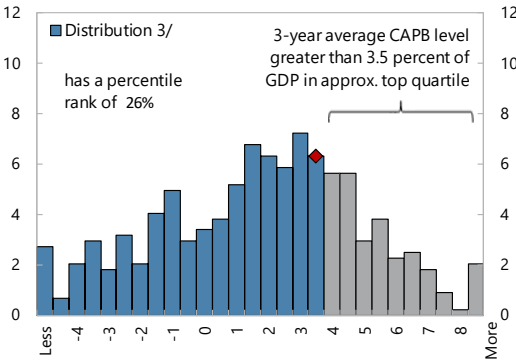


#### Assessing the Realism of Projected Fiscal Adjustment

**3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)**  
(Percent of GDP)



**3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)**  
(Percent of GDP)



Source : IMF Staff.

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

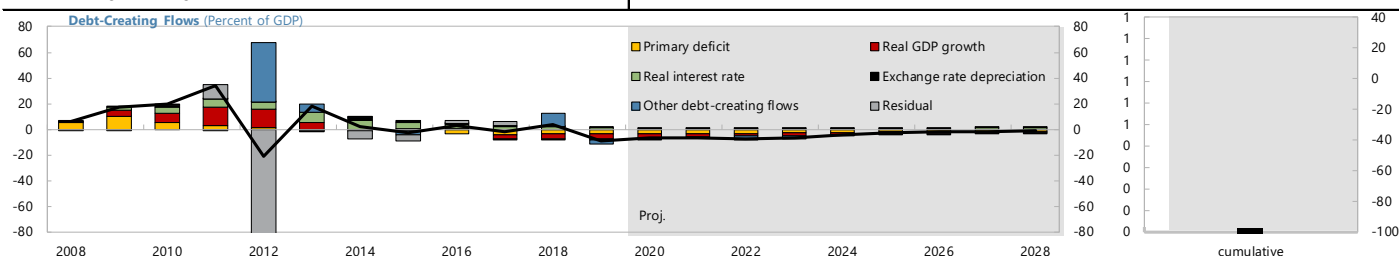
2/ Projections made in the spring WEO vintage of the preceding year.

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

**Annex III. Table 1. Greece Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario**  
(Percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/															
	Actual			Projections										As of February 12, 2019	
	2008–2016 2/	2017	2018 prel.	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Sovereign Spreads	
Nominal gross public debt 3/	160.0	179.3	183.3	174.2	167.3	160.9	153.8	147.2	143.2	140.4	138.2	136.7	135.4	Spread (bp) 4/	381
Public gross financing needs	22.2	11.7	19.3	8.8	5.9	5.8	5.9	6.9	10.0	9.2	8.6	8.9	12.1	CDS (bp)	430
Real GDP growth (percent)	-3.3	1.5	2.1	2.4	2.2	1.6	1.2	1.2	1.2	1.2	1.2	1.0	1.0	Moody's	Foreign B3
Inflation (GDP deflator, percent)	0.4	0.6	0.8	1.0	1.4	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	Local B3
Nominal GDP growth (percent)	-3.0	2.1	2.9	3.5	3.5	3.3	2.9	3.0	3.0	3.1	3.1	2.8	2.8	S&P's	B+
Effective interest rate (percent) 5/	3.3	1.9	1.9	1.9	1.8	1.8	2.0	2.1	2.2	2.3	2.5	2.6	2.8	Fitch	BB-

Contribution to Changes in Public Debt															
	Actual			Projections										Cumulative	Debt-stabilizing primary balance 10/
	2008–2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028		
Change in gross public sector debt	8.7	-1.8	4.0	-9.1	-6.9	-6.3	-7.1	-6.6	-4.0	-2.8	-2.2	-1.5	-1.3	-47.9	0.0
Identified debt-creating flows	18.1	-4.7	4.9	-9.7	-7.4	-6.8	-7.6	-7.0	-4.4	-3.0	-2.4	-1.7	-1.5	-51.5	
Primary deficit	2.3	-4.4	-3.8	-3.5	-3.5	-3.5	-3.5	-3.0	-2.8	-2.0	-1.5	-1.5	-1.5	-26.3	
Primary (noninterest) revenue and grants	44.7	48.3	49.0	47.5	46.0	45.2	44.4	44.2	44.0	45.6	45.4	45.4	45.4	453.2	
Primary (noninterest) expenditure	47.0	43.9	45.2	44.0	42.5	41.7	40.9	41.2	41.2	43.6	43.9	43.9	43.9	426.9	
Automatic debt dynamics 6/	10.4	-1.1	-1.5	-3.0	-3.0	-2.5	-1.5	-1.4	-1.2	-1.0	-0.8	-0.2	0.0	-14.5	
Interest rate/growth differential 7/	9.9	-0.4	-1.7	-2.9	-3.0	-2.4	-1.4	-1.4	-1.2	-1.0	-0.8	-0.2	0.0	-14.2	
Of which: real interest rate	4.7	2.3	1.9	1.4	0.7	0.2	0.5	0.4	0.5	0.7	0.9	1.1	1.3	7.8	
Of which: real GDP growth	5.2	-2.7	-3.7	-4.3	-3.6	-2.6	-1.9	-1.8	-1.7	-1.7	-1.7	-1.3	-1.3	-22.0	
Exchange rate depreciation 8/	0.5	-0.7	0.3	...	...	...	...	...	...	...	...	...	...	...	
Other identified debt-creating flows	5.5	0.8	10.2	-3.1	-0.9	-0.9	-2.6	-2.6	-0.4	0.0	-0.1	0.0	0.0	-10.6	
Net privatization proceeds	-0.2	-0.7	-0.4	-0.6	-0.1	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	-1.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other liabilities (arrears clearance and cash buffer flows)	5.7	1.5	10.6	-2.5	-0.7	-0.7	-2.6	-2.6	-0.4	0.0	0.0	0.0	0.0	-9.5	
Residual, including asset changes 9/	-9.5	2.9	-0.9	0.6	0.5	0.5	0.5	0.4	0.4	0.2	0.2	0.2	0.2	3.6	



Source: IMF staff projections.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Public debt includes the stock of deferred interest.

4/ Bond Spread over German Bonds.

5/ Defined as interest payments divided by debt stock at the end of previous year.

6/ Derived as  $[(r - p(1+g) - g + ae(1+n)] / (1+g+p+gp)$  times previous period debt ratio, with  $r$  = interest rate;  $p$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $a$  = share of foreign-currency-denominated debt; and  $e$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

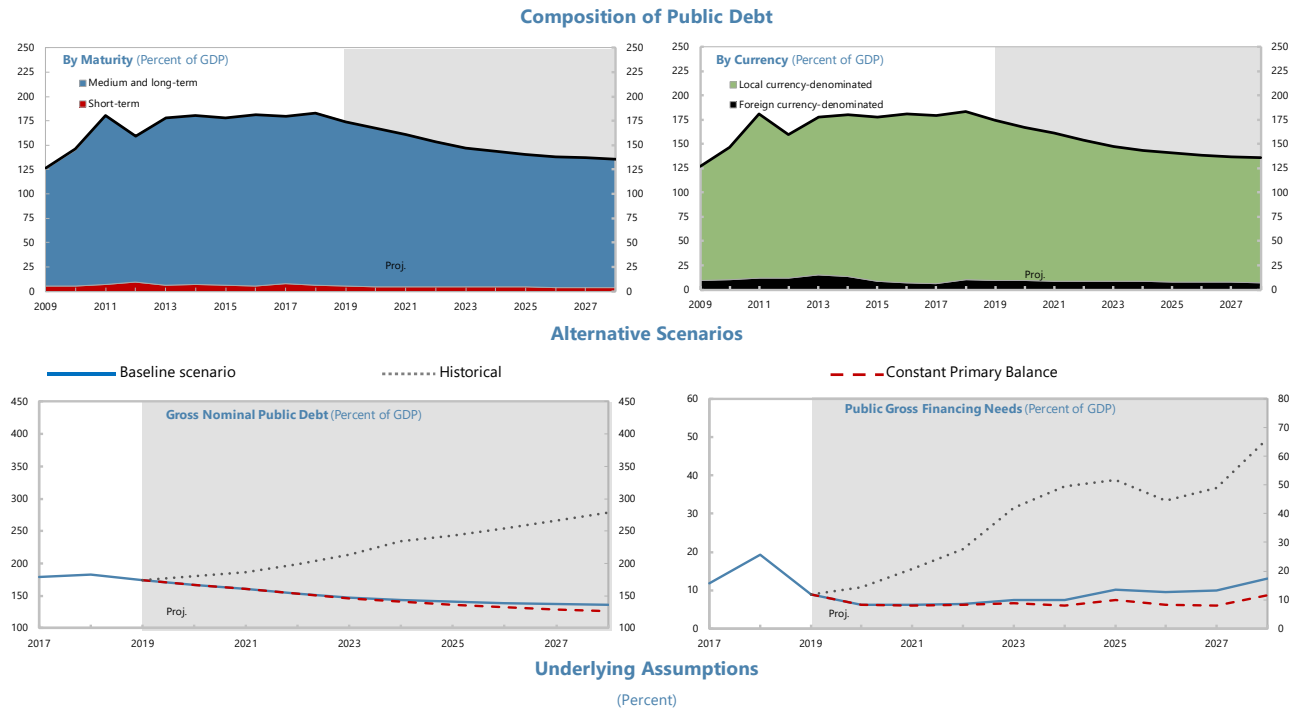
7/ The real interest rate contribution is derived from the denominator in footnote 4 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

8/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $ae(1+r)$ .

9/ For projections, this line includes exchange rate changes during the projection period.

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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



Baseline scenario	2019	2020	2021	2022	2023	2024	2025	2028
Real GDP growth	2.4	2.2	1.6	1.2	1.2	1.2	1.2	1.0
Inflation	1.0	1.4	1.7	1.7	1.8	1.8	1.8	1.8
Primary balance	3.5	3.5	3.5	3.4	3.0	2.8	2.0	1.5
Effective interest rate	1.8	1.8	1.8	2.0	2.1	2.2	2.3	2.8
<b>Constant primary balance scenario</b>								
Real GDP growth	2.4	2.2	1.6	1.2	1.2	1.2	1.2	1.0
Inflation	1.0	1.4	1.7	1.7	1.8	1.8	1.8	1.8
Primary balance	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Effective interest rate	1.8	1.8	1.8	2.0	2.1	2.1	2.3	2.6

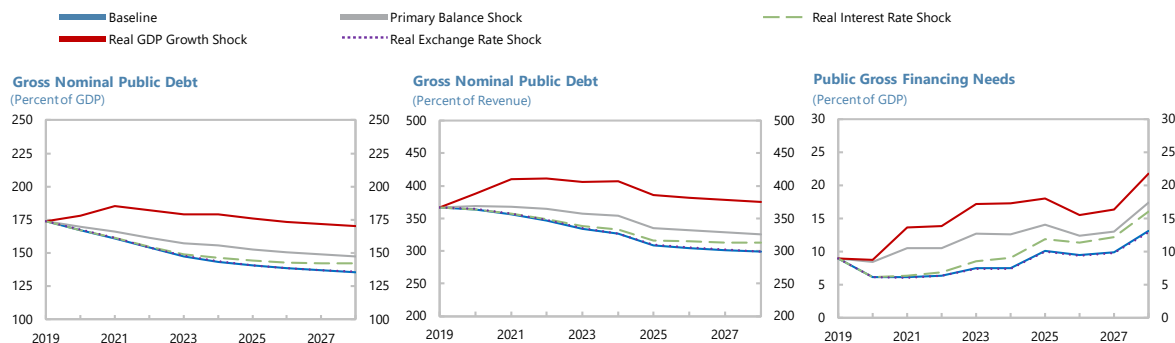
(Percent)

Historical scenario	2019	2020	2021	2022	2023	2024	2025	2028
Real GDP growth	2.4	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Inflation	1.0	1.4	1.7	1.7	1.8	1.8	1.8	1.8
Primary balance	3.5	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	1.8	1.8	2.0	2.3	2.6	3.1	3.7	4.3

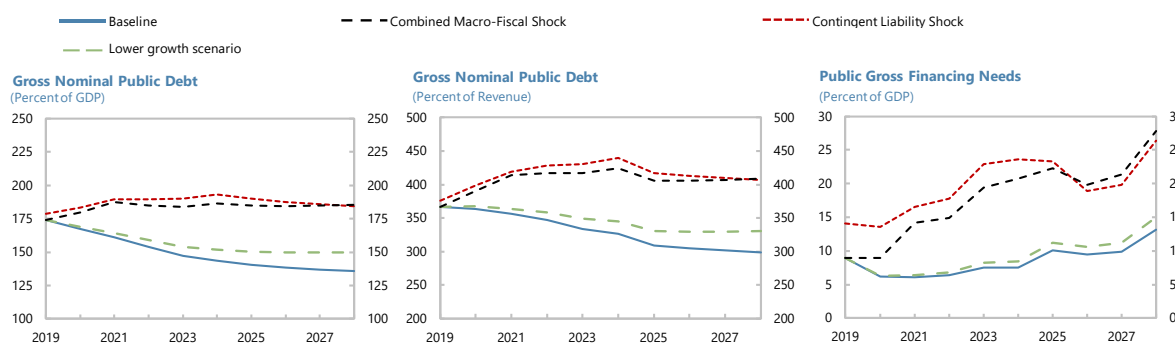
Source: IMF staff.

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

#### Macro-Fiscal Stress Tests



#### Additional Stress Tests



#### Underlying Assumptions

(Percent)

	2019	2020	2021	2022	2023	2024	2025	2028
<b>Primary Balance Shock</b>								
Real GDP growth	2.4	2.2	1.6	1.2	1.2	1.2	1.2	1.0
Inflation	1.0	1.4	1.7	1.7	1.8	1.8	1.8	1.8
Primary balance	3.5	1.2	1.2	3.4	3.0	2.8	2.0	1.5
Effective interest rate	1.8	1.8	1.9	2.1	2.2	2.3	2.5	3.0
<b>Real Interest Rate Shock</b>								
Real GDP growth	2.4	2.2	1.6	1.2	1.2	1.2	1.2	1.0
Inflation	1.0	1.4	1.7	1.7	1.8	1.8	1.8	1.8
Primary balance	3.5	3.5	3.5	3.4	3.0	2.8	2.0	1.5
Effective interest rate	1.8	1.8	2.0	2.2	2.3	2.5	2.9	3.7
<b>Combined Shock</b>								
Real GDP growth	2.4	-1.7	-2.3	1.2	1.2	1.2	1.2	1.0
Inflation	1.0	0.4	0.7	1.7	1.8	1.8	1.8	1.8
Primary balance	3.5	1.2	-0.8	3.4	3.0	2.8	2.0	1.5
Effective interest rate	1.8	1.8	2.1	2.4	2.7	3.1	3.7	4.4
<b>Lower Growth Scenario</b>								
Real GDP growth	2.4	1.2	0.6	0.2	0.2	0.2	0.2	0.0
Inflation	1.0	1.4	1.7	1.7	1.8	1.8	1.8	1.8
Primary balance	3.5	3.5	3.5	3.4	3.0	2.8	2.0	1.5
Effective interest rate	1.8	1.8	1.8	2.0	2.1	2.2	2.4	2.8
<b>Real GDP Growth Shock</b>								
Real GDP growth	2.4	-1.7	-2.3	1.2	1.2	1.2	1.2	1.0
Inflation	1.0	0.4	0.7	1.7	1.8	1.8	1.8	1.8
Primary balance	3.5	1.3	-0.8	3.4	3.0	2.8	2.0	1.5
Effective interest rate	1.8	1.8	1.9	2.1	2.2	2.4	2.6	3.0
<b>Real Exchange Rate Shock</b>								
Real GDP growth	2.4	2.2	1.6	1.2	1.2	1.2	1.2	1.0
Inflation	1.0	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Primary balance	3.5	3.5	3.5	3.4	3.0	2.8	2.0	1.5
Effective interest rate	1.8	1.8	1.8	2.0	2.1	2.1	2.3	2.7
<b>Contingent Liability Shock</b>								
Real GDP growth	2.4	-1.7	-2.3	1.2	1.2	1.2	1.2	1.0
Inflation	1.0	0.4	0.7	1.7	1.8	1.8	1.8	1.8
Primary balance	3.5	1.4	1.1	2.2	2.2	2.1	2.0	1.5
Effective interest rate	1.8	1.8	1.9	2.1	2.3	2.5	2.8	3.1

Source: IMF staff.

**Annex III. Table 2. Greece External Debt Sustainability Framework**  
(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -4.8	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024		
<b>Baseline: External debt</b>	237.5	249.1	244.4	224.0	217.7	<b>208.2</b>	<b>200.8</b>	<b>194.3</b>	<b>189.2</b>	<b>184.9</b>	<b>181.8</b>		
Change in external debt	0.2	11.5	-4.7	-20.3	-6.3	-9.5	-7.5	-6.5	-5.1	-4.3	-3.1		
Identified external debt-creating flows (4+8+9)	0.5	-0.6	0.9	-4.3	-4.5	-6.2	-4.6	-3.6	-2.5	-1.3	-0.8		
Current account deficit, excluding interest payments	-1.9	-1.9	-0.6	-0.7	1.2	0.2	0.3	0.3	0.2	0.7	0.8		
Deficit in balance of goods and services	2.2	0.6	0.9	1.0	1.6	1.6	1.5	1.6	1.6	1.5	1.5		
Exports	32.4	31.8	30.8	34.2	37.7	38.5	39.5	40.1	40.5	40.6	40.2		
Imports	34.6	32.5	31.8	35.2	39.4	40.1	41.0	41.7	42.1	42.0	41.7		
Net non-debt creating capital inflows (negative)	-4.5	-3.5	-2.6	-1.7	-1.6	-3.7	-3.0	-3.0	-2.8	-2.0	-2.1		
Automatic debt dynamics 1/	6.9	4.7	4.0	-1.9	-4.1	-2.8	-1.9	-0.8	0.1	0.0	0.4		
Contribution from nominal interest rate	4.3	3.4	2.9	3.1	2.1	2.4	2.4	2.3	2.4	2.3	2.5		
Contribution from real GDP growth	-1.8	1.3	0.5	-3.5	-4.4	-5.2	-4.3	-3.2	-2.3	-2.3	-2.1		
Contribution from price and exchange rate changes 2/	4.4	0.1	0.6	-1.5	-1.9	-2.2	-2.8	-3.3	-3.2	-3.3	-3.2		
Residual, incl. change in gross foreign assets (2-3) 3/	-0.3	12.2	-5.6	-16.0	-1.9	-1.1	0.0	0.4	0.6	0.3	0.9		
External debt-to-exports ratio (in percent)	733.7	782.0	792.7	654.4	576.7	540.9	508.4	484.0	466.9	455.9	452.6		
<b>Gross external financing need (in billions of US dollars) 4</b>	226.0	194.4	183.8	168.7	141.2	117.5	108.5	107.6	110.3	117.1	125.3		
in percent of GDP	95.2	98.8	94.1	82.9	64.4	Historical Average	Standard Deviation	53.5	47.1	44.9	44.4	45.8	47.6
<b>Scenario with key variables at their historical averages 5/</b>						<b>210.1</b>	<b>225.8</b>	<b>241.8</b>	<b>259.2</b>	<b>275.6</b>	<b>293.9</b>	<b>16.9</b>	
<b>Key Macroeconomic Assumptions Underlying Baseline</b>													
Real GDP growth (in percent)	0.7	-0.4	-0.2	1.5	2.1	-2.6	3.9	2.4	2.2	1.6	1.2	1.2	
GDP deflator in US dollars (change in percent)	-1.8	-16.8	-0.5	2.6	5.5	-1.9	6.7	-2.1	2.7	2.3	2.4	1.8	
Nominal external interest rate (in percent)	1.8	1.2	1.2	1.3	1.0	1.5	1.3	1.1	1.2	1.2	1.3	1.4	
Growth of exports (US dollar terms, in percent)	5.3	-18.5	-3.9	15.7	18.7	1.5	15.0	2.3	7.6	5.7	4.6	3.1	
Growth of imports (US dollar terms, in percent)	3.1	-22.3	-2.8	15.5	20.4	-1.7	17.1	2.0	7.4	5.8	4.5	2.9	
Current account balance, excluding interest payments	1.9	1.9	0.6	0.7	-1.2	-1.3	5.0	-0.2	-0.3	-0.3	-0.2	-0.7	
Net non-debt creating capital inflows	4.5	3.5	2.6	1.7	1.6	1.6	1.7	3.7	3.0	3.0	2.8	2.0	

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

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

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

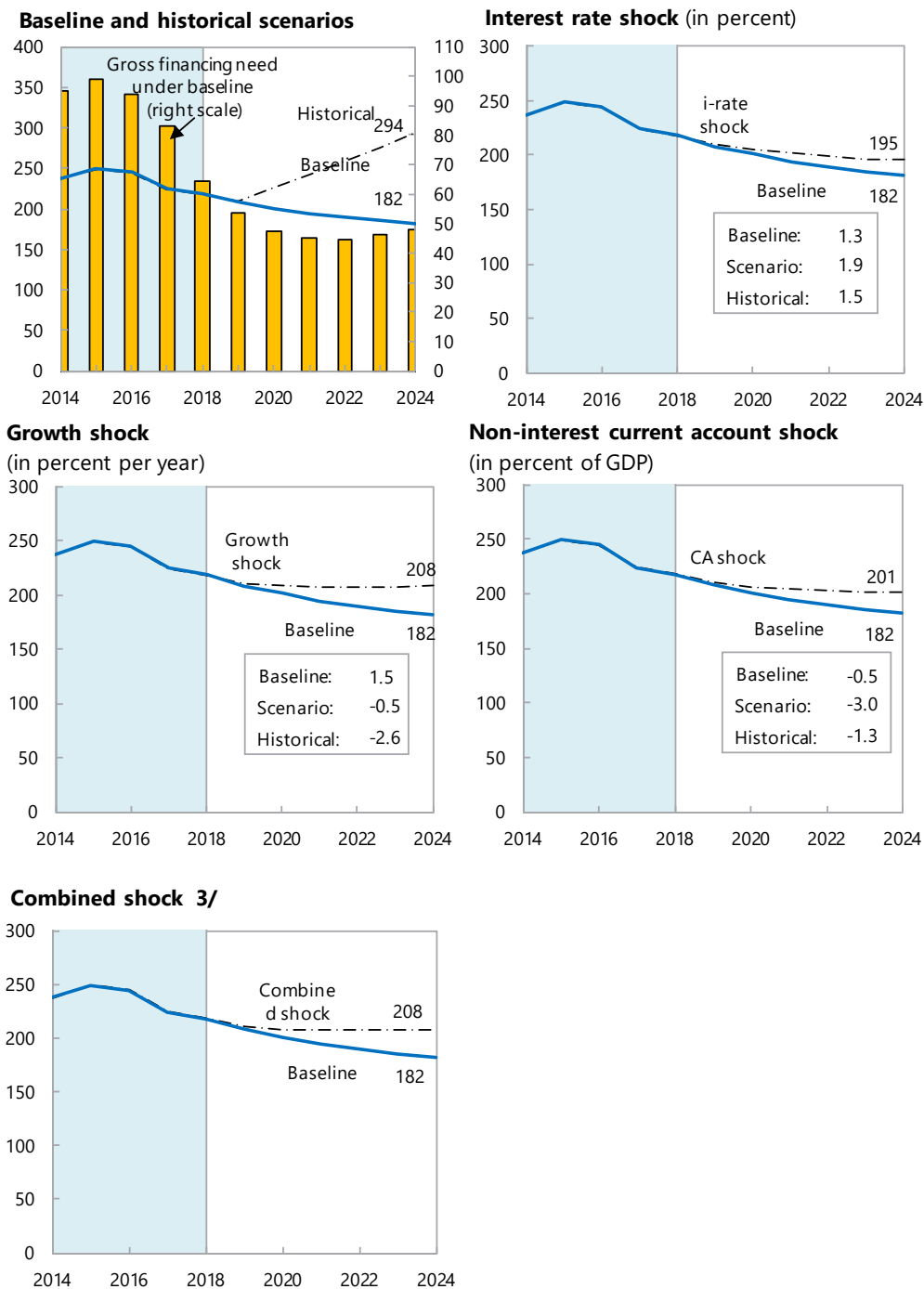
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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



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



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

## Annex IV. Labor Market Policies

*The recent minimum wage hike and changes to the collective bargaining framework are likely to have a redistribution impact and favor wage earners. However, such changes could dent the still nascent recovery of the labor market and hurt competitiveness (and ultimately growth). To mitigate these downside effects, productivity-enhancing reforms should be accelerated and labor market policies should be reoriented to better reflect productivity considerations.*

**1. Effective February 2019, the government implemented a double-digit increase in the minimum wage and abolished the youth sub-minimum wage.**<sup>1</sup> The government decision followed outreach with social partners and scientific institutions and other economic considerations, as required under a new multi-stakeholder consultation process that was agreed under the 2012–13 reforms (but only went into effect after exit from the ESM program in 2018). Those same reforms established a freeze on the minimum wage and seniority premiums through 2018. As a result, the gross monthly minimum wage has increased to €650 per month (an increase of 10.9 percent, which is slightly above the upper end of the 5–10 percent range recommended by the experts committee). Given the abolition of the sub-minimum wage for employees below 25 years old, the youth wage was effectively increased by 27 percent. Seniority premiums accrued through 2012 were adjusted proportionally, although no new premia will be earned going forward. The Greek authorities indicated their policy objectives are to strengthen workers' collective bargaining position, distribute wealth more equally, and stimulate domestic demand and productivity.

**2. In August 2018, the government reversed an earlier reform by once again adopting the authority to extend collective bargaining agreements (CBA), albeit with a new representativeness mechanism.** It undertook this (along with a reversion to the worker 'favorability' principle) with the aim of boosting worker bargaining power. Together, these imply that the conditions of one subgroup of workers may be extended (by government) to all workers in the sector/occupation, while workers subject to multiple CBAs can choose the most favorable one. To reflect market representativeness, the government introduced a new mechanism where signatories must represent a threshold of 51 percent of labor market share to extend the agreement. In addition to the reinstatement of these principles, the Greek labor market continues to be bound by unilateral recourse to arbitration, i.e. the results of an arbitration process in a labor dispute are binding even if one party does not consent to arbitration.

**3. The minimum wage hike in combination with the reinstatement of CBA extensions could trigger more broad-based wage increases.** At least 15–20 percent of employees or about 600,000 workers will be directly affected by the minimum wage. These are workers receiving the minimum wage, including workers under 25 years.<sup>2</sup> In addition, the growth rate of the minimum

<sup>1</sup> As per Law 4172/2013. The process was originally scheduled for the start of 2019 with a view to set the new level of the minimum wage by mid-2019. The authorities indicate they will revert to the normal schedule for the next review (due by June 2020).

<sup>2</sup> Estimates vary depending on the source, with lower estimates from the self-reported labor market data from the Labor Force Survey (maintained by ELSTAT) and higher estimates from firm-level data available in the Ministry of Labor's database (ERGANI). Another source is employee information from insurance and other social funds, such as EFKA.

wage was normally used as a reference for CBAs. A sample of 35 CBAs signed between 2004–09, for example, shows 75 percent of agreements were in line with and signed shortly after minimum wage negotiations. Since August 2018, CBAs covering ten sectors were extended, binding around 200,000 workers.<sup>3</sup> Thirty more agreements are waiting to be signed, which implies potentially significant spillovers to the average wage level, even though many sectors have floors above the minimum wage and the new representativeness mechanism may mitigate the pass-through.

**4. Wage increases in excess of productivity growth risk undermining the jobs recovery, especially for youth, and would at least partially offset the potential positive welfare effects.**

Greek productivity has only recently turned positive (0.3 percent average growth in H12018). Unemployment remains high (especially long-term and youth unemployment) and employment has recovered only modestly. Moreover, the room for a cyclical recovery has narrowed recently, with a lower number of vacancies coupled with persistently-high levels of unemployment. Those excluded from the labor market now face higher costs of entry and potentially higher risk of poverty and exclusion, while incentives for bargaining at the firm level have become lower and bargaining conditions have become more restrictive for certain firms. Although elasticity estimates vary depending on the adjustments made by occupation and hours worked, most studies conclude a negative impact of a minimum wage increase on employment, notably for youth.<sup>4</sup> At a sectoral level, full-time employees in small firms (with less than 10 employees/workers) in accommodation, food, administrative and support services seem most vulnerable to the hike. For smaller firms, there are also informality concerns at play. To prevent higher labor and labor-related costs, and in a context of limited financing options, these smaller players may choose to shift part or all their activity to the informal sector.<sup>5</sup>

**5. The minimum wage increase will also have an impact on the budget.** First-round effects on fiscal revenues are likely positive. The upside risks are mostly from the revenue side, as the minimum social security contributions of the self-employed are linked to the minimum wage and the minimum wage crosses the PIT exemption threshold. However, spending will also increase, with 24 benefits linked to the minimum wage (such as unemployment benefits, motherhood protection, and certain subsidies). Second-round effects could be negative as any lower employment growth or migration of employment to the informal sector will reduce social contributions and PIT revenues and possibly further increase the share of those qualifying for social benefits. The combination of these effects will affect disposable income and consumption and thereby VAT revenues. CIT revenues could also decline to the extent that the wage increase in excess of productivity would hurt firms' profitability. Public sector wages are not linked to the minimum wage, but pressure to raise salaries could rise.

<sup>3</sup> These include an CBA for 114,000 hotel employees, which raised minimum salaries by 33 percent (and by up to 47 percent for certain job categories).

<sup>4</sup> The expert report led by academics in consultation with scientific institutions (Georgadis et al, 2019) did not find a significant impact of a minimum wage increase on employment up to increases of 10 percent. Recent work by other institutions (SETE, Bank of Greece) as well as earlier papers by Kanellopoulos (2015) and Yannelis (2014) conclude employment to be negatively elastic to the minimum wage at varying degrees.

<sup>5</sup> See for example, findings on informality in *Assessment on the Current Statutory Minimum Wage*, Bank of Greece (2018)

**6. External competitiveness gains could be eroded.** Labor market reforms were key to restoring competitiveness in Greece, with lower unit labor costs (ULCs) boosting net exports and supporting the improvement in the current account balance.<sup>6</sup> Before the recent hike, Greece's minimum wage was already in line with regional peers at the median. Relative to average wages, Greece's wide wage distribution places it at the lower end of the spectrum, but this reflects a higher degree of wage inequality. For purposes of illustration, under an extreme hypothesis that all contracts mimic the minimum wage increase (as was often the case prior to the crisis) and with an assumption of constant productivity, ULCs in Greece would increase by about 10 percent. Compared to projected Euro-area ULC growth of about 1.2 percent in 2019, this would leave Greece with a wider ULC differential. However, this extreme (illustrative) scenario is mitigated by the new structure of labor relations and by productivity differentiation among sectors, i.e. the more productive tradable sectors, already paid above the minimum wage on average, are less affected by the minimum wage increase. However, even a partial spillover of the minimum wage increase to general ULCs could place Greece at a disadvantage within the monetary union and reverse competitiveness gains.

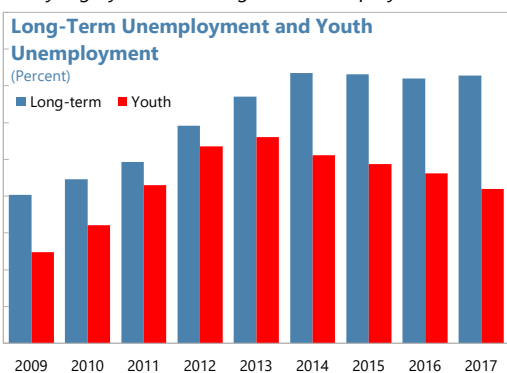
**7. To mitigate risks, priority must be given to structural reforms that boost productivity and encourage labor force participation.** The authorities are implementing certain mitigating measures such as subsidies for youth employers and other financial incentives for new employment. They have also increased the budget for active labor market policies and are piloting a promising re-training program to address long-term unemployment. The NGS also features innovation and skills quality and education components, but these reforms will take time to bear fruit. To foster employment, it is crucial to accelerate reforms that attract private sector investment in the near term, including de-regulation of product markets, privatization, and further investment licensing extensions. Competitiveness gains can also be protected by increasing public investment in areas that reduce costs for firms, i.e. energy, infrastructure, and transport. Lower financing costs, through better bank lending prospects, would also help offset higher labor costs. Future minimum wage consultation processes should be more firmly guided by productivity increases and economic considerations to foster durable, inclusive growth. Looking ahead, guided by practices in other European countries, the authorities could consider a medium-term anchor—objective indicator(s)—to guide future changes.

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<sup>6</sup> See IMF Country Report No. 17/44.

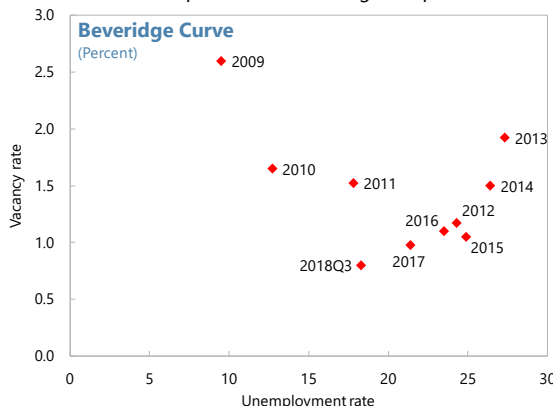
### Annex IV. Figure 1. Labor Market Policies

The employment recovery seems far from assured, based on persistently high youth and long-term unemployment.

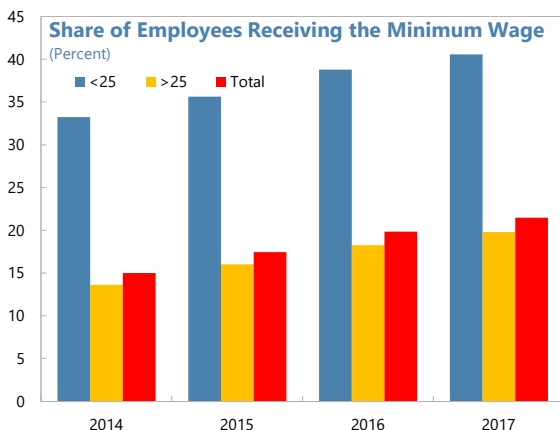


Note: Long-term unemployment is the share of unemployed for 12 months or more as a share of the total number of unemployed.

Room for a cyclical recovery has narrowed, emphasizing the need to remain competitive vis-à-vis regional partners.



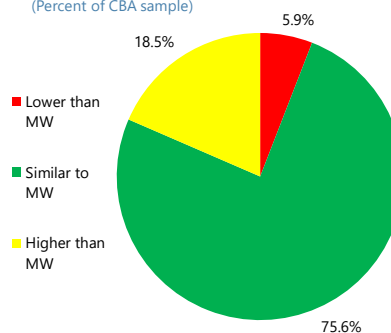
A rising share of workers receiving the minimum wage since 2015 increases the probability of spillovers to average wage levels...



... and as in the past, CBA labor market policies could strengthen the link between minimum and average wages.

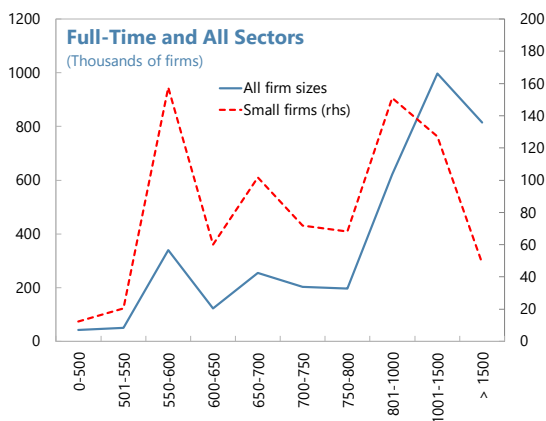
#### CBA Wage Increase Decisions, 2004-09 1/

(Percent of CBA sample)

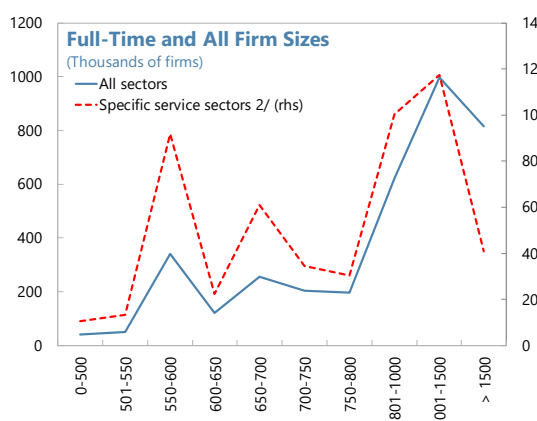


1/ Based on a sample of 35 CBAs.

Small firms are most vulnerable to increases in the minimum wage...



... as are services and support sectors. While they benefit from the boost to aggregate demand, their low productivity places them at higher risk of distress.



Sources: Ergani; Eurostat; Greek authorities; Haver Analytics; OMED; and IMF staff calculations.

1/ Based on a sample of 35 CBAs.

2/ Consisting of accommodation and food service activities, administrative and support service activities, and other service activities.

## References

Georgadis, A., Kaplanis, I., and Monastiriotes, V., 2019, "The Impact of Minimum Wages on Wages and Employment: Evidence from Greece," (London: Hellenic Observatory of the European Institute, London School of Economics).

Kanellopoulos, C., 2015, "The effects of minimum wages on wages and employment", Economic Bulletin Issue 41, 7-29 (Athens: Bank of Greece).

Yannelis, C., 2014, "The Minimum Wage and Employment Dynamics: Evidence from an Age Based Reform in Greece", (Stanford, CA: Stanford University).

## Annex V. State Support for NPE Reduction: Guidelines for a Cost-Benefit Analysis

*This annex discusses key criteria for assessing the cost-effectiveness of alternative State-supported system-wide NPE reduction schemes. Such an analysis should be an integral part of a broader strategy of State participation in (and eventual divestment from) the banking system.*

1. **Recently, several proposals to address the NPE stock using public funds were put forward by various stakeholders:** (i) an *Asset Protection Scheme (APS)* that would involve issuance of State guarantees on senior tranches of securitized NPE portfolios based on voluntary bank participation; (ii) an *Asset Management Company (AMC)* that would consolidate denounced NPEs of the four major banks, and receive half of their DTCs, with State and banks holding junior tranches; (iii) a *State subsidy scheme for mortgages*, that would provide fiscal (budget) assistance to a targeted group of borrowers with bank debt secured by owner-occupied residential properties.
  
2. **In any of these schemes, compliance with EU law would be a key prerequisite.** The use of public funds is likely to be qualified as State aid that accordingly needs to be deemed compliant with the BRRD and EU State aid rules. This may require, among other things, calibration of parameters for each scheme to ensure such compliance.
  
3. **Once the design of State support strategies is fixed, the cost-effectiveness of such system-wide initiatives could usefully be analyzed according to multiple criteria.**<sup>1</sup> Any strategy should aim for a prompt and sustainable clean-up of the financial system. As a result, participating banks should be able to attract private capital, restart healthy lending and become more resilient to shocks (including through a lower bank-sovereign nexus). The following are important elements and trade-offs that should be carefully assessed:
  - **Impact on the banks' balance sheets and income statements.** The analysis should capture both gains in terms of asset quality (level/composition/coverage of NPEs) and the impact on capital adequacy (both level and quality).<sup>2</sup> If relevant, the impact of the remuneration of state intervention on banks' income statements should also be taken into account.
  - **Impact on the State's balance sheet.** This assessment should capture the overall expected cost, timing and type of financial support, and any potential compensation (i.e. whether and how the State intervention is to be rewarded, both directly in the form of fees or ownership stakes).
  - **The speed of materialization of the above-mentioned impacts.** While fast resolution would be preferable for banks, and could be helpful in reducing risks to growth, the State's capacity to

<sup>1</sup> Also, where relevant, it should draw on cross-country experience.

<sup>2</sup> The effects on asset quality should be assessed through the NPE rate, the composition of NPEs (i.e. their breakdown between unlikely-to-pay, past-due, denounced), and the provisioning rate. Capital adequacy should be assessed in terms of level, i.e. considering the phased-in or the fully-loaded CET1 ratios, and of quality, i.e. considering the share of DTCs in CET1.

absorb large one-off shocks to its debt/deficit without creating further risks to debt sustainability may be limited (while also taking into account the offsetting benefits from potentially higher GDP growth).

- **Impact on bank-sovereign nexus.** This is an important vulnerability responsible for transmission of shocks both ways. Therefore, ceteris paribus, options that do not exacerbate the bank-sovereign nexus could be prioritized.

**4. Other considerations (even if not decisive, these qualitative aspects would need to be also taken into account):** (i) the governance of the NPE resolution process; (ii) the efficiency in cleaning up borrowers' balance sheets and, accordingly, boosting growth (also noted above); (iii) the potential to increase moral hazard and impact on the payment discipline; (iv) the capacity to attract investor interest; (v) conflicts with existing initiatives pursued by individual banks; and (vi) the effect on system concentration.



## Annex VI. Capacity to Repay in the Downside Scenario

*This annex considers a downside scenario in which selected risks to government finances materialize, and Greece's market access is curtailed, relative to the baseline. Under the downside scenario, Greece's capacity to repay the Fund would be at risk beginning from 2021, absent some combination of a strong fiscal policy reaction (and maintaining market confidence), a new financial agreement, or debt restructuring.*

**1. Under downside scenario assumptions, the fiscal primary balance (in cash terms) would deteriorate by about 1.3 percent of GDP on average over 2019-2024 compared to baseline.** (Table 1). The fiscal path reflects the following assumptions:<sup>1</sup>

- The courts overturn the 2012–15 pension payment cuts, triggering €6.4 billion in payments, split equally over 2020–21 (Box VI-1).
- The courts overturn past cuts in public-sector bonuses, triggering: (i) a retroactive payment of €2.6 billion paid in full in 2019; and (ii) restoration of the bonus beginning in 2020, which permanently adds 0.2 percent of GDP to annual budget expenditure.
- VAT rate cuts are implemented in line with the authorities' promises, thus permanently lowering VAT revenues by 0.4 percent of GDP starting in 2021.
- State guarantees are paid beginning in 2019 (€2.1 billion), with a half of €1 billion called gradually over 2020–24.
- These fiscal shocks are partially absorbed by budget contingency reserves and some spending compression (totaling about €1 billion annually). However, it is assumed that no other proactive fiscal policy response is undertaken.

**2. In this downside scenario, materialization of the above risks is assumed to hamper investor confidence, limit Greece's access to financing, and force a drawdown of the State government's cash buffer.** Staff assumes that the government implements only one half of its planned sovereign debt issuances over 2019–21 and cuts its rollover of T-bills in half. Due to the large deviation from the post-program target committed to the European Institutions, staff assumes that the ANFA/SMP profits are not returned and there is no waiver of the step-up interest rate margin for part of the EFSF loans.

<sup>1</sup>The assumptions on potential additional fiscal spending and revenue reductions are based on staff's estimates. The analysis focuses only on the first-round effects on public financing (negative second-round effects on growth and the cost of borrowing would likely further worsen public finances and the repayment capacity).

**Annex VI. Table 1. Downside Scenario: Materialized Risks, 2019–24**  
(Billions of euros, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024
<b>Items affecting primary balance</b>	<b>3.7</b>	<b>2.9</b>	<b>3.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>
Retroactive pension payment for 2012-15		3.2	3.2			
Retroactive public- sector bonus	2.6					
Restoration of public-sector bonus		0.5	0.5	0.5	0.5	0.5
VAT rates cut			0.8	0.8	0.8	0.9
Outstanding state guarantees	2.1	0.2	0.2	0.2	0.2	0.2
Use of budgeted contingency reserves and spending compression	-1.0	-1.0	-1.0			
<b>Items affecting financing</b>	<b>10.0</b>	<b>2.5</b>	<b>2.5</b>	<b>4.1</b>	<b>5.2</b>	<b>12.5</b>
No market access	3.5	1.0	1.0	2.6	5.2	12.5
T-bills 50% rollover rate	4.9					
No ANFA/SMP	1.3	1.3	1.3	1.3	0.0	0.0
No waiver of the step-up interest rate margin for EFSF loans	0.3	0.2	0.2	0.2	0.0	0.0
<i>Memo item:</i>						
Primary balance in % of GDP						
Cash	1.0	1.4	1.4	2.7	2.1	2.0
Accrual	1.6	2.0	1.7	2.8	2.3	2.1

Sources: Ministry of Finance; and IMF staff projections.

### 3. Use of the cash buffer is simulated based on the following considerations:

- It is assumed that the ESM will not object to the full use (drawdown) of the State government cash buffer (estimated at €30 billion at end-2018). General government entities' deposits in commercial banks are assumed to be maintained at their current level.
- The State keeps its BoG deposits above the minimum assumed liquidity cushion required for normal fiscal operations (€0.3 billion, equivalent to the lowest three-month average in 2015).
- Part of the available cash buffer is used to support the banking system through targeted placement of deposits to cover temporary liquidity shortfalls.

**4. Under this downside scenario, the repayment capacity of the Greek State will be significantly constrained.** Available cash buffers will be exhausted by end-2021, and from 2022, the State would face a financing gap. The latter should be interpreted as the minimum size of policy adjustments (and/or other steps noted above) needed to meet payments. Absent such responses, full payment on Greece's debt obligations would not be possible (or only possible for a limited period, as Greece would need to pay unsustainably high interest rates to borrow). Fiscal space would be reduced further if potential costs related to NPE reduction and/or negative growth effects were included.

**Annex VI. Table 2. Downside Scenario: GG Financing Requirements and Sources, 2018–24**  
(Billions of euros)

	2018	2019	2020	2021	2022	2023	2024
	Prel.	Proj.					
Gross borrowing need	35.9	8.4	5.9	10.6	14.6	17.6	20.2
Overall deficit (cash)	2.0	4.1	2.8	2.8	-0.1	1.0	1.1
Primary deficit (cash)	-3.1	-2.0	-2.8	-2.8	-5.8	-4.6	-4.4
Amortization	18.9	23.6	10.0	10.3	14.8	16.7	19.1
Short-term (T-bills)	14.3	11.2	4.9	4.9	4.9	4.9	4.9
Other	15.0	-19.3	-6.8	-2.4	-0.1	-0.1	-0.1
ECB related income (SMP/ANFA)	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	0.0
Step-up interest rate margin for EFSF loans	0.0	0.3	0.2	0.2	0.2	0.0	0.0
Govt deposits: replenishment (+) / drawdown (-)	14.6	-21.0	-6.6	-2.2	0.0	0.0	0.0
Gross financing sources	35.9	8.4	5.9	5.9	4.9	4.9	4.9
Market access	14.2	8.4	5.9	5.9	4.9	4.9	4.9
Short-term (T-bills)	11.2	4.9	4.9	4.9	4.9	4.9	4.9
Medium and long-term	3.0	3.5	1.0	1.0	0.0	0.0	0.0
Official financing	21.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	4.7	9.7	12.6	15.2
<i>Memo items:</i>							
Deposits of general government 1/ available to state government 2/ state government in BoG 3/ state government in commercial banks general government entities in BoG general government entities in commercial banks 4/ Primary deficit (accrual)	37.5 30.0 20.3 6.5 3.2 7.5 -7.0	16.5 9.1 3.7 2.2 3.2 7.4 -3.1	9.9 2.5 0.3 0.0 2.2 7.4 -4.0	7.7 0.3 0.3 0.0 0.0 7.4 -3.4	7.7 0.3 0.3 0.0 0.0 7.4 -5.8	7.7 0.3 0.3 0.0 0.0 7.4 -4.9	7.7 0.3 0.3 0.0 0.0 7.4 -4.7

Sources: Ministry of Finance; and IMF staff projections.

1/ Total general government deposits (€37.5 billion) consist of state government deposits (€26.8 billion) and general government entities' deposits (€10.7 billion) in the BOG and commercial banks as of end-December 2018.

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

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

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

### Annex VI. Box 1. Fiscal Risks from Court Rulings on Past Measures

Recent court rulings overturning past reforms have mandated selected retroactive payments on wage and pension cuts. This is part of a wave of cases challenging past reforms. Adverse rulings or extensions in selected current cases could have significant one-off repercussions totaling about €9.5 billion from retroactive payments and  $\frac{3}{4}$  percent of GDP of additional annual future budget spending.

**Recent higher (supreme court) and lower level ('first instance') court decisions have generated retroactive payments and increased fiscal risks.** In 2018, over 0.4 percent of GDP of unforeseen budget spending was triggered by a single court decision (ruling wage cuts imposed in 2012 on uniformed officials and certain other professions unconstitutional). If extended by future court rulings (some of which are under preparation) to other reforms to which the same arguments may be applied, one-off costs could be substantial. While the number of pension appeals that are eligible for retroactive compensation under the 2015 Council of State ruling is limited, ongoing court challenges of the 2012 pension reform for extending the eligibility and compensation period could result in up to 6.4 billion in retro-active net payments. Possible court rulings related to the elimination of holiday bonus payments in the public sector could add another 2.6 billion.

Risks to Government Budget from Fiscal Policies			
Risk	Fiscal impact		Recurring cost (Percent of GDP)
	One-off/	Retroactive	
	(Billions of euros)	(Percent of 2019 GDP)	
Pension reform of L.4093/2012.	6.4	3.3	
Restoration of public sector bonuses	2.6	1.4	0.2
of which: uniformed personal	0.7	0.4	0.1
of which: public health sector	0.1	0.1	0.0
of which: municipalities	0.3	0.1	0.0
Misc	0.4	0.2	0.6
<b>Total</b>	<b>9.4</b>	<b>4.9</b>	<b>0.8</b>

Source: IMF staff estimates.

**Future budgets could be burdened by additional annual expenditure of about**

$\frac{3}{4}$  percent of GDP. Based on known cases, a reversal of past public-sector wage cuts could imply additional annual expenditures of about  $\frac{1}{4}$  percent of GDP going forward. In addition, several fiscal measures have been proposed by the authorities but not yet reflected in the budget projections, amounting to about 0.6 percent of GDP.<sup>1</sup>

**Uncertainties around these estimates are large and a comprehensive assessment is difficult.** The estimates above are subject to various assumptions, including: (i) given limited information and for prudence, the widest possible group potentially eligible for a compensation is assumed to be affected with the entire reform deemed unconstitutional; (ii) an effort was made to distinguish between cases where the rulings affect only retroactive compensation for one or more years and those with repercussions for future wage and pension costs.

1/ These estimates do not reflect potential reversals of the 2016 pension reform, as the ongoing court cases challenging this are still at early stage. Should the 2016 reform be fully reversed, the additional annual cost could range between 2-4 percent of GDP in the medium term. There are other possible risks that are currently at too early a stage to be assessed.

**Statement by Mr. Psalidopoulos on Greece**  
**March 6, 2019**

The Greek authorities welcome the IMF's First Post Program Monitoring report and thank staff for the continuous constructive dialogue and engagement.

**Following the successful completion of the ESM Economic Adjustment Program, Greece was integrated into the normal cycle for the coordination of economic policies across the European Union – the European Semester.** Economic recovery gains strength and is expected to accelerate in the coming years. Public finances are on track to sustainability, while Greece's successful access to capital markets confirmed that the country has restored its credibility. The reform effort continues with the view to boost growth and address remaining challenges.

**Economic recovery is gaining traction and is projected to continue in 2019 and in the medium term.** The Greek economy has been growing for seven quarters in a row, at a modest pace in 2017 and an accelerated pace during the last three quarters of 2018 with a forecast for robust growth in 2019 and beyond. Real GDP growth is expected to reach 2.1% in 2018 and 2.5% in 2019. The drivers of growth have been both domestic and external. Household consumption has rebounded strongly after several years of negative growth with the annual growth rate exceeding 1% in 2018 and over the medium term, supported by increased employment and higher disposable income. Exports of goods have increased at double-digit rates in the last two years reflecting both a more benign external environment and significant improvements both in cost and non-cost competitiveness. Unemployment has been falling steadily from a peak of 27% in 2013 to nearly 18% supporting household consumption and social security revenue, although the level of unemployment and the quality of job creation still remain a challenge that needs to be addressed going forward.

**Greece continues to deliver sustainable public finances while also improving the fiscal policy mix to support growth and social inclusion.** Building on the strong fiscal track record of the previous years, the general government primary surplus will exceed the fiscal

target of 3.5% of GDP in 2018 also making Greece one of seven euro-area countries with a positive fiscal balance in the period 2016-2018. Furthermore, Greece is on track to meet its fiscal target for 2019-2022, while fiscal space is expected to emerge, as economic recovery gains traction and the output gap closes, allowing a shift in the fiscal mix. To this extent and in the context of the 2019 Budget, the Government introduced a fiscal package of 0.5% of GDP including reductions in taxes and social security contributions, as well as an increase in targeted social spending. Fiscal risks might possibly arise from court rulings on past wage and pension reforms, but any potential impact could be covered from contingency buffers in the budget.

**Significant progress has been achieved on the state of the financial system and the liquidity of Greek banks, while vulnerabilities still persist and will be addressed.** Private non-financial sector deposits increased at an accelerating pace for the second straight year in 2018 on improved depositor sentiment and reduction of uncertainty. At the same time, the ELA funding, which soared during the crisis years as the key funding source for Greek banks, was almost eliminated at the end of 2018. Greek banks are adequately capitalized with their Common Equity Tier 1 (CET1) ratio at 15.6% (September 2018), while the stress tests conducted by the EBA in May 2018 did not identify any capital shortfall for the four significant Greek banks. Thus, the authorities disagree with the assessment of staff that “the Greek banking system remains highly vulnerable” (on p.14) However, despite its steady decline in the previous years, the NPE stock remains high and a comprehensive approach is needed to clean up bank balance sheets. Key elements are already in place, including a continuous increase in e-auctions and further improvements in the legal framework of out-of-court workouts. At the same time, the Government has already presented to DG COMP an Asset Protection Scheme and has also designed and intends to move ahead with a comprehensive and well-targeted household insolvency law to replace the existing framework. The authorities disagree with staff’s assessment of a still weak payment culture as it steadily improving, and, in any case, a poor payment culture should not be confused with genuine payment problems in time of still existing liquidity constraints

**Since the successful completion of the ESM program, the Greek authorities have carried the reform momentum forward with the view to address existing vulnerabilities and support growth-enhancing policies.** Notable reforms have been implemented in several areas including public financial management, health care, justice, public administration and product markets, while the successful completion of privatization projects has led to proceeds of €1.8 billion. The recent increase in the minimum wage is expected to boost labor productivity via higher demand and the elimination of economic slack. The Greek authorities are closely monitoring developments in the labor market and are ready to undertake any necessary action. In any case, on the issue of labor markets, Greek authorities will work towards convincing staff to rely in the future more on opinions of seawater economists, rather than exclusively relying on those of freshwater economists.

**Following the debt relief measures adopted by the Eurogroup of 22 June 2018, the public debt is on a sustainable path.** Greece is expected to meet the agreed benchmarks for gross financing needs i.e. below 15% of GDP in the medium term and below 20% of GDP thereafter. At the same time, state liquidity is sufficient to cover the financing needs for at least two years even without new issuances while the sovereign financing profile remains favorable in the medium term benefiting from extremely low average maturity and favorable interest rates. The Greek authorities are considering further actions to improve the debt profile including an early repayment to the IMF as part of their broader liability management strategy and in consultation with their European partners.

**The Greek economic recovery has led to a significant improvement in market sentiment.** The rating agencies have proceeded to multiple upgrades of Greece's rating with three rating agencies currently having a positive outlook implying potential further upgrades. The improved confidence in the prospects of the Greek economy has led the 10-year Greek government bond yield to pre-crisis levels at 3.7%. This was also reflected in the successful completion of a 5-year, €2.5 billion bond issuance in January, which was four times oversubscribed by high quality foreign investors.