Executive Board Minutes 22/52-3

June 8, 2022–2:30 p.m.

Greece—2022 Article IV Consultation

Documents: SM/22/111; SM/22/131, and Cor. 1, and Sup. 1

Staff: Botman and Gerson, EUR; Joshi, SPR

Length: 1 hour, 12 minutes

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CEDA OGADA
Secretary

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[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the stronger-than-expected economic recovery in 2021, which was buttressed by the Greek authorities' strong policy response to the COVID-19 crisis, past structural reforms, and the support from the European Union. Directors commended the authorities for advancing reforms to address legacies from the debt crisis despite the challenging environment and for the early repayment of all outstanding Fund credit. They welcomed that output has returned to pre-pandemic levels, that public debt is on a downward trajectory, and that the growth outlook remains robust despite the war in Ukraine and high inflation. Noting that uncertainties and downside risks to the outlook remain, Directors stressed the need to continue pursuing prudent policies and implementing growth-enhancing structural reforms to ensure debt sustainability and promote inclusive and greener growth.

Directors agreed that fiscal policy should remain accommodative but well-targeted in 2022 before returning to a gradual and growth-friendly consolidation with sustained primary surpluses thereafter. They recommended that across-the-board subsidies for high energy prices be replaced with targeted support for vulnerable groups. Directors broadly agreed on the need to carefully assess the implications of the plans for permanent cuts in social security contributions and the elimination of the solidarity tax. They emphasized that the recent increase in health spending and public investment should be preserved, while pressures to raise pensions and civil service wages should be resisted. Directors recommended further enhancing the Guaranteed Minimum Income scheme to form the basis for targeted support during adverse shocks.

Directors commended the authorities for the rapid reduction of non-performing loans in major banks and for their commitment to tackle the remaining challenges to enhance financial resilience. They emphasized that further progress in reducing distressed debt should come from implementing the new insolvency law, improving banks' credit risk management, and developing viable long-term restructurings. Directors also recommended strengthening capital buffers and the quality of capital, restoring sound profitability drivers, addressing medium-term funding challenges, and adapting business models. They generally encouraged the authorities to prepare a conditions-based roadmap to guide the activation of macroprudential tools in the medium term should any systemic vulnerabilities emerge.

Directors agreed that the authorities' National Recovery and Resilience Plan, which is supported by Next Generation EU funds, is a key opportunity to cement past reform achievements; address remaining structural bottlenecks, including in the labor market; raise growth potential; and ensure sustainable, job-rich, and greener growth. While noting the positive impact of the minimum wage increase on households' purchasing power, Directors recommended monitoring its potential effects on inflation and youth unemployment. They welcomed the authorities' commitment to climate-friendly policies and stressed the need for

a stronger social safety net—which could be financed by higher carbon taxes when conditions allow—to facilitate the green transition.

It is expected that the next Article IV Consultation with Greece will be held on the standard 12-month cycle.

EXECUTIVE BOARD ATTENDANCE[2]

B. Li, Acting Chair

Executive Directors	Alternate Executive Directors
	M. Maidi (AE), Temporary
	T. Nguema-Affane (AF), Temporary
	B. Lischinsky (AG), Temporary
	A. Grant (AP)
	F. Fuentes (BR)
Z. Zhang (CC)	
P. Moreno (CE)	
	F. O'Brolchain (CO)
D. Palotai (EC)	
	C. Roman (FF)
	H. Koh (GR), Temporary
	R. Goyal (IN), Temporary
	M. Massourakis (IT)
	M. Kashima (JA)
	B. Boostani (MD), Temporary
	M. Merhi (MI), Temporary
	M. Scholer (NE), Temporary
M. Poso (NO)	
	A. Tolstikov (RU), Temporary
	H. Alshaikh (SA), Temporary
	F. Mochtar (ST)
P. Trabinski (SZ)	
	D. Andreicut (UK), Temporary
	A. Medearis (US), Temporary

E. Tsounta, Acting Secretary
R. Dall'Orto, Summing Up Officer
V. Sola, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Communications Department: M. Louis. European Central Bank: D. Rakitzis, R. Rueffer. European Department: D. Botman, P. Gerson, S. Hua, M. Jarmuzek, D. Murphy Pineda, W. Shi, X. Xu. Legal Department: K. Chen, C. DeLong. Monetary and Capital Markets

[2] For countries in each constituency, please see the Constituency Codes in the annex.

Department: A. Boher, U. Das. Strategy, Policy, and Review Department: B. Joshi, J. Schauer. Executive Directors: A. Andrianarivelo (AF), A. Bevilaqua (BR), S. Bhalla (IN), S. Chodos (AG), D. Fanizza (IT), P. Jennings (CO), R. Lim (ST), I. Mannathoko (AE), M. Mohieldin (MI), J. Stephan (GR). Alternate Executive Directors: A. Alhosani (MI), C. Amarasekara (IN), H. Azal (EC), M. El Qorchi (MD), A. Guerra (CE), C. Just (EC), A. Marcussen (NO), R. N'Sonde (AF), S. Potapov (RU), J. Romero (CE), D. Ronicle (UK), F. Sylla (AF). Senior Advisors to Executive Directors: E. Cartagena (CE), M. Choueiri (MI), R. Cunningham (CO), C. Quaglierini (IT), J. Rojas (CE), C. Sassanpour (MD), F. Spadafora (IT), M. Zhunusbekova (SZ). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), R. Bah (AF), M. Bangrim Kibassim (AF), C. Becker (AP), L. Cerami (IT), T. Cham (AE), M. Coronel (BR), J. Corvalan (AG), R. Fayez (MI), D. Hamzah (MI), W. Hteik (ST), T. Krahnke (GR), V. Lankester Campos (CE), G. Meizer (EC), P. Mooney (CO), R. Moral Betere (CE), G. Ogmundsdottir (NO), K. Osei-Yeboah (MD), A. Rao (US), A. Ribeiro Mateus (IT), I. Umrzakov (SZ), I. Valdes Fernandez (NO), Y. Watanabe (JA), O. Zubareva (RU), F. Lopez (CE).

DISCUSSION RECORD[3]

The Acting Chair (Mr. Li):

Greece has weathered the pandemic well and has continued to advance reforms. This has allowed the country to repay all outstanding credit to the Fund early. Greece is also on track to graduate on schedule this August from the Enhanced Surveillance process by the European Institutions, in which our own staff from the Fund also participates. These are important milestones for the country.

Going forward, growth is expected to remain robust, notwithstanding the uncertain environment. As a result, fiscal policy should be gradually normalized in a growth-friendly manner. I am impressed with the rapid reduction in nonperforming loans in the Greek banks, allowing the authorities to focus on steps to enhance the sector's resilience. Greece is embarking on a far-reaching reform program to channel New Generation EU (NGEU) loans and grants into productive investments to raise growth while at the same time achieving its ambitious climate goals.

Mr. Massourakis:

On behalf of the Greek authorities, I would like to thank the mission chief, Mr. Botman, and all the staff for working diligently to produce a set of well-written reports that provide us with valuable analysis of the Greek economy and its outlook, challenges, and risks. Overall, we broadly share the staff's appraisal and most of policy recommendations.

With respect to macro developments, the government's response to the pandemic has been swift and proactive. Prospects for resuming growth with fewer, if any, health-related restrictions in economic activity seem now very promising. After largely recouping pandemic-related output and income losses in 2021, Greece is expected to grow this year faster than the Euro Area, broadly in line with staff projections.

On the back of the energy crisis and fast-rising inflation due to the war in Ukraine, and in order to alleviate the impact on disposable incomes, including of the most vulnerable segments of the labor market, the authorities proceeded recently with a macroeconomically calibrated minimum wage increase that preserves competitiveness and employment. This increase comes

[3] Edited for clarity.

following a sharp drop in the minimum wage in 2012, a freezing between 2012 and 2019, when the minimum wage was increased by 11 percent, and another freeze between 2019 and 2021, and it should be seen in this context as well.

Over the medium-term, growth may benefit from a substantial surge in private and public investment supported by structural reforms, embedded in the National Recovery and Resilience Plan (NRRP). This plan was designed to catalyze the structural transformation of the Greek economy in the period to 2026 under the Next Generation EU program. These initiatives complement key labor market reforms already adopted by Parliament, overhauling job seeking and training policies and modernizing labor relations while protecting worker rights.

On debt sustainability, we welcome the staff's assessment that Greece's overall risk of sovereign stress is moderate, and the public debt is on a downward trajectory with rollover risks being manageable over the medium-term. Despite its large size, mitigating factors include a large cash buffer, ultra-long maturities, and ultra-low interest rates. According to staff's baseline, Greece's public debt is expected to decline to less than 150 percent of GDP by 2030, while at the same time gross financing needs to remain on average below 10 percent of GDP throughout the period.

Over the longer-term, the authorities consider the transition from current low to higher market terms to be a gradual process, adding to the depth and liquidity of the secondary market and thus allowing for effective liability management. The long-term sustainability of the pension system stands to strengthen despite unfavorable demographic trends. This is due to maturing pension system reforms in recent years, as well as the introduction of a new fully funded defined contribution supplementary pension system from 2022 onwards.

Greece was able to raise 28 billion euros in the capital market during the pandemic with relatively low spreads on the back of sovereign rating upgrades, reaching in April of this year one notch below investment grade from Standard and Poor's. On the back of this low-cost borrowing, prudent fiscal and liquidity management policies have been pursued. Greece managed to finance a large fiscal support package and at the same time to increase the government's cash buffer, standing currently at EUR 38 billion from 31 billion at the conclusion of the European Stability Mechanism (ESM) program in August 2019.

Last year, Greece also made the second repayment of EUR 3.4 billion to the Fund regarding repurchases carrying high interest charges and surcharges. Moreover, this year Greece settled its remaining obligations to the Fund due by end 2024, making a final payment of EUR 1.8 billion, using part of the SDR allocation proceeds, terminating thus the IMF's post-financing assessment procedure. Moreover, in the same vein, later this year Greece intends to proceed with principal repayments of EUR 2.7 billion due in 2023 of loans granted from Euro Area countries participating in the Greek Loan Facility (GLF) agreed in May 2010.

Finally, Greece has successfully completed 14 enhanced surveillance quarterly reviews from its European partners, reflecting continuous improvement in policy effectiveness. As a result, Greece is expected to exit the Enhanced Surveillance framework by August 2022.

According to the authorities' Stability Program 2022-2025, the fiscal policy stance in 2022 will remain appropriately accommodative with a primary fiscal balance expected to be reduced to a deficit of up to 2 percent of GDP, as suggested by staff, from a 5 percent of GDP deficit in 2021. Overall, the primary balance is expected to turn into a surplus of close to 1 percent of GDP in 2023, implying an almost 3 percentage points of GDP further adjustment, broadly in line with staff projection. The primary surplus will be further increased to more than 2 percent of GDP levels from 2024 onwards.

The authorities intend to make up for any lost fiscal space after making permanent the cuts in the solidarity tax and the social security contribution rates introduced during the pandemic as temporary measures. The authorities plan to return to sustainable primary surpluses without sacrificing past fiscal consolidation gains. To do so, the authorities do not rely only on the growth impact of these measures, which can be substantial; they also rely on expanding the tax base by tackling value-added tax (VAT) compliance gaps and reducing informality in the labor market through digitalization projects under implementation. These include primarily the tax authorities established in real time interconnectivity with firms and introducing the digital work card in a major effort to arrest tax evasion, which is long overdue.

Finally, on financial issues, significant progress towards restoring health in the banking sector has been registered in the last two years. The non-performing loan (NPL) ratio has been more than halved in 2021 to 12.8 percent from 30.1 percent in 2020 and is projected to be further reduced to single-digit levels this year. This has been the first tangible result of the adoption by the authorities of a multipronged, multistaged approach to deal

with legacy banking bills. Basically, a securitization strategy, which has been successful in transferring NPLs off the banks' balance sheets to specialized non-bank financial institutions (NBFIs) experienced in loan recoveries through restructurings and liquidations and, second, a comprehensive insolvency law reform, which makes Greece one of the first European Union (EU) countries to have transposed international law, the European Directive on Preventive Restructuring and Insolvency.

I have to say the authorities are aware of the challenges in efficiently operationalizing debt workouts and recovery processes in a reasonable timeframe. Now that the pandemic recedes, priority is given to reforms to enhance the institutional capacity of the courts in delivering justice, to activate the program of purchases of primary residence of the most vulnerable debtors and then lease them back to them, to facilitate informal procedures of electronic auctions of foreclosed properties, and to streamline procedures in implementing out-of-court debt workouts. To fully restore the capacity of the banking system to provide credit to the economy, bank profitability must be increased to underpin the bank's capital base. This is already reflected in recent bank rating upgrades, which incorporate robust growth in the years ahead, as well as the strengthening of bank-related profitability drivers. Nevertheless, the authorities agree with staff that Greek banks may continue enhancing risk management practices, as well as adapting their business model to strengthen even further their capacity to raise organic profitability and capital in a sustainable way. Moreover, the authorities share staff's view that strengthening the macroprudential framework will raise further Greek banks' resilience and prepare them for contingencies. Nevertheless, household releveraging is still weak, and residential real estate markets are far from overheating.

I would like to request an amendment to the draft press release regarding the reference to the external position. My authorities' request is to add the words "despite improving" before the sentence in the draft press release so that it reads: "Despite improving, the external position last year was moderately weaker than that consistent with fundamentals and desirable policies.".

The same request was denied by staff as the same phrase appears in the front page of the staff report and in the staff appraisal. According to staff and on the back of the Transparency Policy (TP), this correction could not be accepted, as it constitutes adding language to improve the exposition. The facts are different. We do not want to add our own language to improve the exposition, but rather, not to omit staff's own language and thus not to do

justice to the facts. Indeed, according to staff's own language as it appears in the first phrase of Annex II, the assessment of the external position for 2021 is considered an improvement vis-a-vis last year's assessment for 2022 as competitiveness in the current account improved, and this is exactly what we have asked for, to recognize this improvement. We would like this correction to be done in the staff report, but if I understand well the corrections-deletions phase is over in accordance with the Transparency Policy. If this is the case, then we ask for a correction to the draft press release, which is not bound by the Transparency Policy. To this end, I ask for the support of my Board colleagues. This is a case where the Transparency Policy did not work to the best interest of the membership, and maybe the time is right for a change. In the Board discussion on the Work Program earlier today, we have asked the Transparency Policy review to be brought forward to FY2023-24. Maybe that will be the opportunity to make the change.

The staff representative from the European Department (Mr. Botman):

We would like to express our gratitude to the authorities for the excellent cooperation during this year's Article IV consultation. I would first like to give a few updates on recent data releases and developments.

First, we got inflation numbers for May, and these were higher than we anticipated. They came in at 10.7 percent year-on-year driven primarily by high energy and food prices.

Second, yesterday, we also received the first quarter GDP release. This is the first reading, as the statistical agency does not produce flash estimates. The outturn was a positive surprise with growth coming in at 2.3 percent Q on Q seasonally adjusted, considerably higher than our expectations. In addition, the quarterly growth pattern of 2021 was revised, implying a stronger carryover effect to 2022 growth. The biggest surprise was in private consumption, and we will reflect the latest inflation and growth numbers together with the updated forecast assumptions for the upcoming WEO forecast.

Finally, on May 26, the Greek parliament passed its first climate law, which sets out ambitious targets to fight climate change. Now, we have responded in detail to the questions in the gray statements but let me give some further information on some of the comments raised by several Executive Directors.

First, in terms of our medium- and long-term growth projections, these are lower than the authorities'. We clarified in our responses to gray statements that for the medium-term, this mainly reflects the assessed growth impact of the NEGU resources and reforms. For the longer-term, the staff is more pessimistic than the authorities, and this has been a longstanding issue. We have analyzed this in detail in previous staff reports.

The main drivers of the slow long-term recovery in our baseline are the projected adverse demographic trend and the historically slow productivity growth increase. Specifically, according to the 2021 Aging Report, the labor force is projected to drop by almost 10 percent in 2030, compared to end-2019 and further to 17 percent in 2040. This is among the sharpest drops in EU countries.

This will translate into an average yearly decline of about 1 percentage point of the labor force over the next few decades. Greece also experienced low productivity growth over the past few decades. Specifically, it averaged about a quarter percent between 1970 to 2017. All considered, structural constraints limit the long-term growth prospects to around 1.2 percent in our baseline. At the same time, we do not fully rule out that a virtuous cycle could emerge if deep structural reforms would raise labor participation and productivity, boost investment, as well as savings and exports, to keep the current account in check, with significant dividends for debt sustainability. This, in our view, constitutes an upside risk at this point, rather than being part of the baseline.

Let me turn to the second point raised by several Directors, which was on fiscal policy. We agree on the need to rebuild fiscal buffers and aim for fiscal surpluses over the medium term. At the same time, we also agree that improvements in the fiscal policy mix during the pandemic, primarily higher healthcare spending and public investment, needs to be protected. In addition, there is agreement that targeted social protection should be scaled up, and there are important downside risks to the consolidation trajectory in case contingent liabilities materialize or spending pressures on civil service wages and pensions emerge or in case energy subsidies significantly overshoot the increase in ETS revenues.

Now, something needs to give.

In this regard, the plan to make the social security contribution cuts and the solidarity tax cuts not only permanent, but also to extend them to civil servants and retirees, to staff appears an inefficient and regressive use of fiscal

space. Previous analysis has shown that civil servants already enjoy significant wage premium that cannot be explained by skills or experience, and the cuts mainly benefit higher income earners and pensioners. Furthermore, reducing social security contributions without corresponding adjustments to benefits is intergenerationally unfair and runs counter to the program objective to align benefits with contributions.

Finally, some Directors questioned whether credit developments and other metrics were trending in a way that suggested emerging financial vulnerabilities, in turn, warranting the activation of macroprudential buffers, including borrower-based measures. We share the view that the banking sector has been deleveraging for an extended period of time and that rising credit growth is not only a natural, but also a welcome phenomenon, now that the banks' balance sheets have healed significantly. Likewise, rising housing prices are a welcome development following years of decline, while private sector indebtedness remains relatively low. Nonetheless, our detailed analysis in the selected issues paper (SIP) suggests that the credit gap has turned positive, that there has been a substantial increase in real estate prices and in the price to rent ratio, a significant acceleration in new mortgage and consumer loans. Against this background, staff agrees that these developments do not justify an immediate activation of the macroprudential toolkit. As was mentioned in one of the grays, the timing should be carefully considered, and we fully share that view. At the same time, these developments suggest the need to prepare a roadmap to guide the activation of borrower-based measures over the medium term and to make this roadmap conditions-based, which will guide the activation and enhance transparency and facilitate communication with stakeholders. The staff report reflects some conditions that could be part of such a roadmap, but obviously there could be others, and we will be working with the Bank of Greece to develop this further in the future.

Mr. Pösö:

I have issued a gray statement but would like to raise a few points for emphasis.

Greece has weathered the pandemic relatively well with output recovering faster than expected. The robust expansion is expected to continue despite the negative impacts of the Russian invasion of Ukraine, including higher inflation as the May figure indicates. The Greek economy is set to expand by 3.5 percent this year, and the economy has, in our view, the potential to grow faster than staff's growth forecast for 2023, and the figure

from the first quarter is quite impressive, to say the least. The balance of risks remains tilted to the downside.

The fiscal position is expected to improve significantly in the coming years. The development of the primary balance, as expected by staff, is in line with the recommendation to keep the growth of nationally financed current expenditure below medium-term potential output growth. However, debt sustainability risks remain, especially in the short- and medium-term. Gross financing needs and the debt level are high, and so is the sensitivity to adverse shocks. Therefore, pursuing prudent fiscal policies and implementing growth-enhancing structural reforms are key to ensuring debt sustainability.

On the financial sector, we agree with staff on the need to strengthen capital buffers, enhance the quality of banks' capital, and address medium-term funding challenges. The banks also need to adapt their business plans to ensure sustainable profitability, which cannot only rely on improving macroeconomic conditions. Dealing with legacy NPLs still remains a challenge, and in this context, an effective implementation of the recently announced insolvency and judicial system reforms could help accelerating NPL workouts.

As regards the press release, I was not prepared to comment on that, but I hope that a factually correct and agreeable formulation can be found; and if there has been a positive development which is acknowledged by staff, it sounds reasonable to acknowledge that.

Mr. O'Brolchain:

We have issued a gray statement; I will keep my comments brief. First, we agree with Mr. Pösö that the pursuit of prudent fiscal policies and implementation of growth-enhancing structural reforms are key to ensuring debt sustainability. Greece's comprehensive Recovery and Resilience Plan reflects these priorities.

Second, like Ms. Medearis and Mr. Ronicle, we welcome staff's selected issues paper on the social protection reforms needed to facilitate green transition and encourage staff to include similar analysis in other country surveillance reports.

Finally, as outlined in our gray statement, we commend the Greek authorities' finalization of the early repayment to the Fund in April and the expected graduation from the European Institutions quarterly enhanced

surveillance framework by August 2022, and as a second final comment, I would like to associate myself with Mr. Pösö's remarks about the press release.

Ms. Koh:

Let me just emphasize two brief points.

First, I echo Mr. Pösö in welcoming the achieved progress on the cleanup of major banks' balance sheets. We encourage the authorities to ensure a full implementation of legal reforms in order to increase the pace and effectiveness of NPL resolution, a point also mentioned by many other colleagues in their gray statements, like Mr. Bevilaqua, Mr. Buisse, Mr. Palotai.

Second, we would like to echo Mr. Dresse in highlighting the significant complementarities between raising Greece's potential growth and the green transition. Both policy objectives require substantial levels of investment, coupled with continued structural reforms. The swift and complete implementation of the Recovery and Resilience Plan will thus be crucial.

Mr. Boostani:

We concur with the thrust of the staff appraisal and policy recommendation. We have issued a gray statement, and I will focus on four points.

First, the authorities swiftly provided support to households and firms and accomplished a successful vaccination campaign. As a result, the economy has strongly recovered from the pandemic. However, the outlook remains subject to downward risk with significant uncertainty. The main risk is slower-than-expected structural reforms. This risk may even become bolder if adverse shocks materialize in the short- or medium-term and makes government intervention inevitable.

Second, reform in the banking system continued during the pandemic, but the existing vulnerabilities pose risk to financial stability, particularly the withdrawal of the support measures may even elevate already high NPLs. That said, the authorities should be nimble in addressing these vulnerabilities.

Third, we positively note that the public debt is declining. This trend should be preserved by following a fiscal rule that ensures primary surpluses in the coming years. Despite this, the authorities may use existing buffers to provide targeted and temporary support to the vulnerable.

Finally, the minimum wage increase is not a prudent measure to support the purchasing power of households. In contrast, it may adversely affect unemployed workers, especially the youth, by lowering the probability of finding jobs. Further structural reforms should continue to ensure sustainable and inclusive growth. Once the long-term growth is supported by heightening productivity, wages will grow for all workers.

Mr. Trabinski:

Greece has made meaningful progress in reducing macroeconomic imbalances over the past years and the past crisis legacies and the consequence of the COVID-19 pandemic, which hit hard crucial economic sectors such as tourism, make marks on the overall condition of the country, but we note that the Greek economy has strongly recovered from the pandemic on the back of a swift policy response. And while growth is projected to remain strong in the near-term, further measures are crucial to put the Greek economy on a sustainable growth path, especially on the fiscal side. Allow me to add four very brief points.

First, we agree with Ms. Grant, Ms. Kashima, and Mr. Mochtar that it is crucial to renew the commitment to the much-needed fiscal response to reduce the debt accumulated during the global financial crisis and rebuild buffers for future shocks. Energy price increases resulted in increased fiscal spending, notably through higher subsidies, ETS revenues, pensions, and public sector wages, but could staff elaborate on how the authorities plan to tackle this specific issue.

Second, we agree with Mr. Stephan that strong credit growth, including housing loans, in 2021 going hand in hand with rising property prices and high household debt might cause the buildup of systemic risks. We strongly recommend monitoring these risks and if necessary, activating macroprudential measures, including borrower-based, in a timely manner.

Third, like Mr. Bevilaqua, we encourage the authorities to continue implementing their Commitment on Confidence in Statistics endorsed by the government already back in 2012.

Last but not least, like Mr. Pösö, we hope for finding a common language between staff and the authorities.

Mr. Roman:

We have issued a gray statement, and I associate myself with Mr. Pösö's statement. Let me today only mention two points for emphasis, on fiscal and climate.

First, on fiscal policy, given the positive but uncertain growth outlook, we agree with staff that fiscal policy should remain accommodative in 2022 before returning to gradual fiscal adjustment and primary surpluses thereafter over the medium-term. Recalibration of fiscal measures, depending on the strength of the recovery and inflation dynamics, will be key to ensure both sufficient aggregate demand and the necessary fiscal consolidation. In this context, following the understandably broad-based response to the increasing energy prices, we agree with staff's recommendation of more targeted support focused on vulnerable groups. That being said, all policymakers and petitioners note it is easier said than done, and this targeting is necessary, but it is difficult.

Second, I welcome Greece's ambitious climate goals and green investment targets, partly financed by NEGU resources, and I support the swift implementation of the planned measures. I agree that a new carbon tax as proposed by staff could also be a good complement, but in line with Mr. Pösö's remarks and statement, its scope and timing should be carefully considered in the current context of high energy prices. We have considered scenario 2 combining targeted transfers and public investment seems, indeed, very an appealing package. In any case, I really commend the use by staff of the carbon pricing assessment tool and this scenario-based approach to guide the policy discussions. This is very useful, and it is a good step forward to help guide policymakers in assessing and designing the right package of measures for the green transition.

Finally, on the press release, I associate myself with Mr. Pösö, Mr. O'Brolchain, and others on the need to find a common language, and it seems reasonable if there has been an improvement to acknowledge it in the press release.

Mr. Fuentes:

The Greek economy rebounded strongly in 2021 on the back of a comprehensive and timely policy response. We also welcome the economy's overall performance over recent years supported by sound policies and stronger policy framework. Nonetheless, the near-term outlook is subject to significant uncertainty and downside risks. We issued a comprehensive gray statement in which we generally agree with the thrust of the staff appraisal and will make the following three comments for emphasis.

First, we believe higher-than-expected inflationary pressures remain the main risk going forward. While inflation is expected to peak during the third quarter according to projections from the Bank of Greece, further increases in energy and food prices are raising input costs to other goods and services that could push inflation to new heights. Therefore, we believe the inflation rates projected by staff for 2022 and 2023 may be underestimating this impact. Considering these circumstances, we encourage the authorities to focus policy priorities on mitigating the impact of inflation on the vulnerable population and supporting gradual fiscal consolidation without disrupting the growth momentum moving forward.

Second, we commend the Greek authorities for their commitment to reform and their progress despite the challenging environment. The National Recovery and Resilience Plan includes an ambitious agenda of structural reforms and investment projects under the Next Generation EU program to catalyze the transformation of the Greek economy. We welcome the authorities' awareness regarding the need to pay close attention to reform implementation risks to boost its effectiveness on addressing pandemic-related scarring effects and raise potential growth.

Finally, after having endured a long period of severe public debt overhang, we are pleased to see the country's public debt trajectory trending downward. That said, the authorities should carefully maintain course as debt profile remains vulnerable to shocks and depending on the EU ECB support under high-stress scenario. Furthermore, there is significant uncertainty around these projects, particularly regarding to whether the reform momentum will be sufficient to close the investment gap and overcome adverse demographics.

Before concluding my remarks, we support Mr. Massourakis' request to amend the press release and wish that a common language can be agreed between staff and the authorities.

Ms. Medearis:

We would like to applaud the authorities for their effective policy response to the pandemic, which has helped restore the economy to its pre-pandemic size and enabled the authorities to make early repayment to the IMF. We issued a comprehensive gray statement, so I want to make two additional points in response to comments made by other chairs and staff's comments as well.

First, I would like to underscore the issue of implementation, the importance of implementation of the National Recovery and Resilience Plan. I would like to thank Mr. Botman and his team for their response to our question in our gray statement and to Mr. Botman for the further elaboration on the differences between the authorities' growth forecasts and those of staff due to more conservative assumptions staff made regarding the pace and impact of the Next Generation EU funds and reforms.

We encourage the authorities to seize this opportunity of the Next Generation EU funds to undertake deeper, faster reforms and pay particular attention to the implementation risks that staff have highlighted regarding the investments in terms of the Recovery and Resilience Plan.

Secondly, on the resilience of Greece's tourism sector, we wanted to take a look at this, that Greece's economic growth in 2021 significantly outpaced staff's projections in last year's Article IV report. The staff report attributes this to exports, namely higher than expected travel receipts and private consumption; and we were wondering if staff could elaborate on the factors that underlie the resilience and overperformance of the Greek tourism sector despite the emergence of new COVID variants and Greece's relatively stringent containment measures. We have often discussed countries where the tourism sector has underperformed, and we think it would be helpful to understand what lessons, if any, to draw from Greece's example of an overperforming tourism sector.

Ms. Maidi:

The Greek economy has demonstrated resilience during the pandemic, and like other Directors, we commend the authorities for implementing swift policy measures to mitigate the impact of the pandemic and support recovery. Importantly, we commend the authorities for maintaining fiscal prudence and committing to debt sustainability despite the challenging environment. We

broadly concur with the thrust of staff appraisal and policy recommendation and make the following points.

First, we view efforts to reduce the primary deficit while maintaining critical social and investment spending as essential to support growth. That said, efforts geared towards debt sustainability, including managing risks to the sovereign debt, we view them as important given the uncertain path of interest rate.

Second, we stress the need to enhance financial resilience while closely monitoring the NPLs as the pandemic-related support expires. We encourage the authorities to enhance banking sector stability to ensure profitability while pressing ahead in implementing the new insolvency law. Priority should continue to be attached to building resilience to climate risk through prudent investment. Like other Directors, including Mr. El Qorchi and Mr. Pösö in their statement, we commend the authorities for their commitment to a greener economy by adopting the ambitious RRP plan. We encourage them to analyze the impact of carbon taxes on the vulnerable households.

Finally, structural reforms remain critical to improve the business environment and foster inclusive and greener growth. Like other Directors, we see merit in analyzing the impact of increasing minimum wages on youth employment.

Mr. Palotai:

I would like to touch upon three points today. First, on fiscal policies, we have the view that resuming fiscal consolidation efforts and sustainability driven policies are essential to preserve Greece's hard-won economic stability. We encourage the authorities to accelerate the switch from the massive pandemic-related support scheme to more targeted measures protecting priority spending, as well as to further enhance revenue mobilization and save any fiscal overperformance as a contingency reserve. Since the country remains highly exposed to external shocks, rebuilding buffers and keeping public debt on a steady downward trajectory are key.

Second, we note the differences in medium-term projections between staff and the authorities; and to bolster the potential growth and strengthen the resilience of the Greek economy to future shocks, the authorities need to remain resolute to their commitment to advance structural reforms. High priority needs to be accorded to further improving labor market outcomes,

particularly for vulnerable groups, lifting productivity, and improving non-price competitiveness. The authorities should also put a premium on channeling the EU funds into growth-enhancing activities and making the most of the Next Generation EU investments. Meanwhile, timely steps should also be taken to address demographic challenges.

Finally, with the notable reduction of NPLs, Greece has taken a meaningful step towards tackling the legacies of the debt crisis in the banking sector. However, like other Directors outlined, further efforts are needed to improve the resilience of the financial sector, including by strengthening capital buffers and risk management practices. We also encourage the authorities to upgrade Greece's macroprudential framework. A thorough assessment of systemic vulnerabilities is critical; therefore, we call on staff to closely monitor both growth and net credit flows.

Mr. Zhang:

As we have already issued a gray statement, I will limit my comments on the following points.

First, near-term fiscal stance should remain accommodative and targeted, while gradual credible and prudent fiscal consolidation over the medium-term is warranted. We encourage the authorities to gradually phase out the energy subsidies with a clear timetable while providing targeted support for vulnerable groups. Over the medium-term, cuts in social security contributions and the elimination of the solidarity tax for all taxpayers should be adequately funded through benefits or adjustments in the base broadening measures. Higher healthcare spending and public investment during the pandemic should be maintained. The authorities' commitment to maintaining pensions and civil service wages is welcome.

Second, given there are emerging signals that households are releveraging and that real estate market imbalances are accumulating, the macroprudential framework may therefore need to be revised. Further efforts in advancing NPL resolution are critical. The authorities should ensure full implementation of legal reforms and increase the pace and effectiveness of amicable and judicial NPL recovery.

Third, the staff proposal to impose a new carbon tax on all non-ETS sectors would help finance green investment and targeted reform. From the previous discussion on the SPF, we are aware that the proposed carbon price was for illustrative purpose only. While carbon tax has been advocated as the

most effective way to mitigate climate change, we stress that alternatives such as tightening regulations should not be ruled out, and the country authorities should have discretion to make decisions on the appropriate policy mix to address climate concerns based on country circumstances.

Lastly, we welcome the early repayment to the Fund, which demonstrates the success of the Fund program. One of the key factors accountable for this success is that push by the Fund. The authorities first implemented private creditor debt restructuring with 43.5 percent of haircut followed by official sector debt restructure with a much lower haircut.

The Greece experience is relevant in coping with today's debt issues.

Mr. Moreno:

I would like to associate myself with the comments made by Mr. Pösö, in particular his remarks on the carbon tax. We support it, but there is an issue of timing in the current context of the energy crisis. This is something that is going to be a constant in every country. I have two questions: one to staff and one to the Chair on communication. Are they going to take into account the graduation or the early repayment? Are they going to reflect the early repayment of Greece? MD also stressed this morning in the Work Program that this was a milestone that should be reflected.

Second, I fully support Mr. Massourakis. I think his request fits in the Transparency Policy, so I would just like to know how staff is going to proceed on this.

Mr. Scholer:[4]

As Mr. Roman has already made the points I wished to make, I can fully support his intervention on behalf of OEDNE.

The Acting Chair (Mr. Li):

We have the repayment in the Summing Up. Of course, whether we introduce that publicly, we can certainly discuss with the staff and with the input from the Board as well.

[4] These comments were made in the videoconference chat window.

Ms. Merhi:

We have issued a joint gray statement with Mr. BinZarah in which we welcome the strong recovery in the Greek economy and commend the authorities for the progress achieved in addressing crisis legacies despite the challenging environment.

I will not repeat what we have in our statement. I wanted to intervene to support Mr. Massourakis's request to have the press release corrected, and we also hope to find a common language between staff and the authorities in their report. Mr. Massourakis mentioned that it might be too late to have the correction to the staff report. It is our understanding that if the correction is brought to the attention of the Board before the Board meeting, it can be considered, if it falls within the four categories that are limited; but we look forward to hearing also from staff on this.

The staff representative from the European Department (Mr. Botman):

Mr. Trabinski asked us to elaborate on the energy subsidies and spending pressures on wages and pensions. At the moment, the energy subsidies are 2.5 percent of GDP, of which 2 percent of GDP is covered by ETS revenues, and the budget impact is, therefore, only 0.5 percent of GDP. We understand from our discussions with the authorities that there are no plans to adjust civil service wages to inflation or to adjust pensions to high inflation, and we fully support that. At the same time, we have seen in the past that whenever there is fiscal overperformance, there are often, at the end of the year, one-off pension bonuses which are often not very well-targeted. The containment of wage and pension spending pressures is in our baseline, but we still see risks that if there is sufficient social pressure, that the authorities may resort to one-off or more structural wage and pension adjustments, which we would think would constitute a further deterioration in the fiscal policy mix.

Second, we had a question on how come tourism did so well last year contributing to the significant overperformance of GDP last year than what we anticipated in the 2021 Article IV consultation. It is true that Greece announced very stringent containment measures, and that was part of our baseline when we brought the staff report to the Board last year. Many of these containment measures were lifted right before the tourism season started. The majority of the tourism season is the summer months, and these restrictions were lifted at that time. I also believe that the average tourist spent more, so the tourism receipts recovered more strongly than the tourism

numbers, and that contributed obviously to the much better GDP outturn than we had expected, together with the other factors mentioned in the staff report.

The other two questions I will respond to are related to the press release. Should we flag the early repayment? Staff has no objection to the inclusion of the early repayment reference in the press release. In fact, it has already been included in the press release.

The Acting Chair (Mr. Li):

Good to hear that staff has no objection to the proposal from Mr. Massourakis on the press release, but Mr. Massourakis did say that there was some objection, so we will figure out where the objection comes from, and hopefully we can reach a consensus on the press release very soon.

Mr. Massourakis:

We had a fruitful discussion, and I want to thank staff for providing answers to all the questions raised by Directors, and thanks to colleagues for their participation and support to the authorities' policy endeavors. Rest assured that I will convey to my authorities all the remarks and suggestions.

Before closing, I would like to talk about structural reforms, an area in which substantial progress has taken place in Greece. There is really going on a revolution vis-a-vis what was happening a few years ago.

In the medium-term, structural reforms are key to maximize the effectiveness of the National Recovery and Resilience Plan and to address scarring effects due to the pandemic and the impact of the war in Ukraine. In the longer-term, structural reforms are essential to boost productivity, improve competitiveness, increase exports, and close the investment gap. As a matter of fact, on the back of continuing reforms, competitiveness increased during the period 2015-2021, and exports of goods have registered an impressive performance in 2021, surpassing pre-pandemic levels. To continue the same path, the authorities are pursuing policies in all kinds of fronts, and I want to mention very quickly that in the area of business environment and private investment, simplifying licensing, easing of doing business, cutting corporate tax rates, facilitating corporate restructurings, and modernizing labor relations are key to support growth in the private sector.

With respect to labor markets and inclusiveness, in the labor force, in increasing the labor force participation, the authorities are working on

upgrading and extending childcare infrastructure and reskilling youth and older workers with emphasis on digital skills, increasing take-home pay by reducing non-wage costs through lowering social security contributions and the latest solidarity levy. This was one of the key reasons why the authorities went in that direction, and this was actually in accordance with the suggestions by the staff in previous years.

In terms of fostering inclusiveness, the authorities are working to reinforcing worker rights. The introduction of a digital work card has been key to protect the vulnerable workers and protect them from the labor market informality. Another key reform is turning the Unemployment Employment Insurance Administration into an employment agency. This is a huge difference from what was happening before, and I am expecting good results out of it.

Finally, in terms of digitalization and decarbonization of the energy sector, again, there are a lot of reforms taking place. The cornerstone of the effort in digitalization has been to digitalize services done manually, and everything now is done electronically, and this affects all kinds of certificates being issued in health, education, taxes, pensions, building permits, business licensing, vital records, et cetera. Moreover, in the area of justice, there is a revolution taking place because there is an emphasis on legal document digitalization. It may sound strange to a some here because this is already the case in their countries, but now Greece is also implementing it; and training judges and judicial personnel in digital skills is a key effort with the objective being to simplify court proceedings, to reduce court case backlog and in this way to speed up the administration of justice, which is a long overdue reform holding back economic and social developments.

Finally, to decarbonize the energy sector, one of the objectives is to phase out all lignite plants by 2028, to upgrade the energy efficiency of buildings, to improve the electric interconnectivity of islands; and in general, the view is to raise the share of renewable energy and electricity consumption from 29 percent to 61 percent and in transport, from 7 percent to 19 percent, between 2019 and 2030.

Finally, the Greek Parliament is now considering the draft legislation on climate change that introduces a roadmap for the gradual reduction of greenhouse gas emissions by at least 55 percent by 2030; and the first steps in terms of buildings include mixing heating oil with biofuels in legacy central heating boilers, whose installation in new buildings will also be discontinued. And in transport, first measures include renewing the fleet of taxis, company

and commercial vehicles, by substituting zero emissions cars, or hybrids, into legacy vehicles.

I tried as best as I could to give the Board a glimpse of the new Greece emerging under present policies. I want to end my intervention by reiterating the commitment of my authorities to pursuing growth-enhancing market-friendly reforms while adhering to fiscal sustainability so that we never again as a country have to go through a situation of not being in charge of our own destiny.

Greece looks with confidence to the future, striving to make the economy more resilient to shocks and prepare for the green and digital revolution, and to build and inclusive society catering to the needs of youth, women, and our older citizens while protecting the most vulnerable.

I look forward to our request to give some guidance to amend the draft press release.

The Acting Chair (Mr. Li):

Greece is an Article VIII member, and no decision is proposed. The 2022 Article IV Consultation with Greece is hereby concluded.

The Acting Chair (Mr. Li) adjourned the discussion.

ANNEX

- Gray Statements
- European Central Bank Statement
- Staff's Responses to Executive Directors' Technical Questions
- Constituency Codes

Statement by Mr. Massourakis on Greece
Executive Board Meeting 22/52
June 8, 2022

1. Macroeconomic Developments

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

The government's response to the pandemic has been swift and proactive, saving lives and jobs, and preventing a deterioration in corporate balance sheets. In line with the gradual weakening of the pandemic, prospects for resuming growth with fewer, if any, health-related restrictions in economic activity, seem rather promising at this juncture. This is more so, especially now that vaccination/immunization cover has surpassed average European levels, following successful campaigns to dent vaccination hesitancy among various segments in the population, including mainly vulnerable age groups.

After almost fully recouping pandemic-related output and income losses in 2021, Greece is expected to grow faster than the euro area in 2022, broadly in line with staff projections. Economic activity continues to be robust going into a stronger tourist period this year, with real GDP growth in the first quarter of 2022 surpassing that in the eurozone by a significant margin. Economic sentiment and PMI in manufacturing indicators have to date already recovered to pre-Covid levels. Exports of goods (EUR 40 billion in 2021) rise rapidly surpassing by almost 20 percent the 2019 pre-pandemic level, despite supply chain disruptions. The volume of building permits increased by 27 percent in 2021 following an increase of 13 percent in 2020, boding well for residential investment activity in 2022. Finally, investment in equipment and construction investment are expected to surge by almost 20 and 15 percent respectively this year, topping the EU Commission's Spring forecast charts, despite a rather weak global investment dynamic due to increasing uncertainty. In this context, the authorities project growth of 3.1 percent and 4.8 percent in 2022 and 2023 respectively, before settling to 3-3.5 percent over the medium term. On the other hand, staff see growth at 3.5 percent in 2022, decelerating to 2.6 percent in 2023 and returning gradually to potential growth of 1.2 percent by 2027, staying there for decades, as implied by staff's comments in page 4 of the staff report about gains in per capita GDP amid an unfinished reform agenda. In the event, according to the European Commission's Spring forecasts, Greece's per capita real GDP is expected to grow at a rate almost double the euro area average during 2022-23.

Undoubtedly, going back to normalcy is still hindered, as elsewhere, by global pandemic-related supply-side constraints in view of pent-up demand boosting inflationary pressures, as compounded by the effects of the war in Ukraine raising overall uncertainty and pushing up global food and energy prices. This weighs on real disposable incomes and business operating costs. To alleviate these adverse effects, the authorities currently provide temporary fiscal support, consisting mainly of energy subsidies for the increased cost of electricity consumption and of gas used in heating. Moreover, a

statutory minimum wage increase came into effect May 1, 2022 raising monthly pay to EUR 713, or a wage increase of 7.1 percent on an annual basis compared to 2021. This increase, without accommodating inflationary pressures, is in line with equilibrium nominal and real wage-setting conditions in the economy accounting for productivity growth, thus broadly preserving employment and competitiveness. In this context, both the authorities and staff project inflation in 2022 to reach an average level of about 6 percent, before settling to levels below 2 percent in 2023-24. According to staff, during the period 2015-21, competitiveness, as measured by Real Effective Exchange Rate indices, based on Consumer Prices and Unit Labor Costs, improved by 4 percent and 3.6 percent respectively.

Overall, the authorities maintain that medium-term growth may well turn out to be higher than assumed by staff on the back of the transformative process that the Greek economy undergoes, as inflationary pressures and the rise in overall uncertainty subside, and the implementation of the authorities' ambitious reform agenda continues. In this context, productivity growth may indeed benefit over the medium term from a sustained surge in private and public investment, supported by structural reforms embedded in Greece 2.0, the National Recovery and Resilience Plan (NRRP). The plan includes 68 structural reforms and 106 investment projects designed to catalyze the structural transformation of the Greek economy in the period to 2026 under the Next Generation EU (NGEU) Program. The total envelope of the Greek NRRP amounts to EUR 31 billion (in 2018 values) in loans and grants, of which EUR 13 billion in loans, to be provided through the Recovery and Resilience Facility (RRF) of the NGEU. Resources from the NRRP come on top of the EU budget structural funds under the Multiannual Financial Framework for 2021-27, bringing the total amount of EU funds to be received by Greece in the forthcoming years to EUR 70 billion (in 2018 values). The authorities estimate that the impact of NGEU will add about 1 percentage point in real GDP growth annually on average, broadly in line with staff calculations.

It is to be noted that last year staff did not include the loan component of the funding, i.e., 40 percent of the total, in their impact calculations, being apprehensive about the lack of established lending mechanisms. By now, however, agreements have been signed between the Ministry of Finance and six commercial banks, as well as the two European Institutions EIB and EBRD, and the Hellenic Development Bank of Investments (HDBI). Based on these agreements, RRF loan funds of EUR 1.6 billion are already being disbursed in the market. Moreover, the HDBI actively manages EUR 500 million of the loan segment of the NRRP through an equity platform instrument, including venture capital or private equity funds to finance innovative SMEs in rapidly growing sectors of the economy.

In undertaking reforms and channeling targeted EU investment funds to the economy, it is important that due attention must be paid to mitigating implementation risks. It is encouraging, therefore, that Greece was among the first EU countries to which NGEU funds have been disbursed to date. This implies an advanced state of NRRP project maturity and preparation, on the back of already fully functioning, specialized public investment implementation government units. In April 2022, Greece received EUR 3.6 billion, of which EUR 1.8 billion in loans, on top of EUR 4 billion in pre-financing amounts disbursed in 2021.

Notwithstanding uncertainties, the authorities concur with staff that NGEU-supported investments and reforms will eradicate pandemic-related scarring effects. Furthermore, they believe that a reallocation of resources, to address structural changes accelerated by the pandemic, is needed if the economy is to be propelled forward into a higher and sustainable growth trajectory. In this context, a new law, passed recently through the Parliament, provides tax incentives for business transformation operations and corporate restructurings, targeted at scaling-up the activity of Greek firms and, thus, raising their productivity, export orientation and, overall, resilience. Moreover, a state-of-arts debt workout scheme is in place to help reduce indebtedness of viable firms, while active labor market policies and occupational training reforms aiming at labor force up-skilling and reskilling are implemented under the NRRP.

These initiatives complement key labor market reforms already adopted by Parliament, overhauling job seeking and training policies and modernizing labor relations including trade union decision-making, while protecting and expanding worker rights. The new legal framework provides for the introduction of the digital work card to enable digitalization of individual employment registries and, thus, reducing informality practices. Moreover, the unemployment benefits organization under the new law becomes a fully-fledged public agency for employment creation by designing individual digital action plans for job seekers.

The authorities consider that taking full advantage of the growth-cum-reform opportunities emanating from NGEU will constitute a paradigm shift for the Greek economy. This will enable Greece to achieve a significant boost in potential output and strengthen economic and social resilience by building a more inclusive, green, and digitalized future. It is thus important to channel effectively public investment funds in priority areas while, at the same time, encourage private sector investment, in line with staff recommendations. Moreover, removing existing impediments to growth through structural reforms will also help anchoring debt sustainability and financial stability, restoring investment grade ratings, and facilitating foreign direct investment, which in 2021 reached a historic high of EUR 5 billion. In this overall context, the authorities broadly concur with staff's views in their Selective Issues Paper on a social protection system fit for the green transition. A more effective social safety net is being gradually established to address households' needs from climate change downside risks and raise affordability of rising carbon prices for the most vulnerable groups. This is paramount, for the green transition to be considered not only effective but just as well.

2.Debt Sustainability

We welcome the staff's assessment that Greece's overall risk of sovereign stress is moderate and public debt is on a downward trajectory with rollover risks manageable over the medium term, while a customized contingency liability shock to account for various fiscal risks appears also manageable. The impact of Greece's large stock of legacy debt is mitigated because of a large cash buffer (11 months of Gross Financing Needs) and ultra-long maturities with presently ultra-low interest rates, and effectively zero foreign exchange risk. In the long term, risks will depend on the evolution in neutral rate and risk premia, the ability to sustain high primary surpluses and implement structural reforms, and the potential to counter demographic pressures. According to staff's baseline, public debt

levels are indeed expected to decline to less than 150 percent of GDP by 2030 from current levels while, at the same time, Gross Financing Needs to remain on average below 10 percent of GDP throughout the period.

The authorities consider the public debt to be sustainable over the medium term, due to its favorable structure and despite maturing debt being replaced at higher market rates than the ultra-low official rates in effect. The authorities project public debt to decline to below 150 percent of GDP by 2025 due to faster growth, while they consider the transition to market terms to be a gradual process, adding to the depth and liquidity of the secondary market, and thus allowing for continuation of the effective liability management.

The authorities, moreover, emphasize the proven capacity of Greece in recent years to sustain consistent primary surpluses, as well as significant upside risks, including potential output and incomes being raised in the years to come due to the timely implementation of the NRRP, with reforms removing structural impediments to growth, and, as a corollary, enhanced economic policy credibility. In this context, the authorities remain committed to maintain **sustainable primary surpluses of 2.2 percent of GDP on average over the medium-term.**

Moreover, the authorities note that Greece was able to raise EUR 28 billion in the capital markets during the pandemic, at relatively low spreads, notwithstanding the more recent tightening of global market conditions and the impact of the war in Ukraine. The progress made by Greece has been noted, with **sovereign ratings upgrades** reaching one notch below investment grade in the case of S&P in April 2022, and DBRS in March 2022, reflecting continuous improvement in policy effectiveness. In this context, **Greece is expected to graduate from the quarterly European Institutions' Enhanced Surveillance framework by August 2022**, thus further improving its chances to reach investment grade levels.

On the back of this low-cost borrowing, prudent fiscal and liquidity management policies have been pursued. Greece was able to finance a sizable pandemic-related fiscal support package of 14.5 percentage points of GDP in 2020-21, ending the fiscal year 2021 with a primary deficit of 5.0 percent of GDP in ESA terms, lower by about 2 percentage points of GDP than budgeted, with growth exceeding expectations as well by a substantial margin. At the same period, Greece managed to **increase the government's cash buffer**, standing currently at EUR 38 billion, from EUR 31 billion at the conclusion of the ESM Program in August 2019. Greece, also, last year made **a second prepayment** of EUR 3.4 billion to the Fund, regarding repurchases carrying high interest rate charges and surcharges. Moreover, this year Greece **settled its remaining obligations to the Fund due by end-2024**, making a final payment of EUR 1.8 billion using part of the SDR allocation proceeds, **terminating thus the IMF's Post-Financing Assessment procedure**. Moreover, in the same vein, later this year, and as endorsed by the Eurogroup meeting of February 2022, Greece plans to proceed with principal repayments of EUR 2.65 billion due in 2023, of loans granted from euro area countries participating in the Greek Loan Facility (GLF) agreed in May 2010. **These operations reduce gross financing needs and rollover risks, further improving Greece's public debt profile.**

The authorities also note that the long-term sustainability of the pension system stands to strengthen, despite unfavourable demographic trends, due to the substantial pension

system reforms in recent years. These reforms will mature in the coming decades, reducing pension expenditure by 3.7 percentage points of GDP between 2019 and 2060, according to the 2021 EU Ageing Report, with all savings assumed to cover debt repayments. The reform impact will to be further enhanced as the new, fully funded, defined contribution, supplementary pension system is deployed from 2022 onwards for new entrants into the labour market, while maturing gradually to cover 90 percent of insured employees by 2065. Based on the macroeconomic assumptions of the Foundation for Economic and Industrial Research, it is projected that public debt could be reduced by 6.3 percentage points of GDP cumulatively by 2070 due to the introduction of the supplementary pension reform.

3.Fiscal Policy

According to the authorities' Stability Program 2022-25, the budgetary process in the near term puts emphasis on gradual fiscal consolidation allowing for growth-enhancing measures, while considering the emerging needs stemming from the war in Ukraine and simultaneously unwinding pandemic-related fiscal support as the recovery matures. Over the medium-term, the authorities recognize the need to prioritize the rebalancing of the policy mix and ensure additional fiscal space to address long-neglected pension needs, as well as to raise health and public investment spending.

In this framework, **the fiscal policy stance in 2022 will remain appropriately accommodative, with the primary fiscal balance expected to be reduced to a deficit of up to 2 percent of GDP, as suggested by staff, from a 5.0 percent of GDP deficit in 2021.** This is primarily due to the phasing out of Covid-related fiscal support measures (from 8.3 percent of GDP in 2021 to 2.1 percent of GDP in 2022), while, at the same time, temporary and targeted energy subsidies have been granted to households and businesses, including support to vulnerable groups, given the lingering impact on energy and food prices from the war in Ukraine. The latter are expected to have a fiscal impact of 1.4% of GDP, whereas additional discounts provided on electricity bills are covered by CO2 Emissions Trading System revenues and windfall revenues due to increased electricity prices. Moreover, the temporary Covid-related, growth-friendly, and labor tax wedge-reducing waiver of the solidarity tax and cuts by 3 percentage points in social security contribution rates, are planned to become permanent from 2023. Meanwhile, the authorities are committed not to introduce any pension indexation scheme this year, but only from 2023 onwards as planned.

Overall, the primary balance is expected to turn into a surplus of close to 1 percent of GDP in 2023, implying an almost 3 percentage points of GDP further adjustment, broadly in line with staff projections. The primary surplus will be further increased to more than 2 percent of GDP levels in 2024 and 2025 onwards, in line with the authorities' commitments vs. Greece's European partners for debt stabilization purposes. The longer-term target of over 2 percent of GDP is expected by staff to be achieved by 2027 and only on the back of additional fiscal action, mainly to compensate for the permanent cuts in the solidarity tax and the social security contributions introduced during the pandemic as temporary measures. To fund these needs, in addition to economic growth impact effects, the authorities rely in expanding the tax base by tackling VAT compliance gaps and rendering informality in the labor market less attractive, as well as better targeting entitlement programs, in line with staff's suggestions. This plan of action can

ensure the return to sustainable primary surpluses, without sacrificing past fiscal consolidation gains. This is feasible through digitalization projects under implementation, including the tax authorities' establishing real-time interconnectivity with firms and the government's improving the effectiveness of labor market controls in fighting undeclared or partially declared work, on top of using digital tools for the provision of social assistance to the less vulnerable. The authorities are confident that these measures are sufficient to cover the above needs.

4. Financial Issues

We share staff's assessment that in past years deep-seated institutional and policy constraints accounted for the slow progress in reducing the large stock of bank Non-Performing Loans (NPLs), accumulated predominantly during the sovereign debt crisis and its aftermath. However, significant progress towards restoring health in the banking sector was registered in 2020, and especially in 2021 when NPLs were reduced by EUR 28.8 billion, to EUR 18.4 billion. Indeed, at end-2021 the NPL ratio stood at 12.8 percent, implying a more than halving of the NPL ratio during 2021 from 30.1 percent at end-2020, and 40.6 percent at end-2019. Moreover, the prospects are good for the NPL ratio to be further reduced to single digit levels during 2022, despite this being the year of lifting all pandemic-related support to banks.

This has been the first tangible result of the adoption by the **authorities of a multi-pronged, multistage approach to deal with legacy bank NPLs,** including:

a) **a securitization strategy, the Hercules Asset Protection Scheme,** supported by market-based government guarantees fully complying with EU state-aid rules, and accompanied by bank corporate restructuring operations within a framework approved by European partners. The scheme has been successful in transferring NPLs off the banks' balance sheets to specialized non-bank financial institutions experienced in loan recoveries through restructurings and liquidations. The authorities agree with staff that efforts to strengthen the supervisory framework and increase market transparency and financial disclosure on such credit servicers, are of the essence.
b) **a comprehensive insolvency law reform** supported by fully operational online platforms, providing debt relief through private sector distressed debt resolution transactions, while facilitating household insolvency procedures and corporate restructuring of viable firms. The new insolvency code makes Greece one of the first EU countries to have transposed into national law the European Directive on Preventive Restructuring and Insolvency.

The authorities are aware of the challenges in efficiently operationalizing NPL debt workouts and recovery processes in a reasonable timeframe. During the pandemic, priority was given to saving lives and livelihoods. Now that the pandemic recedes, priority is given to reforms to enhance the institutional capacity of the courts in delivering justice, to activate the program of purchases of primary residences of the most vulnerable debtors and then lease them back to them, to facilitate enforcement procedures of e-auctions of foreclosed properties and, finally, to streamline procedures in implementing out-of-court debt workouts.

These actions are especially important as Hercules is scheduled to lapse later in 2022 and the banks will have to rely more on organic actions to further reduce NPLs.

To fully restore the capacity of the banking system to provide credit to the economy, bank profitability must be increased to strengthen the banks' capital base. In this context, according to the staff's Selected Issues Paper on bank profitability, macroeconomic factors play a dominant role, and they are indeed expected to be the primary motor to raise bank profitability in the years ahead. Robust sustainable growth in the Greek economy will help underpin banks' organic profitability, to offset overall impairment losses as they clean up their loan portfolios to reduce the still large stock of NPLs vs. that of European peers. Increased profitability will boost Tier 1 capital adequacy ratios (12.6 percent at end-2021), which may also benefit from banks' tapping into the capital markets made easier in the context of a growing economy with good prospects, albeit in an increasingly more risk-averse conjunctural economic environment.

The authorities agree with the staff's view as above; however, they point out that recent bank rating upgrades reflect not only the improving economic environment but also the impact of the strengthening of relevant non-macroeconomic bank-related profitability drivers. As such, improved ratings are expected to strengthen investor confidence not only in the near term but also in the medium term. Nevertheless, the authorities agree with staff that Greek banks may continue enhancing risk management practices, as well as adapting their business model, to strengthen even further their capacity to raise organic profitability and capital in a sustainable way, especially in a period of global interest rate normalization and fintech challenges.

Moreover, the authorities share staff's view that a strengthened macroprudential framework will raise Greek banks' resilience and prepare them for any contingencies. However, the prospect for excessive household re-leveraging and overheated real estate markets, as alluded in the staff's Selected Issues Paper on macroprudential capital buffers, is a rather remote possibility not corroborated by evidence at this juncture. In this context, residential mortgage credit is still in a long-term downward trend declining by 3 percent on an annual basis at end-2021, new mortgage loans are granted at 2.8 percent as of March 2022 vs. 2.5 percent at end-2021, with an LTV ratio of 64.5 percent average as of the last quarter of 2021, while residential real estate market prices, though having risen by 25 percent cumulatively in the last four years, rose at a rate substantially lower than domestic disposable incomes, while being still 35 percent below the 2007 highs in real terms.

5. Structural reforms

The authorities agree with staff that structural reforms remain key to address scarring effects due to the pandemic and the impact of the war in Ukraine, and to maximize the effectiveness of the National Recovery and Resilience Plan. In the longer term, improved competitiveness requires structural reforms to boost productivity and close the investment gap.

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

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

> **incentivizing private investment** through cutting corporate tax rates, facilitating corporate restructurings, improving access to investment finance, modernizing labor relations

> **increasing labor force participation** through increasing the capacity of the labor market to adapt flexibly to changing conditions, along with pursuing active labor market policies, upgrading and extending childcare infrastructure, up- and reskilling youth and older workers with emphasis on digital skills, increasing take-home pay by reducing non-wage costs through lowering social security contributions and the legacy solidarity levy

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

> **promoting digitalization (Digital Transformation Bible, 2020-25)** through investing in 5G, fast broadband connections, fiber optic infrastructure in buildings and, submarine fiber cables, while digitizing further public administration operations to offer quality service to businesses and households, in the areas of health, education, taxes, pensions, building permits, business licensing, vital records, etc. With respect to justice, initiatives include, for example, document digitization and digital skills training for judges and judicial personnel, to simplify court proceedings, reduce court case backlog and, thus, speed-up the administration of justice.

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

acquired taxis, and one third of rental cars, should be zero emission vehicles. Also, from 2024 one fourth of all newly acquired company cars for employees should be either electric or hybrid, and from 2030 all newly acquired passenger cars and small commercial vans should be zero emission vehicles.

Statement by Mr. El Qorchi and Mr. Boostani on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank staff for the well-written set of papers and Mr. Massourakis for his insightful Buff statement. We concur with the thrust of the staff appraisal and policy recommendations and offer the following points for emphasis.

1. **The Greece's economy has recovered from the pandemic**, as a result of swift actions by the authorities. In presence of crises legacies, COVID-19 hit hard the contact-intensive sectors, including tourism, which significantly contribute to the Greek economy. The authorities provided supports to households and firms and accomplished a successful vaccination campaign.

2. **Outlook remains subject to downward risks with significant uncertainty**. The resurgence of new variants of virus is the short-term risk. The longer-than-expected war and tighter international credit conditions may have adverse impacts on growth in the medium term. High food and energy prices induced by the war in Ukraine may reduce productivity, and tighter credit conditions may increase the credit risk of debtors. In addition, slower-than-expected structural reform is the long-term risk that could become more pronounced should adverse shocks materialize and weigh on public finance. Slower reforms may weaken consumer confidence and reduce investment and growth.

3. **Fiscal policy should aim for a continuous budget surplus**, with possibility of temporary deviations in the short terms if interventions are necessary to stabilizing the economy. We positively note that the public debt is declining faster than previously expected, and we are of the view that the authorities should not lose the current momentum of downward public debt by ensuring a primary surplus in the coming years. Notwithstanding this fiscal rule, the authorities may use existing buffers to limit pandemic scarring and alleviate food and energy price pressures on vulnerable households by deploying targeted and temporary measures. We echo staff view that fiscal policy mix could improve further by eliminating transfers to public enterprises, phasing out fuel subsidies, and strengthening the pension system.

4. **Financial policy should continue reducing risks to financial stability.** We note that NPLs has been declining and banks weathered the pandemic crisis well. However, the NPLs are still high, and withdrawal of support measures may deteriorate the quality of some loans. The authorities should be agile to tackle the vulnerabilities in the financial system before they harm the normal functioning of the system. Meanwhile, financial buffers should be rebuilt by recapitalizing bank, which improve their ability to mitigate future shocks. We

welcome further progress in implementation of the new insolvency law which would accelerate addressing the NPLs in the banking system.

5. **Structural reforms are critical to ensuring sustainable and inclusive growth**. We note that the Recovery and Resilience Plan has enhanced ability of the Greek economy to rebound back after being hit by the pandemic. Likewise, further structural reforms should be implemented to enhance public investment management, strengthen governance, improve transparency, and develop a business-friendly environment. Once long-term growth is supported by heightening productivity and investments, wages and standard of living will grow for all people. We share staff view that the minimum wage increase is not a prudent measure to support the purchasing power of households. In contrast, it may adversely affect unemployed workers, especially the youth, by lowering the probability of finding jobs for them. We commend the authorities for their commitment to a greener economy by adopting climate-friendly policies. While transmission to a green economy generally improves the inclusiveness, the process may not be homogeneous for every individual. That said, advancing the social safety system could ensure inclusiveness of this process by offering insurance to those adversely affected during the transmission.

With these remarks, we wish the Greek authorities and people every success in their endeavors.

Statement by Mr. Andrianarivelo, Mr. Sylla, and Mr. Nguema-Affane on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank staff for the set of interesting papers and Mr. Massourakis for his comprehensive and insightful Buff Statement. We appreciate that protection of the most vulnerable ranks high in the authorities' priorities and has been a cross-cutting theme during these consultations. We broadly share the thrust of the staff appraisal and would like to make the following comments for emphasis.

We positively note the vigorous recovery from the pandemic and positive growth outlook despite the war in Ukraine and high inflation. We commend the Greek authorities for the adequate health and economic policy response to the crisis which has enabled the country to weather the pandemic well and recover strongly in pandemic-affected sectors including tourism and FDI. The improvement in many economic and financial indicators is particularly noteworthy. It is also worth stressing the effective debt liability management which among others enabled early repayment of sovereign-crisis loans, including IMF credit, and led to an amelioration of public debt indicators and successive sovereign rating upgrades. We note that growth in 2022 will remain robust despite continued geopolitical tensions and high energy and food prices. We share the staff assessment of risks to the country's growth outlook, including those stemming from a protracted war in Ukraine and elevated inflation. The expiration of remaining pandemic-related fiscal, monetary and prudential measures will require a close monitoring to preserve recovery and macroeconomic stability. Continued implementation of structural reforms, notably under the authorities' National Recovery and Resilience Plan (NRRP) supported by the Next Generation EU (NGEU) Program, will be critical to accelerate economic normalization, reduce macroeconomic imbalances and achieve inclusive and green growth.

The near-term fiscal policy remains appropriately accommodative while phasing out COVID-related support measures, but further fiscal reforms are needed to enhance fiscal and debt sustainability. We appreciate that pandemic-related fiscal support measures are gradually retired as the economy recovers and welcome the increased transparency in COVID-related spending. We find appropriate the temporary fiscal policy response to high energy prices to mitigate their social and economic impact. While increasing the minimum wage to support household purchasing power is understandable, we share the concern on their potential adverse impact on competitiveness and employment and look forward to a comprehensive assessment of this measure. While the authorities' commitment to achieve primary surpluses over the medium-term is commendable, this will require sustaining fiscal reforms to improve tax compliance and collection, especially as some COVID-related temporary tax reduction measures are set to become permanent. Further progress is needed to strengthen the public enterprise sector and alleviate its burden on public finances. We

strongly encourage the authorities to undertake social protection system reforms needed to improve its targeting and face the climate change and digitalization challenges.

While the continued improvement in bank balance sheet repair is commendable, emerging vulnerabilities to financial stability need to be closely monitored and addressed. We take note of the continued resilience of the banking system although bank profitability as well as capital quality deteriorated due to the significant reduction in the legacy bank NPLs through the Hercules program and increased reliance on deferred tax credits (DTCs). We welcome that Greece is one of the first countries to transpose into domestic law the European directive on preventive restructuring and insolvency. Further strengthening the banking system resilience should be a priority going forward including through adjustments to bank business models if necessary. The improving macroeconomic environment is an opportunity for banks to increase their profitability and augment their capital buffers. Also, greater surveillance of non-bank financial institutions and heightened vigilance over financial stability risks from a deeper bank-sovereign nexus will be needed. Developments in the housing market warrant also greater attention. In that connection, the authorities should speed up the implementation of the sale and lease back program to protect vulnerable debtors from losing homeownership and advance NPL resolution. *Do the authorities plan to conduct a comprehensive asset quality review to ensure adequate credit classification and loan-loss provision once support programs expire?*

It is essential to accelerate reform momentum to address structural bottlenecks to increase productivity and sustain growth. We recognize the progress in reform implementation already achieved over the past decade which contributed to increase market flexibility and attract FDI. Likewise, the authorities should be commended for the implementation of the National Anti-Corruption Action Plan. The adoption of the National Energy and Climate Plan and the Digital Transformation Bible 2020-25 is also laudable. We find appropriate the focus of the reform agenda under the NRRP on pursuing comprehensive labor market reforms and boosting investment while advancing green and digital transition through efficient use of NGEU funding. We look forward to further achievements in the structural transformation of the country.

With these remarks, we wish Greek authorities and population success in their endeavors.

Statement by Mr. Chodos, Mr. Lischinsky, and Mr. Corvalan Mendoza on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank staff for the set of reports, among them the selected issues paper (SIP) and Mr. Massourakis for his helpful Buff statement.

The COVID-19 pandemic was mitigated with decisive and swift responses, saving lives and jobs, and a weakening of firms balance sheets. This policy action allowed the country to experience a strong economic rebound in 2021 of 8.3 percent growth and the return to pre-pandemic levels. For 2022, the authorities are expecting a growth rate around 3.1 percent higher than the average projected for the Euro Area and 4.8 percent for 2023, while the per capita real GDP rate is projected to grow close to double the euro area average in 2022-23. It is notable that continued progress was observed to enhance fiscal policy mix, work to repair banks' balance sheets and reform agenda. These positive steps aim in the right direction to support a sustainable and inclusive growth in the medium term and tackle long standing issues like unemployment, productivity, and income divergence from other European countries. In this vein, we found the SIP's "Can Greece's savings be saved? Trends, drivers, and policy implication" a well-focused and self-provoking analysis to address these challenges like high unemployment and informality. On a more positive note, we welcome the early repayment to the IMF and the possibility of graduation from the European Institutions' Enhanced Surveillance framework.

Coordinated and synchronized actions at European levels are essential to accompany the country's efforts in terms of policies and structural reforms. Legacies from the sovereign debt crisis are still denting Greece's socio-economic performance. According to the staff report, the recovery of per capita GDP to its pre-Global-Financial-Crisis level is expected to take decades. We also learned from the report that the Next Generation EU (NGEU) investments, and the strong rebound in economic growth observed in 2021, could eradicate the scarring effects from the COVID-19 pandemic. Having said that, and after reading the Buff statement, *we would like to hear more details from staff, on the reasons of the projections for a long delay in real GDP per capita recovery, as showed in Text figure 1 (p.4) when comparing with other country crisis around the globe.*

Debt is projected to drop below pre-pandemic levels. We take positive note that public debt is falling, and rollover risks are under control. The improvements are the result of better economic performance and strong fiscal adjustment; therefore, risk of sovereign stress is assessed to be moderate. Nevertheless, close monitoring is warranted due to normalization of monetary policy of major central banks that are pushing the interest rates higher, therefore tightening global financial conditions worldwide. We agree with staff that regional support for Greece is important to service its debt under severe shock, despite the positive efforts made to mitigate risks with large cash buffers accumulated, important share of fixed rate, and long maturities debt profile.

While aiming for a growth-friendly fiscal adjustment over the medium-term horizon, the current stance seems appropriate given the spillover effects on energy and food prices derived from the invasion to Ukraine. The progress made on the consolidation and digitalization of the pension system, modernization of the Independent Authority for Public Revenue (IAPR) and government arrears clearance are welcomed steps. We see appropriate the fiscal consolidation path of primary deficit up to 2 percent of GDP in 2022 and the return to primary surplus in 2023, as projected by the authorities. We found out a nuance on the composition of these measures between the staff and authorities. It

would be interesting to learn from staff if these differences would affect economic growth going forward.

The banking system is still healing from legacies of the sovereign debt crisis. The COVID-19 pandemic did not help the healing process and the pandemic might have had an impact on banks' asset quality. Most emergency financial measures have lapsed from the pandemic, leaving roughly EURO 15 billion in outstanding loans sheltered by support moratoria, public guarantees, subsidy programs, and Hercules scheme backing. There is another concern; the financial system still has the weakest capital position in the EU. Having said that, we concur with the SIP that "Enhancing Macroprudential capital buffers in Greece" and "Bank profitability drivers and challenges in Greece" are appropriate at this juncture to help the banking supervisors calibrate their policy responses to the mounting challenge. As stated in the report, banks might need to enhance their risk management frameworks and adapt their business models with increasing competition from non-banks.

We support the authorities' structural reforms to take full advantage of the National Recovery and Resilience Plan to deal with scarring effects of the COVID-19 pandemic and the consequences of the war in Ukraine. Policies should be adjusted to country characteristics, and in this case, it should be taken into account that income inequality in Greece is higher than the eurozone average, even converging to this average. Bearing this in mind, we support policies that create a business-friendly environment, incentivize domestic private investment, increase labor participation, encourage inclusiveness by strengthening workers' rights, promote digitalization, and decarbonize the energy sector and invest in the green economy.

With these comments, we wish Greece and its people every success in these difficult circumstances.

Statement by Mr. Pösö on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank Staff for their clear and insightful Report and Selected Issues paper in the context of Greece's Article IV consultation. We also thank Mr. Massourakis for his informative Buff statement. We commend the national and EU authorities' resolve to fight the economic, social, and health consequences of the pandemic.

Greece has weathered the pandemic relatively well, with Authorities' timely and appropriate policy response cushioning the social and economic impact of the shock, and output recovering faster than expected. The robust expansion is expected to continue, although the outlook is clouded by Russia's war against Ukraine, and the balance of risks is tilted to the downside. The fiscal position is expected to improve significantly over the medium term, but fiscal risks remain. In this context, pursuing prudent fiscal policies and implementing growth-enhancing structural reforms are key to ensuring debt sustainability. These priorities are well reflected in Greece's comprehensive Recovery and Resilience Plan (RRP), for which 7 billion EUR in grants and loans have already been disbursed. A full and timely implementation of the reforms and investments contained in the RRP is crucial to raising growth potential and underpinning the green and digital transitions. In this context, we welcome the Authorities' renewed reform momentum, which is delivering on important fronts despite the pandemic conditions.

Macroeconomic Developments

We broadly agree with Staff that the growth outlook remains strong but subject to a high level of uncertainty. Greece rebounded strongly from the COVID crisis, with output reaching its pre-COVID level in 2021. We expect the Russian invasion of Ukraine to have a negative but contained impact on the economy mostly through indirect channels, including high energy prices and inflation. In this context, we agree that the robust expansion is expected to continue, and see scope for somewhat higher growth than Staff in 2023. At the same time, we share Staff's view that uncertainty remains high and the balance of risks is tilted to the downside, mainly related to a possible intensification of Russia's war against Ukraine and its effects.

Fiscal policies

We agree with Staff that the fiscal position is expected to improve significantly over the medium term and that sovereign stress risk is moderate, although debt sustainability risks remain. We share Staff's view that the fiscal stance for 2022 is appropriately accommodative, and also project that the fiscal position will improve significantly in the coming years and return to primary surpluses as COVID-related measures are phased out. Nonetheless, we also concur with Staff that the fiscal outlook is subject to considerable risks. For the short term, gross

financing needs remain high, pointing to a high risk of potential fiscal stress, notwithstanding high cash buffers. In the medium term, high fiscal sustainability risk reflects a high debt level and high sensitivity to adverse shocks, even though gross financing needs remain below 15% of GDP. At the same time, long-term risks to fiscal sustainability are medium, mitigated by the large share of official sector loans provided at concessional rates and very long maturities, in a context of moderate financing needs. Overall, we agree with Staff's assessment that sustaining a moderate risk premium through prudent fiscal policies and the implementation of growth-enhancing structural reforms are key to debt sustainability. In this respect, we would welcome some elaboration by Staff regarding the implementation risks related to the Next Generation EU (NGEU) Plan, in particular in light of recent fiscal-structural improvements. We would also welcome some elaboration by Staff on the rationale for recommending the unwinding of the announced cuts on social security contributions and solidarity tax, given above euro area average tax wedge and tax rates.

Structural policies

We agree that a full and timely implementation of Greece's comprehensive RRP remains key to raise growth potential and achieve the country's ambitious climate targets. We welcome Staff's views on Greece's RRP, which will support the Greek economy in its green and digital transitions and help address the challenges it continues to face. At the same time, we note that the report could acknowledge more explicitly that the reform momentum has been restarted and delivered on fundamental fronts amid pandemic conditions, and focus more prominently on growth-enhancing structural policies. While we agree with Staff that increases in the minimum wage should be consistent with productivity growth, Staff's analysis could more explicitly acknowledge that the minimum wage was frozen during the three years (2019-2021) that followed the 10.9% increase of February 2019 and that no adjustment took place in 2012-2019 following the sharp cut of 2012. Staff could also better explain whether the comparison to the mean wage across countries is a relevant metric in view of the very large proportion of Greek workers paid the minimum wage as well as the high share of self-employed workers. We also agree that the level of Guaranteed Minimum Income should be revised at least in line with inflation, and note that, given the large informal sector, measures to boost its effectiveness, as well as its budgetary impact, should also be considered. We also concur that a new carbon tax, as proposed by Staff, could be a useful complement to the National Energy and Climate Plan and the green investments on the RRP, but in the current context of high energy prices, its scope and timing should be carefully considered. In this regard, it should be emphasized that energy producers and energy-intensive industries are already subject to the EU emissions-trading scheme, while a special levy on diesel was introduced in January 2021.

Financial sector policies

We broadly agree with Staff's recommendations regarding strengthening bank capital, boosting profitability, and addressing legacy NPLs, but would like to add some qualifications. We agree on the need to strengthen capital buffers and enhance the quality of

banks' capital, as well as to address medium-term funding challenges and adapt banks' business plans to ensure sustainable profitability. In this regard, we take note of the recommendation to set a roadmap for the activation of a positive countercyclical capital buffer over the medium term. However, given the current uncertainty about future macro-financial conditions, and also taking into account that crisis legacies may still pose a hurdle to credit provision to the private sector, the timing should be carefully considered. We share Staff's appreciation for the rapid decrease of legacy non-performing loans (NPL), which we agree remains a challenge for Less Significant Institutions (LSIs), and concur on the importance of further accelerating NPL workouts, among others, through an effective implementation of the recently announced insolvency and judicial system reforms. We also share Staff's concerns about the uncertainty surrounding asset quality once support is withdrawn, but note that default rates for loans exiting moratoria remain stable and below initial expectation. In addition, uncertainty on the adequacy of credit classification and loan-loss provisioning is not unique to Greece, and it should also be acknowledged that Greek systemic banks are subject to regular in-depth monitoring and stress tests by the supervisor and the European Banking Authority (EBA). Finally, we take note of Staff's reference to household credit expansion as a potential sign of emerging systemic vulnerability, but wonder how net flows are incorporated in the analysis (i.e. adjusted for loan repayments and write-offs), as our assessment does not point to a firm credit expansion.

Statement by Mr. Dresse and Mr. Scholer on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank and commend staff for the comprehensive and detailed analysis, as well as the well-chosen topics in the Selected Issues Paper. We also thank Mr. Massourakis for his helpful buff statement. We associate ourselves with Mr. Pösö's statement and offer the following remarks for emphasis.

We take positive note of Greece's faster-than-expected recovery from the pandemic shock that hit the country's main economic sector particularly hard. We commend the authorities for their continued reform progress despite the pandemic circumstances. Progress is also reflected in the early repayments to the IMF and the prospective end of the Enhanced Surveillance by the European institutions. However, the global and regional effects of the war in Ukraine may hamper the continuation of Greece's economic and fiscal trajectory going forward. In particular, the pass-through from high energy prices to core inflation warrants close attention. *In view of recent developments, how does staff assess the appropriateness of its inflation assumptions for 2023 (e.g., moderation of energy prices, moderation of food inflation)?*

While we acknowledge improvements in the country's fiscal position, debt sustainability risks remain, especially in view of the uncertain international outlook. Though the shift from official to market financing reflects progress since the crisis, it makes the financing environment more volatile and riskier. For instance, we note that the public debt-to-GDP ratio has been falling mainly due to a favorable interest-growth differential, which is increasingly unlikely to persist. *While we acknowledge comfortable cash buffers, how does staff view the impact of persistently higher interest rates on Greece's sovereign debt?* In this context, we encourage the authorities to continue efforts to improve tax compliance among the self-employed, reduce the size of the informal sector, and better target social assistance.

We see significant complementarities between raising Greece's potential growth and the green transition. Both policy objectives require substantial levels of investment coupled with continued structural reforms. In this context, swift and complete implementation of the Recovery and Resilience Plan will be crucial. On climate, we appreciate staff's application of the Carbon Pricing Assessment Tool, which demonstrates the possibility of achieving environmentally beneficial outcomes while improving welfare for low-income households. At the same time, given the current international context, the timing for introducing a carbon tax – as suggested by staff – should be considered carefully.

On the banking sector, we acknowledge good progress on reducing non-performing loans in general but encourage further progress in Less-Significant Institutions. In this context, timely implementation of the new insolvency law will be essential. Given the banking sector's reliance on income from interest and fee/commission, a potential deterioration of the international and/or regional macroeconomic environment may pose challenges for the sector's profitability. Efforts to adapt business models and diversify income sources could help in this regard.

Statement by Mr. Zhang and Ms. Yang on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank staff for the well-written set of reports and Mr. Massourakis for the helpful Buff statement. Greece has weathered the pandemic well as shown by the much stronger than expected economic recovery with output already returning to the pre-pandemic level. However, downside risks and uncertainties clouded the outlook, calling for calibrated policy responses to support economic growth and macroeconomic stability. We broadly agree with staff's appraisal and would like to focus our comments on the following points.

Near-term fiscal stance should maintain accommodative and targeted, while a gradual, credible, and prudent fiscal consolidation over the medium term is warranted. We fully understand the difficulties to implement energy subsidy reform at a time when energy prices are surging. We encourage the authorities to gradually phase out the energy subsidies with a clear timetable to anchor expectations of the energy subsidy reform, allowing a gradual pass-through of higher prices to consumers, while providing targeted support for vulnerable groups to mitigate the negative impact. Given that Greece has one of the lowest spending on social assistance in the eurozone and the coverage and targeting of social protection are relatively poor, we encourage the authorities to address coverage gaps in the GMI scheme and raise its benefit levels gradually in line with inflation. Over the medium term, cuts in social security contributions and the elimination of the solidarity tax for all taxpayers should be adequately funded through benefit adjustments and base-broadening measures. Higher health care spending and public investment during the pandemic should be maintained. The authorities' commitment to containing pensions and civil service wages is welcome.

While the securitizations and loan sales under the 'Hercules' program have cleared the balance sheets of major banks, further efforts in advancing NPL resolution are critical. The authorities should ensure full implementation of legal reforms and increase the pace and effectiveness of amicable and judicial NPL recovery. We take positive note that the authorities have given priority to reforms to strengthen the institutional capacity of the courts, to activate the program of purchasing primary residences of the most vulnerable debtors and then leasing them back, to facilitate enforcement procedures of e-auctions of foreclosed properties, and to streamline procedures in implementing out-of-court debt workouts.

Rebuilding banking sector resilience is essential to address significant structural vulnerabilities. The emerging signals that households are releveraging and that real estate market imbalances are accumulating should be closely monitored. The macroprudential framework may therefore need to be revised to adequately cover the identified vulnerabilities and rebuild resilience. Further work should focus on calibration of the macroprudential policy toolkit, and we agree with the staff recommendation of preparing a conditions-based

roadmap to guide the activation of the CCyB and borrower-based measures over the medium term.

Ensuring effective implementation of the structural reform agenda is key to promoting a sustainable and inclusive recovery. We welcome the authorities' Recovery and Resilience plan and highlight the importance of taking full advantage of the growth and reform opportunities emanating from the NGEU. Priorities should be given to tackle structural bottlenecks, including under-employment, insufficient investment, and low productivity growth. *We note that staff and the authorities have diverging views towards the impact and appropriate level of the minimum wage increase. Staff's elaboration would be appreciated.* The introduction of a National Energy and Climate Plan is a positive step, and the staff proposal to impose a new carbon tax on all non-ETS sectors would help finance green investment and targeted transfers. The Fund has long advocated for the implementation of a carbon tax as the most effective way to mitigate climate change. *Given that the ETS has already covered major energy-intensive industrial sectors, we would welcome staff's comment on the percentage share of greenhouse gas emissions from the non-ETS sectors, and the extent to which the proposed carbon tax could contribute to achieving the mitigation targets.*

With these remarks, we wish the authorities every success in their policy endeavors.

Statement by Mr. Bevilaqua, Mr. Fuentes, and Mr. Coronel on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank staff for the report and Mr. Massourakis for his helpful statement. We welcome the strong rebound experienced by the Greek economy from the deep pandemic-induced recession of 2020. Output has already surpassed pre-pandemic levels and growth in 2022 is expected to remain robust despite the severe headwinds stemming from the war in Ukraine and the sanctions on Russia, most notably, the surge in energy and commodity prices and their effect on both, economic activity, and inflation. In this regard, the combination of a strong fiscal response, accommodative monetary and prudential policies, as well as the sizable EU support, have been vital for Greece's economic recovery. Despite the favorable momentum driving near-term economic activity, the steadfast implementation of the authorities' structural reform agenda, should be accompanied by appropriate sequencing and timely complimentary measures to boost potential output.

Acute inflationary pressures will remain the main risk going forward. Given that heightened uncertainty and downside risks continue to cloud the global outlook, characterized by supply chain disruptions and the persistent volatility of international food and energy prices, we consider overoptimistic the inflation rates projected by staff for 2022 and 2023. Downside risks associated with further tightening of global financial conditions, a generalized relapse of pandemic cases in Europe, and additional spillovers from a possible intensification of the war in Ukraine could materialize and intensify inflationary pressures further. In addition, the second-round effects from the pass-through of the recent minimum wage adjustment to the average wage level, could also accelerate inflation further in the upcoming months.

On the fiscal front, we support staff's on implementing an accommodative fiscal policy consistent with the negative output gap while aiming at reaching a primary surplus by 2023. This implies, phasing out the pandemic temporary measures -including energy subsidies- and replace them with targeted and more progressive support by year-end 2022, while remaining committed to the 2 percent of GDP primary deficit. While challenging, the fiscal adjustment should be growth-friendly and be implemented gradually. Regarding debt, after having endured a long period of a severe case of public debt overhang, we are pleased to see the country's public debt trajectory trending downward. That said, the debt profile remains vulnerable to shocks and dependent on continued EU/ECB support under a high stress scenario. Pertinently, Greece recently completed the early payment of all outstanding IMF credit, finalizing the Post-Financing Assessment framework.

Besides lowering unemployment, one of the most important legacy problems the authorities successfully tackled, was the rapid clean-up of the balance sheets of major banks. Despite the fact that the NPL workout has started to bear fruit, the work remains incomplete and much is still pending to reduce stressed debt and NPLs to healthy levels. The authorities should hold fast to their goal of increasing banking sector resilience by implementing the new insolvency law, while improving banks' risk management frameworks, ensuring adequate buffers and monitoring capital adequacy -including addressing the high share of differed tax credit-, as well as developing viable long-term restructurings. More generally, bank supervisions should aim at restoring sustainable profitability and Fintech competitiveness as per regional standards.

Finally, we welcome the authorities' strong ownership of the structural reform agenda and commend the progress on reform implementation despite the challenging environment. Significant milestones have been achieved in several areas, including digitization and privatization, cleaning-up bank balance sheets and reducing NPLs, curtailing unemployment, and improving the fiscal policy mix. As expressed by staff, we welcome the authorities' Recovery and Resilience Plan as a reference for reform. The plan points towards critical areas to address lingering structural bottlenecks. Moreover, we see merit in staff recommendation to renew efforts to elevate the efficiency of public investment management and strengthen governance. Here, we take note of staff advice underscoring the need to uphold the "Commitment on Confidence in Statistics" endorsed by the government in 2012. *Which specific actions or situations are currently jeopardizing the independence and credibility of the country's statistical agency?*

Joint Statement by Ms. Grant, Ms. Kashima, Mr. Mochtar, Mr. Becker, Mr. Hteik, and Mr. Watanabe on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank staff for the report and Mr. Massourakis for his informative Buff statement.

We commend the Greek authorities for their strong fiscal response, as well as accommodative monetary and prudential policies, during the pandemic. The swift and bold responses have helped the economy recover quickly from the severe COVID-19-induced recession, with output returning to pre-pandemic levels in 2021. **We broadly agree with the thrust of the staff appraisal and would like to offer the following comments for emphasis.**

We commend the fiscal consolidation efforts of the authorities to strengthen fiscal sustainability in the medium term. To enhance fiscal consolidation efficacy, the effort in the short term should be to carefully target support to the vulnerable to safeguard the recovery. It will also be important to reinvigorate the momentum for necessary fiscal reforms to reduce the debt accumulated during the Global Financial Crisis and to build buffers for future shocks. We note that larger-than-expected energy price increases resulted in increased fiscal spending, notably higher subsidies that exceed ETS revenues, pensions, and public sector wages. To advance the medium-term objective, we agree with the recommendation by staff that the primary deficit should be less than 2 percent of GDP this year, with automatic stabilizers in place to accommodate greater-than-expected downside risks from the conflict in Ukraine.

We welcome efforts by the authorities to restore banking sector stability and their commitment to tackle the remaining challenges to enhance financial resilience. In this regard, we support staff recommendations on restoring bank asset quality, strengthening capital buffers, and ensuring sustainable profitability for banking sector resilience. Improving profitability is important as we note that banking sector returns (ROA and ROE) have deteriorated in the last three years, although there was much improvement in reducing NPLs (Table 5). In addition, we agree with staff that banking supervisors should use their prerogatives within the supervisory review and evaluation process (SREP) framework to ensure that banks effectively adjust business models to address strategic challenges and restore sustainable profitability drivers. *We would like to know other staff suggestions for restoring the banking sector's profitability.*

We commend the strong ownership shown by the authorities of the structural reform agenda to lift growth potential. Policies aimed at lifting productivity and competitiveness should be carefully sequenced in a coordinated economic plan. We also note the need to continue to use anti-money laundering measures to investigate alleged tax offenses by employing information from the registry of beneficial ownership of legal persons. Furthermore, as the authorities also agree, accelerating labor market reform through modernizing the public employment agency, enhancing digital skills, and aligning vocational education and training with potential labor market needs is pivotal to reduce structural unemployment, to support re-skilling and up-skilling of the labor force, and thereby to boost productivity.

Finally, we see merit in the climate-friendly initiatives of the authorities being accompanied by social protection changes to make the green transition more seamless. We agree with staff that a strong social safety net is a vital aspect of the adaptation strategy, since climate change and policies will disproportionately affect vulnerable people. It might also be proposed to fund targeted transfers and green investment by introducing a new carbon tax and gradually raising it over time.

With these comments, we wish the authorities every success in their economic endeavors.

Statement by Mr. Stephan, Ms. Koh, and Mr. Krahnke on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank staff for the informative set of reports and Mr. Massourakis for his very helpful Buff statement. **We concur with the report's overall appraisal and associate ourselves with the Gray by Mr. Pösö.** In addition, we would like to emphasize the following aspects:

On fiscal policy, we agree with staff that an accommodative fiscal stance remains justified in 2022. At the same time, a primary surplus of above 2 % of GDP should be swiftly achieved in the following years. In our view, this surplus should be kept over the longer term in order to comply with European fiscal rules and agreements with European public creditors. Moving to a more targeted support to the most vulnerable groups while phasing out broad-based discretionary measures is of the essence. We also agree with staff that targeted, means-tested support is the core of a coherent social safety net and therefore see merit in addressing gaps in the Guaranteed Minimum Income for households living in extreme poverty. The recently improved budgetary structure with higher health care and investment spending should be maintained. In this context, we welcome that the PIMA has resumed, which could help to improve public spending efficiency. We share staff's concerns regarding the cuts in social security contributions and taxes. Furthermore, spending pressures on pensions and civil service wages should be contained. To that end, sticking to the pension freeze this year and the indexation formula from next year onwards seems plausible. Moreover, phasing out transfers to public enterprises and fuel subsidies as well as tackling tax evasion by the self-employed appears reasonable.

Overall, we strongly encourage the authorities to push ahead with a gradual, growth-friendly, but credible fiscal adjustment, not least in light of rising refinancing costs. We welcome the authorities' ambition to achieve investment grade in 2023. At the same time, we note that the likelihood of an under-execution of the planned consolidation is considered to be high, according to the Risk Assessment Matrix. We further observe that staff estimates that the realization of contingent liabilities would raise the debt ratio by 14 percentage points (para. 12). *We would welcome staff's comments on the nature of these contingent liabilities and potential containment strategies.*

We take note of the strong credit growth, particularly on housing loans in 2021 We agree with staff that this, coupled with rising property prices and elevated household debt, could give rise to systemic risks. Therefore, clear guidance for the activation of borrower-based measures is advisable to allow for a timely activation in case credit growth risk increases further. *In this context, it would be interesting to know if staff judges the availability of borrower-based macroprudential instruments as sufficient.*

To achieve the projected medium-term growth rates, we encourage the authorities to push ahead with their structural reform agenda. While we positively note the decline in the unemployment rate even during the pandemic, further efforts to reduce the high structural unemployment especially among the youth are warranted. The adoption of the National Energy and Climate Plan is appreciated, and we support the progress on the new Climate Law. Successful implementation through decisive policies and well-targeted investments, helped by NGEU funds, will be key to reach the new, more ambitious targets. *In this regard, we wonder whether the quantitative targets on greenhouse gas reduction and on renewable energy generation have time horizons?*

Statement by Mr. Potapov and Mr. Tolstikov on Greece
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We thank staff for the comprehensive reports and Mr. Massourakis for his informative Buff statement.

We welcome strong rebound of the Greek economy in 2021 supported by rapid recovery of tourism, rising private consumption, and strong private investment. Economic activity has restored to the pre-pandemic level, and for 2022 growth is expected to be one of the highest in the euro area. At the same time, the legacy of the financial crisis is still present in the form of the very high public debt and elevated vulnerabilities in the financial system. In this regard, we welcome the authorities' commitment to sound economic policies and an ambitious structural reform agenda. The National Recovery and Resilience Plan supported by the NGEU financing has the potential to transform the Greek economy over the medium term, boosting sustainable, equitable, and green growth.

We note that risks from the current geopolitical conflict are assessed as moderate, given Greece's limited direct trade and financial linkages to Russia and Ukraine. However, an indirect impact via higher energy and food prices may increase inflationary pressures and divert fiscal spending away from the reform agenda to social assistance needs. Also, a faster than expected monetary tightening in advanced economies can undermine investor confidence and increase refinancing costs. In this regard, strong continued support from the European partners is essential for supporting growth and maintaining debt sustainability.

We note a substantial divergence in staff's and the authorities' projections of the medium-term growth prospects. Staff have recently revised its assessment up by 0.2 percent but to a still low level of 1.2 percent. At the same time, the authorities are much more optimistic, as they envisage 3-3.5 percent growth over the medium term. The authorities are also confident that they can maintain a primary fiscal surplus of 2.2 percent of GDP over the medium term, while staff believe that the long-term sustainable level of the primary surplus is about 1.5 percent. Much higher growth expectations may result in substantially different views on the need for fiscal consolidation measures and public debt prospects. *Could staff clarify the main reasons for the substantial divergence in growth and fiscal balance projections?*

While the long-term debt trajectory is unclear, near-term debt sustainability risks are contained due to robust growth, substantial government's cash buffer, and a very large share of fixed-rate and long-maturity debt. Nevertheless, fiscal consolidation should not be postponed, and it would be advisable to phase out pandemic-related measures by end-2022,

which will help reduce the primary deficit from 5.5 percent of GDP in 2021 to below 2 percent of GDP in 2022. We agree that the risks stemming from the higher energy prices should be accommodated through automatic stabilizers, while across-the-board subsidies should be replaced with targeted support for vulnerable groups and viable firms. Over the medium term, additional efforts are needed to tackle narrow tax base and tax evasion, reduce labor informality, and strengthen revenue administration.

We take positive note of a rapid clean-up of the banks' balance sheets. The authorities' multi-pronged strategy to deal with NPLs led to their reduction from the level of more than 40 percent to about 10 percent, mainly through the government-sponsored Hercules securitization scheme, which transferred NPLs off the banks' balance sheets. In order to consolidate this success, the authorities need to implement the new insolvency law and strengthen the restructuring framework. The banking sector resilience should be improved, and the quality of capital enhanced. The emerging signs of systemic vulnerabilities, including rising housing process, acceleration of credit growth, and positive private sector credit gap require close attention.

We welcome the adoption of the ambitious structural reform agenda embedded in the National Recovery and Resilience Plan. As indicated by Mr. Massourakis, the plan includes 68 structural reforms and 106 investment projects designed to catalyze the structural transformation of the Greek economy. It is also important that it may boost grant and loan support from the EU that may reach up to EUR 70 billion over the next five years. We also welcome the authorities' commitment under the National Energy and Climate Plan to phase out all lignite power generation and substantially raise the share of renewable energy.

With these remarks, we wish the authorities further success.

Statement by Mr. Moreno and Ms. Moral Betere on Greece
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We thank staff for their insightful report in the context of the Greek Article IV consultation. We also thank Mr. Massourakis for his informative Buff statement, and we fully associate ourselves with Mr. Posso's statement. We broadly concur with the thrust of staff's appraisal, and we would like to make the following comments.

Greek's recovery from the pandemic remains strong despite the legacies from the sovereign debt crisis and the spillovers from Russia's war against Ukraine. We commend the Greek authorities for their strong response to the pandemic and the progress achieved in addressing the crisis legacies culminating in the termination of the Post financing Assessment framework. However, risks remain on the downside due to the uncertainty surrounding the conflict and the normalization of the global monetary conditions. In the medium-term, investment and structural reforms envisaged in the Resilience and Recovery Plan will be essential to boost potential output and convergence while helping the transition towards a greener, more digital, and sustainable economy.

We concur with staff that the fiscal stance remains appropriate. Given the negative output gap and the high uncertainty, we believe that the current accommodative stance remains appropriate. Going forward, we share staff's recommendation to replace subsidies for high energy prices with targeted support measures for vulnerable groups and firms. In addition, the authorities should contain further pressures on pensions and civil servant wages while continuing to improve the fiscal mix in line with the achievements made during the pandemic. *We would welcome staff's further comments on the proposal to unwind the announced cuts to social security contributions and the solidarity tax.*

Prudent fiscal policies and structural reforms will be key to ensure debt sustainability. We note that the overall risk of debt distress is moderate, and the government's large cash buffer and active liability management contribute to mitigate risks to debt sustainability. However, uncertainty remains high, and there can be pressures over the medium-term fiscal adjustment associated to the effect of the future path of interest when monetary conditions normalize, and market financing substitutes current large share of official sector loans. Therefore, sustaining a moderate risk premium, through prudent fiscal policy, remains vital to debt sustainability as well as the implementation of growth-enhancing structural reforms in line with recent fiscal-structural improvements.

There has been good progress in the banking sector, but several challenges remain. We broadly agree with staff´s view that progress on NPL clean-up has been formidable but that relevant challenges remain, in addition increasing banking sector resilience must be a priority. On the NPL front, the authorities need to be vigilant about real progress on the

resolution of the legacy NPLs, even if they are now largely owned by non-bank servicers, enabling and ensuring an efficient use of the new insolvency law. At the same time, the authorities need to monitor emerging NPL risks at the banks caused by the removal of COVID support measures, and from potential housing market over-heating. As to resilience, bank capital quality remains poor given the very high weight of DTAs, while organic profit generation, specially at the non-systemic banks, is challenged by new players and emerging risks. The authorities need to monitor bank business models to ensure they focus on sound and sustainable longer-term profit generation, and to also consider time-bound plans to replace the DTAs and build structural capital buffers such as the countercyclical one.

We welcome the authorities' recent progress in the implementation of the comprehensive and ambitious Recovery and Resilience Plan (RRP). We commend the authorities for their comprehensive Recovery and Resilience Plan (RRP), and for the progress made so far, with 7 billion EUR in grants and loans already disbursed. We concur with staff that a timely implementation of the reforms and investments is crucial to boost Greece's medium-term growth and underpin the green and digital transitions. We also agree that creating a business-friendly environment through sound governance and greater transparency will be of essence. In addition, promoting digitalization and incentivizing private investment, labor force participation and inclusion, will be key. In this regard, we agree that increases in minimum wage should be consistent with productivity growth and in line with inflation, while considering its budgetary impact.

We commend the authorities for their ambitious climate goals backed by the National Energy and Climate Plan, and the green investments on the RRP. We concur with staff that in the transition, strong social safety net should be ready to support the most vulnerable groups. The introduction of a new carbon tax in non-ETS sectors, as the one proposed by staff, could be an additional useful tool, but under current circumstances of high energy prices, its scope and timing should be carefully considered.

With all these remarks we wish the Greek authorities and their people all the best in their future endeavors.

Statement by Mr. Jennings, Mr. O'Brolchain, Ms. Cunningham, and Mr. Mooney on Greece
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We thank staff for the well-written report and Mr. Massourakis for his comprehensive Buff statement. Despite the risks associated with spillover effects from the Russian invasion of Ukraine, and inflationary pressures, the Greek economy is forecast to grow by 3.5 percent this year. Greece's ambitious Recovery and Resilience Plan (RRP) is expected to complement the ongoing structural reforms in areas such as digitization and improvements to the business environment, thereby contributing to continued debt sustainability. **We agree with the thrust of the report and offer the following points for emphasis.**

We agree with staff that pandemic-related temporary supports should be unwound, given the improved health and labor market conditions. Any remaining support measures should be temporary and targeted at vulnerable households. We welcome the authorities' policies of expanding the tax base by tackling VAT compliance gaps and rendering informality in the labor market less attractive, as outlined in the Buff. Civil service wages should be contained, including by respecting the pension freeze this year. We welcome the resumption of the Public Investment Management Assessment (PIMA) following a long delay due to the pandemic.

We welcome the continued strengthening of banking sector stability, while noting the impact of the pandemic on banks' asset quality. We positively note the continued progress in reducing the NPL ratio and agree with staff that banking supervisors should ensure that banks effectively adapt business models to face strategic challenges and restore sustainable profitability drivers. We concur with the staff view that the authorities should prepare a conditions-based roadmap to guide the activation of macroprudential tools. The authorities should continue to address identified weaknesses and strengthen the implementation of AML/CFT measures.

We welcome the authorities' ambitious climate agenda, as outlined in the Selected Issues Paper (SIP) and agree with staff that these policies should be complemented with social protection reforms to assist the green transition. The RRP will support the Greek economy in its green transition. We positively note staff's comments in Annex II that reform efforts should focus on female labor force participation, and we note with concern that spending on gender equality in the RRP is relatively modest. *Can staff outline the measures being taken by the authorities in this regard, and confirm whether Greece is in line with regional peers in this area?* We concur with staff that maintaining the independence of the Greek statistical agency is critical in ensuring continued confidence in the Hellenic Statistical System, which underpins the economic policy measures pursued by the Greek government.

Finally, we welcome Greece's finalization of its early repayment to the Fund in April, and its expected graduation from the quarterly European Institutions' Enhanced Surveillance framework by August 2022.

Joint Statement by Mr. Binzarah, Mr. Mohieldin, Ms. Alshaikh, and Ms. Merhi on Greece
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June 8, 2022

We thank staff for the well-written set of reports and Mr. Massourakis for his informative Buff statement. We are in broad agreement with staff analysis and policy recommendations and would like to raise the following points.

We welcome the strong recovery in the Greek economy and commend the authorities for the progress achieved in addressing crisis legacies despite the challenging environment. While the short-term outlook remains generally favorable, we note that risks are to the downside especially from high inflation and the need for the ECB to tighten monetary policy and from possible continued disruptions in the important tourism sector. *We would have welcomed a deeper discussion of the likely impact of ECB tightening on the Greek economy and would appreciate it if staff could elaborate in this area*. On inflation, we believe that the 2022 projection is too low given the high inflation in first few months of the year, robust growth, and rising ULCs. *We understand that the minimum wage increase might cause broader wage pressures, but staff are projecting that ULCs this year will grow by more than the CPI in an environment of high and rising energy and food prices. We would appreciate staff comments, including on whether other European countries are seeing ULC growth in excess of CPI inflation, and why such a sharp decline in inflation is projected for 2023 given that the rise in UCLs suggests second round effects from rising energy and food prices are happening.*

On the fiscal policy, we agree that consolidation should be gradual and growth friendly, while improving the fiscal policy mix. We concur with staff that spending pressures on pensions and civil service wages should be contained, and we believe that the recommended primary balance path over the medium term is needed for debt sustainability, while policy can accommodate downside risks through automatic stabilizers. We welcome staff's assessment that Greece's overall risk of sovereign stress is moderate. However, although the interest rate-growth differential was favorable in 2021, with a low growth rate projected over the medium term, we are concerned that ECB tightening and its implication for financial market conditions could eventually renew uncertainties about the ability to service the debt.

Progress has been made to restore banking sector stability and resilience, but many challenges remain. We commend the authorities for the relief measures put in place, and for the notable reduction of non-performing loans (NPLs). Nevertheless, we share staff concerns about banks profitability, the quality of capital, and the impact of the withdrawal of pandemic-related measures on bank asset quality. We concur with staff that further efforts are needed to rebuild banking sector resilience, including through strengthening capital

buffers, enhancing the quality of capital, ensuring bank profitability, and addressing medium-term funding challenges.

Finally, accelerating structural reform efforts to improve competitiveness and productivity will be essential to achieve Greece's long-term development goals. We commend the authorities for the completion of the national Anti-Corruption Action Plan, and for the improvements in product and labor market flexibility. We look forward to the successful implementation of further reforms under the National Plan of Recovery and Resilience and Greece 2.0, including re-skilling and up-skilling programs and enhancing the efficiency of public administration and business processes. The Government's commitment to climate policies is commendable and these policies should be complemented with social protection reforms to assist the green transition and protect the less well-off. On staff's recommendation to raise carbon taxes, we are concerned about the negative implications this will have on the economy. It seems from the two illustrative reform scenarios in the SIP that staff are considering higher carbon taxes in 2022 despite the fact that high energy price and rising inflation are already affecting the economy. Moreover, the analysis in the SIP seems very dated as the needed carbon price of $75 per ton by 2030 was coming off a much lower base of energy prices than we see now. *We would appreciate staff's clarifications on their advice on carbon taxes and on the scenarios presented*.

With these remarks, we wish the authorities further success.

Statement by Mr. Ronicle and Ms. Andreicut on Greece
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June 8, 2022

We thank staff for the rich set of reports and Mr. Massourakis for his informative buff statement, including the very helpful information on Greece's plans for using its allocation of Next Generation EU (NGEU) funds.

Notwithstanding the initial impact of the COVID-19 pandemic, Greece recovered strongly from the crisis, while also making progress on key reforms and finalizing its repayment to the Fund two years ahead of schedule. We commend the authorities for their response to the pandemic and their ongoing commitment to structural reforms. With unemployment declining steadily, productivity at its pre-pandemic level and funding at historically low costs, we share staff's positive assessment of the outlook, notwithstanding downside risks related to spillovers from the war in Ukraine and potential new waves of COVID-19. We also agree with staff's policy advice on maintaining an accommodative but well-targeted fiscal stance, continuing the clean-up of bank balance sheets and progressing structural reforms, in particular efforts to secure the green transition.

Fiscal policy

The authorities provided a decisive response to the COVID-19 crisis and, as the economy recovered, withdrew most of the pandemic support measures leading to the largest budget consolidation in the euro area. In spite of this consolidation, Greece's fiscal stance remains accommodative, largely as a result of efforts to mitigate the impact of high energy prices. We agree with staff that the fiscal trajectory is subject to downside risks stemming from: higher-than-expected energy prices, which could lead to additional fiscal spending, and; unexpected losses from the Hercules scheme and potential costs of deferred tax credits conversion. We support the authorities plan for an accommodative but targeted fiscal stance in 2022. We also welcome the authorities' sustained efforts on fiscal structural reforms and encourage them to maintain the momentum, including in relation to revenue administration measures.

We commend the authorities for their faster than expected reduction in the debt-to-GDP ratio. We would welcome further information on staff's call for reversing or at least fully funding, through benefit adjustments and base-broadening measures, the permanent cuts in social security contributions and the elimination of the solidarity tax for all taxpayers. *Do staff consider that further fiscal consolidation is needed?* The current administration has a good track record of meeting fiscal targets while implementing gradual cuts in social security

contributions and the solidarity tax. *If the cuts were to be fully funded through benefits adjustments and base-broadening measures, what would these be and what income groups would be impacted?*

We note that the trend in GDP growth moves in the opposite direction in the Fund forecast (3.5% for 2022 and 2.6% for 2023) relative to the latest Greek government forecasts (3.1% for 2022 and 4.8% in 2023). *We would welcome more information from staff about the discrepancy, particularly as this has implications for fiscal policy.*

Financial sector

The Greek financial sector weathered the crisis well, but vulnerabilities remain. We note staff's concerns about the impact of the pandemic on banks' asset quality as support measures are withdrawn fully and stress the importance of adequate loan-loss provisioning. Higher sovereign exposures to the banking sector warrant close monitoring. While we can generally agree with staff that preparing for a more extensive deployment of macroprudential tools would be appropriate contingency planning, to emphasize "emerging systemic vulnerabilities" seems somewhat alarmist when house prices remain below their previous peak, net credit growth to households remains negative and the overall debt to GDP ratio has stabilized below it's pre-Global Financial Crisis peak – these dynamics seem more like the restoration of normal functioning in credit markets, after a prolonged period of balance sheet repair. *Staff views welcome.*

We welcome ongoing efforts to reduce the banking system-wide NPL ratio and the fact that improvements are already reflected in investors' valuations of Greek banks. However, we note that more progress is needed to achieve non-performing loan restructuring. We also agree with staff that the authorities should continue to monitor non-performing loan inflows related to the withdrawal of COVID-19 support measures. These measures should be accompanied by a reduction in reliance on deferred tax credits in bank capital and a strengthening of capital buffers. We welcome the detailed analysis of non-performing loans included in the Selected Issues Paper.

We echo staff's calls for tackling climate-related risks and welcome the additional information provided in the annex. We commend the Bank of Greece's ongoing efforts to assess physical and transition risks and their corresponding transmission channels. *Do the Bank of Greece's plans include climate stress-testing?*

Climate change

We welcome the adoption of the National Energy and Climate Plan and the ongoing consultation on a new climate law. Policy measures set out under the new climate law will

be key to changing Greece's energy structure, which remains carbon intensive. NGEU funds should support decarbonization efforts, but we note that a significant green finance gap remains. We appreciate the authorities' commitment to ensure that vulnerable groups are protected during the green transition. In this context, we welcome staff's detailed analysis of how climate policies can be combined with social protection reforms. Such efforts can significantly increase the political acceptability of climate measures such as carbon taxes and we encourage staff to include similar pieces of analysis in other countries' surveillance reports.

Statement by Mr. Buissé, Mr. Roman, and Mr. Grossmann-Wirth on Greece
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June 8, 2022

We thank staff for an insightful report, including the set of very informative selected issues. We also thank Mr. Massourakis for his comprehensive Buff statement. We agree with the thrust of staff's appraisal and policy recommendations, associate ourselves with Mr. Pösö's statement and would like to only offer a few additional remarks for emphasis and questions to staff:

- **Given the positive but uncertain growth outlook, we agree with staff that fiscal policy should remain accommodative in 2022 before returning to gradual fiscal adjustment and primary surpluses thereafter.** The Greek authorities rolled off most of COVID-19 related fiscal support, while extending a few measures, including the reduction in social security contributions and the solidarity tax for private sector employees. At the same time, they introduced other support measures to mitigate the impact of high energy prices, including general electricity and gas bill discounts as well as targeted subsidies to vulnerable groups, partly financed by expected ETS revenues. The calibration of these measure will be key depending on the strength of the recovery and inflation dynamics to ensure both support to aggregate demand and gradual fiscal consolidation. In this context, following the understandably broad-based response to the increase in energy prices, we agree with staff's recommendation of a transition towards more targeted support, focused on vulnerable groups.

- **We welcome Greece ambitious climate goals and green investment targets, partly financed by NGEU resources, as foreseen in the National Energy and Climate Plan and the draft Climate Law.** We commend the commitment of the Greek authorities to decarbonize the energy sector and invest in a green economy, as recalled by Mr. Massourakis in his Buff statement. We also thank staff for a very useful selective issue on social protection system and the green transition; we concur that a new carbon tax, as proposed by staff, could be a good complement to the other measures but its scope and timing should be carefully considered in the current context of high energy prices. If considered, Scenario 2 (combining targeted transfers and public investment) seems indeed the more appealing package of measures, to preserve aggregated demand while accelerating the green transition. We commend

the use by staff of the Carbon Pricing Assessment Tool and this scenario-based approach to guide policy discussions and recommend its adoption for all article IV reports.

- **We broadly agree with staff's recommendations to improve further the resilience of the financial sector.** As recalled in the report and in Mr. Massourakis Buff statement, important efforts have been undertaken by the authorities to deal with legacy bank NPL (securitization strategy, insolvency law reform), but challenges remain, especially for LSIs. Timely implementation of the new insolvency law and improvement in operationalizing NPL debt workout will be important in this regard. *We also echo Mr. Pösö's statement in asking staff to expand further on the identification of household credit expansion as a potential sign of emerging systemic vulnerability, given that net flows do not seem to point to a firm credit expansion.*

Statement by Mr. Palotai, Mr. Just, and Mr. Meizer on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank staff for the comprehensive set of reports, including the insightful Selected Issues Paper, and Mr. Massourakis for giving further insights into the Greek authorities' policy priorities in his Buff statement. Despite the remaining legacies of the sovereign debt crisis, the authorities' timely and exceptional policy support, has helped the Greek economy to weather the pandemic-induced shock relatively well, but various downside risks – mostly related to the reverberations from the war in Ukraine and several deep-seated structural problems – cloud the outlook. The authorities now need to resume fiscal consolidation in a challenging environment, which calls for carefully calibrated growth supportive fiscal measures, with sustained efforts to address financial stability risks and make further strides in structural reforms with the explicit aim of securing debt sustainability and paving the way for a resilient recovery. We associate ourselves with the statement by Mr. Pösö and would like to make the following comments for emphasis.

Fiscal policy needs to be reoriented towards providing more targeted support to the economy and bringing public finances on a more sustainable trajectory. Considering the extensive use of direct fiscal tools to offset the impacts of the pandemic, we see a strong need for fiscal adjustments and returning to primary surpluses, while newly arising challenges need to be tackled with better targeted measures. *Overall, we welcome the authorities' continued efforts to achieve primary surpluses of 2 percent over the medium term but note the divergence of views between the authorities and staff on the possible fiscal consolidation path. We would welcome staff's comments on the authorities' arguments, both in terms of higher growth projection and additional fiscal revenues from new tax measures.* Policies for reducing the energy burden on the most vulnerable households are critical at the current juncture. *We welcome the authorities' efforts to seek a budget neutral solution for the respective subsidies, but would appreciate if staff could further elaborate on how the direct budget impact of these measures is calculated (which is much more limited than the total cost) as well as on the benefits of calibrating these subsidies to the increase in ETS revenues.* Improving labor market conditions should continue to be given high priority and we see merit in keeping those pandemic-related measures though much better targeted and temporary unless the authorities achieve a more comprehensive tax reform that reduces the tax burden on labor, while actually reducing still significant tax evasion and improve tax compliance. In addition, we also call on the authorities to contain pension spending to those with demonstrated need and curb the public sector wage bill.

In addition to pursuing a prudent fiscal policy, implementation of growth-enhancing structural reforms and proactive debt management operations are also key to secure debt sustainability. We positively note that Greece was able to tap the bond market at favorable market conditions in 2021, as well as to repay early its outstanding loan to the Fund this April. Although gross financing needs are still high, those are expected to decline over the medium term, while associated risks are also contained by the government's large cash buffers. Long-term risks to fiscal sustainability are also mitigated by the large share of

official sector loans provided at concessional rates and very long maturities. However, the still high public debt level, the hopeful normalization of monetary policy in the euro area to neutral and a potential materialization of adverse risks and the absence of reform measures could easily lead to renewed debt sustainability concerns. The authorities, therefore, should continue putting public debt on a downward trajectory and improving the country's debt profile, which, inter alia, is also critical for strengthening investor confidence.

On the structural front, the authorities should continue to focus on tackling long-standing impediments to private sector-led growth and closing investment gaps. We take positive note that the authorities view the NGEU funds as a catalyst to address structural bottlenecks and encourage them to continue channeling these funds into growth- and resilience-enhancing areas. The rapid rise of exports is a welcome development, but further diversification would benefit the Greek economy. Instead of enhancing the Guaranteed Minimum Income Scheme, we would put greater emphasis on better targeting social protection and boosting job creation. Active labor market policies remain key to supporting vulnerable groups as well as to promote structural transformations. We strongly welcome the authorities' commitment to decarbonize the energy sector and invest in a green economy, duly considering that the carbon intensity of the Greek economy is the 2nd highest among advanced economies. We caution however, that those plans are very ambitious.

Although the authorities have made some significant progress in restoring the banking sector's resilience, remaining vulnerabilities must be addressed in a proactive and systematic manner. After several failed attempts to tackle the high stock of NPLs, the government-supported securitization scheme has brought about a rapid clean-up of balance sheets of major banks; however, as staff has also outlined, challenges remain in both the banking and non-bank financial sector. In this context, we call on the authorities to implement judicial reforms and a new insolvency law in order to accelerate workouts and speed up debt restructuring processes, as well as to closely monitor risks associated with the envisaged withdrawal of pandemic-related support measures, and to improve banks' credit risk management frameworks. We also see a need for further strengthening capital buffers and enhancing the quality of banks' capital. *While we encourage the authorities to further clarify the conditions under which macroprudential tools are applied, we also note the difference of opinion between staff and the authorities on the (excessive) household re-leveraging and (overheated) real estate markets. We would welcome staff's comments on the authorities' views.* Banks and regulatory authorities will also need to adapt to new challenges for the financial sector such as the expansion of fintech business models and carefully analyze how climate-related requirements and regulations impact the financial sector.

We would appreciate further insights by staff on the medium-term impact of higher energy prices, loss of shipping and tourism revenues on potential growth and inflation from the war against Ukraine.

Statement by Ms. Medearis and Ms. Rao on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank staff for their comprehensive reports and Mr. Massourakis for his helpful Buff statement. We commend the Greek authorities for their decisive fiscal policy response to the pandemic, which together with the ECB's accommodative monetary policy, and robust EU support have enabled the Greek economy to recover strongly to pre-pandemic rates of growth in spite of crisis legacies. That said, rising food and energy prices and sanctions resulting from Russia's war in Ukraine pose serious risks to the outlook, warranting continued vigilance. We applaud the authorities for addressing crisis legacies despite the challenging environment, including by finalizing early repayment of outstanding IMF credit and graduating from the quarterly European Institutions' Enhanced Surveillance framework. **We support the thrust of the staff appraisal and offer the following comments for emphasis.**

We concur with staff's recommendation for a gradual but steady fiscal adjustment, and we stress the need to better target fiscal support. We appreciate that the energy support measures will be largely offset by higher Emissions Trading System (ETS) revenue to help reach budget-neutrality. We echo staff that the across-the-board subsidies announced for electricity and gas consumption should be phased out and replaced with targeted support for vulnerable groups. We also agree with staff that the authorities should rethink their plans for permanent cuts in social security contributions (SSCs) and elimination of the solidarity tax for all taxpayers as these measures are poorly targeted. We welcome the authorities' progress in improving the fiscal mix, including through improved VAT collections and a lower tax wedge for corporates. We encourage the authorities, however, to reduce transfers to state-owned enterprises (SOEs) and pension funds to further improve the policy mix. We support the authorities' intentions to preserve higher health care spending and public investment.

We echo staff on the need to restore sound bank asset quality and shore up overall banking sector resilience. While we welcome the authorities' progress to reduce nonperforming loans (NPLs), we are concerned about the broader migration of risks to the non-bank financial sector. We encourage the authorities to accelerate NPL workouts, including through applying the new insolvency law and continuing judicial system reforms.

The national Recovery and Resilience Plan presents a prime opportunity to address remaining structural bottlenecks and put Greece on a path towards higher growth. We were struck by the difference in staff's medium-term growth estimate (1.2 percent) and the authorities', as relayed in the Buff Statement (3–3.5 percent). *Could staff elaborate upon the factors and assumptions that lead to this divergence?* We urge the authorities to take advantage of the NGEU funds to implement much-needed structural reforms to enhance productivity and growth and achieve emissions reduction targets. This includes stepping up productive and green investments, improving education, and up-skilling workers. We share

the authorities' priority to ensure a job-rich recovery so that a wide swath of the population may benefit from the economic rebound. That said, the minimum wage increase is sizeable, increasing 7.5 percent thus far in 2022. We urge the authorities and staff to closely monitor the potential impact of the minimum wage increase on inflation and youth employment. Lastly, we strongly support staff's recommendation that the authorities need to protect the independence and credibility of the statistical agency and its staff.

Given the disproportionate impact of climate change on vulnerable groups, we share staff's view that a strong safety net is central to an effective adaptation strategy. In this context, we welcome staff's Selected Issues Paper on the social protection reforms needed to facilitate the green transition, and we encourage staff to conduct similar scenario analyses in other countries of possible options for recycling carbon revenues to support social transfers and green investment.

Statement by Mr. Bhalla and Mr. Goyal on Greece
Executive Board Meeting 22/52
June 8, 2022

1. We thank Staff for a comprehensive report and Mr. Massourakis for the Buff statement on Greece. We broadly agree with the report and recommendations made by the Staff, however, would like to make a few observations.

2. Greece has prepaid its loan from IMF two years ahead of schedule. Probably it was facilitated by large market borrowings during 2021. We note that Staff has welcomed prepayment of the loans and has stated that it will reduce the financing needs. We would welcome Staff to elaborate on this observation. How does the cost of market borrowings compare with the cost of IMF loans? Further, in Staff's assessment, how do the current economic parameters of Greece compare with the performance criteria stipulated for the Fund arrangement for Greece?

3. Greek debt ratio improved significantly during 2021, assisted by favourable interest growth differential and improvement in primary balance. Going forward, improvement in the primary balance is expected to be moderate, and interest growth differential may worsen owing to several downside risks, viz., tightening financing conditions, a slowdown in growth, and elevated inflation. In this context, Staff projections about continued improvement in the debt trajectory appear somewhat optimistic. Staff may like to inform the proportion of fixed-rate debt in total debt?

4. It has been stated that elevated inflation has resulted from geopolitical developments. We observe that inflation started its upward movement much ahead of recent geopolitical developments. The inflation trend seems to have been contributed by excess demand and supply constraints as well. Staff assessment about improvement in inflation scenario is predicated on normalization of energy and food prices and moderation in wage rise, and smooth green transition. Obviously, these assumptions have significant downside risks.

5. We appreciate the sharp improvement in banking sector NPLs which have declined from 25.5 per cent at the end of 2020 to 7 per cent at the end of 2021. However, the reduction in NPLs has weakened the bank capital to withstand future stress situations, and sizeable risks have migrated to the non-banking sector. Further, the vulnerabilities are rising, as reflected in increasing household liabilities and a pickup in real estate loans and prices. As suggested by the Staff, we

encourage authorities to improve banks' capital buffers and profitability and strengthen the insolvency law to raise the long-term resilience of the banking sector.

We wish authorities all the best in their future endeavours.

Statement by Mr. Peter and Ms. Zhunusbekova on Greece
Executive Board Meeting 22/52
June 8, 2022

Strong policy response and past reforms have helped Greece manage the effects of the pandemic and experience a robust recovery in 2021. The country's GDP expanded to 8.3 percent in 2021 and is expected to be strong in 2022. A strong fiscal response, accommodative monetary conditions, prudential forbearance, and substantial EU support were key to accelerate the recovery. We commend the authorities for the early repayment to the Fund and upcoming graduation from the European Institutions' Enhanced Surveillance framework later this year. However, in light of the large debt stock and persisting financial sector vulnerabilities, risks remain tilted to the downside, driven by the economic consequences of the war in Ukraine, tightening of monetary policy in major economies, and food and energy security concerns. To ensure a resilient transition to the post-pandemic era, continued implementation of structural reforms is needed to underpin competitiveness and ensure strong and inclusive economic growth. We offer the following comments for emphasis.

The authorities should focus on medium-term fiscal consolidation. We note that public debt is on a decreasing path and the risk of sovereign stress is assessed as moderate. We acknowledge the authorities' commitment to reach considerable budgeted consolidation. At the same time, we agree with staff's recommendations that fiscal consolidation should be based on credible assumptions and measures, with the primary balance gradually increasing to two percent of GDP by 2027 more in line with the estimated sustainable long-term primary surplus level. We also agree with staff that plans for permanent cuts in the social security contributions and the solidarity tax for all taxpayers would negatively affect the revenue side and should be re-evaluated. Additional slack on the revenue side could be useful, noting that a fiscal adjustment of the envisaged scale is subject to risks related to energy prices, a materialization of contingent liabilities, outstanding state guarantees, and potential pension and wage reversals. Finally, given the high debt level and the eventual transition from official financing to market funding, we believe that a robust and multi-year debt management strategy would help contain financing costs. *Could staff elaborate on the authorities' debt management framework?* We also support the authorities' efforts to advance fiscal structural reforms, including consolidation and digitalization of the pension system and a reform of the Independent Authority for Public Revenue.

The authorities' efforts and policy actions to achieve financial sector stability should be further enhanced. We note with concern that while government-supported securitizations have enabled banks to reduce non-performing loans (NPLs), it has reinforced the bank-sovereign nexus. With the expiration of the Hercules Asset Purchase Program and a growing risk of credit quality deterioration, the implementation of the insolvency law and work on

credit risk management practices of the banks become even more essential. We also encourage the authorities to operationalize the adopted sale and lease back scheme. We believe that it would be helpful in terms of reducing delays in NPL's resolution. We encourage the authorities to continue their efforts to rebuild banking sector resilience, including improving the quality of capital, strengthening capital buffers, and ensuring sustainable bank profitability. We concur with staff on the need to create conditions for structural transformation of the financial system, given the current trends of the increasing number of non-banks and Fintech. We also agree on the importance of tackling climate-related financial risks.

Further structural reforms are needed. We support reforms under the "Greece 2.0" national plan, including efforts to tackle structural under-employment and low productivity growth. Human capital development, including addressing the problem of skill mismatches by upskilling and re-skilling programs, is critical for improving competitiveness and unlocking growth potential.

We agree with the assessment of the Fund's staff that the implementation of reforms supported by the EU Next Generation funds will be key in increasing the prospects for convergence. In this context, Greece's noticeable commitment to climate-friendly policies deserves support, but stronger social protection is likely needed to facilitate the green transition. We agree with staff that a gradual increase in carbon taxes to finance targeted transfers and green investments may be useful to close emerging social protection gaps.

Statement by Ms. Mannathoko and Ms. Maidi on Greece
Executive Board Meeting 22/52
June 8, 2022

We thank staff for the comprehensive set of reports and Mr. Massourakis for his informative Buff statement. Like the Greek authorities, we broadly concur with the staff appraisal and offer a few observations.

The resilience of the Greek economy during the COVID-19 pandemic has been a welcome reflection of lessons learnt and reforms taken since the Euro Area crisis. Following that shock, weak public finances were clearly central to the subsequent decade long debt crisis in Greece. Reforms conducted since then have enabled Greece to weather the latest shock more effectively, with a resolute policy response and sizable EU support including surging foreign direct investment mitigating impacts this time around. However, notwithstanding progress made in recent years, like staff, we note that risks remain as spillovers from the Ukraine war, including persistent high energy prices and inflationary pressures, and uncertainties around the pandemic, could continue to cloud the outlook. We encourage renewed attention, and a careful approach to completing fiscal reforms that were delayed by the pandemic. The authorities' efforts should focus on strengthening debt sustainability through appropriate fiscal consolidation, supported by structural reforms to entrench fiscal sustainability and promote investment, while ensuring adequate social support and addressing gaps in social protection. The latter welfare considerations are critical to sustaining social stability amidst high youth unemployment.

Fiscal policy and public debt: Prudent, targeted and gradual fiscal consolidation is necessary to reduce the primary deficit without excessive welfare and social costs. We encourage measures to carefully phase out pandemic support, transfers to public enterprises and fuel subsidies. Fiscal room is needed for targeted transfers, critical social spending and recurrent investment needs once NGEU funding ends. We also welcome the early repayment of IMF obligations and encourage other planned measures to improve debt sustainability. Managing risks to sovereign debt remains especially important given the uncertain path of interest rates even as the country replaces official funding with access to market funding. Among other things, the possible materialization of fiscal risks associated with subsidies that could exceed expected revenues, and of contingent liabilities, could compromise fiscal stability.

Financial sector policy: We applaud the rapid reduction of non-performing loans, with the government's "Hercules" asset protection scheme helping banks to dispose of much of their existing non-performing loans, and a unified insolvency framework availed to support the resolution of financial distress more efficiently. Nevertheless COVID-19 impacts, and risks have not played out yet in the financial sector and will only be fully evident once all support is withdrawn. Thus it is important to guard against new defaults, and closely monitor the graduation of risks to the non-bank financial sector and associated linkages between banks and non-banks, ensuring readiness to address any increase in the stock of non-performing loans as support is eased. We stress the need for the authorities to undertake a comprehensive asset quality review, address the uncertainty over the adequacy of credit classification and

loan-loss provisioning and resolve delays in the restructuring of NPLs. It will be essential to closely monitor bank asset quality as the Hercules scheme lapses, and we support staffs' recommendation to continue strengthening capital buffers, alongside other measures to strengthen financial resilience. Timely implementation of the insolvency law will be important, as is strengthening banks' credit risk management. We welcome efforts to ensure the sustainability of banks' profitability through the supervisory review and evaluation process (SREP) framework

Structural reforms: We welcome the authorities' ambitious Recovery and Resilience Plan. We encourage the implementation of more efficient and high-impact public investment management as envisioned in the NGEU package, with sound governance, transparency, and reforms needed for a more business-friendly environment. Implementing measures that will further progress in the digitalization of public services will also boost efficiency while improving the investment climate and supporting the ambitious expansion in public investment that is envisaged. We also recommend complementing the strengthening of public investment processes with a credible medium-term fiscal plan, to support medium term growth and sustainability. At the same time. addressing labor reform, including modernizing the public employment agency, and reviewing and reforming vocational education and training programs to better serve the needs of the labor market, while enhancing gender and youth equality also remain critical to sustainable outcomes. While a focus on minimum, livable wages often reflects good intentions and is seen as countering inequality, in practice it can displace jobs for youth and increase youth unemployment and inequality in contexts where this is already prevalent. We would therefore encourage the authorities to analyze the impact on youth unemployment of minimum wages and other cost pressures that constrain industry's ability to create more jobs, in order to avert further marginalization of the unemployed. We welcome the authorities' re-skilling and up-skilling programs, including general training to enhance skills needed to address mismatches. This should help to enhance employment opportunities, improve labor productivity, and reduce unemployment.

Statement by Rasmus Rueffer (ECB Representative) and Dimitrios Rakitzis (Advisor) on Greece – 2022 Article IV Consultation
IMF Executive Board Meeting
08 June 2022

We would like to thank Mr. Massourakis for the informative Buff statement, and Staff for their balanced Report. We broadly agree with Staff and share many of the main findings, in particular those related to the challenges facing the Greek economy and priorities ahead. We associate ourselves with the statement of Mr. Pösö and would also like to highlight the following items for emphasis.

We welcome Staff's positive assessment of the Greek authorities' response to the pandemic and the faster-than-expected economic recovery. We particularly welcome Staff's views on Greece's Recovery and Resilience Plan (RRP), which will support the Greek economy in its green and digital transitions, and help address the challenges it continues to face. As a general point, the Report could more explicitly acknowledge progress on the reform momentum and growth-enhancing structural policies and elaborate further on the main challenges for the near term (the economic impact of Russia's military aggression against Ukraine, the need to diversify fossil fuels imports to reduce reliance on Russia, and to alleviate increasing inflation pressures).

We broadly concur with Staff's assessment of the macroeconomic situation and outlook. The Greek economy is set to expand by 3.5% in 2022, despite the adverse impact of the war in Ukraine and the high inflation, and has in our view the potential to grow faster than Staff's growth forecast for 2023 at 2.6%. We share Staff's views as regards the balance of risks, which remains tilted to the downside, and agree that the outlook is clouded particularly by the war in Ukraine and any further intensification.

The fiscal stance is expected to improve significantly in the coming years and to return to primary surpluses as COVID-related measures are phased out. The projected primary deficit of 1.9% of GDP in 2022 is appropriately accommodative and Staff expects the primary balance to reach a surplus of 0.9% of GDP in 2023. This projection is in line with the European Commission's recommendation on ensuring prudent fiscal policy by limiting the growth of nationally-financed current expenditure below medium-term potential output growth. Nonetheless, the fiscal outlook is subject to considerable risks and we broadly share Staff's assessment as to the sources of these risks. However, Staff could better explain their assessment on the implementation risks linked to Next Generation EU, in particular in light of recent improvements, such as the strong central governance arrangements, the Project Preparation Facility, which is expected to enhance public investment management and project execution, and the recent public procurement reform. In addition, the recommendation to unwind the announced cuts to social security contributions and the solidarity tax could be better explained, in light of the high tax wedge (2pp above the euro area average) and above-average rates acknowledged by Staff.

We see debt sustainability risks to be substantial in the short and medium term and more moderate

in the longer term. For the short term, gross financing needs remain high, pointing to a high risk of potential fiscal stress in the upcoming year. In the medium term, high fiscal sustainability risk reflects high debt level and high sensitivity to adverse shocks, even though gross financing needs remain below 15% of GDP. In our view, long-term risks to fiscal sustainability are medium, and gross financing needs remain below 20%. At the same time, the Staff's report correctly underlines that the large cash buffer, the large share of official sector loans provided at concessional rates and very long maturities mitigate risks to debt sustainability. We agree with the assessment that sustaining a moderate risk premium, through prudent fiscal policy. and the implementation of growth-enhancing structural reforms, are key to debt sustainability.

Turning to the financial sector, like Staff, we also note the uncertainty surrounding bank asset quality once support is withdrawn, and call for more explicitly assessing bank reported loan default rates. We agree with Staff that the impact of the pandemic on banks' asset quality once policy measures are fully withdrawn remains uncertain, given that net inflows of non-performing loans had been positive for five quarters in a row at the end of 2021. However, we positively note that banks continue to report stable and limited default and re-default rates for loans after exiting moratoria, which are below initial expectations. The initial signs point to similar default rate for loans exiting the two temporary instalment subsidy schemes set up by the authorities for performing or restructured coronavirus-affected debtors (the "Gefyra" and "Gefyra II" schemes).

We note that Staff's references to uncertainty on the adequacy of credit classification and loan-loss provisioning may leave room for misinterpretation. Staff points to the absence of a system-wide comprehensive quality review as a source of uncertainty on the adequacy of credit classification and loan-loss provisioning. However, we would like to emphasise that this is not an element unique to the Greek banking sector. Moreover, it is not sufficiently recognised that Greek systemic banks are subject to an annual in-depth Supervisory Review and Evaluation Process (SREP) conducted by the supervisor, as well as a regular stress test exercise by the European Banking Authority (EBA).

We broadly agree with Staff's views on non-performing loan reduction and workouts. We share Staff's appreciation of the rapid decrease of the ratio of non-performing loans (NPL) and agree that the successful resolution of legacy private non-performing debt increasingly depends on servicers of securitised and sold loans. In Less Significant Institutions (LSIs) NPL reduction remains a challenge and is linked to the ability of these banks to use the Hercules Asset Protection Scheme. We also agree with the importance of accelerating NPL workouts through an effective implementation and application of the new insolvency law and further judicial system reforms, as well as close monitoring thereof, while the pay-out of called state guarantees to banks should be stepped up.

In our view, Staff's reference to household credit expansion as a potential sign of emerging systemic vulnerability requires some clarification. According to Bank of Greece data, net credit growth to households, particularly mortgages, remains steadily negative, despite an increase in gross credit flows in 2021, while net credit growth for consumer loans has only turned positive in March 2022 for the first time in years. At the same time, net credit towards firms, especially SMEs, had registered a gradual slowdown in the second half of 2021, which continued at the beginning of 2022 and only started to accelerate again

in March 2022. On that note, we would appreciate it if Staff could provide clarifications on how their analysis takes into account developments on net credit flows (i.e. adjusted for loan repayments and write-offs), which in our assessment point to the absence of a firm credit expansion.

We agree with Staff's recommendations regarding strengthening bank capital and boosting profitability, but note that other factors at play make those less relevant at the current juncture. We agree with Staff on the need to strengthen capital buffers and enhance the quality of banks' capital, as well as the need to address medium-term funding challenges and to adapt banks' business plans so as to ensure sustainable bank profitability. However, although we take note of the recommendation to set a roadmap to guide the activation of a positive countercyclical capital buffer over the medium term, we would like to emphasise that Greece still faces crisis legacies that may pose a hurdle to credit provision to the private sector. This makes this recommendation for Greece somewhat less urgent than for some other euro area countries with comparable levels of systemic risk and raises a question of the cross-country comparability of macro-prudential policy recommendations in Staff reports. Moreover, it may be less relevant in the short term, also given the current uncertainty about the strength of the economic recovery and financing conditions, given that share capital increases may be needed to accommodate higher capital requirements should the future profitability of the banks not be sufficient.

As regards structural policies, we share the view that the Greek authorities responded in a timely manner and appropriately to the pandemic and has managed to cushion its social and economic implications. The timely and full implementation of relevant structural reforms remains key to recovery, especially those included in Greece's RRP. While we agree with Staff that increases in the minimum wage should be consistent with productivity growth, Staff's analysis could more explicitly acknowledge that the minimum wage was frozen during the three years (2019-2021) that followed the 10.9% increase of February 2019 and that no adjustment took place in 2012-2019 following the sharp cut of 2012. Staff could also better explain whether the comparison to the mean wage across countries is a relevant metric in view of the very large proportion of Greek workers paid the minimum wage as well as the high share of self-employed workers. We agree with Staff's recommendation to increase the level of the Guaranteed Minimum Income (GMI) scheme at least in line with inflation, but the budgetary impact and measures to boost the effectiveness of the scheme, given the large informal sector, should be considered.

Greece – 2022 – Article IV Consultation

Responses to Technical Questions Posed by Executive Directors in Advance of

EBM/22/52—June 8, 2022

Staff's responses to technical and factual questions are below.

Outlook/Risks

1. **We would like to hear more details from staff, on the reasons of the projections for a long delay in real GDP per capita recovery, as showed in Text figure 1 (p.4) when comparing with other country crisis around the globe.**

- The main drivers of the slow long-term recovery are the projected adverse demographic trend and the historically slow productivity growth. According to the 2021 Ageing Report, the labor force (age 15-64) is projected to drop by almost 10 percent in 2030 compared to end-2019, and further to 17 percent in 2040, among the sharpest drops in EU countries. This will translate into an average yearly decline of about 1 percentage point of the labor force over the next few decades. Greece also experienced low productivity growth over the past few decades (an average of ¼ percent over 1970-2017). Despite recent structural reforms that could raise labor participation and productivity, structural constraints limit the long-term growth prospect to around 1-1½ percent and this is what underlies the slow recovery of per capita GDP projected by staff. For more details, please also see the Annex VI of the 2018 staff report (IMF Country Report No. 18/248).

2. **In view of recent developments, how does staff assess the appropriateness of its inflation assumptions for 2023 (e.g., moderation of energy prices, moderation of food inflation)?**

- The inflation projection presented in the staff report is based on the global assumptions for food, oil, and natural gas prices consistent with the April World Economic Outlook (WEO). As these price assumptions were drawn from future prices, they could reflect significant backwardation as markets may not have priced in the risk of further embargoes or prolonged shortages. Nonetheless, given the significant uncertainty, staff could not see a viable alternative to these price assumptions and therefore opted to stick to them in the baseline projection but highlighted the upside risks to domestic inflation (see ¶8). We will soon revisit our projection in the context of the upcoming WEO update given new global assumptions for international food, oil, and natural gas prices.

3. **While the short-term outlook remains generally favorable, we note that risks are to the downside especially from high inflation and the need for the ECB to tighten monetary policy and from possible continued disruptions in the important tourism sector.** ***We would have welcomed a deeper discussion of the likely impact of ECB tightening on the Greek economy and would appreciate it if staff could elaborate in this area.***

- A faster-than-expected tightening of financial conditions by the ECB may result in an increase in Greece's financing cost and expose its external, fiscal, and banking sector vulnerabilities (see also Annex I, Risk Assessment Matrix, for further discussion of this risk and policy options). However, the recent ECB decision to continue accept Greek government bonds as eligible

collateral in its monetary policy operations, coupled with their acceptance in reinvestments under the PEPP until 2024, should help maintain broadly favorable financing conditions over the medium term. If Greece is able to regain its investment grade in 2023, this would also help maintain favorable financing conditions.

4. **We understand that the minimum wage increase might cause broader wage pressures, but staff are projecting that ULCs this year will grow by more than the CPI in an environment of high and rising energy and food prices. *We would appreciate staff comments, including on whether other European countries are seeing ULC growth in excess of CPI inflation, and why such a sharp decline in inflation is projected for 2023 given that the rise in UCLs suggests second round effects from rising energy and food prices are happening.***

- The projected ULC growth of 6.7 percent in 2022 is in nominal terms, and the implied real ULC growth of 0.6 percent does not outpace the underlying growth of labor productivity reflecting the stepped-up investment and the ensuing improvement in the capital-labor ratio. Therefore, though staff's projection of ULC indicates some wage pressures including stemming from recent minimum wage increases, staff does not think it deviates from productivity developments and hence would undermine competitiveness. A few other European countries (Austria, Portugal, Slovenia) similarly project ULC growth to slightly exceed or be on par with CPI growth, even though such a comparison may not capture the differences in the underlying productivity dynamics.

- Staff's inflation projection in 2023 is based on the global food, oil, and natural gas price assumptions underlying the April World Economic Outlook. Given high pass-throughs, the projected decline in oil and natural gas prices in 2023 relative to 2022 is expected to be strongly deflationary, which accounts for the bulk of the drop in projected inflation. Services inflation in 2023 is projected to be above its historical level, reflecting continued pressures from wage increases, but is not enough to fully offset the deflationary pressures of the normalizing oil and natural gas prices. It should be noted that WEO price assumptions were drawn from future prices and could reflect significant backwardation. Nonetheless, given the significant uncertainty, staff could not see a viable alternative to these price assumptions and therefore opted to stick to them in the baseline projection but highlighted the upside risks to domestic inflation (see ¶8). We will soon revisit our projection in the context of the upcoming WEO update given new global assumptions for international food, oil, and natural gas prices.

5. **We would appreciate further insights by staff on the medium-term impact of higher energy prices, loss of shipping and tourism revenues on potential growth and inflation from the war against Ukraine.**

- Sustained high energy prices and inflation over the medium term could dampen Greece's growth prospects by raising the cost of living and discouraging private consumption. Despite overall limited direct linkages to Russia and Ukraine, Greece's energy sector exhibits non-trivial dependence on Russia, especially for natural gas (40 percent of natural gas in 2020 was imported from Russia, generating around 15 percent of Greece's electricity), and a sudden complete shutoff of natural gas imports would make it difficult to find alternative suppliers and could become a significant dent on growth. The direct impact on shipping and tourism is assessed to be modest giving the limited exposure; however, in a tail-risk scenario, losing the transit transport due to sanctions or a severe negative confidence shock deterring tourists from coming could undermine activities in the service sector, thus hurting growth.

6. **We note that the trend in GDP growth moves in the opposite direction in the Fund forecast (3.5% for 2022 and 2.6% for 2023) relative to the latest Greek government forecasts (3.1% for 2022 and 4.8% in 2023).** ***We would welcome more information from staff about the discrepancy, particularly as this has implications for fiscal policy.***

- For 2022, despite numerical differences, staff and the authorities agreed during the consultation that the growth projections were within a reasonable margin of error, especially given the heightened uncertainty at the current juncture. For 2023, the differences in the projected growth rates mainly stem from different assumptions with respect to the pace and the impact of NGEU investments. Staff's assumptions (presented in the text table of Box 1) are more conservative with respect to the channeling the NGEU loans into private investment, the extent that new investment rather than investment already planned are stimulated by the NGEU resources, as well as the fiscal multipliers, based on past track records. Nonetheless, staff has acknowledged that better-than-expected implementation of NGEU investment and reforms constitute an upside risk (see Annex I). On fiscal policy, the authorities and staff concurred on the need for an accommodative stance in 2022, followed by a gradual fiscal consolidation path over the medium term.

7. **We were struck by the difference in staff's medium-term growth estimate (1.2 percent) and the authorities', as relayed in the Buff Statement (3–3.5 percent). Could staff elaborate upon the factors and assumptions that lead to this divergence?**

- The main differences in the medium-term growth projections stem from the assessed growth impact of the NGEU resources and reforms. The authorities expect that investment and structural reforms imbedded in the NGEU programs will raise the real GDP levels by 7 percent in 2026 through boosting physical investment and productivity. Staff, on the other hand, makes a more conservative assessment given the past reform track record and expects that the NGEU related investment adds an average of 0.8 percentage point to annual growth during 2022-26 and the channel is mainly via higher investment. The potential positive impact on productivity and labor force participation has been treated by staff as an upside risk given the uncertainty of the reform payouts. Please see Box 1 of the 2021 staff report (SM/21/113) and Box 1 of the current staff report for more details of staffs' and the authorities' assumptions and assessment.

8. **Much higher growth expectations may result in substantially different views on the need for fiscal consolidation measures and public debt prospects.** ***Could staff clarify the main reasons for the substantial divergence in growth and fiscal balance projections?***

- Please see the response above on the differences in growth projections.

- Consistent with the lower medium-term growth forecast, staff projects less revenue buoyance compared with the authorities, which explains lower fiscal balances. In case that growth is higher than expected, staff recommends saving any fiscal overperformance as a contingency reserve to accommodate future downside risks. Over the long term, staff analysis in past Article IV reports (2018 and 2021) suggests that a lower primary surplus target of 1.5 percent of GDP is more sustainable than the target of 2.2 percent of GDP under the Enhanced Surveillance Framework.

9. **Overall, we welcome the authorities' continued efforts to achieve primary surpluses of 2 percent over the medium term but note the divergence of views between the authorities and staff on the possible fiscal consolidation path. We would welcome staff's comments**

on the authorities' arguments, both in terms of higher growth projection and additional fiscal revenues from new tax measures.

- Same response as above (Q8)

Fiscal Policies

10. While we acknowledge comfortable cash buffers, how does staff view the impact of persistently higher interest rates on Greece's sovereign debt?

- In the medium-term, the impact of higher interest rates will be mitigated significantly by the large share of official debt at favorable interest rates that only amortizes after the 10-year projection horizon. However, during the transition from official to market funding in the longer term, a return to historical levels of risk-free rates or stronger sensitivity of risk premiums to debt levels could quickly lead to adverse debt trajectories, necessitating policy adjustment and/or further financial support from European partners (see IMF Country Report No. 21/154).

11. How does the cost of market borrowings compare with the cost of IMF loans? Further, in Staff's assessment, how do the current economic parameters of Greece compare with the performance criteria stipulated for the Fund arrangement for Greece?

- As highlighted in ¶1 of the staff report, the authorities used part of the SDR allocation to repay the IMF loan which incurs net charges at the SDR interest rate. In comparison, the EFF lending rate is the SDR interest rate plus 100 basis points. Comparable market borrowing of a 3-year Greek Government Bond (GGB) (which roughly matched the remaining repayment period of IMF outstanding credit) had an interest rate of 1.2 percent in April when the repayment took place. The shortest GGB, other than T-bills, that was lately issued were two 5-year GGBs in May and September 2021 with record-low yields of 0.02%.

- The Fund's EFF program (2012-16) set broad objectives to restore competitiveness and growth, fiscal sustainability, and financial stability. There has been some improvement in competitiveness with Greece's external position moving from weaker to moderately weaker and goods exports remaining robust during the pandemic. Growth has also rebounded quicker from the pandemic than expected and NGEU investment and reforms are expected to keep it robust over the next years but potential growth itself remains constrained by the aging dynamics and low productivity growth. The most recent debt sustainability assessment found that public debt is sustainable over the medium-term but that uncertainty is too high to reach a definite conclusion on long-term debt sustainability (see IMF Country Report No. 21/154). Financial stability has improved as exemplified by the recent significant acceleration of NPL reduction.

12. In this context, Staff projections about continued improvement in the debt trajectory appear somewhat optimistic. Staff may like to inform the proportion of fixed-rate debt in total debt?

- Realism of baseline assumptions are discussed in figure 6 of the MAC SRDSF, which lays out the rationale for the projections and highlights the significant uncertainty around the estimates. The share of fixed-rate debt is almost 99% when taking into account interest rate swap transactions, the use of funding instruments by the ESM and the incorporation of the risk metrics of EFSF's liability portfolio.

13. Could staff elaborate on the authorities' debt management framework?

- The authorities' debt and funding strategy has four main objectives, including (i) enhancing market access through building a tradable and liquid yield curve, enhancing the investor base and maintaining regular market operations, (ii) lowering funding costs by bringing the credit spread of the government bond curve in line with peers, (iii) containing debt-associated risks through limiting interest rate, FX and refinancing risks and (iv) ensuring robust liquidity management through the preservation of a large cash buffer. The authorities publish annual funding strategies.

14. We further observe that staff estimates that the realization of contingent liabilities would raise the debt ratio by 14 percentage points (para. 12). We would welcome staff's comments on the nature of these contingent liabilities and potential containment strategies.

- Contingent liabilities reflect those discussed in ¶12 of the main text of the staff report and include, unfunded tax cuts (EUR 6 billion cumulative), spending pressures from high inflation (EUR 7 billion cumulative), partial losses from Hercules (EUR 4.4 billion cumulative) and other outstanding guarantees (EUR 7.2 billion cumulative), potential DTC conversion costs (EUR 3.5 billion cumulative) and realization of legal challenges to past pension and wage reforms (EUR 3 billion cumulative) over 2022-2027. Containment measures could include: (i) Fully fund permanent cuts in taxes and SSCs through base-broadening measures and benefit adjustments, respectively; (ii) Adhere to fiscal adjustment targets while reallocating the budget to create fiscal space for scaling up targeted support to vulnerable groups; (iii) Contain pension spending and the public sector wage bill; and (iv) Save any fiscal overperformance as a contingency reserve to accommodate future downside risks (see Annex I. Risk Assessment Matrix).

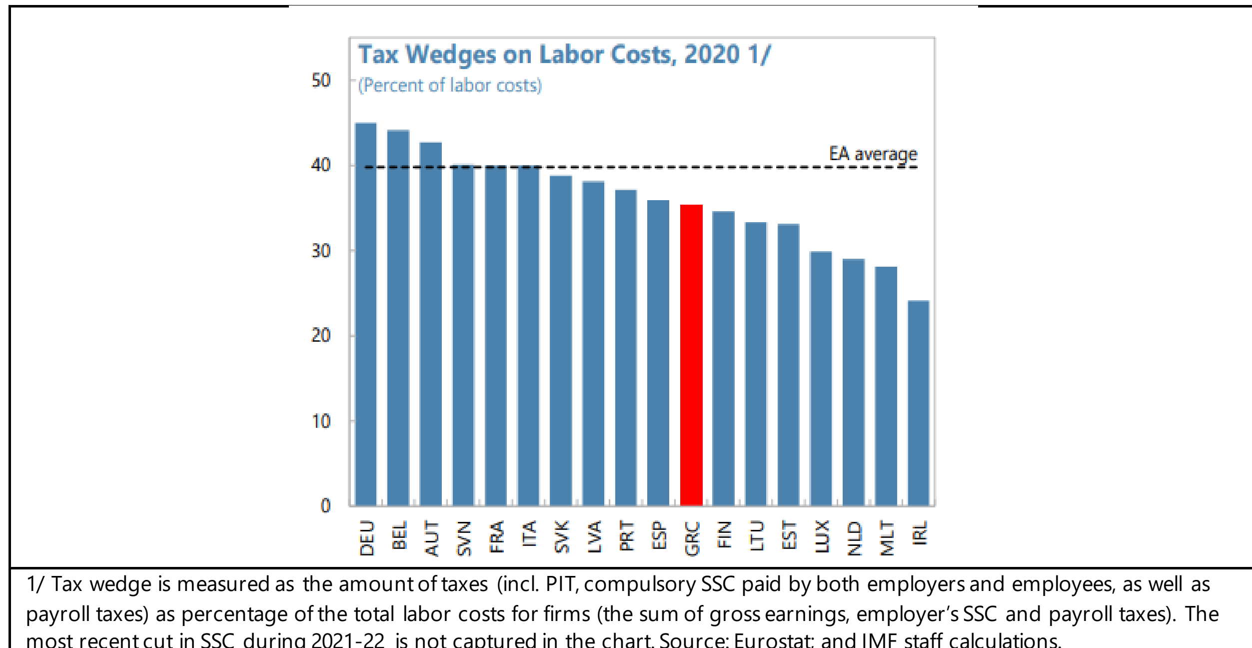
15. It would be interesting to learn from staff if these differences would affect economic growth going forward.

- Staff recommends measures with larger growth stimulus effects than the authorities' plan. Targeted support for vulnerable groups and viable firms (recommended by staff) has a larger fiscal multiplier than across-the-board energy subsidies (prioritized by the authorities in the absence of a well-targeted social protection system), given a higher marginal propensity to consume at lower incomes. The authorities' planned permanent cuts in Social Security Contributions and the solidarity tax could benefit more the richer groups that have a lower marginal propensity to consume and crowd out space for more growth-friendly spending on critical social protection.

16. We would also welcome some elaboration by Staff on the rationale for recommending the unwinding of the announced cuts on social security contributions and solidarity tax, given above euro area average tax wedge and tax rates.

- The announced cuts in social security contributions (SSCs) and the solidarity tax will further reduce the labor tax wedge in Greece, which was already below the euro area average in 2020 (see below chart from the SIP on social protection). Nonetheless, these measures are not well targeted – benefitting more the richer income groups that have a lower marginal propensity to consume and contain a significant fiscal cost – estimated at about 1.1 percent of GDP per year, crowing out the space for more growth-friendly social spending targeted at vulnerable groups.

The reductions in SSCs also go against the objectives in the program to align benefits with contributions.



1/ Tax wedge is measured as the amount of taxes (incl. PIT, compulsory SSC paid by both employers and employees, as well as payroll taxes) as percentage of the total labor costs for firms (the sum of gross earnings, employer's SSC and payroll taxes). The most recent cut in SSC during 2021-22 is not captured in the chart. Source: Eurostat; and IMF staff calculations.

17. We would welcome further information on staff's call for reversing or at least fully funding, through benefit adjustments and base-broadening measures, the permanent cuts in social security contributions and the elimination of the solidarity tax for all taxpayers. *Do staff consider that further fiscal consolidation is needed?*

- The authorities' planned permanent cuts in social security contributions (SSC) and the solidarity tax are not well targeted – benefitting more the richer income groups that have a lower marginal propensity to consume, and contain a significant fiscal cost – estimated at about 1.1 percent of GDP per year, crowing out the space for more growth-friendly spending on critical social protection. Staff recommend using the space from unwinding the tax and SSC cuts for targeted social transfers to vulnerable groups.

18. The current administration has a good track record of meeting fiscal targets while implementing gradual cuts in social security contributions and the solidarity tax. *If the cuts were to be fully funded through benefits adjustments and base-broadening measures, what would these be and what income groups would be impacted?*

- In line with past staff recommendations, benefit adjustments could come from pensions while base-broadening measures could include reducing the PIT tax-free threshold and combatting tax evasion by the self-employed. These measures are expected to affect mostly the higher income groups.

19. We would welcome staff's further comments on the proposal to unwind the announced cuts to social security contributions and the solidarity tax.

- See response to above three questions (Q16-19).

20. **We welcome the authorities' efforts to seek a budget neutral solution for the respective subsidies, but would appreciate if staff could further elaborate on how the direct budget impact of these measures is calculated (which is much more limited than the total cost) as well as on the benefits of calibrating these subsidies to the increase in ETS revenues.**

- The direct budget impact refers to the net fiscal cost of energy-related measures after excluding expenditures that will be funded through the increase in ETS revenues from the Green Transition Fund. Calibrating the cost of electricity and gas subsidies to the increase in ETS revenues helps to ensure budget neutrality, but room remains to improve targeting based on means-testing rather than electricity usage.

Financial Sector Policies

21. Do the authorities plan to conduct a comprehensive asset quality review to ensure adequate credit classification and loan-loss provision once support programs expire?

- While we are not aware of plans to conduct a comprehensive asset quality review for Greek banks, we note that these banks are monitored in terms of credit risk e.g. through the ICAAP under the SREP framework by ECB-SSM-BoG. Given that the four major Greek banks are supervised by the ECB-SSM, they are subject to the recently announced banking supervisory priorities focused inter alia on credit risk for 2022-24. Key planned supervisory actions include (1) addressing identified credit risk management deficiencies and targeted on-site inspections, (2) targeted reviews in the area of credit risk identification, monitoring and assessment, as well as the relevant dimensions of the IFRS 9 provisioning framework. In addition, Greek banks are subject to the EBA/SSM stress tests every two years, with the next one planned for 2023.

22. We would like to know other staff suggestions for restoring the banking sector's profitability.

- With the envisaged NPL reduction to a single-digit level in 2022, major Greek banks are expected to return to profitability already in 2022. Given the identified heavy reliance of profitability on the macroeconomic environment, attention may need to be paid to managing interest rate risk by Greek banks, which can be exercised by supervisors in the context of the ICAAP component focused on interest rate risk of the banking book and stress testing. In addition, with the identified relevance of the weak capital position and significant credit risk, additional efforts may be needed to monitor these factors and require Greek banks to take extra actions on this front, especially in the context of the EBA guidance on loan pricing. Moreover, there may be a need to explore avenues to sustain the recently increased income of Greek banks from fees and commissions, which could be done in the context of the BMA. Finally, restoring a sound customer base should become one of the key strategic challenges for ensuring the sustainable development of the banking sector. A more in-depth analysis is presented in SIP on Bank Profitability Drivers and Challenges.

23. In this context, it would be interesting to know if staff judges the availability of borrower-based macroprudential instruments as sufficient

- Greece currently has no borrower-based instruments in the macroprudential toolkit. Given that we consider the risks associated with housing loans and prices as only emerging, we classify them as "low" in terms of relative likelihood in the Risk Assessment Matrix for Greece at the moment.

Nevertheless, reflecting the possible build-up of vulnerabilities in the real estate market, it would be prudent to prepare a conditions-based roadmap to guide the activation of borrower-based measures over the medium term, in case of further sectoral systemic risk build-up. A more in-depth analysis is presented in SIP on Enhancing Macroprudential Capital Buffers.

24. Finally, we take note of Staff's reference to household credit expansion as a potential sign of emerging systemic vulnerability, but wonder how net flows are incorporated in the analysis (i.e. adjusted for loan repayments and write-offs), as our assessment does not point to a firm credit expansion.

- Our analytical framework underpinning systemic risk assessment incorporates both net and gross credit flows. While net flows do indeed suggest still small negative dynamics, gross flows suggest a significant acceleration of dynamics surpassing considerably household income dynamics over the last two years. In addition, with a large amount of housing loans contracted in the early 2000s, their repayments over the next few years can be expected to lead to a convergence between net and gross credit flows. Furthermore, demand for housing loans continued to increase. Finally, other countries, for example Ireland, do take into consideration explicitly gross flows when assessing systemic risk, which then feeds into macroprudential policy actions. A more in-depth analysis is presented in SIP on Enhancing Macroprudential Capital Buffers.

25. We also echo Mr. Pösö's statement in asking staff to expand further on the identification of household credit expansion as a potential sign of emerging systemic vulnerability, given that net flows do not seem to point to a firm credit expansion.

- See our response to question 24 above.

26. While we encourage the authorities to further clarify the conditions under which macroprudential tools are applied, we also note the difference of opinion between staff and the authorities on the (excessive) household re-leveraging and (overheated) real estate markets. We would welcome staff's comments on the authorities' views

- We reiterate that these risks are in our opinion only emerging, therefore we classify them as "low" in terms of relative likelihood in the Risk Assessment Matrix for Greece at the moment. We would nonetheless like to point to a substantial increase in real estate prices and price-to-rent ratio, a significant acceleration in new mortgage and consumer loan dynamics, continued demand for housing loans, and no discernible signs of supply constraints. Given the relatively low level of private sector indebtedness and the ongoing rapid clean-up of bank balance sheets, immediate activation of macroprudential toolkit would however be suboptimal. But it would still be prudent to prepare a conditions-based roadmap to guide the activation of borrower-based measures over the medium term, in case of further sectoral systemic risk build-up. A more in-depth analysis is presented in SIP on Enhancing Macroprudential Capital Buffers.

27. While we can generally agree with staff that preparing for a more extensive deployment of macroprudential tools would be appropriate contingency planning, to emphasize "emerging systemic vulnerabilities" seems somewhat alarmist when house prices remain below their previous peak, net credit growth to households remains negative and the overall debt to GDP ratio has stabilized below it's pre-Global Financial Crisis peak – these dynamics seem more like the restoration of normal functioning in credit markets, after a prolonged period of balance sheet repair. Staff views welcome.

- Greece had very significant macro-financial imbalances prior to the GFC. This was reflected inter alia in the very rapid growth of non-financial private sector debt, especially in terms of housing loans, and soaring real estate market prices. These imbalances greatly amplified the GFC shock, ultimately leading to the protracted economic downturn accompanied by deleveraging of the private sector and massive losses of banks. Taking comfort from imbalances not yet fully in line with the pre-GFC levels may not be a particularly prudent approach. What staff advocate is to monitor closely emerging risks and prepare a conditions-based roadmap to guide the activation of macroprudential toolkit over the medium term. This would allow to instill better resilience and prepare for a systemic risk materialization in the future. The idea of enhancing macroprudential toolkit to build more resilience is increasingly gaining traction among EU countries, as evidenced by e.g. the recent discussions at the ESRB. A more in-depth analysis is presented in SIP on Enhancing Macroprudential Capital Buffers.

28. Do the Bank of Greece's plans include climate stress-testing?

- The ECB has launched a climate risk stress test in January 2022 to assess climate-related financial risks within banking sectors of Eurozone countries, including Greece, using a common methodology. This stress testing exercise is ongoing and results have not yet been published.

Structural Reforms

29. Staff could also better explain whether the comparison to the mean wage across countries is a relevant metric in view of the very large proportion of Greek workers paid the minimum wage as well as the high share of self-employed workers.

- In the absence of direct measures of labor productivity and minimum wages in comparable units, the minimum-wage-to-mean-wage ratio is a proxy of the cost of providing a formal job to vulnerable groups such as the youth (presumably earning the minimum wage) relative to the average wage earner, and could indicate whether the minimum wage increase may hinder labor market flexibility by preventing low-skilled workers from getting formal employment. This is consistent with one major concern staff originally had before the actual minimum wage increase was decided, i.e., it might entrench high unemployment and push the unemployed into informal sectors. The concern remains (¶21 discusses such risks) but is somewhat mitigated by the magnitude of the increase which was smaller than some early proposals and did not bring Greece's minimum-to-average-wage ratio out of line compared with peers.

30. We note that staff and the authorities have diverging views towards the impact and appropriate level of the minimum wage increase. Staff's elaboration would be appreciated

- Staff understands the authorities' intention to use the minimum wage increase as a means to support household income during the ongoing cost of living crisis. However, staff emphasizes more the risks that the minimum wage increase could entrench high inflation—preliminary data in May point to continued increases in services inflation which could be a reflection of wage pressures and may be further intensified by the minimum wage increase. Similar concerns have been expressed by the Bank of Greece. Staff also has concerns that the rising minimum wage could put vulnerable groups (e.g., the youth) at a disadvantage in finding formal employment, while the government is more optimistic, counting on the active labor market programs and other labor reforms currently under planning/implementation. As the pass-through of the minimum wage to

average private sector wages is estimated at around 0.5, the increase will also lead to a flattening of the wage curve and reduce returns to skills.

31. In this respect, we would welcome some elaboration by Staff regarding the implementation risks related to the Next Generation EU (NGEU) Plan, in particular in light of recent fiscal-structural improvements.

- Staff sees some improvement in absorbing the NGEU resources and implementing reforms under the National Recovery and Resilience Plans during the past year, e.g, Greece is among the first countries to receive the NGEU grant disbursement on the back of satisfactory progress made, and commendable progress has been made in setting up a framework for channeling the NGEU loans into investment, which has led to staff's more favorable growth assessment in 2022-26 (see box 1). Nonetheless, staff continues to see implementation risks pertaining to the undertaking of NGEU investments (delays, new investment versus already planned investment, growth impact, etc.), and the timing and payouts of structural reforms (active labor market policies, business climate, privatization, etc. based on past program implementation bottlenecks) continue to be subject to uncertainty. As a result, staff's baseline macroeconomic outlook incorporates conservative assumptions regarding the NGEU resources (mainly capturing the boost of investment though at a more gradual rate compared to the authorities' assumption), and highlight the upside risks to growth in case of better-than-expected investment and structural reform implementation that would boost productivity and employment/labor participation.

32. Given that the ETS has already covered major energy-intensive industrial sectors, we would welcome staff's comment on the percentage share of greenhouse gas emissions from the non-ETS sectors, and the extent to which the proposed carbon tax could contribute to achieving the mitigation targets.

- Greenhouse gas emissions from the non-ETS sectors account for about half of total emissions. According to staff analysis in the selected issues paper on social protection, introducing a new carbon tax to the non-ETS sectors and gradually increasing the carbon price level to 75 real$/tonCO2 over time would help Greece meet its national emission target by 2030.

33. In this regard, we wonder whether the quantitative targets on greenhouse gas reduction and on renewable energy generation have time horizons?

- The new climate law envisages reducing total greenhouse gas emissions by 55 percent from 1990 levels by 2030, phasing-out lignite plants by 2028, zero emissions for all new vehicles by 2030, and more than doubling the share of renewables in final energy consumption by 2030.

34. It seems from the two illustrative reform scenarios in the SIP that staff are considering higher carbon taxes in 2022 despite the fact that high energy price and rising inflation are already affecting the economy. Moreover, the analysis in the SIP seems very dated as the needed carbon price of $75 per ton by 2030 was coming off a much lower base of energy prices than we see now. ***We would appreciate staff's clarifications on their advice on carbon taxes and on the scenarios presented.***

- The two carbon tax reform scenarios assume new carbon taxes to non-ETS sectors, which currently face much lower effective carbon prices compared to the ETS sectors, with specific price assumptions following guidance from the FAD climate team. Meanwhile, high energy price,

inflation, and the ETS market carbon price are incorporated in staff's baseline. Results of the scenario analysis are illustrative, aiming to capture the reform effects relative to the baseline. Staff has also explored different carbon price assumptions for both the baseline and reform scenarios and has found that the key results remain robust.

35. Which specific actions or situations are currently jeopardizing the independence and credibility of the country's statistical agency?

- This refers to the ongoing court cases against the former Head of the statistical agency.

36. We positively note staff's comments in Annex II that reform efforts should focus on female labor force participation, and we note with concern that spending on gender equality in the RRP is relatively modest. *Can staff outline the measures being taken by the authorities in this regard, and confirm whether Greece is in line with regional peers in this area?*

- Policies supporting gender equality planned or undertaken by the authorities include measures to strengthen work-life balance, investment in childcare facilities (which would support female labor force participation), targeted active labor market policies for women, and initiatives to raise diversity awareness. There are also measures to enhance data collection and processing to support the analysis of gender inequality for better policy-making. Greece still shows a gender gap in terms of employment and pay and a more prominent underrepresentation of women in economic and political life, and policies to enhance gender equality remain a priority for the authorities. However, projects envisaged to leverage the RRF resources prioritize the green and digital transition which require substantial physical investment. Reforms to support women and gender equality are ongoing and their financing mainly comes from domestic and other EU resources.

Constituency Codes

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States