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Post-Programme Surveillance Report

Greece, Autumn 2024

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European Commission
Directorate-General for Economic and Financial Affairs

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Greece, Autumn 2024

EUROPEAN ECONOMY

Institutional Paper 299

EXECUTIVE SUMMARY

The fifth post-programme surveillance mission to Greece took place from 8 to 11 October 2024. It involved European Commission staff in liaison with European Central Bank staff. European Stability Mechanism staff participated on aspects relating to its Early Warning System. Staff from the International Monetary Fund also participated.

The Greek economy is set to remain on its solid expansion path, but uncertainties persist particularly due to external factors. Greece registered a 2.1% year-on-year real GDP growth in the first half of 2024, well above the euro area average of 0.5%. Investment spending fuelled by EU funds and declining financing costs accompanied by robust private consumption are expected to be the main drivers of growth over 2024-2026. However, net exports are forecast to be a drag on growth in 2024 and 2025 as the gradual pick-up in external demand is accompanied by an increase in imports of capital goods, induced by strong investment activity. Real GDP growth is expected to reach 2.1% in 2024 and to remain solid in 2025 and 2026. At the same time, economic weakness in key trading partners and geopolitical tensions continue to cloud the economic outlook. Following a period of relatively stable inflation rates since mid-2023, inflation is expected to start to decline again, albeit at a moderate pace, amid wage pressures fuelled by tightening labour market conditions and minimum wage increases. The inflation rate is set to reach 3.0% in 2024, 2.4% in 2025 and 1.9% in 2026. The labour market performance is expected to improve at a slower pace beyond 2024 as structural challenges – such as skills mismatches and low labour force participation – are weighing on employment growth against the background of mounting labour shortages. After a marked decrease in 2023, the current account deficit is set to narrow only moderately in 2024-2026 due to the high import demand. Despite recent improvements, increasing productivity remains key to improving long-term growth prospects and raising standards of living in a sustainable way.

Government finances are set to improve further with the general government budget balance turning positive and the primary balance recording rising surpluses by 2026. The Commission's Autumn 2024 Economic Forecast expects the primary surplus to stabilise at 2.9% of GDP in 2024 and 2025, up from 2.1% in 2023, and increase to 3.2% in 2026. This improvement is primarily driven by the muted growth of current expenditure. The forecast accounts for the fact that the remaining measures taken in response to the energy crisis were phased out in 2024 as well as for the fact that a number of new measures will be introduced in 2025. These measures include: (i) further reducing the rates of social security contributions; (ii) increasing public sector wages, which is linked to the planned increase in the minimum wage; and (iii) increasing the overnight tax for stays in hotels. Finally, in the beginning of October, Greece presented its medium-term fiscal-structural plan, as required by the new economic governance framework.

Continued profitability helped improve the robustness of the banking sector, and the workout of legacy debt continues, even though it is facing some difficulties. Fuelled by net interest income, the profitability of the banking sector remained strong in the first half of 2024. This helped improve capital ratios and made it possible to reinstate dividend payments while liquidity buffers remain high. The stock of non-performing loans (NPLs) increased slightly due to a one-off adjustment reclassifying outstanding loans covered by called state guarantees as NPLs and remains above the average in the euro area. The stock is set to decrease again helped by the extension of the securitisation scheme for non-performing loans (HAPS) as new securitisations will substantially decrease the NPL ratio in the non-systemic bank sector. The work-out of legacy debt continues, and private debt as a percentage of GDP is on a downward path. Still, various portfolios securitised under the original HAPS scheme continued to underperform mainly due to lower recoveries from collateral liquidations, as credit

servicers face judicial obstacles, predominantly in liquidation proceedings. The completion of policy measures to tackle legacy debt issues is delayed until 2025. These measures include setting up the sale-and-lease-back organisation, clearing the court backlog of household insolvency cases, and clearing the backlog of called state guarantees**.**

The stock of general government arrears has decreased since January 2024, but progress has been uneven. While main pension arrears are close to zero, lump-sum pension arrears show an upward trend. A considerable increase is observed in local government arrears. In the hospital sector, the most problematic one, arrears decreased significantly in July. Whereas some of the improvement can be attributed to the newly created Centralised Health Procurement Authority (EKAPY), another part of the observed reduction is likely due to seasonal factors.

The codification of the labour legislation is under way but needs to be completed. The adoption of the related presidential decree would mark the fulfilment of the Eurogroup policy commitment that called for the adoption of the Labour Law Code and the Code of Labour Regulatory Provisions to improve legal certainty and access to labour law.

The Hellenic Republic Asset Development Fund (HRADF) and the Hellenic Financial Stability Fund (HFSF) are set to be absorbed into the Hellenic Corporation of Assets and Participations (HCAP) by the end of 2024. The HCAP is expected to deliver a solid financial performance and has developed a strategic plan for 2025-2027. The HCAP's major subsidiaries improved their financial performance while undergoing a gradual transformation. Since the beginning of 2024, the privatisation proceeds of the HRADF have exceeded EUR 4 billion, with more transactions expected to reach financial closure before year end.

Greece retains the capacity to service its debt. Despite external challenges, its economic, fiscal and financial situation is sound overall. Government debt remains high (163.9% of GDP at end of 2023) but is expected to continue declining and reach 146.8% of GDP by 2025 and stay on a downward trajectory, supported by primary surpluses and solid economic growth. In 2024, three major rating agencies put Greece on a positive outlook. According to the debt sustainability analysis, Greece is deemed to face low risks in the short and long term, while medium-term risks appear to be high due to the still high debt-to-GDP ratio, among other things. Greece requested to early repay again under the Greek Loan Facility (GLF) in 2024. This year, Greece considers prepaying the amortisation payments due in 2026-2028 with a total amount of EUR 7.9 billion, and requested to use EUR 5 billion of its cash buffer. Government gross financing needs are low for 2024-2026, thanks to projected sizeable primary surpluses and moderate debt amortisation, which is also due to the partial pre-payments under the GLF. Repayment of the principal on the European Financial Stability Facility loans started in 2023, while repayment of the European Stability Mechanism loans will only start in 2034. Greece continues to have market access and regular successful bond auctions. Thanks to its modest financing needs, its large cash buffer and the low interest rate sensitivity of its outstanding debt, Greece's debt servicing capacity has a limited exposure to a potential deterioration in market access and increasing financing costs against the background of heightened geopolitical uncertainty over 2024-2026.

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This Post-Programme Surveillance Report was prepared in the Directorate General-General for Economic and Financial Affairs of the European Commission under the guidance of Declan Costello, Deputy Director General, Luc Tholoniat, Director and Michael Sket, Acting Head of Unit for Greece ([1]).

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The report was prepared in liaison with staff from the European Central Bank ([2]). Staff from the European Stability Mechanism also provided comments.

This report reflects information available and policy developments that have taken place up to 31 October 2024. The macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are therefore in line with the Commission's Autumn 2024 Economic Forecast published on 15 November 2024 (with cut-off date of 31 October 2024).

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(1) The executive summary of this report was adopted as Commission Communication C(2024)9070 on 25 November 2024. The rest of the report reflects the findings of the staff working document (SWD(2024)970) accompanying that Communication.

(2) European Central Bank (ECB) staff participated in this mission, and in the drafting of this report, in accordance with the ECB's competences and therefore provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

ACRONYMS

DTC: deferred tax credit

DSA: debt sustainability analysis

ECB: European Central Bank

EFSF: European Financial Stability Facility

ESM: European Stability Mechanism

HCAP: Hellenic Corporation of Assets and Participations

HFSF: Hellenic Financial Stability Fund

HICP: harmonised index of consumer prices

HRADF: Hellenic Republic Asset Development Fund

IMF: International Monetary Fund

MFI: monetary and financial institutions

MREL: minimum requirement for own fund and eligible liabilities

NPL: non-performing loan

PPS: post programme surveillance

RRP: Recovery and Resilience Plan

SPB: structural primary balance

1. INTRODUCTION

Staff from the European Commission, in liaison with staff from the European Central Bank (ECB), undertook from 8 to 11 October 2024 the fifth post-programme surveillance mission to Greece. Staff from the European Stability Mechanism (ESM) participated in the meetings on aspects related to the ESM's Early Warning System. Staff from the International Monetary Fund (IMF) also participated. Under post-programme surveillance, the Commission carries out regular review missions to euro area countries that have had a financial assistance programme. The missions aim to assess the economic, fiscal, and financial situation to ensure that the Member State maintains its capacity to service debt to the European Financial Stability Facility (EFSF), the ESM and bilateral lenders ([3]).

Greece received assistance under three adjustment programmes between 2010 and 2018. Under the first economic adjustment programme, Greece received financial assistance of EUR 52.9 billion in 2010 and 2011 under the Greek Loan Facility and EUR 20.1 billion from the IMF. Under the second economic adjustment programme Greece received EUR 141.8 billion from the EFSF and EUR 12 billion from the IMF between 2012 and 2014. Between 2015 and 2018, Greece received EUR 61.9 billion from the ESM under the third economic adjustment programme.

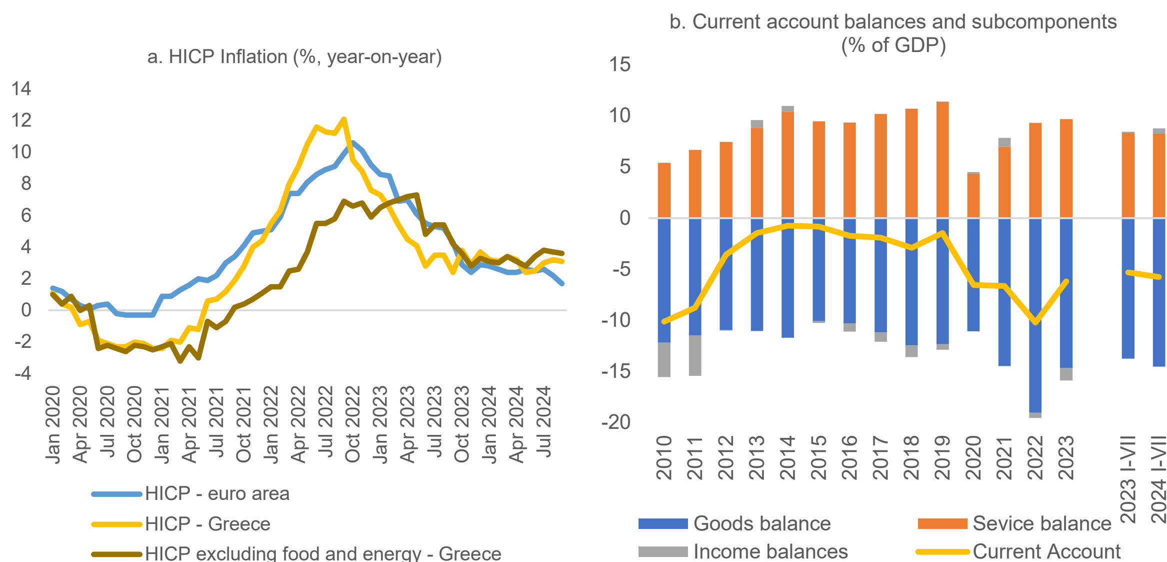
This report reflects information available and policy developments that have taken place until 31 October 2024. The macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission's Autumn 2024 Economic Forecast published on 15 November 2024 (with cut-off date of 31 October 2024).

([3]) Under Regulation (EU) No 472/2013, post-programme surveillance will continue until at least 75% of the financial assistance received under the programme has been repaid. Under the current repayment schedule, it will last until 2059.

2. MACROECONOMIC DEVELOPMENTS

The Greek economy is set to remain on its expansion path, with real GDP growth expected at 2.1% in 2024 and remaining broadly around this level in 2025 and 2026. Real GDP grew by 2.1% on a year-on-year basis in the first half of 2024, outpacing growth both in the EU (0.7%) and the euro area (0.5%). Consumption, investments, and inventories were the main drivers of growth, while net exports were a drag. Looking ahead, private consumption is expected to continue expanding at a solid pace supported by a steady real income growth fuelled by rising wages and abating inflation. Investment growth is set to strengthen further, reaching almost 9.0% in 2025, thanks to a continued decline in financing costs and the implementation of investments under the Recovery and Resilience Plan (RRP). The expected pick-up in external demand coupled with a sustained growth in tourism is set to support export growth. However, dynamic investment spending, which has a significant import content, is expected to induce high import demand. As a result, the contribution of net exports to growth is projected to be negative in 2024-2025 and to turn to broadly neutral in 2026. Overall, real GDP growth is expected to remain above Greece's long term growth potential (estimated to be around 1.2%) and is forecast at 2.1% in 2024, 2.3% in 2025 and 2.2% in 2026.

Graph 2.1: **HICP Inflation rate and the current account balance**



Source: Eurostat, Bank of Greece.

After a temporary halt, disinflation is expected to continue, albeit at a moderate pace. HICP inflation averaged 3.1% in 2024 Q3, about one percentage point above the euro area average (See Chart 2.1 a). Disinflation has been slowed by accelerating service prices and the impact of last year's floods on food prices. Furthermore, wholesale and retail electricity prices increased rapidly during the summer, driven by unusually high temperatures, water shortages affecting hydroelectric capacity and the increased electricity export of the EU to Ukraine, in an effort to help the country to reduce its electricity shortfall. Inflation is expected to resume its decline, but wage pressures fuelled by labour

shortages (especially in tourism and the construction sector) and minimum wage increases ([4]) are expected to reduce the pace of disinflation. Consumer prices are expected to increase by 3.0% in 2024 before slowing to 2.4% in 2025 and 1.9% in 2026. Inflation excluding energy and food is forecast to remain higher, at 3.4%, 2.7% and 2.0% in 2024, 2025 and 2026 respectively. The increase in house prices decelerated in the first half 2024, thanks to government efforts to tame demand (via revising the Golden Visa programme and the regulation of Airbnb businesses). Still, house prices grew by close to 10% on average in the first two quarters of 2024 compared to the same period of the previous year and are expected to slow only gradually, amid easing supply constraints due to accelerating construction activity.

The labour market performance remained robust in the first half of 2024, but structural challenges limit the space for further improvements. The seasonally-adjusted employment rate reached 54.9% (persons aged 15-74) in the second quarter of 2024 and the seasonally-adjusted unemployment rate fell to 9.5% in August 2024. However, activity and employment rates remain among the lowest, while the unemployment rate is still among the highest in the EU. The job vacancy rate on average stood at 2.5%, broadly in line with the euro area level in the first half of 2024. Labour shortages remained more pronounced in construction, tourism related services and in high-skills sectors (professional, scientific and technical activities). The tight labour market in combination with a persistently high unemployment rate and a low activity rate suggest that skill mismatches, declining, but still important tax and benefit disincentives to work and the lack of adequate child and elderly care remain key impediments to increasing labour supply. Therefore, employment is projected to rise further, albeit at a slower pace, with the unemployment rate expected to decline to around 9.0% by 2026.

The current account deficit widened in the first half of 2024 and is expected to remain well above its pre-pandemic level in 2025 and 2026 ([5]). After a marked narrowing driven mainly by favourable price dynamics in 2023 ([6]) which prevailed in 2024, the current account deficit widened by about 0.4% of GDP in the first seven months of the year compared to the same period of 2023 (See Chart 2.1 b). The widening non-oil trade deficit was at the root of the recent deterioration, owing both to a decline in exports and an increase in imports. Beside the solid increase in the partly RRP-induced import of investment goods, some temporary factors (e.g. import of large military equipment and an increase in food imports due to the floods in 2023) have also fuelled import demand. By contrast, the recovery in shipping and rising receipts from tourism resulted in a further improvement in the service balance. The primary income balance continued to deteriorate, but this was more than offset by the increase in the secondary income balance. Looking ahead, exports are set to accelerate in line with a projected pick-up in global demand and further gains in export market shares supported by improved competitiveness in recent years. Still, accelerating investment spending, given its high import content, will keep import growth elevated. Overall, the current account deficit is forecast to narrowing only moderately by 2026. Net external borrowing is expected to decline somewhat faster by 2026 than the current account deficit, thanks to the increase in EU capital transfers, including RRF grants. External borrowing stood at 5.0% of GDP in 2023 and is expected to decline to 3.5% of GDP by 2026.

Greece's net international liability position continued to improve in the first half of 2024, but the favourable trend is set to slow down in the future. Net international liabilities-to-GDP

([4]) Greece raised its minimum wage by 6.4% as of April 2024, the fourth times over the last five years (previous 9.4% increase was introduced in 2023). The government plans to increase minimum wages by 4.6% annually over 2025-2027.

([5]) The current account balance, both the actual data and the forecast are based on the Balance of Payment statistics.

([6]) Since goods import surpasses the level of goods export to a large extent, beside the improving terms of trade, the parallel decline in export and import prices also contributed to the narrowing of the trade deficit in 2023.

decreased by more than 6 percentage points to 136.3% compared to end 2023. The current level is more than 40 percentage points below the peak recorded in 2021. The decline was driven by favourable valuation effects and to a lesser extent by solid nominal GDP growth. These factors more than offset the impact of the net external borrowing, which increased to EUR 8.9 billion (3.9% of GDP) in the first half of the year. The pace at which net external liabilities as a percentage of GDP shrink is forecast to slow as nominal GDP growth decelerates due to easing inflation, while external borrowing will remain sizable. Overall, the net external liability position is set to decrease to 125.5% of GDP by 2026, still remaining the highest in the EU. Nevertheless, the risks associated with net external liabilities are mitigated as a large part of external debt is held by official EU creditors with long maturities and low interest rates.

After cost competitiveness also non-cost competitiveness has been improving, but Greece is set to maintain a substantial productivity gap with the rest of the EU. After the sizable improvement in cost competitiveness, largely owing to wage cuts over the last decade, labour productivity has also started to increase since 2018, although at a very low pace. Productivity gains are notably higher in the manufacturing sector. Furthermore, the recent reading of the OECD Product Market Regulation (PMR) indicator suggests a substantial improvement in the non-cost competitiveness of the Greek economy ([7]). Still, labour productivity in the total economy remains one of the lowest in the EU. Further progress with structural reforms will be needed, given Greece's persistent productivity gap vis-à-vis the euro area and its challenging demographic outlook. Increasing productivity is key to enhancing long-term growth prospects and raising standards of living in a sustainable way. Furthermore, higher productivity is expected to strengthen export capacity and reduce import dependence, hence, facilitating the unwinding of macroeconomic imbalances ([8]). In this respect, recent measures related to tax incentives for R&D, mergers & acquisitions and the reduction of social security contributions contribute to this objective. Still, remaining structural factors such as the large share of small firms lagging in productivity, barriers to entry, labour skill mismatches, and a limited access to financing are holding back productivity. In addition, policies need to ensure that wage increases are aligned with productivity gains to safeguard competitiveness.

Risks to Greece's economic outlook in the next few years relate mainly to external demand and geopolitical tensions. A slower than expected economic rebound in euro area countries can reduce tourism and exports more generally. Russia's war of aggression against Ukraine might put additional pressures on energy prices and raise further uncertainty. The materialisation of these risks can deteriorate the external balance, trigger higher inflation, and lower GDP growth. Given the large size of the Greek RRP, another risk is associated with the management of the transition to a post-RRF environment which may affect economic growth beyond 2026.

([7]) The PMR measures the regulatory barriers to firm entry and competition in a broad range of key policy area. Greece recorded the largest improvement in PMR among the OECD countries compared to 2018 and is now close to the OECD average.

([8]) For a detailed assessment of imbalances and policy responses see: In-depth review for Greece in accordance with Article 5 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances, SWD(2024) 102 final.

3. PUBLIC FINANCE DEVELOPMENTS

3.1. FISCAL PERFORMANCE AND OUTLOOK

The headline deficit is expected to decline to 0.6% of GDP, implying a primary surplus of 2.9% in 2024. According to the Commission's Autumn 2024 Economic Forecast, the primary surplus is projected at 2.9% of GDP, after 2.1% of GDP in 2023. This improvement compared to 2023 is primarily driven by the muted growth of current expenditure as well as the stronger-than-expected revenue growth related to income tax. In addition, the fading out of some measures such as the market pass (a social transfer to households in response to the loss in purchasing power following sharp price increases), the electricity subsidies to households and enterprises as well as other one-off benefits helped reduce public spending and contributed to the better-than-expected fiscal position in 2024. Compared to the Commission's Spring 2024 Economic Forecast, the primary balance is expected to be higher by 0.6 percentage points. This overperformance can be partly attributed to Greece's efforts to fight tax evasion in 2024, aiming to increase the share of electronic payments and hence the traceability of transactions. Such actions require the interconnection of the point-of-sale terminals with the cash registers, the digital submission of this data to the tax administration, and the extension of mandatory acceptance of direct electronic payments to sectors where this was not obligatory before (i.e. retail trade). In addition, rising employment and minimum wage increases implied higher-than-expected receipts of social security contributions.

The additional fiscal measures announced in 2024 have a limited scope and a positive net impact on public finances. Existing measures, such as the abolition of the 30% decrease in the reduction of pensions for working pensioners, coupled with the introduction of an additional 10% levy on their work income, have shown notable effects and appear to have encouraged pensioners to take up work and/or declare their income. By May 2024, the number of working pensioners increased by approximately 50% compared to the end of 2023, surpassing initial estimates of 25%, and yielding a positive impact of 0.1% of GDP on the fiscal balance through increased income tax revenues and social security contributions. In addition, the solidarity contribution on refineries that was introduced in 2023 will also apply in 2024, having a fiscal impact of 0.2% of GDP. The revenues generated from this measure will be used to cover costs of a one-off benefit in December 2024 to enhance social benefits for specific vulnerable groups and families with children.

Looking ahead, the fiscal situation is projected to improve further with the general government budget balance turning positive by 2026. The Commission Autumn 2024 Economic Forecast expects the headline deficit to decrease to 0.1% of GDP in 2025 from 0.6% of GDP in 2024. The decrease in the deficit is mostly driven by the decrease in interest expenditure on the back of declining short-term interest rates in 2025. The forecast factors in a set of measures announced this year. These measures include the decrease in social security contributions by 1pp. in 2025 (instead of 0.5 pp. that was initially planned) as well as the increase in public sector wages to keep the base salary in line with the increased minimum wage. After the latest increase of public wages in 2024, the base salaries of all public sector employees will be further increased in April 2025, so that the introductory salary in the public sector will be at least equal to the level of the monthly minimum wage in the private sector. The authorities plan to increase the minimum wage also in 2026, implying a gradually increasing net fiscal cost from 0.03% of GDP in 2025 to 0.1% in 2026. To partially compensate the impact of the measures above, the government is planning to increase the overnight tax for stays in hotels by EUR 3.0 on average in 2025. In 2026, the headline balance is expected to turn positive at 0.2%, with the primary balance set to reach a surplus of 3.2%. This positive budgetary outlook is underpinned by the projected sustained economic expansion, implying higher tax revenues and social security contributions, which are expected to offset the higher expenditure due to increases in public wages and pension benefits in 2026.

Greece is facing fiscal risks both from the domestic and external side. Repercussions from Russia's war of aggression against Ukraine and the conflict in the Middle East as well as the impact of further natural disasters constitute key risks. Further risks continue to stem from pending legal cases against public entities, most notably the litigation cases against the Hellenic Public Properties Company (ETAD). Furthermore, the persistent underperformance of the workout of some securitised NPLs could gradually increase the risk of some state guarantees being called in an adverse scenario. On the upside, government measures to fight tax evasion and improve compliance through the digitalisation of payments and tax procedures could entail higher-than-expected fiscal revenues.

As required by the new economic governance framework, Greece presented in the beginning of October its medium-term fiscal-structural plan. By the cut-off date of this report (31 October 2024), the plan was under assessment by the Commission.

3.2. POLICY ISSUES

The stock of general government arrears has decreased by 19% since January 2024 but progress has been uneven. The total stock of net arrears decreased from EUR 880 million in January 2024 to EUR 709 million in July 2024, mainly driven by the decrease in hospitals' arrears which offset the increase in arrears accumulated in local governments and for lump-sum pensions. The deviation from the target remains significant, at EUR 542 million.

Hospitals' stock of arrears reached its lowest level this year so far but part of the observed reduction can be attributed to seasonal factors. The stock fell to EUR 178 million in July 2024 compared to EUR 480 million in January 2024. The rollout of the Centralised Health Procurement Authority (EKAPY) is progressing well and is estimated to have contributed to the clearance of arrears. Since July 2024, the total procurement of pharmaceutical supplies of hospitals is managed by EKAPY and it is planned to assume full responsibility of the procurement of services and materials by mid-2025. However, the good pace of arrears clearance cannot be solely attributed to the new Authority but is also due to seasonal factors as arrears tend to reach their lowest level in the middle of the year before starting to increase again by the end of the year. The authorities aim at bringing hospitals' net arrears down to EUR 150 million by the end of the year.

Local government arrears have been increasing significantly since January 2024. Arrears increased by 66%, from EUR 105 million in January 2024 to EUR 174 million in July 2024. According to the authorities, the main reason for the rise in arrears are liquidity shortages, despite the increase of grants from the State that have increased by 8% in 2024 compared to 2023 (approximately by EUR 250 million). Furthermore, a new financing programme will provide EUR 90 million to municipalities with a high stock of arrears, providing them with additional liquidity, while additional EUR 90 million from the current budget will be allocated to local governments with minimum arrears as a reward for the good performance.

The stock of net arrears of Social Security Funds represents 32% of total general government arrears and increased by EUR 50 million since January 2024. The increase from EUR 154 million in January 2024 to EUR 203 million in July 2024 can be mainly attributed to lump sum pension arrears. While main pension arrears are almost reduced to zero, the stock of lump sum arrears shows an upward trend since the end of 2023. In practice, the lump sum arrears in the public sector remained unchanged while the lump sum arrears in the private sector more than doubled (from EUR 27 million to EUR 64 million) based on July data. The latest targets aimed at clearing the lump sum arrears in the public sector by July 2024, whereas the clearance of the lump sum arrears in the private sector was set to be achieved by the end of this year.

The Ministry of Labour has put in place an action plan which aims to halve the stock of lump-sum pension arrears by end of 2024. By these actions the clearance of arrears is likely to be accelerated. The award of lump-sum pensions with higher amounts will be prioritised and the processing time is expected to decrease thanks to the implementation of semi-automatised processes for cases where insurance data are available in the systems, but their processing is performed manually. Moreover, modified legislation will avoid a doubling of inspections of recurring debt of applicants once for awarding the main pension and once for the lump-sum pension.

The codification of labour legislation still needs to be completed. Following the adoption on 26 September 2023 of Labour Law 5053/2023, which transposed EU Directive 2019/1152 on transparent and predictable working conditions (OJ 158/A/2023), the full labour code (which will also include the above law) still needs to be published in the Official Journal. The adoption of the related presidential decree would mark the fulfilment of the Eurogroup policy commitment that called for the adoption of the Labour Law Code and Code of Labour Regulatory Provisions to improve legal certainty and access to law.

3.3. PUBLIC ASSET MANAGEMENT

HRADF and HFSF are set to be merged by absorption with Hellenic Corporation of Assets and Participations (HCAP) by the end of 2024. The Greek Parliament adopted the Law 5131/2024 OJ 128/02.08.2024 on the restructuring of HCAP and its subsidiaries providing for the merger of Hellenic Republic Asset Development Fund (HRADF) and Hellenic Financial Stability Fund (HFSF) into HCAP by the end of 2024. Further legislative amendments update the legal framework governing HCAP and its portfolio of state-owned enterprises (SOEs) to establish the growth investment fund and to strengthen HCAP's reform capacity. Those amendments are expected to enhance the operational flexibility and commercial autonomy of HCAP's portfolio SOEs by strengthening human resources' management, remuneration and procurement policies for HCAP's portfolio companies.

HCAP is expected to post a solid financial performance and has developed its Strategic Plan 2025-2027. In the first semester of 2024, HCAP's net profits exceeded EUR 59 million, and by the end of 2024 is expected to pay out to the Greek state a dividend of EUR 113.4 million. HCAP has developed its Strategic Plan 2025-2027 based on the Strategic Guidelines issued by the government. The aim is to contribute to the national developmental and strategic goals by accelerating its efforts and strengthening its role as:

- an active shareholder and manager of public assets including state-owned enterprises and participations;
- an investor contributing to closing the investment gap, through establishing a new growth investment fund to be capitalised with an initial amount of EUR 300 million aiming to leverage additional domestic investment and to attract foreign direct investment;
- a centre of excellence and expertise, fostering good corporate governance and practices, social responsibility and sustainability, thus providing a good example to other SOEs.

HCAP's major subsidiaries improved their financial performance while undergoing a gradual transformation. The Hellenic Public Properties Company's (ETAD) operating results improved thanks to increasing revenues and significantly decreasing expenses partly due to the preceding voluntary exit scheme. The valuation of ETAD's 36 000 assets, which will allow their exploitation is expected to be concluded by the end of 2025. The financial results of Hellenic Post (ELTA) improved compared to 2023 mainly due to higher revenues from the courier service. The financial results of the Athens Urban

Transport Organisation (OASA) improved thanks to a 10% increase in ticket revenues and the increased subsidies received by the Greek state.

Since the beginning of 2024 the privatisation proceeds of HRADF have exceeded EUR 4 billion, with more transactions expected to reach financial closure before year end. The transaction for the Port of Heraklion reached financial closure on 18 September 2024, resulting in the sale of a majority stake of 67% in the share capital of the Heraklion Port Authority S.A. yielding EUR 80 million. The EUR 3.27 billion 25-year concession of Attiki Odos Ring Road took effect on 6 October 2024 ensuring a seamless succession of concessioners. The concession agreement for the Egnatia Motorway transaction was signed on 29 March 2024 and its ratification by the Hellenic Parliament and its entry into force is scheduled for the end of 2024. For the Port of Kavala, the concession agreement was ratified by the Parliament on 13 June 2024 and its financial closing is scheduled for the end of 2024. For the Port of Volos, the appeal of the runner-up preferred investor following the assessment of the binding offers by the fund and the declaration of the preferred investor is currently examined by the Hellenic Single Public Procurement Authority (HSPPA), whose decision is expected before HRADF could follow up this transaction.

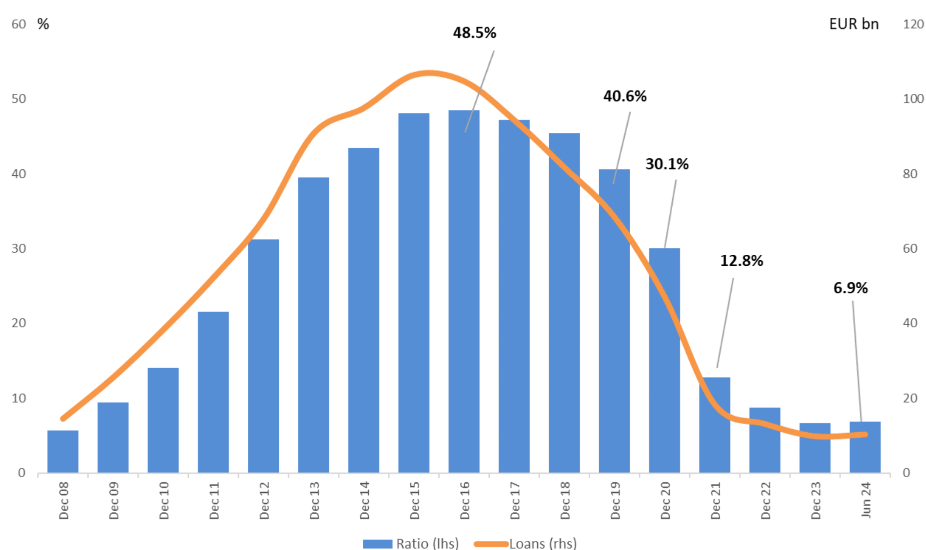
4. FINANCIAL SECTOR

4.1. FINANCIAL SECTOR DEVELOPMENTS

4.1.1. Asset quality

The stock of non-performing loans (NPLs) marginally increased in the first half of 2024. The banking supervisor (Single Supervisory Mechanism) requested a reclassification of outstanding loans covered by called state guarantees as NPLs, which caused an increase in NPLs by EUR 1.15 billion in Q1-2024. Many such loans in the corporate sector are pending court procedures and the final amount to be paid and the timing of payments remain uncertain. As a result, the NPL ratio of the banking system increased from 6.7% in December 2023 to 7.5% in March 2024 but decreased again to 6.9% in June 2024 ([9]). Despite this latest improvement, which is mainly due to reclassification of selected banks' portfolios as held-for-sale, the NPL ratio remains the highest in the EU. NPL ratios of less-significant institutions (LSIs) remain on average higher than those in systemic banks, with significant divergence across banks.

Graph 4.1: **Evolution of the stock of gross NPLs and the corresponding NPL-ratio for the Greek banks**



Source: Bank of Greece, data on a solo basis.

Banks continued to resort to inorganic actions to reduce their NPL ratios. The net NPL inflow ([10]) was contained in the first half of 2024 and amounted to EUR 786 million without signs of sectoral concentrations. However, banks were predominantly using inorganic actions (portfolio sales and securitisations) to decrease the level of NPLs. This continuous reliance on inorganic actions indicates

([9]) Source: Bank of Greece. The figures refer to NPLs as a share of total gross customer loans on a solo basis. The ECB reports NPLs for Greece and for the EU average as a share of total gross loans and advances (i.e. including cash balances at central banks and other demand deposits in the denominator) on a consolidated basis, which is different than the one reported by the Bank of Greece. The ECB figures for the first quarter of 2024 are 5.5% and 1.9% for Greece and the EU average respectively. Second quarter 2024 data are not yet available.

([10]) As defined by gross inflows of new NPLs, redefaults and disbursements minus loan curing.

possible difficulties in organic workouts ([11]) of NPLs. Banks intend to continue to use inorganic actions sporadically to control the NPL levels within their business plan targets.

The Government plans to expand the relaunched Hellenic Asset Protection Scheme (HAPS). The Hellenic Asset Protection Scheme was instrumental in the drastic NPLs reduction in recent years using securitisations, with state guarantees given on senior notes. The Government's intention is to increase the current envelope by EUR 1 billion (to EUR 3 billion of state guarantees) and extend the scheme to June 2025, subject to approval by the European Commission. In total, nine securitisations are planned in the expanded scheme (three requested in the previous scheme and six new, including two from LSIs). The gross book value of these nine securitisations is EUR 9 526 million, using in total EUR 3 015 million of state guarantees. The planned HAPS securitisations will substantially reduce the NPL ratio in the LSI sector, while the impact on systemic banks is already booked, as banks classified most of their planned securitisations as held-for-sale by June 2024.

Effective debt restructuring by credit servicers and the efficient functioning of debt enforcement will be key to debt reduction. While most non-performing exposures exited the banking sector via HAPS securitisations and outright NPL sales, they remain in the economy in the hands of credit servicers. These NPLs limit access to credit, hold back economic growth and complicate further upgrades in the sovereign's rating. Credit servicers held EUR 69.8 billion of debt (excluding off-balance sheet claims) in June 2024, a small EUR 0.3 billion increase compared to December 2023 due to additional securitisations. Nevertheless, the level is still substantially lower than in 2022. Compared to the original business plans various portfolios securitised under the original HAPS scheme continued to underperform, due to lower recoveries from collateral liquidations owing to the suspension of enforcement proceedings during the COVID-19 pandemic. Delays in court procedures, a high ratio of unsuccessful auctions and the illiquid secondary market for NPLs are also slowing down the process.

4.1.2. Profitability, solvency, and liquidity

All four systemically important banks, accounting for approximately 94% of the banking system, continued in 2024 with strong profit generation. In the first half of 2024, net profits were up by 25% y-o-y. This was primarily driven by an increase in net interest income as net interest margins were higher on an annual basis, and additionally by increased income from net fees and commissions. The systemic banks' cost-to-income ratio of 34.2% in Q1-2024 is second lowest in the EU. Total operating expenses were slightly higher, while loan-loss provisions decreased.

Banks' organic capital generation improved capital ratios. In March 2024 the Common Equity Tier 1 ratio of the Greek banking sector stood at 15.4% ([12]), compared to 13.4% in March 2023. All four systemic banks have met their interim Minimum Requirements for Own Funds and Eligible Liabilities (MREL) targets by several issuances of eligible bonds. One systemic bank already reached its final binding MREL target for January 2026, and other three banks are well-positioned to meet their respective final targets. Due to improved profitability and capital positions over the last two years, Greek systemic banks were able to pay out dividends in 2024, the first time since 2007. Dividend payout ratios were between 10% and 30% of 2023 earnings.

([11]) E.g. forbearance (including restructurings), write-offs, collections, collateral liquidations, and repossessions.

([12]) Source: ECB, CBD2 - Consolidated Banking data.

Greek systemic banks continue to grow their deposit base and maintain high liquidity positions. The annual deposit growth rate for the private sector was 3.3% until August 2024, despite low interest rates offered on deposits in the first eight months of 2024. The average interest rate in August 2024 on overnight deposits was 0.04% and 1.88% on term deposits up to one year, compared to 0.38% and 2.98% in euro area, respectively. Deposits provide banks with low-cost funding for the loan book, with still large room to support growth, as the loan-to-deposit ratio was 64.6% in June 2024. The Liquidity Coverage Ratio for Greek banks remained significantly higher than the EU average, remaining above 200% throughout the last year (206.8% in June 2024), despite repayments of outstanding Targeted Longer-Term Refinancing Operations.

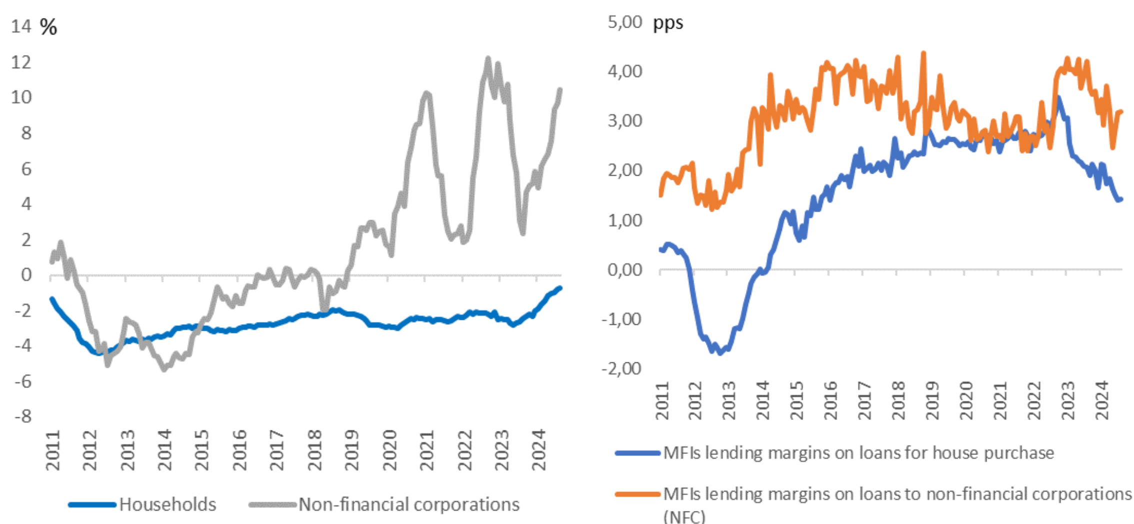
4.1.3. Lending

Net lending to non-financial corporations (NFCs) picked up further in 2024, while it remained negative for households. The average annual rate of growth in credit to NFCs was 7.7% in the first eight months of 2024 compared to 7.2% in the same period in 2023. New loans, supported also by the RRP, were mostly directed to industry, trade, energy, and tourism. Net lending to households continued to fall in 2024 on the back of persistently negative net mortgage lending. The average annual rate of growth in mortgages was - 3.0% in the first eight months of 2024, compared to - 3.8% in the same period of 2023. While the monthly average gross flow of mortgage loans increased, the overall mortgage stock declined due to high amount of capital repayments from mortgages with older vintages. The cost of lending decreased a bit. The weighted average interest rate for NFCs in July 2024 stood at 5.75%, down by 26 bps. compared to December 2023. The weighted average lending rate for households was 6.01% in July 2024, down 32 bps compared to December 2023, while in the same period the average rate for housing loans dropped by 50 bps to 3.87%.

The Bank of Greece introduced in October 2024 a positive neutral rate for the countercyclical capital buffer. Under the framework, the countercyclical capital buffer (CCyB) rate is activated at an early stage in the economic and financial cycle, when risks are neither subdued nor elevated. In this context, the Bank of Greece decided to set the countercyclical capital buffer rate for Greece at 0.25%, applicable from 1 October 2025. The build-up of this buffer ensures that there is sufficient capital headroom to absorb losses and maintain a smooth flow of credit to the real economy, in the event of unexpected developments. The target positive neutral rate (PNR) for Greece was set at 0.5%. The Bank of Greece introduced borrower-based measures in April 2024 and has set maximum limits for Loan-to-Value at origination (LTV-O) and Debt-Service-To-Income at origination (DSTI-O) metrics, applicable on 1 January 2025.

Graph 4.2: **Bank lending and interest rate trends**

Annual bank lending growth & Lending margins on loans



Source: Bank of Greece, ECB([13]).

4.1.4. Key challenges

Recent declines in monetary policy interest rates are set to put pressure on interest margins and thus banks' profitability. Monetary policy has started to ease in the euro area, with a clear impact on banks' interest margins. Banks plan to compensate lower margins with loan expansion and higher income from fee and commission-generating activities, but in the near term net earnings could decline.

Banks' capital positions have improved, but the level and quality of capital ratios is likely to increase only gradually. Even after recent increases, the CET1 ratio of 15.4% remains the second lowest in the EU. In addition, 41% of the banks' total prudential own funds (or EUR 12.5 billion) consisted of Deferred Tax Credits (DTCs) in June 2024, a decrease from 44% and EUR 12.9 billion respectively in December 2023 ([14]). New plans for expedited amortisation of DTCs are being considered by the four systemic banks. Balancing the level of dividend distributions with the need to decrease the share of DTCs in bank capital remains important, in light of banks' business plans to rapidly increase dividend payout ratios (up to 50%).

The financial sector has substantial multi-channel interlinkages with the Greek sovereign. Other than the large stock of DTCs, Greek banks hold a material share of domestic government bonds and a sizable amount of state guarantees that were provided under the Hercules scheme. In addition, the State owns a significant stake in two banks, National Bank of Greece (NBG) and Attica bank, which further amplifies the bank-sovereign nexus.

([13]) Lending margins are measured as the difference between (1) MFIs' interest rates for new loans to households for house purchases and a weighted average rate of new deposits with agreed maturity from households and non-financial corporations and (2) MFIs' interest rates for new business loans and a weighted average rate of new deposits with agreed maturity from households and non-financial corporations. For euro area countries, rates refer to loans granted to euro area residents.

([14]) Bank of Greece, Financial Stability Report, April 2024 and October 2024.

4.1.5. The Hellenic Financial Stability Fund

The HFSF will be merged with HCAP by the end of 2024 after having broadly achieved its objective of ending state participation in Greece's systemic banks. The Hellenic Financial Stability Fund (HFSF) has fully divested from three out of the four Greek systemic banks and currently retains slightly more than 8.0% in the fourth one, NBG. The HFSF continues to hold a large stake in a smaller bank, Attica Bank. The Government's plan is to merge the HFSF with the Hellenic Corporation of Assets and Participations (HCAP) at the end of 2024, one year ahead of the HFSF's planned closure. Its assets, rights, and obligations will be transferred to HCAP.

4.2 FINANCIAL SECTOR POLICIES

The number of restructurings under the out-of-court workout platform has increased sizeably since March 2024, also because of incentives for borrowers adopted in 2023. The submission of applications increased by 35% since March 2024, corresponding to EUR 5.77 billion, while applications finally assessed and completed since the start of the platform's operation increased by 45%, amounting to EUR 16.21 billion of debt. The number of successful restructurings rose by 54%, reflecting EUR 7.9 billion of debt. This sizeable improvement could be attributable to the adoption of new incentives to borrowers, adopted in 2023 and detailed in the previous report, such as (i) making algorithm-based restructuring proposals to vulnerable debtors mandatory for creditors; (ii) offering a 3% fixed interest rate over a 3-year period; (iii) modifying the algorithm to allow for higher haircuts, up to 28% ([15]). The approval rate from creditors remained stable at 71.1% on average. The average haircut to the notional value of outstanding debt decreased slightly and stood at 15.5% for debt towards the state and at 27% for debt towards banks and servicers (compared to 16.81% and 27.75% in March 2024 respectively). The average repayment period remained stable, at 17 years for debt towards the state and 18 years for debt towards banks and servicers.

By contrast, the take-up of other tools in the new insolvency framework remains low, except for some improvement in the core bankruptcy proceedings. Interest in the early-warning mechanism remains minimal, with only four applications submitted since it became operational. Some progress has been marked in the context of the rehabilitation procedure (i.e. in-court restructuring). However, the figures remain modest, with 150 submissions to the court and 74 cases ratified up to the end of September 2024. The most likely impediments to a more extensive use of these tools are the relatively high complexity of the proceedings and the high cost of the experts' assessment. By contrast, applications validated by courts in the context of the 'second chance' platform (i.e. the core insolvency proceedings) rose by 31% compared to March 2024, for a total debt of approximately EUR 2.6 billion. As for the vulnerable debtors' platform, applications having resulted to the delivery of a vulnerable debtor certificate increased by 155%.

The process to setup the sale-and-lease back organisation (SLBO) is further delayed, with completion expected in the first quarter of 2025, instead of the fourth quarter of 2024 indicated in the previous PPS report. The authorities introduced further legislation in September 2024 regulating, inter alia, transfer procedures of the main residence of the debtors, treatment of maintenance and other related costs, the sharing mechanism at repurchase, and the amount of the allowance future beneficiaries will receive directly from the State. Until SLBO is operational, an interim

([15]) Post-Programme Surveillance Report Greece, Spring 2024, p. 14

scheme is put in place ([16]), which vulnerable households could use for the protection of primary residences. However, the take up of the interim scheme continues to be very limited so far, with only 184 debtors entering the scheme and further 94 under assessment as of end-September 2024.

The pace of clearance of the backlog of household insolvency cases has slowed down, with 9% of court judgments still pending. A total of 99.97% of submissions have been validated by courts, with only 106 cases remaining without a hearing date. By 30 September 2024, 91% of cases heard were reported as having been closed, with a registered decision in the platform (as compared to 86% in March). This figure might reflect delays in the issuance of decisions or be partly due to delayed reporting on the platform by court secretariats. The ratio of positive to negative decisions remained stable, with 55.1% positive, granting protection to applicants, 40.8% negative and 4.1% of a non-defined outcome (for procedural reasons or due to non-reporting).

Recently adopted amendments aim to facilitate the conduct of auctions and increase the number of successful auctions by addressing inefficiencies of the pre-auction stage. The number of auctions scheduled between April 2024 and September 2024 increased by 7% compared to the previous six-month period ([17]). Moreover, the percentage of suspensions significantly decreased, from 50% to 25.6%. However, about 75% of auctions are not successful (barren auctions), while in successful auctions third parties only acquired approximately 50% of the properties. In September 2024, amendments to the Code of Civil Procedure were adopted to increase the amount of information that is made available to interested purchasers on the auction platform and to unburden auction purchasers from unpaid utility bills. Further amendments to the Code of Civil Procedure, planned for later this year, could also address the delays with regional e-auctions ([18]). Other factors inhibiting the successful conduct of auctions consists of (a) the excessively long duration of the judicial resolution of post-auction disputes (routinely assigned hearing dates beyond 2033), and (b) the sizeable delays in the registration of transactions in the cadastre (property register).

The processing of called state guarantees continued at a steady pace, but many payments will be subject to court decisions. Law amendments introduced in May 2024 simplified the processing of some types of cases and increased the percentage of payouts. According to the Greek authorities, the value of claims processed by September 2024 reached almost EUR 2.2 billion, out of the total backlog estimated at around EUR 2.7 billion. However, total payments (EUR 972 million by September 2024) remain significantly below the amount processed. The ratio of payments vs. processed has significantly increased in the first nine months of 2024, to 95% for natural persons' loans and 66% for corporate loans. Nevertheless, the total payout ratio cumulatively until Q3-2024 is 76% for natural persons' loans and 11% for corporate loans. As per the latest clearance plan, the authorities plan to re-examine some cases which are now eligible for payment and finish processing all cases by the end of 2025. As regards corporate loans, a large part of the claims (latest estimate: up to EUR 628 million) will need to be irrevocably resolved in court before any payment is made by the authorities.

([16]) The interim scheme is currently valid until end February 2025 or until SLBO is operational.
([17]) No auctions are conducted in August.
([18]) However, the addition of a further step, prior to assigning the conduct of regional e-auctions, which cannot be conducted locally, to Athenian notaries, might produce delays and procedural complications in the absence of a standardised method to ascertain the impossibility of local conduct; however, the authorities have the possibility to address this issue, in the context of a further round of amendments to the Code of Civil Procedure, planned for later this year.

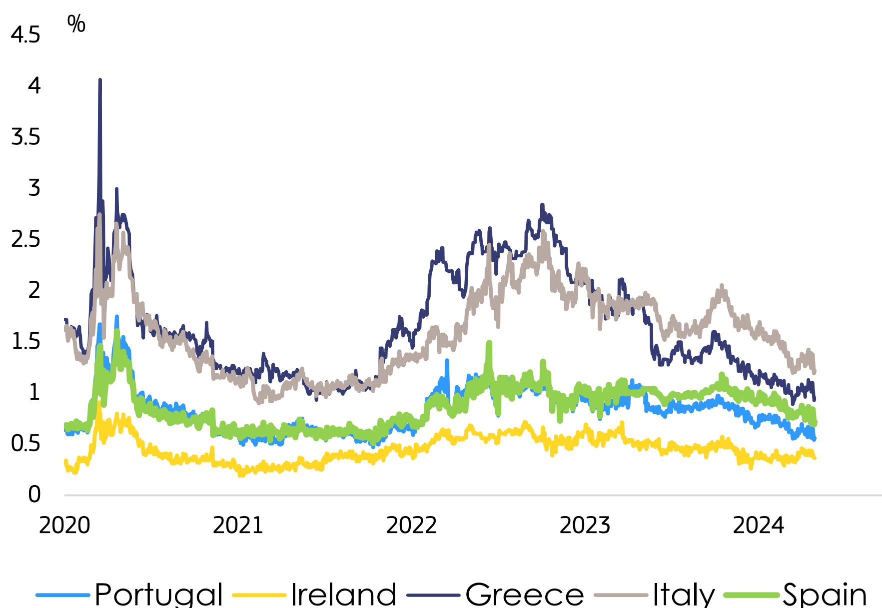
5. SOVEREIGN FINANCING AND CAPACITY TO REPAY

5.1. SOVEREIGN FINANCING

Yields and yield spreads have continued to decline, and Greece's sovereign credit rating was put on positive outlook by three major credit rating agencies in 2024. Following the upgrade to investment grade status by three major rating agencies in 2023 (only Moody's maintained the speculative grade), Standard and Poor's, DBRS and Moody's put Greece's sovereign rating on positive outlook in 2024. Spreads over the 10-year German Bund averaged slightly below 100 basis points in October 2024, close to the level recorded in April 2024, while the re-financing rates remained broadly unchanged, hovering around 3.5% (10-year maturity) in October 2024.

Greece has raised EUR 1.2 billion from the market since April 2024. After realising a substantial issuance in the first four months of the year (EUR 8.1 billion), Greece raised an additional EUR 1.2 billion from regular bond auctions between May and October, almost completing its financing plan for 2024. Issuances were oversubscribed and yields achieved were around 3.5% on the bond with 10-year remaining maturity, while the yield declined to 2.4% on the bond with 5-year remaining maturity, slightly below the yields on the five-year French bonds.

Graph 5.1: **Sovereign yield spreads (10Y)**



Source: IHS Markit.

Greece requested to repay EUR 7.9 billion (3.3% of GDP) of the Greek Loan Facility (GLF) ahead of schedule. The request was made for the lenders to accept the early repayment in December 2024 of the amortisations due in 2026, 2027 and 2028. Given the regained investment grade status and stable access to market funding, Greece decided to reduce its cash buffer which amounted to 13.1% of GDP at the end of June 2024 and is one of the highest in the EU. To this end, Greece requested to broaden the authorised uses of the 'ESM cash buffer' to finance a dominant part of prepayment (EUR 5 billion). The 'ESM cash buffer' accounts for about half of the Greek cash buffer (EUR 15.7 billion out of a total of EUR 30.2 billion), of which EUR 11.4 billion originate from ESM disbursement. The 'ESM cash buffer' underpinned Greece's market access since exiting the adjustment programme in 2018 and is available for debt service payments in specific circumstances. Lenders raised

no objections to Greece's request of early repayment, and once the formal procedure has been completed, the prepayment is expected to be executed in December 2024. The ESM Board of Directors is expected to take a decision on broadening the purpose of the cash buffer account at end November 2024. With this prepayment, Greece will have repaid about 61% of the outstanding loans under the GLF (EUR 48.4 billion out of an initial volume of EUR 80 billion), lengthen the average maturity of government debt, reduce debt rollover risks and financing costs.

5.2. CAPACITY TO REPAY

Government debt remains high but is expected to decline in the short term and stay on a downward trajectory in the medium and long term as long as prudent fiscal policies are maintained. General government debt is projected to continue its downward trend, falling from 163.9% of GDP in 2023 to 153.1% of GDP in 2024, and further to 146.8% in 2025 driven by solid nominal GDP growth, sustained primary surpluses, considerable proceeds from concessions, and the planned reduction of the cash buffer in 2024. In a baseline scenario, this positive trend is projected to continue in the medium term, and the debt ratio is expected to fall to 119.1% of GDP by 2035. The downward trajectory continues to hinge on prudent fiscal policy and a positive macroeconomic outlook. According to the debt sustainability analysis (DSA), Greece is deemed face low risks in the short term, high risks in the medium term and low risks in the long term ([19]).

Greece retains the capacity to service its debt. Greece's financing needs are set to remain around 10% of GDP in 2024, 2025 and 2026. With the partial early repayments of the Greek Loan Facility taking place in 2023 and December 2024, EUR 13.2 billion of loan amortisation was brought forward, thereby decreasing the gross financing needs over the period 2024-2028.

The statistical authorities agreed to include the deferred interest on the EFSF loan in general government debt starting from 2013 retroactively ([20]). As part of the debt relief measures granted in 2012 and extended in 2018, Greece's interest payments on part of its EFSF loan have been deferred, and Greece is expected to start repaying these amounts as of 2033. The deferred amounts have been recorded as accrued interest expenditure, and therefore have been affecting the budget balance, but the resulting liability has not been recorded as part of the Maastricht debt. In 2024, the statistical authorities decided to include the deferred interest in the Maastricht debt in the year when they are accrued. According to Eurostat's EDP notification published on 22 October 2024, debt figures had been revised upwards as of 2013, the beginning of the EFSF interest deferral. As a result, gross public debt at end 2023 increased by EUR 12.4 billion, corresponding to 5.5% of GDP. At the same time, 2023 nominal GDP was revised upward in the context of the benchmark revision of national accounts. As a net effect, the general government debt-to-GDP ratio for 2023 only increased by 2 percentage points compared to the April 2024 data release. Importantly, this methodological change does not affect the assessment of Greece's debt sustainability, as the amounts to be actually repaid under the EFSF loan remain unchanged.

([19]) For a more detailed results see Annex 2.
([20]) For more details see the Eurostat advice available via the following link: https://s-circabc.europa.eu/ui/group/ca7c9cc4-b473-4abc-8e95-263dcd57d79d/library/a3b89f37-ead4-4058-9711-6a7a092f1717/details.

6. ANNEX I. MAIN MACROECONOMIC INDICATORS

Table A1.1: **Selected economic indicators – Greece**

	2021	2022	2023	2024	2025	2026
Real economy	*(percent change)*					
Real GDP	8.7	5.7	2.3	2.1	2.3	2.2
Domestic demand incl. inventories	7.2	7.7	1.8	3.4	2.6	2.3
Private consumption expenditure	5.1	8.6	1.8	1.8	1.7	1.7
Government consumption expenditure	1.8	0.1	2.6	0.9	1.1	0.7
Gross fixed capital formation	21.7	16.4	6.6	7.4	8.9	7.1
Exports of goods and services	24.4	6.6	1.9	2.3	3.7	3.5
Imports of goods and services	17.4	11.0	0.9	5.0	4.1	3.5
Contribution to growth	*(percentage points)*					
Domestic demand (excl. inventories)	6.7	8.2	2.7	2.5	2.7	2.4
Foreign trade	0.9	-2.6	0.4	-1.4	-0.4	-0.2
Changes in inventories	1.0	0.2	-0.8	1.0	0.0	0.0
Inflation	*(percent change)*					
GDP deflator	1.4	6.5	5.9	3.5	2.4	2.2
HICP	0.6	9.3	4.2	3.0	2.4	1.9
Labour market	*(percent change, unless otherwise stated)*					
Unemployment rate (% of labour force)	14.7	12.5	11.1	10.4	9.8	9.2
Employment	5.1	2.4	1.2	1.1	0.9	0.8
Compensation per employee	1.6	1.8	3.7	4.1	3.2	3.0
Labour productivity	3.4	3.2	1.1	1.0	1.4	1.4
Unit labour costs	-1.7	-1.4	2.5	3.1	1.7	1.5
Public finance	*(percent of GDP)*					
General government balance	-6.9	-2.5	-1.3	-0.6	-0.1	0.2
Total revenue	49.8	50.4	48.2	48.1	47.4	47.8
Total expenditure	56.7	52.9	49.5	48.7	47.5	47.6
General government primary balance	-4.5	0.0	2.1	2.9	2.9	3.2
Gross debt	197.3	177.0	163.9	153.1	146.8	142.7
Balance of payments	*(percent of GDP)*					
Current external balance	-6.6	-10.2	-6.2	-5.4	-5.9	-5.7
Ext. bal. of goods and services	-7.5	-9.6	-4.7	-4.4	-4.5	-4.5
Exports goods and services	40.3	49.0	43.7	43.4	43.3	43.7
Imports goods and services	47.8	58.7	48.4	47.8	47.7	48.2
Memorandum item	*(EUR bn)*					
Nominal GDP	184.6	207.9	225.2	238.0	249.5	260.7

Source: European Commission, Autumn 2024 European Economic Forecast.

Note: *The current account balance (actual data and the forecast) is based on the Balance of Payment statistics.

7. ANNEX II. DEBT SUSTAINABILITY ANALYSIS

This annex assesses fiscal sustainability risks for Greece over the short, medium, and long term. It follows the multi-dimensional approach of the European Commission's 2023 Debt Sustainability Monitor, updated based on the Commission 2024 autumn forecast.

A.1. SHORT-TERM RISKS

Short-term risks to fiscal sustainability are low overall. The Commission's early-detection indicator (S0) does not signal major short-term fiscal risks (Table A2.2) ([21]). Government gross financing needs are low for 2024-2026, thanks to projected sizeable primary surpluses and moderate debt amortisation, which is also due to the partial pre-payments under the GLF. (Table A2.1, Table 1). Greece maintains investment grade in its sovereign credit rating from three of the four major credit rating agencies by the cut-off date of this report.

A.2. MEDIUM-TERM RISKS

Under the DSA baseline, debt is projected to decline but to remain high over the medium term, reaching around 119% of GDP in 2035 (Table A2.1, Graph 1 and Table 1) ([22]). The reduction in the government debt ratio is driven by the assumed structural primary surplus (excluding changes in cost of ageing) of 1.7% of GDP as of 2025. This level appears plausible compared with past fiscal performance (Table A2.2) ([23]). The debt decline also benefits from a still favourable but decreasing snowball effect of around -0.9% of GDP annually on average over 2026-2035, which is supported by the impact of Next Generation EU. Government gross financing needs are expected to decline until 2027, before increasing to around 14% of GDP in 2035.

The baseline projection is stress-tested against four alternative deterministic scenarios to assess the impact of changes in key assumptions (Table A2.1, Graph 1). Under the *historical structural primary balance* (SPB) scenario (i.e. the SPB returns to its historical 15-year average) the debt ratio would be lower than under the baseline by around 20 pps. in 2035. However, under the *adverse interest-growth rate differential scenario* (in which the interest-growth rate differential deteriorates by 1 pp. compared with the baseline), the debt ratio would exceed the baseline level by around 9 pps. by 2035. Under the *financial stress scenario* (in which term interest rates temporarily increase by 4.8 pps. compared with the baseline), the government debt ratio would be higher by around 2.5 pps. by 2035. Finally, under *the lower structural primary balance scenario* (i.e. the projected deterioration in the SPB between 2024 and 2025 is increased by 50%), the debt ratio would be higher than in the baseline by around 2.5 pps. by 2035.

([21]) The S0 is a composite indicator of short-term risk of fiscal stress. It is based on a wide range of fiscal and financial-competitiveness indicators that have proven to be a good predictor of emerging fiscal stress in the past.

([22]) The assumptions underlying the Commission's 'no-fiscal policy change' baseline include in particular: (i) a structural primary deficit, before changes in ageing costs, of 1.7% of GDP from 2025 onwards; (ii) inflation converging linearly towards the 10-year forward inflation-linked swap rate 10 years ahead (which refers to the 10-year inflation expectations 10 years ahead); (iii) the nominal short- and long-term interest rates on new and rolled over debt converging linearly from current values to market-based forward nominal rates by T+10; (iv) real GDP growth rates from the Commission 2024 autumn forecast, followed by the EPC/OGWG 'T+10 methodology projections between T+3 and T+10 (average of 0.8%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper 279, April 2024). For information on the methodology, see the 2023 Debt Sustainability Monitor (European Commission, Institutional Paper 271, March 2024).

([23]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past. Technically, this consists in looking at the percentile rank of the projected SPB within the distribution of SPBs observed in the past in the country, taking into account all available data from 1980 to 2023.

The stochastic projections indicate medium risk, pointing to the moderate sensitivity of these projections to plausible unforeseen events ([24]). These stochastic simulations indicate that the debt ratio will be higher in 2029 than in 2024 with a probability of 18%, pointing to medium risk, given the high initial debt level. At the same time, the uncertainty surrounding the baseline debt projection remains high, as the expected difference between the 10th and 90th debt distribution percentiles in 2029 is about 53 pps. (Table A2.1, Graph 2).

A.3. LONG-TERM RISKS

Long-term fiscal sustainability risks are low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort to stabilise debt over the long term (S2 indicator) and to bring it to 60% of GDP by 2070 (S1 indicator) ([25]). This assessment is mainly driven by the favourable initial budgetary position.

The S2 indicator points to low risk. The indicator shows that, relative to the baseline, the structural primary balance would not need to improve to ensure debt stabilisation over the long term. This result is underpinned by a favourable initial budgetary position (contribution of 0.5 pps.) and the projected decline in ageing-related costs (0.4 pps.). Ageing costs' developments are primarily driven by a projected decrease in public pension expenditure (-0.8 pps.), which is to a large extent offset by a projected increase in health-care spending (0.7 pps.) (Table A2.1, Table 2).

The S1 indicator also points to low risk. This indicator shows that the country would need to further improve its fiscal position only by 0.9% of GDP to reduce its debt to 60% of GDP by 2070. This result is also mainly driven by the current distance of the Greek government debt ratio from the 60% reference value (1.8 pps.) and the increasing ageing costs (0.4 pps.). This effect is partially offset by the favourable initial budgetary position (contribution of -1.3 pps.) (Table A2.1, Table 2).

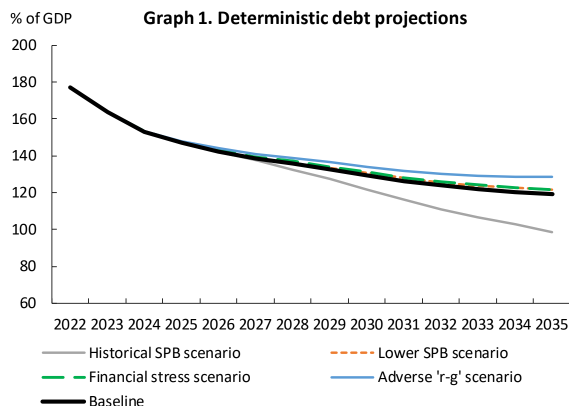
Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to the state guarantees granted in 2023-2024. Contingent liability risks continue to stem from the nonperforming loans in the banking sector (although the share of non-performing loans witnessed a sharp reduction in the previous years, it remains at the highest level in the EU), and pending legal cases against the state with potential budgetary implications also pose fiscal risks. On the other hand, risk-mitigating factors are related to the structure of the debt. In particular, the major share of debt is still held by official lenders at low interest rates and has a particularly long maturity structure compared with peer countries. Moreover, the fact that public debt is completely denominated in euro, excludes currency risks.

([24]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

([25]) The S2 fiscal sustainability indicator measures the permanent SPB adjustment in 2025 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the permanent SPB adjustment in 2025 needed to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both the S1 and S2 indicators, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See the 2023 Debt Sustainability Monitor for further details.

Table A2.1: **Debt sustainability analysis - Greece**

Table 1. Baseline debt projections	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Gross debt ratio (% of GDP)	**177.0**	**163.9**	**153.1**	**146.8**	**142.4**	**138.4**	**135.6**	**132.7**	**129.3**	**126.4**	**123.9**	**121.9**	**120.3**	**119.1**
Changes in the ratio	-20.2	-13.1	-10.8	-6.3	-4.4	-4.0	-2.8	-2.9	-3.4	-2.9	-2.5	-2.0	-1.5	-1.3
of which														
Primary deficit	0.0	-2.1	-2.9	-2.9	-3.2	-3.0	-2.4	-2.1	-2.1	-1.9	-1.8	-1.6	-1.5	-1.3
Snowball effect	-19.6	-10.3	-5.3	-4.1	-3.5	-1.0	-0.4	-0.8	-1.3	-1.0	-0.7	-0.4	-0.1	0.0
Stock-flow adjustments	-0.6	-0.8	-2.5	0.7	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs (% of GDP)	17.5	13.7	10.7	8.6	11.4	8.8	10.5	10.7	11.4	12.3	12.0	15.5	13.8	14.4



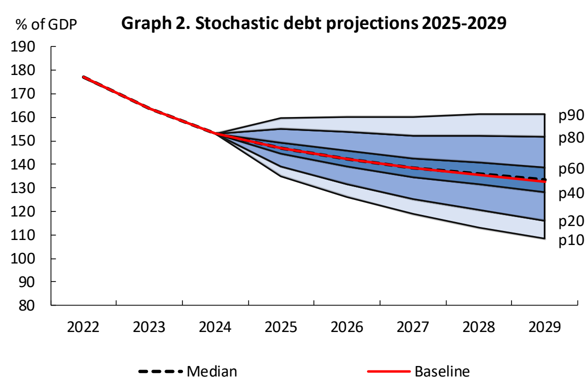


Table 2. Breakdown of the S1 and S2 sustainability gap indicators

		S1	S2
Overall index (pps. of GDP)		**0.9**	**-0.8**
of which			
Initial budgetary position		-1.3	-0.5
Debt requirement		1.8	
Ageing costs		0.4	-0.4
of which	*Pensions*	0.0	-0.8
	Health care	0.6	0.7
	Long-term care	0.0	0.0
	Others	-0.2	-0.3

Source: Commission services.

Table A2.2: **Heat map of fiscal sustainability risks - Greece**

Short term: Overall (S0)	Medium term - Debt sustainability analysis (DSA): Overall		Deterministic scenarios: Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress	Stochastic projections	Long term: S2	S1	Overall (S1 + S2)
LOW	HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW	LOW	LOW
		Debt level (2035), % GDP	119.1	98.8	121.6	128.4	121.6				
		Debt peak year	2025	2025	2025	2025	2025				
		Fiscal consolidation space	31%	20%	35%	31%	31%				
		Probability of debt ratio exceeding in 2029 its 2024 level						18%			
		Difference between 90th and 10th percentiles (% GDP)						53.1			

(1) Debt level in 2035. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the baseline. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2029 its 2024 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) the difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

Source: Commission services.

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