

**EXECUTIVE  
BOARD  
MEETING**

SM/22/131  
Correction 1

June 7, 2022

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Greece—Staff Report for the 2022 Article IV Consultation**

Board Action: The attached corrections to SM/22/131 (6/7/22) have been provided by the staff:

**Evident Ambiguity**

**Page 54 (first bullet, line 6)**

**Factual Errors Not Affecting the Presentation of Staff's Analysis or Views**

**Pages 36, 48, 54 (first bullet, line 8)**

**Typographical Errors**

**Page 10**

Questions: Mr. Botman, EUR (ext. 34214)  
Ms. Xu, EUR (ext. 34227)



financing needs and contribute to their target to reach investment grade in 2023. The authorities welcomed the improved external sector assessment and stressed the structural nature of improvements in the export of goods. They expected external imbalances to narrow further over the medium term as imports normalize and exports strengthen further, boosted by productivity gains as NGEU funding and reforms take hold and the economy further rebalances towards tradeable sectors.

## POLICY DISCUSSIONS

### A. Fiscal Policy Discussions

**11. Despite the large headline consolidation, the fiscal stance in 2022 remains accommodative** (text figure 6). The budgeted consolidation, the largest in the eurozone, reflects the roll-off of most COVID-19 support. Pandemic-related measures that were extended include reductions of social security contributions (SSC) and the solidarity tax for private sector employees, VAT cuts in selected service sectors, and a few employment support programs. To mitigate the social and economic impact of high energy prices, the government introduced substantial support measures, including general electricity and gas bill discounts to households and firms as well as targeted subsidies to vulnerable groups (see table). The total cost of these energy-related measures is estimated at about 2½ percent of GDP, while the direct budget impact is limited to about ½ percent of GDP as the bulk is expected to be financed by higher ETS revenues. To

<b>Energy-related Support Measures 2021–2022</b> (In percent of GDP)		
	<b>2021</b>	<b>2022</b>
Subsidies to households and firms for electricity and natural gas consumption funded by the Green Transition Fund	0.3	2.1
Increased allowances to vulnerable citizens (low income pensioners, non-insured elderlies, minimum income beneficiaries, disability & child benefits)	0.1	0.2
Prepaid card for fuels to households	0.0	0.1
Other	0.0	0.2
<b>Total Cost</b>	<b>0.5</b>	<b>2.6</b>
<b>Net Cost of State Budget</b>	<b>0.2</b>	<b>0.5</b>

Sources: The Greek authorities and IMF staff calculations.  
Note: Data may not add up due to rounding.

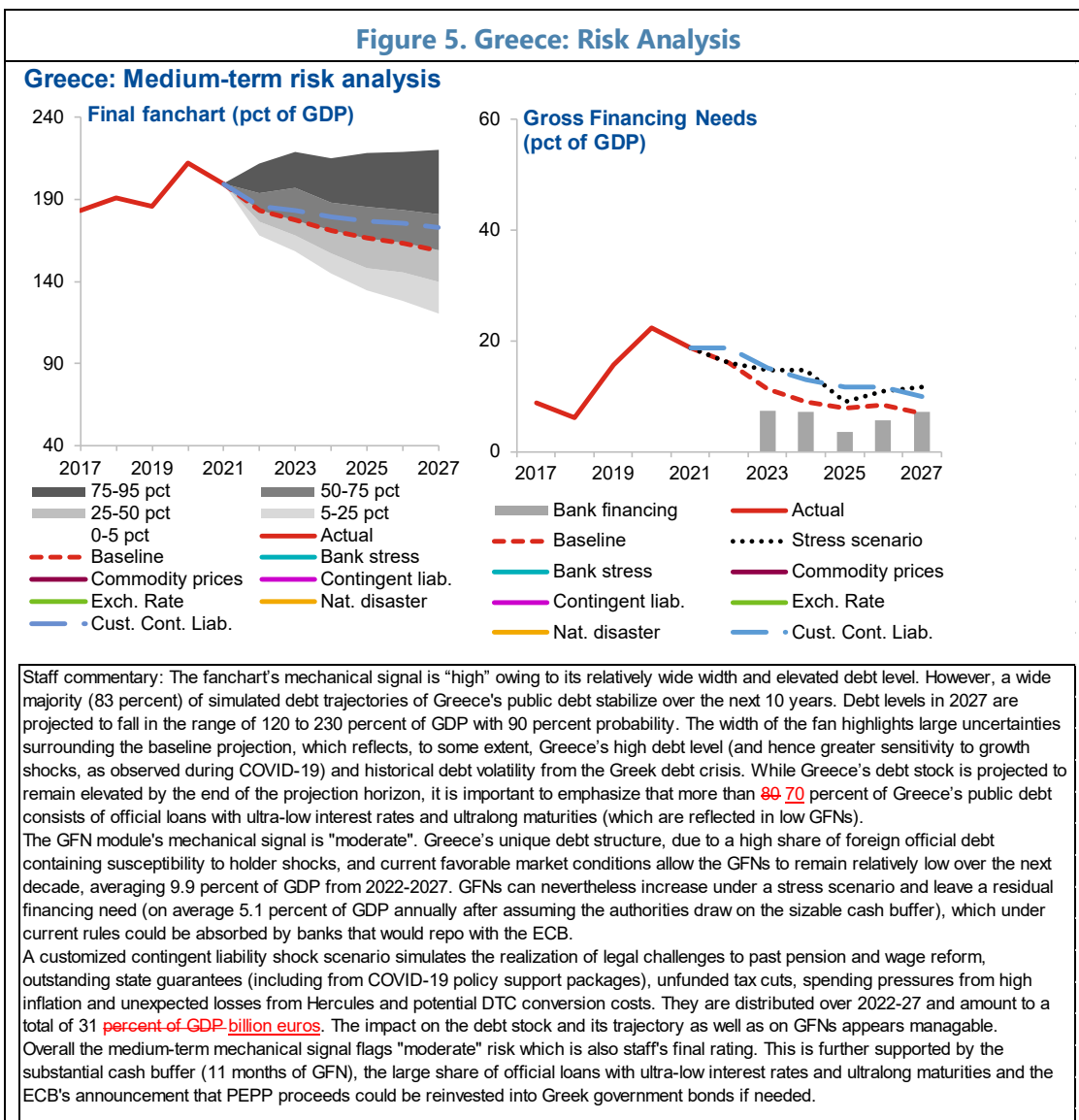
ensure budget-neutrality, the government is calibrating the electricity and gas discounts to match the increase in ETS revenues on a monthly basis. In addition, the government announced a 13 percent permanent reduction in the Single Property Tax rate (ENFIA) amid the move to higher market values. Excluding temporary measures, the underlying fiscal policy stance is accommodative.<sup>6</sup>

<sup>6</sup> The assessment of the fiscal stance is subject to considerable uncertainty associated with the output gap estimate and the absorption of NGEU funds.

Table 4. Greece: Monetary Survey, 2017–21

	2017	2018	2019	2020	2021			
					Mar.	Jun.	Sep.	Dec.
(Billions of euros)								
Aggregated balance sheet of Monetary Financial Institutions (MFIs)								
Total assets	427.7	402.4	419.5	520.0	530.7	544.0	553.0	566.3
Cash (held by credit institutions)	1.8	1.8	2.1	1.9	1.7	1.8	1.8	2.0
Claims on Bank of Greece	2.0	6.9	9.1	27.3	31.3	36.7	41.2	49.1
Claims on other MFIs	50.7	27.9	21.2	56.1	58.9	60.6	61.2	65.3
Claims (loans) on non MFIs	201.0	186.1	172.1	159.9	157.6	150.8	139.8	129.2
Domestic	197.5	183.1	162.5	149.6	146.2	138.2	127.0	116.1
General government	13.7	12.9	8.4	8.0	6.5	9.0	8.9	7.5
Other sectors	183.8	170.2	154.1	141.6	139.6	129.2	118.1	108.6
Other countries	3.4	3.0	9.7	10.3	11.4	12.6	12.9	13.1
Securities 1/	103.4	105.6	136.7	192.3	200.6	214.7	226.1	234.6
Other assets	64.3	69.5	72.2	76.1	74.3	73.2	76.7	79.9
Fixed assets	4.5	4.6	6.1	6.4	6.2	6.2	6.2	6.2
Total Liabilities	427.7	402.4	419.5	520.0	530.7	544.0	553.0	566.3
Liabilities to Bank of Greece	33.7	11.1	7.7	41.2	44.6	47.0	46.9	50.8
Liabilities to other MFIs	79.2	62.1	56.4	116.6	128.5	136.7	141.6	160.2
Deposits and repos of non MFIs	157.6	185.3	195.2	207.9	208.8	218.6	232.1	232.3
Domestic	150.9	178.1	187.2	199.4	198.9	207.8	220.2	219.0
Other countries	6.7	7.2	8.0	8.5	10.0	10.8	11.9	13.4
Capital and reserves	83.5	69.9	69.1	63.4	61.3	54.0	49.5	43.9
Banknotes and coins in circulation	31.9	33.6	30.4	33.5	33.8	34.5	35.1	36.0
Other liabilities	41.8	40.5	60.8	57.4	53.6	53.1	47.9	43.0
Money and credit								
Broad money	171.0	178.4	185.9	208.4	210.5	217.3	223.2	229.2
Credit to the private sector 2/	183.4	169.8	153.7	141.2	139.2	128.8	117.7	108.1
Credit to government	18.9	18.2	19.7	27.4	28.8	33.5	33.6	29.9
(Annual percentage change)								
Broad money	6.3	4.2	4.1	12.3	12.9	12.6	12.2	9.6
Domestic private sector deposits	4.2	6.3	6.1	12.9	12.5	13.4	12.8	9.4
Credit to the private sector 2/	-0.8	-1.1	-0.6	3.5	2.9	2.3	0.8	1.4
Credit to government	-7.8	-0.7	-5.4	25.7	30.7	36.2	34.3	13.5
(Percent of GDP)								
Broad money	96.7	99.5	101.7	125.8	128.0	127.0	126.5	126.0
Domestic deposits	85.3	99.3	102.5	120.3	120.9	121.4	124.8	120.3
Credit to the private sector 2/	103.7	94.7	84.1	85.2	84.6	75.3	66.7	59.4
Credit to government	10.7	10.2	10.8	16.6	17.5	19.6	19.0	16.4
Memorandum items: (Percent)								
Capital to assets	11.2	8.9	9.0	8.1	8.0	7.2	7.4	7.3
Loans to customer deposits	127.1	106.7	81.2	71.3	71.4	66.7	62.1	56.6
Velocity	1.0	1.0	1.0	0.8	0.8	0.8	0.8	0.8
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.								

Figure 5. Greece: Risk Analysis



for Greek banks. TLTROIII operations provided an effective liquidity backstop and lowered considerably funding costs for Greek banks. Although net PEPP purchases will stop from end-March 2022, the ECB will nevertheless continue its PEPP reinvestments until end-2024, which could be adjusted in periods of market stress. This could include purchasing bonds issued by Greece over and above rollovers or redemptions. While the TLTROIII operations are expected to cease starting from 2022:Q3, GGBs are going to be accepted as eligible collateral **at least** as long as PEPP reinvestments continue, which should help with easing funding and liquidity pressures for Greek banks over the course of 2022–24 and 2023:H1.

- *Prudential policy relief.* The SSM has temporarily loosened its enforcement of supervisory requirements, so SIs can temporarily operate below the Pillar 2 Guidance buffer, the capital conservation buffer, and the liquidity coverage ratio. The SSM has also allowed flexibility in classifying and provisioning for NPLs that are covered by public guarantees and pandemic-related payment moratoria. The relief is expected to remain in place until end-2022.

## B. Recent Developments in the Banking System Across Key Risks

### Asset Quality

#### 2. The accelerated NPL reduction has been driven predominantly by inorganic actions.

The NPL ratio dropped from 25 percent in 2020 to 7 percent at end-2021 on the back of securitizations and sales of NPL portfolios underpinned by the government-sponsored Hercules scheme providing guarantees on the senior note tranches. For SIs, which account for around 97 percent of total banking sector assets, the reduction was modestly faster for the household sector compared to the corporate sector, with the latter driven by manufacturing, construction, and trade. The contribution from collateral liquidations and repossessions, write-offs, and collections continued to be very limited, given the slow progress made with structural financial sector reforms, including implementation of the new insolvency law and improving judicial system efficiency. There was also some further inflow of new NPLs associated with the pandemic, although offset partially by curing. Less Significant Institutions (LSI) made little progress with NPL reduction, but securitizations are planned in 2022. While Greece still has the highest NPL ratio in the EU, there has been rapid convergence and all the SIs will likely achieve a single-digit level ratio in 2022. Further reductions in NPLs will increasingly need to rely on organic actions because the Hercules scheme is scheduled to lapse in 2022, so securitizations and sales will likely be less feasible given current SSM guidance or attractive in terms of risk weighting. The coverage ratio reached 42 percent at end-2021, close to the EU average.