IN-DEPTH ANALYSIS

Economic Dialogue with Greece

ECON on 1 September 2021

This note presents selected information on the current status of the EU economic governance procedures and related relevant information in view of an economic dialogue and exchange of views with Christos Staikouras, Minister of Finance of Greece, *in the ECON committee of the European Parliament. The invitation for an exchange of views is in accordance with the EU economic governance framework. The last exchange of views with the Greek authorities took place in March 2016.*

1. Introduction

1.1 The Ministry

Minister Christos Staikouras took office as Minister of Finance in July 2019. The Ministry is responsible for managing the government fiscal, tax, state aid, public property and privatization policies. It is also in charge of a number of supervised entities, such as the "*Hellenic Capital Market Commission*", the "*Hellenic Accounting and Auditing Standards Oversight Board*", the "*Public Properties Company*", the "*Public Debt Management Agency*", the "*Hellenic Republic Asset Development Fund*", the "*Hellenic Deposit and Investment Guarantee Fund*" and the "*Hellenic Financial Stability Fund*". The Ministry is also responsible for overseeing the independent Recovery and Resilience Facility Coordination Agency, specifically set up and mandated to coordinate and implement the Greek Recovery and Resilience Plan (see here - point 4.10 - for further details).

1.2 Economic situation

According to the European Commission Summer 2021 economic forecast, the Gross Domestic Product (GDP) of Greece grew (in seasonally adjusted terms) in the first quarter of 2021 by 4.4% compared to the previous quarter, despite the intensification of social distancing measures introduced in January. While net exports (notably of services) were a main driver for GDP growth, private consumption shrank by 1.3% compared to the previous quarter (in seasonally adjusted terms). The Commission forecast states also that the planned increase in real-estate taxes in 2022 provided an impetus to the construction sector.

For the entire years 2021 and 2022, the European Commission projects GDP growth rates of 4.3% (2021) and 6.0% (2022), which is essentially unchanged compared to the Spring 2021 forecast. Investments under the Recovery and Resilience Plan (RRP) are considered to be the backbone of the recovery (notably in the second half of 2021). The Commission adds that uncertainty remains high, particularly in relation to the tourism sector and the easing of travel restrictions.

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According to the Commission Spring 2021 forecast,[1] the general government deficit of Greece reached 9.7% of GDP in 2020, which can be mainly attributed to two factors: (1) the costs of the measures adopted by the government to mitigate the social and economic impact of the pandemic (6.3% of GDP); (2) and the impact of the pandemic on state revenues. Another factor is, according to the Commission, "*the change in the statistical recording of the expected cost of clearing the backlog of state guarantees and the healthcare claw-backs.*"

In 2021, the general government deficit is forecast by the Commission to remain large (10.0% of GDP). This is due to the prolongation of the support measures adopted in 2020 and new measures adopted to support the recovery (notably a reduction of social security contributions and the temporary abolition of the social solidarity tax for the private sector). The forecast also takes account of a reduction of the rate of advance payments for the corporate income tax and a reduction of the tax itself by 2 percentage points for profits made in 2021 and the following years. In 2022, thanks to an expected continuation of the recovery of the economy and to gradually fading away of emergency fiscal measures, the public deficit is expected to decline to 3.2% of GDP.

The Commission Spring 2021 forecast assumes "*a simplified and linear integration of RRF-financed expenditure*" (for the results of econometric simulations, see also box 2 on page 7 of the present briefing).

Public debt is projected by the Commission to slightly increase from around 206% in 2020 to around 209% of GDP in 2021 before declining to around 202% of GDP in 2022.

The Commission Spring forecast also pointed out that employment support measures managed to prevent large-scale dismissals, keeping the unemployment rate in 2020 and 2021 at 16.3% (which is even lower than in 2019, when the unemployment rate amounted to 17.3%), while employment decreased in 2020 due to lower hiring in the tourism sector. More spring forecast data are presented in Annex 1 of the present briefing.

In August 2021, immense forest fires broke out in various locations in Greece, including forests close to the city of Athens, on the Peloponnese, on Evia, Rhodes and Crete. Greece activated the EU Civil Protection Mechanism on 3 and 5 August. This was the start of one of the largest operations in the history of the Mechanism. According to Moody's, the wildfire-related costs from the catastrophe will be manageable for Greece, but it highlights the country's vulnerability to climate change, while tourism may also be affected: "*We believe the wildfires are indicative of the credit risks from climate change, which we capture in Greece's 'moderately negative' environmental issuer profile score.*"

2. European Semester developments and recommendations

2.1 Public finances

On 18 June 2021, the Council adopted its opinions on the 2021 Stability and Convergence Programmes based on Commission recommendations for Council opinions of 2 June 2021. These opinions reflect the continuation of the general escape clause of the Stability and Growth Pact (SGP).

The opinion on the Greek Stability Programme concludes with the following recommendations:

1. *In 2022, use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Preserve nationally financed investment.*

[1] The Commission Spring 2021 forecast are the most recent Commission forecast on public finances of EU Member States. The European Commission publishes its economic forecasts four times a year. In their Spring and Autumn publications, the European Commission publishes projection updates for extensive list of indicators, while the Summer and Winter publications are only interim and include projection updates only for GDP and Inflation (HICP).

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.[2]

On the topic of fiscal sustainability, the Council opinion on the 2021 Greek Stability Programme states: *"In light of Greece's high debt ratio, which is projected to only gradually fall over time, Greece is considered to face high fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis. The 10th enhanced surveillance report points to other factors relevant for an overall assessment of debt sustainability, namely that the composition and maturity profile of government debt mitigates debt vulnerabilities, while contingent liabilities are an additional risk."*

Table 1. Selected data on public finances in Greece - under no policy change scenario

Year	Nominal budget balance (% of GDP)	Structural budget Balance		Debt (% of GDP)	GDP growth (% of GDP)	Fiscal Stance (excl. crisis-related temporary emergency measures) (% of GDP)
		% of GDP	*y-o-y change*			
2022	-3.2	-2.2	*4.4*	201.5	6.0	-2.4
2021	-10.0	-6.6	*-1.9*	208.8	4.1	-1.0
2020	-9.7	-4.7	*-6.7*	205.6	-8.2	-3.6

Table notes: Source: statistical annex to the COM spring 2021 Forecast. See also COM spring 2021 Forecast Box I.4.1 (page 55) "*Some technical elements behind the forecast*". The structural budget indicator is measured as % of potential GDP. The figures in italics are the year on year changes of the structural balance in percentage points of potential GDP, which can be regarded as a proxy for the *"fiscal effort"*. The fiscal stance indicator is taken from the statistical annex of the Commission assessments of the 2021 Stability and Convergence Programmes. It is defined as follows: *"It measures the change in primary expenditure (net of discretionary revenue measures, but including changes in expenditure financed by the RRF and other EU grants), but, taking into account the exceptional circumstances created by the impact of the COVID-19 pandemic, excluding crisis-related temporary emergency measures, relative to the 10-year average potential growth rate."* A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

2.2 Macroeconomic imbalances

Under the Macroeconomic Imbalance Procedure (MIP), Greece has experienced excessive macroeconomic imbalances since 2019, when it entered the MIP following the end of the macroeconomic assistance programme.

The 2021 Alert Mechanism Report published in November 2020 concluded that a new in-depth review (IDR) should be undertaken for Greece, with a view to assess the persistence or unwinding of imbalances (see

[2] Note that the expression "where relevant" in the last sentence of recommendation 3 was added for Greece and all other 25 Member States under the preventive arm of the SGP by the Council in comparison to the Commission proposal of 2 June 2021. The Council argues in its 'comply or explain' note, in line with EU legislation, that the modification allows Member States to take into account past progress and to tailor policy measures to country-specific circumstances.

dedicated EGOV note on the MIP implementation).

The IDR for Greece was published on 2 June 2021. It shows that excessive macroeconomic imbalances remain, related to high government indebtedness, incomplete external rebalancing, in a context of still high –although declining - unemployment and low potential growth and the high share of non-performing loans.

More specifically:

- Greece has a **high public debt** to GDP ratio. Its level increased by more than 25 percentage points in 2020, to 206% of GDP. Even though public debt is high, a large share is held by official creditors (EFSF, ESM, IMF) at concessional rates, which, together with the large cash buffer, insulates Greece from financial markets' short-term fluctuations. Downward risks are related to contingent liabilities of the Government.
- The **external position** remains weak and the current account balance deficit is high, at -6.7% of GDP in 2020. Greece's external liabilities increased to -176% of GDP, as a result of the pandemic, reflecting the impact of the travel restrictions and the economic cycle. The current account surplus that is necessary to stabilise the net international investment position below the macroeconomic imbalance procedure threshold of -35% of GDP in 2030 is estimated at around 1.5% of GDP. However, external liabilities consist to a large extent of debt instruments held by the official creditors, which mitigate Greece's exposure to external shocks or to shifts in market sentiment.
- **Potential growth** in Greece has been negative since 2010, due to weak total factor productivity growth and a large drop of investments during the global financial crisis, which has led to an erosion of the capital stock. Potential growth fell to -0.8% in 2020 and is forecast to turn slightly positive in 2022. Efforts to strengthen growth prospects are hampered by the large share of micro and small businesses (as most small and medium-sized enterprises struggle with access to finance and regulatory barriers), by population ageing and outward migration of skilled labour.
- The **labour market remains a serious concern**. The labour market suffers from high unemployment, including among the youth, and low activity and employment rates. At 16.3% in 2020, unemployment was still the highest in the EU, as was youth unemployment (35% compared to 16.8% in the EU). The activity rate was almost 5 percentage points lower than the EU average (73.1% compared to 77.8%) and the employment rate stood at 61.1% in 2020, 11 percentage points below the EU average and 5 percentage points below its level of 2008. Furthermore, there are significant differences between men and women: in 2020, the employment rate of men stood at 70.7%, almost 19 percentage points higher than the one of women (51.8%); while the unemployment rate of men stood at 13.6%, compared to 19.8% for women. To support women's employment Greece has expanded subsidised childcare, although there are still significant unmet needs, especially for very young children. The weak labour market reduces Greece's social and economic resilience and increases risks of poverty and social exclusion.
- The **banking sector** is burdened by a high stock of non-performing loans and provisions impact weigh on the banks' profitability (see Section 5).

According to the Commission, the reforms included in the Greek RRP build on the very large reform effort undertaken under the economic adjustment programmes and are complementary to reforms monitored under enhanced surveillance (see Section 3).

2.3 Implementation of the European Semester Recommendations

According to the latest Country Report under the European Semester by the Commission services on Greece (published In February 2020), Greece has overall made some progress in addressing the 2019 country-specific recommendations (CSRs) (see Box 1 below).

Box 1: Commission's assessment of progress on 2019 CSRs addressed to Greece

There has been **some progress**:

- in achieving a sustainable economic recovery and tackle the excessive macroeconomic imbalances by continuing and completing reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018;
- in focusing investment-related economic policy on environmental protection, energy efficiency, as well as on renewable energy, and interconnection projects.
- in focusing investment-related economic policy on digital technologies;
- in focusing investment-related economic policy on research and development.

Greece has made **limited progress**:

- in focusing investment-related economic policy on sustainable transport and logistics.
- in focusing investment-related economic policy on education, skills, and employability.
- in focusing investment-related economic policy on health.
- in focusing investment-related economic policy on the renewal of urban areas taking into account regional disparities and the need to ensure social inclusion.

The Commission has not published its assessments on the implementation of the 2020 CRS as no Country Reports were published in 2021 due to the streamlined Semester during the COVID-pandemic. In its analysis of the RRP of Greece, published in June 2021, the Commission has, nevertheless, assessed how CSRs addressed to Greece in 2019 and 2020 are taken into account in the Greek RRP and how well the Plan envisages to address them through investments and reforms. The Commission assesses that the Greek RRP "*contributes to effectively addressing all or a significant subset of the CSRs were addressed to Greece by the Council in 2019 and 2020*" (it adds that this would warrant a rating of A under the assessment criterion 2.2 set in Annex V to the RRF Regulation). For an overview of this assessment, please see Annex 3.

3. Recovery and Resilience Plan

Greece presented its RRP on 28 April 2021. It is based on the reform agenda emerging from the Development Plan for the Greek Economy, prepared by a committee of experts chaired by Professor Pissarides. In its RRP, Greece requested a total of EUR 30.5 billion in support under the RRF, out of which EUR 17.8 billion in grants and EUR 12.7 billion in loans; the loan component is directed at incentivising private investment in transformative sectors of the economy. The cost of all projects in the plan amounts to EUR 31.164 billion, which will be mainly financed by the RRF. The Greek plan is structured around four pillars: green, digital, employment, skills and social cohesion, and private investment and economic and institutional transformation; it proposes investments and reforms related to all seven European flagship areas. A specific website (in Greek) contains links to the relevant RRP-related documents (available here).

On 17 June, the Commission adopted its assessment of the Greek plan. The Commission assessment is composed of a draft Council Implementing Decision (CID) with an annex, and a Staff Working Document (SWD). As set out in the Recovery and Resilience Facility Regulation (RRFR), the CID should be adopted by the Council 4 weeks after submission of Commission assessment.

On 13 July, the ECOFIN Council adopted the Commission's assessment of the Greek plan and the related CID. No major changes were introduced compared to the Commission proposals. For an overview of

Member States' RRPs and their adoption procedures, see specific EGOV briefing.

According to the Commission assessment, the Greek plan complies with all the 11 assessment criteria under the RRFR, with a B rating only in the costing dimension (see table below); other Member States also have a B rating on their costing estimates. The plan broadly covers the six pillars of the RRF Regulation (see Annex 2).

Table 2. Commission's overall assessment and rating of the RRP of Greece

(1) Balanced Response	(2) CSRs	(3) Growth, jobs…	(4) DNSH	(5) Green target	(6) Digital target	(7) Lasting impact	(8) M & T	(9) Costing	(10) Control Systems	(11) Coherence
A	A	A	A	A	A	A	A	B	A	A

Source: Commission SWD, p. 7

As explained in the Commission SWD, the Greek plan comprises in total 175 measures, of which 67 reforms and 108 investments, including key investments in energy networks and energy efficiency of buildings; environmental protection and sustainable transport; investments in very high capacity networks and connectivity; the digitalisation of the public and the private sectors; education, reskilling and upskilling; active and passive labour market policies; social services; and health care.

The plan also promotes private-sector investments through the loan component. Investments are combined with reforms of the business environment, labour market, education and training, and public administration, including tax administration, public procurement, and justice.

The timeline for the implementation of the RRP ranges from the fourth quarter of 2020 to the third quarter of 2026; disbursements are proportionally distributed throughout the lifetime of the facility.

The SWD signals that the plan projects a rebound of economic growth (+3.6%) in 2021. GDP growth is expected to peak at 6.2% in 2022 before decreasing to 4.1% in 2023 and 4.4% in 2024. Unemployment should remain unchanged at 16.3% in 2021, then decline progressively to reach 11.9% in 2024. The budget deficit (9.7% of GDP in 2020) is expected to remain broadly unchanged in 2021, mainly due to the prolongation of the measures meant to address the consequences of the pandemic, and to start improving from 2022. Further Commission estimates are provided in the box below (bolded text as in the original Commission text):

Box 2: Commission's stylised New Generation EU (NGEU) impact simulations with QUEST

Model simulations conducted by the Commission using the QUEST model show that the economic impact of the NGEU in Greece could lead to an increase of GDP of between 2.1 and 3.3% by 2026.[1] After 20 years, GDP could be 1.2% higher. Spillovers account for a large part of such impact.

According to these simulations, this would translate into up to 62 000 additional jobs. Cross border (GDP) spillovers account for 0.3 pps in 2026, showing the value added of synchronised expenditure across Member States (line 2). Even in a scenario with a lower productivity of NGEU funds, it would still lead to a significant impact (line 3)[1].

Table: QUEST simulation results (%-deviation of real GDP level from non-NGEU case, linear disbursement assumption over 6 years):

Scenario	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040
Baseline	1.6	2.7	2.7	2.8	3.0	3.3	2.3	1.5	1.7	1.8	1.2
of which spillover	*0.3*	*0.4*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.2*	*0.2*	*0.1*	*0.0*
Low productivity	1.4	2.3	2.1	2.0	2.1	2.1	1.1	0.2	0.4	0.6	0.5

This stylised scenario does not include the possible positive impact of structural reforms, which can be substantial. A model-based benchmarking exercise shows that undertaking structural reforms that would result in halving the gap vis-à-vis best performers in terms of indicators of structural reforms could raise Greece GDP by 18% in 20 years' time, more than the 11% found for the EU average, the difference reflecting the relatively larger gaps towards best performers in Greece[1].

Due to the differences in the assumptions and methodology, **the results of this stylised assessment cannot be directly compared to the numbers reported in chapter 4 of Greece's RRP.**

Source: Commission Staff Working Document, p. 52-53

An estimation by Bank of Greece staff concludes that the "*full and timely implementation of the Recovery and Resilience Plan (RRP) implies significant benefits to the Greek economy. Real GDP, private investment and employment can potentially increase by 6.9%, 20% and 4%, respectively, by 2026. Tax revenues also increase, creating fiscal space that can be used to further boost economic activity*[3]*. The implementation of structural reforms included in the RRP is necessary for maintaining important benefits also in the long run. The results indicate that the potential increase in long-run GDP from selected quantifiable reforms ranges between 6% and 9.9%, with gains extending to other macro variables*"[4].

In its assessment of the Plan[5], the Commission notes that:

- "*The plan ensures that the policies monitored under enhanced surveillance continue to be pursued and are substantially reinforced through the support of necessary investments under the recovery and resilience plan*" (notably in the areas of fiscal structural policies, such as tax administration and public procurement; labour market, social benefits and health care; the financial sector and business environment; and modernisation of the public administration, justice and fight against corruption). The Commission also points that "*Specific commitments given in the Eurogroup in June 2018 will continue to be monitored under enhanced surveillance and provide a basis for the release of additional debt support measures up to mid-2022*";
- Greece intends to also request technical assistance from the Technical Support Instrument (TSI), Horizon Policy Support Facility and to finance the national compartment of InvestEU. The technical assistance is expected to address organizational reforms in the health system; support is expected to reach EUR 0.5 million. RRF loans will be used to finance the Greek compartment of InvestEU for an amount of EUR 500 million. Sectoral support for the design, implementation and evaluation of research and innovation policy reforms will also be available via the Horizon Policy Support Facility;
- The RRP is aligned to the goals, priorities and policy and reform recommendations of other national broad plans, notably the National Reform Plan ("*reforms that are listed only in the plan and are new to the NRP, range between 5-10% of the NRP (less than 15 reforms), but will be added to the NRP on its regular revision*"), the National Energy and Climate Plan, the National Transport Strategic Plan, the draft National and Territorial Just Transition Plans and the draft new Greek Partnership Agreement for the Development Framework for the 2021-2027 Programming Period of the Cohesion Policy funds;
- The RRP is consistent with the challenges and priorities identified in the most recent euro area recommendation and the European Flagships identified in the Annual Sustainable Growth Strategy;

[3] The authors estimate a "*permanently higher tax base, so that tax revenues as a percentage of GDP increase by around 2.5 pp in the long run*".

[4] The authors caution, nevertheless, that the RRF "*presents a strong challenge for the Greek public administration to deliver its ambitious plan within the tight envisaged time schedule. Delays or mishaps in the implementation and less than full absorption of the RRF funds would curtail the potential benefits from the RRF that this study has underlined. In this respect, it is further important to push forward structural reforms that would enhance the capacity and efficiency of public administration, as well as the capacity of the private sector to support growth in the long run through new productive investment projects and sustainable jobs*".

[5] Quotations below are from the Commission SWD.

- On gender equality and equal opportunities for all, "*the plan addresses the needs of women and several disadvantaged groups, particularly via the measures proposed under pillar 3 (employment, skills, and social cohesion)*[6]";
- The Greek plan includes several cross-border and multi-country projects, mainly under the digital pillar (the '5G corridors' investment and the 'Small satellites' investment; the 'Submarine fiber cables' project, investments in a new high performance computing system; the creation of a national Cybersecurity Operations Centre and its networking with similar centres of other Member States; the framework of the European Common Data Infrastructure Services and the interoperability of the cloud, i.e. the Supply of Central Cloud Computing Infrastructure and Services).

The European Bank for Reconstruction and Development (EBRD) will be aiding the Greek government in implementing the RRP. The Greek authorities and the EBRD signed a Memorandum of Understanding (MoU) on 12 July 2021. The programme will combine RRF loans, EBRD commercial financing and financing from private investors and commercial banks to achieve multiplier effects. It is expected to total up to €1 billion and will continue until the end of 2025.

On 29 July, the Commission approved the Greek Partnership programme for the 2021-2027 Multiannual framework-financing period. The Commission notes that Greece "*is strongly committed to the coordinated use of the Cohesion policy funds with the Recovery and Resilience Facility. A new Capacity Building programme will also facilitate the project preparation process and help strengthen the administrative and organisational capacity of beneficiaries and authorities.*"

4. Ex-post surveillance / enhanced surveillance

The last macro-economic adjustment programme for Greece was concluded in June 2018 and has since then been subject to ex-post surveillance[7]. On 11 July 2018, the Commission decided, on the basis of Art. 2(1) of EU Regulation 472/2013, that Greece shall be subject to enhanced surveillance; the most recent prolongation (EC implementing Decision 2021/1279) stipulates that enhanced surveillance shall be prolonged for a further period of six months, commencing on 21 August 2021. In accordance with these decisions, Greece is expected to continue and complete key reforms in line with the policy commitments monitored under the enhanced surveillance and to support a robust and sustainable economic recovery. The latest enhanced surveillance report was published in June 2021. In November 2020, the Executive Board of the IMF concluded its second post-programme monitoring report on Greece and in June 2021 an Art. IV consultation mission (see also press release, staff report and IMF executive board conclusions).

The latest enhanced surveillance report (June 2021) is based on the findings of a mission (by the European commission in liaison with ECB, IMF and ESM) held remotely on 20-21 April 2021 and on a regular dialogue with the Greek authorities. The report concludes that, despite the circumstances caused by the pandemic, Greece has taken the necessary actions to achieve its specific commitments, including - *inter alia* - on the insolvency framework legislation, a human resources reform of the Independent Authority of Public Revenue, an overhaul of the public procurement framework and an extension of the Hercules scheme to

[6] Measures include notably the strengthening of work life balance for both genders, and promoting female labour participation, creation of new childcare units (with emphasis on places for infants and children up to 2.5 years old), the creation of childcare facilities in private companies and development of a comprehensive learning curriculum will increase the coverage and quality of childcare services. Equal opportunities are further addressed by labour market activation programmes for vulnerable groups such as persons with disabilities, migrants and guaranteed minimum income recipients as well as by initiatives to promote diversity awareness. Furthermore, the third pillar of the plan includes the strengthening of the Equality Observatory of the Ministry of Labour and Social Affairs, in order to support data collection and data processing, with a view to better describe inequalities and discrimination.

[7] In accordance with EU regulation 47/2013, a "*Member State shall be under post-programme surveillance as long as a minimum of 75 % of the financial assistance received from one or several other Member States, the EFSM, the ESM or the EFSF has not been repaid*"; Greece has not yet repaid at least 75% of the corresponding financial assistance (see ESM disclaimer on debt repayment and dedicated EGOV note on macro-financial assistance).

facilitate a further reduction of non-performing loans (for details on the Hercules scheme, please see section 5 of this briefing).

On 17 June 2021, the Eurogroup discussed the latest enhanced surveillance report and published afterwards a statement which it inter alia welcomes:

- *the progress made by Greece with reform implementation that has been achieved in the challenging circumstances of the pandemic;*
- *the implementation and entering into force of the major reform of the Greek insolvency framework that was agreed last year (see also section 5 of this briefing);*
- *the implementation of the third and final pillar of the Guaranteed Minimum Income (GMI). By implementing the GMI, Greece has put in place an effective and targeted framework for providing social support and tailor-made employment services;*
- *good progress on public sector human resource management (notably as regards the tax administration, public procurement, and measures to enhance the implementation of large public investment projects);*
- *the assessment that the necessary conditions are in place to confirm the release of the fifth tranche of policy-contingent debt measures (the transfer of so called "SMP-ANFA income equivalent amounts" and the reduction to zero of the step-up interest margin on certain EFSF loans, which are worth €748 million in total); see Box 1 for general information on these debt measures.*

Furthermore, the Eurogroup of 17 June 2021 encouraged the Greek authorities to continue and, where necessary, reinforce their efforts with regard to financial sector reforms and to proceed with implementing the arrears clearance plan. The Eurogroup noted the delay that the suspension of court proceedings has caused in the clearance of the backlog of insolvency court cases and called upon the Greek authorities to accelerate their efforts to reduce the backlog. It welcomed in this context that the horizontal suspension of enforcement measures was lifted on 5 April and looked forward to the full resumption of this process.

On 30 June 2021, the Board of Directors of the EFSF decided, on the basis of the assessment of the latest enhanced surveillance report and the corresponding statement of the Eurogroup, to reduce to zero the step-up margin accrued by Greece for the period between 1 January and 17 June 2021, as part of the medium-term debt relief measures agreed for the country in 2018. The value of this fifth successive reduction amounts to €103.3 million. Additionally, the ESM informed on 30 June 2021 that, acting as an agent for the euro area Member States and after their approval, it will make a transfer to Greece of €644.42 million, equivalent to the income earned on SMP/ANFA holdings. On that basis, the total amount of debt relief (since 2018) in all tranches exceeds €4.2 billion.

The next (eleventh) enhanced surveillance report is expected to be published in September 2021.

For further information, see also separate EGOV briefing on Macro-Financial Assistance to EU Member States.

5. Banking issues

In June 2021, the Eurogroup welcomed in particular the implementation and entering into force of the major reform of the Greek **insolvency framework**. The new law, which replaces the previous bankruptcy code, profoundly reforms the insolvency legislation in Greece. It includes, as part of pre-bankruptcy proceedings, an early warning mechanism offering electronic alerts and free advisory services for individuals and entities that present a high risk of insolvency, and an extrajudicial debt settlement procedure that is more flexible, not requiring any judicial intervention. Bankruptcy proceedings are now made possible for natural persons, and there are simplified bankruptcy processes for small-scale bankruptcies. The new law pursues in general faster and simpler procedures, and introduces certain provisions to protect vulnerable debtors.

The Greek authorities extended the **Hercules scheme,** once again approved by the Commission (DG COMP) as being free of State aid in April 2021, to facilitate a further reduction of non-performing loans (NPLs). The scheme provides a State guarantee to investors buying the senior tranche of securitised NPLs; the State receives a remuneration for that guarantee. That backing helped to decrease the NPL ratio substantially, which was reduced from above 40% at the end of 2019 to 30% at the end of 2020. Greek banks aim to reach a single-digit NPL ratio in 2022, an ambitious target that not least depends on the scale of new NPLs resulting from the current economic situation.

The Commission's Enhanced Surveillance Report of June 2021 (see also Section 4 of this briefing) sets out that the **Greek banking system as a whole posted losses** after taxes in 2020, although banks have contained operating costs through voluntary staff exit schemes.

The ECB's Supervisory banking statistics also show that the Greek banking system has one of the lowest cost-to-income ratios. Yet, higher provisioning needs due to the pandemic and to planned securitisation transactions of NPLs in 2021 have a strong impact on banks' profitability. The low-interest-rate environment, which puts further pressure on net interest margins, and uncertainty about the economic outlook, also weighs on the profitability prospects for 2021.

The **capital position** of the banking system as a whole, considered broadly adequate by the Commission, remains challenged by the low profitability and poor asset quality: The average Common Equity Tier 1 and Total Capital ratios stood, on a consolidated basis, at 14.6% and 16.3% of risk-weighted assets, respectively, at the end of September 2020.

The Commission furthermore writes that the subdued profitability levels may pose challenges for the banks' capital position going forward, potentially leading to a further rise in the already **high share of deferred tax credits in banks' capital** (59% of Common Equity Tier 1 capital as of end-2020). The large share of deferred tax credits, the banks' increasing domestic government bond holdings, the equity stakes held by the state in the sector and the state guarantees under the Hercules scheme all contribute to the fact that the **sovereign-bank nexus** has once again increased and will need to be monitored closely going forward.

Most **moratoria**, introduced as measures to counter the immediate effects of the pandemic, expired at the end of 2020, with some exceptions for the hospitality sector. The initial results from the first two months of 2021 suggest that the number of **potential defaults** may not exceed the banks' original estimates or the lower end of Bank of Greece's current projections. However, **downside risks** persist. Following the lifting of various state support programmes, the full impact on asset quality may still materialise in the second half of 2021 or early 2022, and require higher **provisioning needs** than those booked so far.

Greek banks have once again not been part of the EBA's recent **EU-wide stress test exercise**, the results of which have been fully disclosed on 30 June 2021. Greek banks formed part of EBA's sample in 2010, 2011, and 2014, but have not been included in the sample for EBA's 2016, 2018, and 2020 stress test exercises. The ECB carries out its own stress test exercises in parallel, including the significant Greek banks under direct supervision (ALPHA Bank, Eurobank Ergasias, National Bank of Greece, and Piraeus Bank), but so far the ECB does not disclose its results at entity level.

Annex 1: Euro area - Key macroeconomic indicators

	2017	2018	2019	2020	2021[f]	2022[f]
Real GDP growth – *% change on previous year*						
Greece	1.3	1.6	1.9	-8.2	4.1	6.0
Euro Area	2.6	1.9	1.3	-6.6	4.3	4.4
GDP per capita – *% change on previous year*						
Greece	1.5	1.8	2.0	-8.1	5.1	6.7
Euro Area	2.4	1.6	1.0	-6.7	4.1	4.2
General government budget balance – *% of GDP*						
Greece	0.6	0.9	1.1	-9.7	-10.0	-3.2
Euro Area	-0.9	-0.5	-0.6	-7.2	-8.0	-3.8
General government structural budget balance – *% of potential GDP*						
Greece	4.7	4.6	2.0	-4.7	-6.6	-2.2
Euro Area	-1.0	-1.0	-1.2	-3.6	-6.2	-3.7
General government primary budget balance – *% of GDP*						
Greece	3.7	4.3	4.1	-6.7	-7.3	-0.6
Euro Area	1.0	1.4	1.0	-5.7	-6.6	-2.6
General government gross debt – *% of GDP*						
Greece	179.2	186.2	180.5	205.6	208.8	201.5
Euro Area	89.7	87.7	85.8	100.0	102.4	100.8
Interest expenditure on general government debt – *% of GDP*						
Greece	3.1	3.4	3.0	3.0	2.7	2.6
Euro Area	1.9	1.8	1.6	1.5	1.4	1.3
Inflation (HICP) – *% change on previous year*						
Greece	1.1	0.8	0.5	-1.3	-0.2	0.6
Euro Area	1.5	1.8	1.2	0.3	1.7	1.3
Unemployment – *% of labour force*						
Greece	21.5	19.3	17.3	16.3	16.3	16.1
Euro Area	9.0	8.1	7.5	7.8	8.4	7.8
Total employment in persons - *% change on previous year*						
Greece	-0.5	1.4	1.2	-1.3	0.4	0.7
Euro Area	1.6	1.6	1.2	-1.6	0.0	1.2
Current-account balance – *% of GDP*						
Greece	-2.1	-3.6	-2.2	-7.8	-7.6	-5.3
Euro Area, adjusted[3]	3.2	3.0	2.3	2.2	3.1	3.1
Exports – *% change on previous year*						
Greece	8.5	9.1	4.8	-21.7	9.1	14.8
Euro Area	5.5	3.6	2.5	-9.3	8.7	6.5
Imports – *% change on previous year*						
Greece	7.4	8.0	3.0	-6.8	6.3	6.8
Euro Area	5.2	3.7	3.9	-9.0	8.0	6.9
Total investments – *% change on previous year*						
Greece	8.1	-6.6	-4.6	-0.6	12.9	15.1
Euro Area	3.8	3.2	5.7	-8.2	6.7	5.3
Labour productivity (real GDP per occupied person) – *% change on previous year*						
Greece	1.8	0.2	0.6	-7.0	3.7	5.2
Euro Area	1.1	0.3	0.1	-3.7	3.0	3.0
Unit labour cost - nominal – *% change on previous year*						
Greece	-0.3	1.6	0.4	7.6	-2.3	-3.0
Euro Area	0.7	1.9	1.9	4.4	-0.7	-0.6
Non-performing loans ratio in the banking sector (EBA) – *% of total loans*						
Greece	44.9	41.3	35.2	25.5	n.a.	n.a.
European Union	4.1	3.2	2.7	2.6	n.a.	n.a.

Source: all indicators and forecasts (f) are European Economic Forecasts Spring 2021, if not indicated differently, with data extracted on 12/08/2021; the euro area is defined as variable composition (EA18-2014, EA19); the euro area general government gross debt is non-consolidated for intergovernmental loans.

Annex 2: Coverage of the six policy pillars by the Greek RRP

	Green transition	Digital transform ation	Smart, sustainable & inclusive growth	Social and territorial cohesion	Health, and economic, social and institutional resilience	Policies for the next generation
1.1 Power Up	●		○	●		○
1.2 Renovate	●		○	●		
1.3 Recharge and refuel	●		○			
1.4 Sustainable use of resources, climate resilience and environmental protection	●		●	●	○	
2.1 Connect		●	○			
2.2 Modernise	●	●		●		
2.3 Digitalisation of businesses		●	●			●
3.1 Increasing job creation and participation in the labour market	●	●	●	●	○	●
3.2 Education, vocational education, training, and skills	●	●	●	●	○	●
3.3 Improve resilience, accessibility and sustainability of healthcare	●	●	○	○	●	
3.4 Increase access to effective and inclusive social policies	○	●	○	●	●	●
4.1 Making taxes more growth friendly, and improving tax administration and tax collection	○	●	○		●	
4.2 Modernise the public administration		●	●		●	
4.3 Improve the efficiency of the justice system	●	●	●	○	●	○
4.4 Strengthen the financial sector and capital markets		●	○		●	○
4.5 Promote research and innovation	○	●	●	○		●
4.6 Modernise and improve resilience of key economic sectors	●	●	●	●		
4.7 Improve competitiveness and promote private investment and trade			●		●	
Loan Facility	●	●	●			
Total number of components that significantly contribute to pillar	**11**	**14**	**10**	**8**	**7**	**5**

Key: "●"component significantly contributes to the pillar; "○" component partially contributes to the pillar
Source: Commission Staff Working Document, pages 33-34

Annex 3: Assessment of how national RRP addresses 2019-2020 CSRs

Notes: "●" investments and reforms of the component significantly address the challenge; "○" the component partially addresses the challenge.
Colour codes in the table are attributed subjectively by EGOV, in cases where 50% or more of associated components are assessed as significantly addressing the challenge, it is marked as green, while in remaining cases, it is marked orange.

EL	CSR text under the European Semester of 2019 and 2020	Country challenges as identified by the Commission	Components, Investments and Reforms as identified in the national RRP	Commission assessment
	2019 CSR 1: 1. Achieve a sustainable economic recovery and tackle the excessive macroeconomic imbalances by continuing and completing reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018.	Fiscal policy and fiscal governance, including measures to ensure long-term sustainability of public finances, while enhancing investment	Component 2.2. - Modernise	○
			Component 4.1. - Making taxes more growth friendly and improving tax administration and tax collection	●
			Component 4.2. - Modernise public administration	○
			Component 4.3. - Improve the efficiency of the justice system	○
			Component 4.4. - Strengthen the financial sector and capital markets	○
			Component 4.6. - Modernise and improve resilience of key economic sectors	○
			Component 4.7. - improve competitiveness and promote private investments and trade	○
		Health care and long-term care, including measures	Component 3.3. - Improve resilience, accessibility and sustainability of healthcare	●
		Implementation of employment-supporting measures such as short-time work schemes	Component 3.1. - Promote job creation and participation in the labour market	●
		Poverty reduction and social inclusion	Component 1.2. - Renovate	○
			Component 3.4. - Increase access to effective and inclusive social policies	●
		Pursue structural reforms in key areas, such as fiscal structural including the tax administration and public procurement; labour market, social benefits and health care; education, the financial sector and business environment; and modernisation of the public administration, justice and fight against corruption	Component 1.1. - Power up	○
			Component 1.4. - Sustainable use of resources, climate resilience and environmental protection	○
			Component 2.2. - Modernise	○
			Component 3.1. - Promote job creation and participation in the labour market	●
			Component 3.2. - Education, vocational education and training, and skills	●
			Component 3.3. - Improve resilience, accessibility and sustainability of healthcare	●

			Component 3.4. - Increase access to effective and inclusive social policies	●
			Component 4.1. - Making taxes more growth friendly and improving tax administration and tax collection	●
			Component 4.2. - Modernise public administration	●
			Component 4.3. - Improve the efficiency of the justice system	●
			Component 4.4. - Strengthen the financial sector and capital markets	●
			Component 4.6. - Modernise and improve resilience of key economic sectors	○
			Component 4.7. - improve competitiveness and promote private investments and trade	●
	2019 CSR 2: 2. Focus investment-related economic policy on sustainable transport and logistics, environmental protection, energy efficiency, renewable energy and interconnection projects, digital technologies, R&D, education, skills, employability, health, and the renewal of urban areas, taking into account regional disparities and the need to ensure social inclusion.	Health care and long-term care, including measures	Component 3.3. - Improve resilience, accessibility and sustainability of healthcare	●
		Safe and sustainable transport and logistics	Component 1.3. - Recharge and refuel	●
			Component 4.6. - Modernise and improve resilience of key economic sectors	○
		Clean and efficient production and use of energy, including renewable energy and interconnection projects	Component 1.1. - Power up	●
			Component 1.2. - Renovate	●
			Component 1.3. - Recharge and refuel	●
		Environmental infrastructure	Component 1.4. - Sustainable use of resources, climate resilience and environmental protection	○
		Very-high capacity digital infrastructure and digital technologies	Component 2.1. - Connect	●
			Component 2.2. - Modernise	●
			Component 2.3. - Digitalisation of businesses	○
			Component 4.1. - Making taxes more growth friendly and improving tax administration and tax collection	○
			Component 4.2. - Modernise public administration	○
			Component 4.3. - Improve the efficiency of the justice system	○
		Education	Component 3.2. - Education, vocational education and training, and skills	●
			Component 3.4. - Increase access to effective and inclusive social policies	○
		Skills, including digital skills and employability	Component 3.1. - Promote job creation and participation in the labour market	●
			Component 3.2. - Education, vocational education and training, and skills	●
			Component 3.4. - Increase access to effective and inclusive social policies	○
			Component 4.3. - Improve the efficiency of the justice system	○

			Component 4.6. - Modernise and improve resilience of key economic sectors	○
		Research and Development	Component 3.2. - Education, vocational education and training, and skills	●
			Component 4.5. - Promote research and innovation	●
		Renewal of urban areas	Component 1.1. - Power up	●
			Component 1.2. - Renovate	○
			Component 1.3. - Recharge and refuel	●
			Component 1.4. - Sustainable use of resources, climate resilience and environmental protection	●
			Component 3.4. - Increase access to effective and inclusive social policies	○
	2020 CSR 1: 1. Take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience of the health system and ensure adequate and equal access to healthcare.	Fiscal policy and fiscal governance, including measures to ensure long-term sustainability of public finances, while enhancing investment	Component 2.2. - Modernise	○
			Component 4.1. - Making taxes more growth friendly and improving tax administration and tax collection	●
			Component 4.2. - Modernise public administration	○
			Component 4.3. - Improve the efficiency of the justice system	○
			Component 4.4. - Strengthen the financial sector and capital markets	○
			Component 4.6. - Modernise and improve resilience of key economic sectors	○
			Component 4.7. - improve competitiveness and promote private investments and trade	○
		Health care and long-term care, including measures to strengthen the resilience of the health system and ensure adequate and equal access to healthcare	Component 3.3. - Improve resilience, accessibility and sustainability of healthcare	●
	2020 CSR 2: 2. Mitigate the employment and social impacts of the COVID-19 crisis, including by implementing measures such as short-time work schemes and ensuring effective activation support.	Implementation of employment-supporting measures such as short-time work schemes	Component 3.1. - Promote job creation and participation in the labour market	●
		Incentives to work, job creation, labour market participation and effective activation support.	Component 3.1. - Promote job creation and participation in the labour market	○
			Component 3.4. - Increase access to effective and inclusive social policies	○
		Poverty reduction and social inclusion	Component 1.2. - Renovate	○
			Component 3.4. - Increase access to effective and inclusive social policies	●
	2020 CSR 3: 3. Swiftly deploy measures to provide liquidity and continued flow of credit and other financing to the economy, focusing	Safe and sustainable transport and logistics	Component 1.3. - Recharge and refuel	●
			Component 4.6. - Modernise and improve resilience of key economic sectors	○
			Component 1.1. - Power up	●

	in particular on SMEs most affected by the crisis. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on safe and sustainable transport and logistics, clean and efficient production and use of energy, environmental infrastructure and very-high-capacity digital infrastructure and skills. Improve the effectiveness and digitalisation of the public administration and promote digital transformation of businesses.	Clean and efficient production and use of energy, including renewable energy and interconnection projects	Component 1.2. - Renovate	●
			Component 1.3. - Recharge and refuel	●
		Environmental infrastructure	Component 1.4. - Sustainable use of resources, climate resilience and environmental protection	○
		Very-high capacity digital infrastructure and digital technologies	Component 2.1. - Connect	●
			Component 2.2. - Modernise	●
			Component 2.3. - Digitalisation of businesses	○
			Component 4.1. - Making taxes more growth friendly and improving tax administration and tax collection	○
			Component 4.2. - Modernise public administration	○
			Component 4.3. - Improve the efficiency of the justice system	○
		Promote digital transformation of businesses	Component 2.1. - Connect	●
			Component 2.3. - Digitalisation of businesses	●
			Component 4.1. - Making taxes more growth friendly and improving tax administration and tax collection	●
			Component 4.3. - Improve the efficiency of the justice system	●
			Component 4.7. - improve competitiveness and promote private investments and trade	●
		Skills, including digital skills and employability	Component 3.1. - Promote job creation and participation in the labour market	●
			Component 3.2. - Education, vocational education and training, and skills	●
			Component 3.4. - Increase access to effective and inclusive social policies	○
			Component 4.3. - Improve the efficiency of the justice system	○
			Component 4.6. - Modernise and improve resilience of key economic sectors	○
		Front -load mature public investment projects	Component 4.2. - Modernise public administration	●
			Component 4.6. - Modernise and improve resilience of key economic sectors	●
		Improve the effectiveness and digitalisation of the public administration	Component 1.4. - Sustainable use of resources, climate resilience and environmental protection	○
			Component 2.1. - Connect	●
			Component 2.2. - Modernise	●
			Component 3.1. - Promote job creation and participation in the labour market	●
			Component 3.2. - Education, vocational education and training, and skills	●

			Component 3.3. - Improve resilience, accessibility and sustainability of healthcare	●
			Component 3.4. - Increase access to effective and inclusive social policies	●
			Component 4.2. - Modernise public administration	●
			Component 4.3. - Improve the efficiency of the justice system	●
			Component 4.6. - Modernise and improve resilience of key economic sectors	○
		Swiftly deploy measures to provide liquidity and continued flow of credit and other financing to the economy, focusing in particular on small and medium - sized enterprises most affected by crisis	Component 4.4. - Strengthen the financial sector and capital markets	●
			Component 4.6. - Modernise and improve resilience of key economic sectors	○
			Component 4.7. - improve competitiveness and promote private investments and trade	●
		Promote private investment to foster the economic recovery	Component 1.2. - Renovate	●
			Component 1.3. - Recharge and refuel	●
			Component 2.3. - Digitalisation of businesses	○
			Component 3.1. - Promote job creation and participation in the labour market	○
			Component 3.2. - Education, vocational education and training, and skills	○
			Component 3.3. - Improve resilience, accessibility and sustainability of healthcare	○
			Component 3.4. - Increase access to effective and inclusive social policies	○
			Component 4.1. - Making taxes more growth friendly and improving tax administration and tax collection	○
			Component 4.2. - Modernise public administration	○
			Component 4.3. - Improve the efficiency of the justice system	○
			Component 4.4. - Strengthen the financial sector and capital markets	○
			Component 4.5. - Promote research and innovation	○
			Component 4.6. - Modernise and improve resilience of key economic sectors	○
			Component 4.7. - improve competitiveness and promote private investments and trade	●

	2020 CSR 4: 4. Continue and complete reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018 to restart a sustainable economic recovery, following the gradual easing-up of constraints imposed because of the COVID-19 out-break.	Implementation of employment-supporting measures such as short-time work schemes	Component 3.1. - Promote job creation and participation in the labour market	●
		Poverty reduction and social inclusion	Component 1.2. - Renovate	○
			Component 3.4. - Increase access to effective and inclusive social policies	●
		Pursue structural reforms in key areas, such as fiscal structural including the tax administration and public procurement; labour market, social benefits and health care; education, the financial sector and business environment; and modernisation of the public administration, justice and fight against corruption.	Component 1.1. - Power up	○
			Component 1.4. - Sustainable use of resources, climate resilience and environmental protection	○
			Component 2.2. - Modernise	○
			Component 3.1. - Promote job creation and participation in the labour market	●
			Component 3.2. - Education, vocational education and training, and skills	●
			Component 3.3. - Improve resilience, accessibility and sustainability of healthcare	●
			Component 3.4. - Increase access to effective and inclusive social policies	●
			Component 4.1. - Making taxes more growth friendly and improving tax administration and tax collection	●
			Component 4.2. - Modernise public administration	●
			Component 4.3. - Improve the efficiency of the justice system	●
			Component 4.4. - Strengthen the financial sector and capital markets	●
			Component 4.6. - Modernise and improve resilience of key economic sectors	○
			Component 4.7. - improve competitiveness and promote private investments and trade	●

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